

Request from the Cttee on Government Relations [and the Cttee on Statistics] to endorse legislation authorizing data sharing among Census, BEA, and BLS

Proposal

In 2002 the Confidential Information Protection and Statistical Efficiency Act (CIPSEA) was passed which created a uniform standard across all federal statistical agencies assuring the confidentiality of information collected by them for statistical purposes. It also authorized Census, BEA, and BLS, for purposes of improving business statistics, to share and synchronize data based on federal tax information from IRS. But, despite large potential gains in the quality of federal business and related statistics, the necessary changes in the tax code governing IRS was never enacted. And so the needed data synchronization among the three agencies has not been possible.

The large gains in data quality that could be achieved from allowing the sharing of data among agencies, and particularly Census, BEA, and BLS, has been emphasized by the Federal Statistics Advisory Committee FESAC and also in a 2005 overall assessment of high priority statistical needs undertaken for the AEA Committee on Statistics by a group chaired by Joel Slemrod. The Administration has now prepared, but not yet submitted legislation to make data sharing possible. The Committee on Government Relations believes that the enactment of this legislation would be strongly in the broad interest of economic researchers and users of that research. We think it would be helpful for the Executive Committee to endorse data sharing legislation through a letter to the two Congressional tax Committees. We would submit a draft to the Executive Committee for approval when legislation has been sent to the Congress. We provide below some background and specific examples of the potential gains from data sharing and synchronization below.

Background

At the present time:

- *Census* has access to federal tax information (FTI) for all business firms.
- *BEA* has access only to *corporate* FTI.
- *BLS* has no access to any federal business tax data

These limitations generate a number of major problems for the statistical system: For example:

- *A growing number of firms are choosing unincorporated status such as LLCs and partnerships.* As a consequence, without access to tax data for such firms BEA must increasingly rely on indirect methods to estimate business incomes .
- *The business lists which are needed in estimating federal data about business and are the sampling frames for most surveys of business output and income are not consistent as between BEA and BLS.* For example, a 2006 comparison of matched firms in a comparison of BEA and BLS data found that one-third of single-establishment firms were assigned different NAICS industry codes in the two lists. But Census, whose data are based on FTI, cannot share relevant data with BLS and BEA thus allowing them to assign firms a consistent identifier so as to correct this problem. These and other problems due to the lack

of data synchronization reduce the quality of business-related data across a number of fields. Some examples in various fields:

National Income and Product

Constructing high-quality input-output tables, which are used in estimating the expenditure components of GDP, requires accurate assignment of NAICS codes to business firms. Data sharing between the three agencies could improve the quality of the five year Census of Business estimates and of the surveys which are benchmarked to them. A 2000 study comparing BLS and Census data found that 33% of matched single establishment firms had been assigned different NAICS.

Estimates of gross domestic product (GDP) are based heavily on underlying data such as business sales or revenue and directly constructed by BEA using sample surveys. There is virtually always a statistical discrepancy between GDP and the conceptually equal measure of gross domestic income (GDI) which is importantly based on BLS measures of wages and benefits. Lack of data synchronization almost surely raises the average absolute value of that discrepancy. And short-run changes in the discrepancy are sometimes large enough to raise real problems for policy makers and business firms. Thus, the decline in real GDP during the last recession (based on published data at the time) was less than half the decline in real GDI, -3.0 vs. -6.3 percent. While there is no way of measuring the role played by lack of data synchronization, that has to be a “suspect of interest.”

Regional Statistics

BEA’s state personal income measures are used to allocate more than \$300 billion in federal funds. But income source data BLS and the Census Bureau are sometimes quite inconsistent. Thus, in 2007, for the state of New Hampshire, private wage and salary data reported by BLS were 6% higher than the Census estimate, but were 12% lower than in Alaska. Among larger states the percentage discrepancies were smaller, but the absolute dollar values were still large. Reconciling geographic classifications would help raise confidence in the fairness of fund distribution.

International Trade

Data sharing could help BEA correct the current understatement in U.S. trade statistics. BEA gathers services trade data from sample surveys of business firms. The Economic Census, collected by the Census Bureau, includes a question on service exports which includes non-corporate firms. Allowing Census to share that data with BEA, which it cannot now do, would enable BEA to develop a more comprehensive universe of firms for benchmarking its surveys. A BEA study that compared data on the export of services found a substantial shortage of revenue reported by BEA relative to the results from the Economic Census. For example, in the case of management and consulting services at least 80 percent of the firms which reported export revenues to the Census did not do so in the BEA survey.