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The Ryan Budget May Cut Economic Data

By Matthew Philips on May 03, 2012

Starting in the early 1990s, the U.S. Census Bureau asked Congress for extra funding each year so it could better analyze the services sector, which was quickly replacing industrial activity as the biggest driver of the U.S. economy. In 2003 the bureau requested more funding to survey financial, real estate, and other companies on a quarterly basis, rather than wait to take their pulse with its Economic Census, which gathers data on business every five years. Census data are funneled to the Bureau of Economic Analysis, which shares its conclusions with the president's Council of Economic Advisers, the Federal Reserve Board, and Congress. Every year, Census asked for the extra funds; every year, Congress denied them the money, leaving the Census Bureau largely blind to the health of a sector that made up more than half the total economy.

Finally, in early 2009, after the real estate-fueled financial crisis, Congress gave Census what it had been asking for—an extra $8.1 million. In the view of many, it was too late. "That's a grand example of how nickel-and-diming statistics agencies can screw up the economy," says Andrew Reamer, a research professor at the George Washington University Institute of Public Policy and a member of the BEA's advisory committee. "The government saved $8 million, but how many trillions were lost as a result of not being able to see the crisis coming?"

That extra data, says Reamer, would've revealed just how quickly certain parts of the economy were slowing down. For example, in April 2008 the BEA, with no quarterly data to work with, estimated that finance and insurance sector activity fell 0.3 percent in 2007.

In July 2011, the BEA recrunched those numbers using quarterly data and showed declines of 2.2 percent, 5.3 percent, and 9.9 percent for those sectors in the last three quarters of 2007.

Most U.S. economic data come from three federal agencies: the Census Bureau, the BEA, and the Bureau of Labor Statistics. They have a combined budget of $1.6 billion, less than 0.05 percent of President Barack Obama's $3.7 trillion proposed budget. These agencies have always had to fight for more funding. Now they may have to fight just to keep their budgets intact. As part of $19 billion in nondefense discretionary cuts in Paul Ryan's (R-Wis.) budget—recently passed by the House of Representatives—the agencies are likely to get less funding.

The Senate is unlikely to embrace the Ryan budget in its entirety. Yet specific proposals show what the House has in mind. The House Committee on Appropriations recently proposed cutting the Census budget to $878 million, $10 million below its current budget and $91 million less than the bureau's request for the next fiscal year. Included in the committee number is a $20 million cut in funding for this year's Economic Census, considered the foundation of U.S. economic statistics.

Although the Economic Census happens every five years, its managers say they require continual funding through a six-year cycle. Reamer says that idea appears to be lost on the committee, which reduced funding in part because it says the bureau won't start analyzing the data until the end of fiscal year 2013. According to its funding request, the Economic Census needs funds to cover the cost of mailing 4.6 million forms to 3.1 million businesses, as well as conducting about 500,000 reminder phone calls and sending 4.2 million follow-up packages.

Some believe the Census Bureau does too much already. "They waste a share of their budget on studies that no one actually uses," says Chris Edwards, an economist with the Cato Institute, who cites periodic surveys on such items as the total hog count in the U.S. to prove his point. “A lot of that could be done by the private sector.”

One of the most vocal critics of the proposed cuts is the U.S. Chamber of Commerce, a deficit hawk. “The chamber is in favor of getting the deficit under control, but you’re not going to get there by gutting the statistics agencies,” says the chamber’s chief economist, Martin Regalia, who last July signed a letter in favor of fully funding the BEA. “The total amount of money saved is relatively small compared to the massive loss of information it would lead to. It’s like trying to balance your checkbook by buying cheaper checks.”

Some of the biggest users of the data are the in-house economists at big companies. “We are total data hogs,” says Ellen Hughes-Cromwick, chief economist at Ford Motor (F). The most recent GDP estimate released by the BEA showed that motor vehicle output made up half of the 2.2 percent in GDP growth in the first quarter, giving Hughes-Cromwick a window into consumer spending habits that directly affect Ford’s revenue. Says Hughes-Cromwick: “It’s crucial to keep up with changes … and you do that with good data.

The bottom line: *Economists and business leaders are resisting GOP efforts to cut funding to the agencies that gather economic data.*