Volume Title: Fifty Years of Economic Measurement: The Jubilee of the Conference on Research in Income and Wealth

Volume Author/Editor: Ernst R. Berndt and Jack E. Triplett, editors

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-04384-3

Volume URL: http://www.nber.org/books/bern91-1

Conference Date: May 12-14, 1988

Publication Date: January 1991

Chapter Title: Policy Users' Panel

Chapter Author: Charles L. Schultze, Rudolph G. Penner, Ian A. Stewart, Roger B. Porter

Chapter URL: http://www.nber.org/chapters/c5982

Chapter pages in book: (p. 421 - 442)

12 Policy Users' Panel

Charles L. Schultze, Rudolph G. Penner, Ian A. Stewart, and Roger B. Porter

A Note From the Volume Editors

Government data are vital for research and for many other private sector uses. However, in nearly all cases the budgetary and program justification for government data collection rests on the government's own needs for policy analysis.

How well do government statistical systems of the United States and Canada meet the need for policy-analytic data? What are the major requirements for improved or new data? Do the organizations of statistical systems, or the ways they function, have shortcomings whose correction would improve the responsiveness of statistical agencies to emerging data needs?

The panel of policy users were invited to share, in an informal discussion, thoughts on these and other questions, drawing on their extensive experiences in policy-analytic positions in the U.S. and Canadian governments. The following is an edited, shortened version of the discussion, based on the transcript of the session.

Roger B. Porter

For this panel we have three people who have consumed an enormous amount of economic statistics in a variety of policy-analytic positions in governments of two countries.

Charles L. Schultze is the director of Economic Studies at the Brookings Institution. Rudolph G. Penner is a senior fellow at the Urban Institute. Ian A. Stewart is the former deputy minister of Finance for Canada. At the time of the conference, Roger B. Porter was the IBM Professor of Business and Government at Harvard University. He subsequently became assistant to the president for economic and domestic policy in the Bush administration.

Charles L. Schultze is well known to all of us. Charlie's academic career began at the University of Maryland. During the Truman administration, he took his first government post as a staff member in the Council of Economic Advisers. He stayed on at the Council for most of the Eisenhower years, and then went to the Brookings Institution. In the 1960s he returned to government, serving as assistant director and subsequently director of the Bureau of the Budget during the Kennedy and Johnson administrations. He was chairman of the Council of Economic Advisers from 1977 to 1981, and he is now director of the Economic Studies program at Brookings.

Our second speaker, Rudolph G. Penner, hails originally from Canada, was educated at the University of Toronto, then came south to Johns Hopkins University where he received his Ph.D. He began his academic career at the University of Rochester. He came into the government in 1970 as a staff member of the Council of Economic Advisers, moved on to be the chief economist at the Department of Housing and Urban Development, then served as the chief economist at the Office of Management and Budget until 1977. He subsequently became a senior fellow at the American Enterprise Institute, is well known to many of you as the most recent director of the Congressional Budget Office, and is now at the Urban Institute.

Ian A. Stewart, the Canadian member of our panel, was educated at Queen's College, won a Rhodes scholarship, and went on to study at Trinity College, Oxford. He came to the United States to earn his Ph.D. at Cornell University. He taught at Dartmouth and then returned to Canada to spend eight years at the Bank of Canada, building econometric models. He was induced into the government in 1973 to do what he described to me as "long-term energy research." Shortly afterward the roof fell in and he became what he described as a "policy person." He served in the Privy Council, which is one of the central coordinating institutions in the Canadian government, became deputy minister of the Department of Energy, Mines and Resources (that is the number 2 position in the department, the senior position for a career civil servant), and then the deputy minister of the Ministry of Finance. He has held several advisory posts, retired from the civil service two years ago, and is now writing and advising and teaching.

This is a very distinguished group of people.

Charles L. Schultze

I suspect I am going to disappoint the organizers by arguing that if you want to set statistical priorities do not rely for your primary guidance on policy users. A lot of you may think the way policy users look at statistics is captured by a remark attributed to Winston Churchill: "When I call for statistics about the rate of infant mortality, what I want is proof that fewer babies died when I

was prime minister than when anyone else was prime minister." I do not believe that policymakers really act that way. In fact, ever since the 1970s when Richard Nixon allegedly made several unsuccessful attempts to shape statistical reports according to political ends, the statistical establishment in the federal government has been exceedingly well insulated against political pressure. Nevertheless, there are several reasons why the policy use of statistics is not the best guide to statistical priorities.

There are two broad uses of economic statistics from the policymaker's standpoint. First, current economic indicators of various kinds keep the policymakers and their economic advisors informed about the current state of the economy—measures of output, income, employment, trade flows, prices, wages, and so forth, both in the aggregate and in detail. Sometimes the quality of indicators can slip for various reasons, external and internal, with consequences ranging from merely inconvenience and delay to serious error. The problem of invoice backlogs in the import trade statistics until very recently was a good case of the latter. I have nothing original to say on this aspect of the statistical system. If anything, a relatively casual judgment suggests that the resources allocated to that area of government statistics—that is, information about the current state of the economy—are quite substantial relative to the need.

The second, and I think the major, use of economic and social statistics for policy purposes lies in its "indirect" use. That is, to the extent that bodies of statistical data make it possible for researchers to provide a better understanding of how our economy or some segment of it works, then statistics will be useful for policymakers and their advisors in choosing appropriate actions and designing programs and policies. There are few policy decisions ever won or lost by the direct availability of some body of statistics. Only as the statistics feed in through the mediation of substantive research and help policymakers or their advisors to understand economic and social behavior will those statistics ultimately become useful in making better policy.

Indeed, I will go further. With some clear exceptions, bodies of statistical information will be useful not so much because they directly suggest answers to policy problems, but mainly indirectly as the research based on such information helps us better understand how society and the economy work. Accordingly, one should not look to the policymaker for determining where to set priorities for improving the statistical system. Rather, to set priorities one should identify key aspects of economic behavior about which policymakers are likely to be concerned in the medium-term future and where better understanding of that behavior can potentially be achieved by the provision of new or improved statistical data. To put it another way, if by using that new data researchers can improve our understanding of economic behavior, there is a reasonable chance that professional advisors can improve their advice to policymakers, and a small but still nonzero chance that policymakers will actually take the advice.

On the criterion I have suggested, I would give particularly high priority to two areas in allocating resources toward the improvement of the statistical system over the next decade. Since both of those areas, not surprisingly, are also emphasized in the report of the American Economic Association Committee on the Quality of Economic Statistics, I will be very brief.

In my mind, a terribly important area is improving our understanding of the determinants of productivity growth, which, as all of you know, has been proceeding at a very slow pace for the last 15 years. I emphasize one particular aspect of the problem, although I do not want to suggest that it is by any means the only one.

Macroeconomic growth accounting—that is, analysis at the aggregate level—while it has been extremely valuable, has come about as far as it can in helping us understand the causes of the productivity slowdown. We now need to devote much more effort to improving disaggregated measures for the analysis of productivity growth. Here I commend to you the suggestion of my colleague, Edward F. Denison, who argues that, in addition to working toward correcting the very obvious shortcomings in our industry measures, we should also turn attention to an alternative—disaggregated output per unit of input by end product categories, as distinguished from industry categories.

As the second specific objective, I would urge that the United States launch, or at least take the lead in launching, an international effort (and it would take an international effort) to construct an international flow of fund series, with its associated portfolio and balance sheet information. More than any other single statistical undertaking, this could help us improve our currently feeble ability to understand and forecast broad changes in international capital flows and exchange rates. This would be an ambitious undertaking, and, as I said, would require international cooperation, perhaps most appropriately led by the International Monetary Fund or the OECD. But the United States should try to convince other countries to support such a goal.

As a policy user and as a one-time budget director, the most important thing I could say about the U.S. statistical system from an institutional standpoint is that it is far too decentralized. I doubt that we need a Canadian or British degree of centralization. That is, we can keep the major statistical agencies separate. But we do need a chief U.S. statistical officer, not under the control of any operating department.

My own view of the functions to be performed by the chief statistical office is very close to option number 2 in James Bonnen's set of recommendations in 1981 (*Statistical Reporter* [February 1981]). This office would serve three main purposes.

First, it would carry out research and planning for long-term improvements in the statistical system. Many of the most important statistical improvements require substantial lead time and investment. They consume substantial resources. The chief statistical office, which I will call the CSO, working jointly with the statistical agencies and the research community, should evaluate

long-term priorities and make recommendations with respect to the long-term allocation of resources.

Second, the CSO should have a continuing annual budget function. That office should negotiate with the OMB for an overall statistical budget and then have responsibility for acting like a little OMB in allocating that budget among the agencies. At the margin, the budget for the Bureau of Labor Statistics, the Census Bureau, the Bureau of Economic Analysis, and the Agricultural Statistical Agency should be evaluated against each other. It makes no sense whatsoever to trade off Census and BEA against tourism promotion in the Commerce Department and to evaluate the BLS statistical program against occupational safety inspection or the training programs of the Department of Labor. It would be too big a step politically, and probably unnecessary, to bring all the statistical agencies within one agency. There are some merits for operating a decentralized system, including providing a dollop of competition. But the budget allocation among major statistical programs ought to be centralized.

The third function of the CSO should be to take responsibility for a careful long-term program to create merged and matched microdata files from statistical and administrative records. I have more to say on this than time allows, but the essence of the problem in my judgment is political and not statistical. Although my current ignorance on these matters is fairly deep, there are statistical tools available to reduce the statistical problems. Politically, however, it is a dynamite problem and I think the appointment of a central statistical officer under conditions I will discuss in a moment might go a long way toward providing the kind of insulation and political neutrality that might help the process forward. My own experience at the old Budget Bureau was that data matching was an incredibly sensitive matter with the Congress. When one began to talk about merging files, particularly administrative files and any hint of tax records, you are immediately in trouble.

Where within government to locate this chief statistical office is a problem for which there is no best answer. It cannot be in any current cabinet department. The Secretary of Labor will not accept statistical budget allocation from the Secretary of Commerce, much less from a subordinate official of the Secretary of Commerce, and of course, vice versa.

You could locate the CSO as an independent office in the Executive Office of the president. But if it is independent, quite frankly, it will have little power. You can call a new office anything you want, but if the head of that office does not see the president frequently and participate with him in important decisions, the agency will have little power. So even though I would like to make the CSO independent and put it in the Executive Office of the president, I think it will have to be subordinated to some other official to give it any power.

Reluctantly, as a last resort, I would put it in the Office of Management and Budget, but with a director who is presidentially appointed and confirmed by

Congress. Simultaneously I would start a tradition—not a law—of having a consortium of the major professional societies present to the president a limited list of candidates for the job from which he selects a nominee. Now, if I were OMB Director, I would not favor this idea. But I am not budget director any more and this solution is the best way I can invent to get this tremendously important job done. If we could establish the position at a high level, and initially fill it with a person of great integrity, though politically aware, a lot of things might be doable that are now impossible. I stress particularly my third function listed above, which is getting around the political problem of creating merged, sophisticated, longitudinal data files that include use of administrative records.

Finally, a CSO director of high integrity and nonpartisan stature located in the Executive Office of the president might help prevent or rectify what I will label the occasional statistical disaster. I have two quite different examples of disasters. The first one has to do with the CPI.

Between 1977 and 1981, interest rates and house prices soared. The consumer price index at the time was constructed to treat owner-occupied housing as an investment good, not as an element in the cost of living with a stream of housing services. Consequently, it overstated the rise in the cost of living between 1977 and 1981 by some 10%, against the more appropriate "experimental" CPI X-1. In the four years 1977–81, a period with which I am painfully familiar, the overstatement in the inflation rate was 1.5% per year and the consequences were enormous. A significant fraction of wages were formally indexed, and another large fraction were informally indexed, so that this statistical anomaly had really serious economic effects. In addition, Social Security and other federal entitlement programs were vastly overindexed. Because the new CPI, when its homeowner component was finally converted to a flow-of-services pricing system, was linked into the old one at virtually the peak of the "distortion," we never got rid of the overstatement.

Making what, from hindsight, seems like the obvious and extremely desirable change to a flow-of-services concept turned out to be politically impossible. In the early 1970s the BLS had considered changing to a flow-of-services concept (and some staff members had been urging the change even earlier). There are two alternative ways of implementing a flow-of-services concept—the user-cost approach and a rental equivalence approach. Neither of them is free of conceptual and measurement problems. The BLS initially proposed a rental equivalence measure and put together an experimental index incorporating that technique, but user groups, especially the labor unions, registered strong opposition (not, presumably, because rental equivalence was inferior to the user-cost method, but because either method would have resulted in a lower growth of the CPI and less wage indexation). Later on, in 1977, the alternative technique was considered, but all sorts of technical objections were raised by a user agency panel within the administration as well as by BLS business and labor user groups.

In the mid-1970s, when the change might have been made, the overstatement of inflation in the existing index did not seem large enough to overcome user-group objections and the statistical imperfections of the two alternatives. Late in 1978 and 1979, when sharply rising interest rates and home prices made the overstatement in the index egregiously large, the normal scheduled revision of the CPI had already taken place; the Carter administration was afraid that any top-level decision to impose a subsequent change would be widely interpreted as a bald political move to downplay the extent of inflation. And so nothing happened, while month-by-month the CPI overstatement helped make the inflation problem and the budget problem worse.

This was a case where we literally needed to trade off statistical purity for political, in the "big" sense, purposes. We did not have a mechanism for doing it in a politically sanitized way. Ironically, the problem was not political interference in a substantive statistical decision, but the fact that a change highly justified on substantive grounds would have been interpreted as a purely political maneuver. Conceivably, a CSO director with an outstanding professional stature and the breadth of knowledge to understand, early on, the need to trade off statistical purity against economic requirements might have had the public reputation for independence sufficient to give the action the necessary political cover. On the other hand, I may be waxing romantic; history might have played out the same way even had a CSO then existed.

The second area is a different kind of statistical disaster—the whole issue of environmental pollution. As you know, the federal government has all kinds of environmental regulations. Although I may conceivably be operating on out-of-date evidence, it is my impression that the scientific information on which many environmental regulations are based is very poor. My view of this is strengthened by reading Russell and Smith (in this volume). I think it needs a huge input of additional resources in order to get better information. My position is neither pro nor antienvironment, because it will cut different ways at different times. The present situation is an ongoing statistical disgrace, and perhaps my proposed Chief Statistical Office could help a bit.

Rudolph G. Penner

Economists are a peculiar lot. Though assuming that the rest of the world is motivated by self-interest, we are unusually reticent as a profession in furthering our own interests legislatively. We do not appeal to the Congress to restrict entry into our profession or to restrict the import of foreign economic analysis produced at unfairly low wage rates. There is, however, one area in which we do perform more like the typical lobbyist: we sometimes do have a knee-jerk reaction to push for the production of more and better data almost regardless of cost.

But pressure an economist just a little bit and he or she will quickly revert to style and start doing cost-benefit analyses of more and better data. Moreover, we are trained to be sensitive to social costs as well, and in the data collection business the social costs are often very high when economic units have to devote much time and trouble to responding to complex questionnaires.

Prodded by the invitation to give this talk, I began to think of the problem in terms of cost-benefit analysis. As difficult as it might be to measure the costs of collecting better data, the benefits to policymakers are much more nebulous and impossible to analyze in the formal manner favored by economists. That does not prevent me from concluding, however—and here I do sound like a more typical lobbyist—that the nation does not spend enough on data gathering because of strong political and bureaucratic biases against such activity.

One serious problem arises just from the fact that we keep our nation's budget on a cash flow basis. When cash flow budgets get tight, investments are often the first thing cut, and information gathering is more in the nature of an investment. As a public manager, I did it myself. When hard pressed, the first thing I considered cutting at the Congressional Budget Office was our modest data collection effort, which seemed less immediately important than maintaining the quality of day-to-day operations.

The bias against spending on data is strengthened by the very fact that the benefits are so nebulous. Much of a policy analyst's work involves forecasting the effects of policy changes on the budget and the economy, and that usually implies forecasting the economic environment in which the policy will be implemented. As we all know, forecasting is more art than science. If forecasting is art, then very obviously forecasting the effect of better data on the accuracy of the forecast must be art squared! Rather than attempting a comprehensive scientific, or even an artistic, analysis of the problem, let me engage in some random musing about different unrelated aspects of data collection as seen by a policy analyst.

Can I really claim that devoting more resources to gathering and improving of statistics would reduce the artistic, and increase the scientific, component of forecasting and ultimately improve its accuracy? I actually believe that we could improve our very short-run forecasts a little bit, and that would help with the 21-month forecast that's necessary every calendar year to forecast the budget totals for the next fiscal year. But I do not want to claim that we will ever be accurate enough to satisfy the requirements of legislators who are constantly frustrated by changes in budget estimates, and who sometimes draft laws (such as Gramm-Rudman-Hollings) that require a level of pinpoint forecasting accuracy that will never be delivered.

Nevertheless, I do believe that a small improvement is possible. I say that because I think with the state of economic statistics today, we are not often very good at even forecasting the recent past. And if we cannot forecast the past, there is really little hope of improving the forecast of the future.

I think, moreover, that forecasting the past better may occasionally mean actually ceasing the production of data that do more to confuse than enlighten. That would give us more resources to focus on improving the data that are published where the marginal costs of such improvements are relatively low.

Most working policy analysts that I know are constantly frustrated by major revisions in preliminary data. It is partly their own fault, and here I plead guilty as well. As a group, I admit we suffer from a severe psychological deficiency. While we may warn our noneconomist bosses that preliminary data might be revised substantially, we nonetheless feel a need to provide a highly sophisticated analysis as to why a particular preliminary number came out the way it did. Several months later we find ourselves providing an equally sophisticated, but often totally contradictory, explanation of why the revised number came out the way it did. So I am suggesting that while we are searching for ways to spend more on data collection, there may also be cases where too much is published too soon. It may be possible to improve those preliminary numbers by spending money in a cost-effective way. In some cases, however, it may be more effective to spend money improving the quality of data that are produced with a *greater* time delay.

Economists have done some sophisticated work to determine whether preliminary numbers contain any systematic bias, and they have been ingenious at devising filters to remove such biases. This is very useful but it is only part of the story. A preliminary number may be totally unbiased but it can still do a great deal of mischief if it is changed a lot in revision—by changed a lot, I mean changed sufficiently to alter one's view of what has taken place. Let me be brave enough to suggest a very simple test for variables that are routinely forecast by macroeconomic forecasters. If it could be shown, for example, that the Blue Chip Survey, or some other average of the main large econometric models, typically forecasts that quarter's real GNP better than the preliminary number released the next month, I'd have a serious question as to whether the preliminary number adds any useful information, and whether it should continue to be published unless it can be improved significantly.[1] There are, however, a lot of numbers on which this test would not work very well because macroforecasters do not spend a lot of time in forecasting them—for example, things like retail sales, durable goods orders, monthly inventory numbers, and so on. Without having seen or done any analytic work on the issue it is my impression that those numbers are often revised by enormous amounts. Perhaps I just remember the times when they were revised that I found to be embarrassing.

We live in an era when inappropriate policies based on inappropriate numbers can do a great deal of harm, and I believe that our standards in judging those preliminary numbers should be quite stringent. We live in fact in a bud-

1. See Gregory N. Mankiw and Matthew D. Shapiro, "News or Noise: An Analysis of GNP Revisions," *Survey of Current Business* (May 1986); Knut Anton Mork, "Ain't Behavin': Forecast Errors and Measurement Errors in Early GNP Estimates," *Journal of Business and Economic Statistics* 5 (April 1987).

get era, when in theory a bad forecast can inspire a sequester of expenditures under Gramm-Rudman-Hollings, and that is serious business indeed.

Changing the subject in a more positive direction, I believe there are areas in which data can be improved greatly with fairly modest expenditures of resources. Being a budget person, I especially think of data generated by some of the operating agencies of the government. These numbers are usually generated as a result of the normal operations of an agency, but managers are often quite insensitive to the needs of forecasters and outside analysts. I think inexpensive modifications in the way the data are produced and organized could greatly enhance their value.

Given the policy importance of forecasting revenues and analyzing the revenue loss or gains associated with changes in the tax law, I used to be particularly frustrated while at the Congressional Budget Office by the nature of tax data produced by the Internal Revenue Service. Because of long time delays in producing the Statistics of Income, one does not know when withheld taxes come in whether they are payroll taxes or income taxes. Taxes withheld and, say, reported on the first quarter Form 941 for a corporation will not be posted by IRS to individual tax and social security accounts for a year to two years later. The nature of the data makes it difficult to estimate the effective tax rate applied to particular types of income, such as capital gains. There are many other problems.

I do not blame the IRS for this. They suffer from a lack of resources—and perhaps more important, their job is to collect taxes, not to be a data collection agency.

A similar affliction affects the customs service. Their job is to collect tariffs and to administer other elements of trade law, and yet Wall Street is obsessed by the trade data that they collect as a by-product of their main role. I think the customs service recently has become very much more sensitive to the importance of their data collection role, but it is probably safe to say the trade data are still of terribly low quality.

I could cite many more instances where administratively produced data could be improved greatly. The only way you can improve such data is to improve the incentives of the managers of those agencies. Obviously, the best way we can do that is to compensate them in their budgets for the resources that they devote to improving their data collection efforts. Within their appropriations, funds could be earmarked for data collection, but as a matter of principle I dislike that kind of micromanagement by the Congress. Besides, if it is done that way, agency mangers may still be unclear about exactly the type of data that would be useful.So I would much prefer that appropriations go to users, such as CBO and OMB, to allow them to contract with operating agencies for the required data. The nature of the collection effort could then be described precisely and tailored exactly to the needs of the users. This is already done to some degree, but I can speak from personal experience that it is often difficult to convince a congressional appropriation committee that a data

effort is worthwhile. A lot of education and persuasion is needed, and it has to be admitted that the benefits of such statistical activities are quite nebulous.

So much for cheap ways to collect data. A particularly expensive way of collecting data involves social experimentation. I have become a fan of this approach over the years, but it is a tough case to argue. Some very expensive mistakes have been made. Experiments have sometimes been designed to ask questions that were misguided, and when more relevant questions were uncovered, the experimental design was ill-suited to answering them with precision. Moreover, the inherent temporary nature of an experiment may distort responses and provide misleading estimates of the economic effects of a more permanent transfer program. But I still believe that such experiments are tremendously valuable.

I managed the housing allowance experiment for two years at HUD and while I do not believe that it was designed well enough to provide the sort of data that economists might like to have about the effects of housing subsidies on housing markets, much was nevertheless learned about those markets. And more important, much was learned about how to run a particular kind of transfer program. That information proved extremely valuable in subsequently designing the "section 8" subsidies for existing housing. Though Congress did not accept all that we thought we had learned from the experiment, the efficiency of the housing program was greatly improved.

Perhaps I am arguing more for demonstration projects than for scientific experiments. The design does not have to be highly scientific for policy analysts to learn a lot about how particular programs work.

These ramblings have been random (much like a lot of the data that we produce about the economy). I do not have an overall conclusion, but I should not end a talk like this without praising the data collection efforts now undertaken and the highly devoted professional people who work in data collection agencies. Whatever our complaints, certainly our data are among the best in the world and I think the extent to which its collection has been shielded from political pressures is nothing short of remarkable. Finally, as a profession we economists do have an obligation to educate our policymakers as to the value of more and better numbers, while we also have the responsibility to remain sensitive to the costs of the effort.

Ian A. Stewart

I thought that in my contribution to this panel I would try to choose a niche—that is a popular expression in Canada today when we are feeling enormously trade threatened by a competitive world, and we are all being exhorted to choose niches. Rather than speak, as might have been anticipated, on the menu of issues that afflict the policy adviser, particularly in the macroeco-

nomic management field, I thought that I would choose as my territory, not policy advising, but policy-making. I thought I might review the climate of intelligence that prevails in cabinet rooms as economic and social policy issues are discussed, and how data and analysis serve the resolution of policy discussions. Second, I would choose not macroeconomic policy-making but the making of socioeconomic policy.

However data and analysis flow through policy advisors into policy discussions, as one sits around policy-making tables one recognizes that the level of sophistication around that table is enormously variable. The level of economic and social literacy is also enormouly variable. Whatever the ideology, whether conservative, liberal, Whig, or Tory, players come to the table slaves of myths, historical myths of various dimensions. Some of these myths are data based, some are not. But together they form a mishmash of views and prejudice, and it is the task of the policy adviser to enlighten and assist in reaching some sort of policy conclusion.

Anyone who has watched these gatherings or participated in them will recognize one thing straight away, it seems to me. The creation of the System of National Accounts—whatever else it has done for the synthesizing of an enormous range of economic data for the support of the economic research process, for the enlightenment of economists themselves—perhaps its principal and major contribution has been to raise the degree of literacy in the population at large, and especially the degree of policy literacy in the semiliterate, semisophisticated circles of cabinet policymakers, none of whom come to the game of economic and social policy-making by profession, but by political occupancy. Though there have been frequent frustrations in that process, I do draw the conclusion that the making of macroeconomic policy, as errant as it may have been through the troublesome decades of the seventies and eighties, would have been prodigiously more difficult had there not been this synthesizing model of how the economy is put together. It permitted policymakers to talk together in ways that were several degrees, in fact I would argue considerable degrees, above ignorance.

The National Accounts, a system to which this conference has been almost totally dedicated since its founding, has not had a counterpart on the social side. One of the great tragedies, it has seemed to me, has been the lack of a similar coordinating apparatus for the organizing of social data and thought. Within statistical agencies, this lack has led to the gathering and organization of economic data dominating the task of social measurement. Though there have been abortive efforts—the net national accounting discussions of the seventies, and the birth of social indicators, and the dreams of systems of social indicators, objective and subjective—none of these movements has managed to produce a synthesis of social data that corresponds to the power of the system of national accounts.

If I would urge the conference in a new direction, it would be to work out a measurement agenda that relates to any number of policy issues coming down

the pike—health policy, education policy, policy toward the aged, child care, the reform of the social security system, the relationship between tax reform and the transfer system generally (tax transfer integration as it is called). Particularly relevant in Canada is the reform of regional economic incentives (which frequently are essentially social transfers and have not much to do with economic policy) and unemployment insurance systems with large income transfer components. Perhaps the most critical of all (and here I agree with Charlie Schultze), environmental policy, with its national and international ramifications is a major issue. If that is not a long enough agenda to dominate research conferences for the next few years, it is also an agenda on which policy advisors have too little to say to cabinet members. The systematic factual foundations on which cabinet members have the capacity to consult and debate these issues amongst themselves is extraordinarily limited.

In one of my roles as a graduate of the public service of Canada, I sit on an advisory board to our central statistical agency, Statistics Canada, and offer that agency gratuitous advice. I have been attracted, since I began to know of it, by the work of Richard and the late Nancy Ruggles, on the notion of satellite accounting, of extending the system of national accounts through the welding of administrative data bases and demographic data into accounts that subject specific aggregates in the national accounts to more intense scrutiny. As subsequent discussion of these issues has taken place at Statistics Canada, it has become clear that there is also an opportunity to begin to blend into these boxes, these subsatellite boxes, if you like, measurements that are not necessarily economic in origin. I would take issue with the discussion this morning, in the position that some of you took, that economists should keep their hands away from and not be sullied by non-economic data. One might use these boxes to begin to portray aspects of society, and policy issues, such as the health system, the education system, the work system, all of which have aspects about them which are beyond the narrowly economic and whose policy discussion entails research issues that are certainly beyond the narrowly economic. Issues of institutional change, central to many social issues, play little part in strictly economic analysis.

One such issue that is being pursued at Statistics Canada at the moment is a health account. Now, obviously, the remedial system, whose transactions are reported on in the national accounts, is but a part, and a small part, of what we mean by the health system. Questions of healthful life-styles and questions of genetic contributions to health may be best addressed by following longitudinal populations through their lives and considering questions of where public policy ought to act on the larger system and where not. These questions include, of course, aged health care, which may make inappropriate demands on the remedial system as we know it and may involve the innovation of new institutions of palliative care, as well as of modest care not demanding the intense resources of the remedial system.

The attraction of such work, of course, is that though we Canadians pride

ourselves on running one of the better public health systems in the world, it is under inexorable cost pressure. Health is an annual issue in both our provinces and in the federal government as the costs continually outstrip the rate of growth of GNP, and the rate of rise of government expenditure elsewhere. What is to be done about this inexorable rise, which may threaten the system itself? Solutions will depend on our capacity to create new quasi-medical institutions that provide some of the services of the current remedial system, but do so in ways that are vastly less costly and vastly less using of national resources. That is an example of the job to be done. One can portray to policymakers the opportunities for intervention if intervention is indeed to be recommended. But better data and analysis will also permit policymakers themselves to display to their publics the manner in which they think about the health system, to explain the manner in which their interventions are tailored and why, and to be judged by these policies. Data will permit them to explain why they believe the structures of policy they have adopted will deal with whatever they perceive to be the crises of the health system in ways superior to investing more national resources in existing institutions.

A similar set of considerations can be applied to the other major expenditure in our social sector, education. Canada, I think, leads the OECD countries in the total volume of federal, provincial, and local resources devoted to education as a proportion of GNP. Though we can add up the total aggregate amount, and do so in the national accounts, whether the allocation of those funds in primary, secondary, postsecondary, and technical institutions is the appropriate allocation, whether the outputs from that system have anything to do with the output demands of the Canadian economic or social or cultural system, whether there are alternatives to the structures of that system which would serve Canadian needs better are questions that are not easily answered with the data bases as we now array them. Hence, our quarrels about education policy are traditionally, within the cabinet circles I speak of, issues of more resources or less, not issues of institutional reform, institutional restructuring, or education rethinking. Again, I suspect this is so principally because the data bases and the synthesis of these data bases that we offer our decision makers simply do not invite these structures of thought to rise and do not throw light on these sorts of questions if they are asked.

Another paper at this conference demonstrated the blending of administrative data and survey data to greatly enhance our capacity to simulate alternate structures of social policy.

I may be wrong, but it struck me as an observer from the north that the U.S. tax reform process was enormously fertilized and facilitated by the appearance of legislators, executives, and policy analysts carrying the same sheaf of data printouts. Thus, data at least offered a first-order estimate of the consequences of changing parameters of the U.S. tax system and at least permitted the beginning of a discussion. For example, if municipal bonds are to remain tax free then the costs are x billion dollars, and if that x billions are to be put

back into the system, then compensating changes must be made somewhere else. As simpleminded as it may seem, that is leagues beyond where most tax reform discussion begins in most principalities of the world. Without even bringing in analyses based on the behavioral consequences of redistributions of burden and incidence, it permits public policymakers to begin to argue their differences, and the differences in their behavioral assumptions, on a broad data base that starts the discussion some miles past the starting point.

I have frequently been asked: What is the probability that Western industrial countries will ever fundamentally reform their social security systems? From right, left, and center, from analysts, from government policymakers themselves, there is a broad general agreement that social security systems need reform. They are enormously resource using and awash with inefficiencies, the resources do not flow particularly to those in need, an enormous proportion flows to the middle and upper middle class, there are holes in the safety nets, and there are new and emerging problems—age, child care—but so deeply vested are the interests of the current recipients that change is difficult. Politicians are badly burned whenever they try a little piece of incremental reform. Unless something much more systematic can be done, the likelihood is that we shall plow on incrementalizing reform and incrementalizing new systems on top of old systems. As economists, we all recognize that within the structures of existing systems the perversities are economically damaging. They are not only heavily resource using, many of them involve taxback rates of over 100% and behavioral consequences that we do not begin to understand. It seems to me again that if we are to make progress, and this is perhaps a very radical notion, then we have to create, as we have with tax reform, the capacity to array first-order effects. We must be able to address the question of who wins and who loses by massive reform of the social security system. Like the incidence and burden of tax, who are the net payers and the net benefiters under a broad social security reform? If one can get that far and get the numbers that are, if not precise, at least acceptable to decision makers, one can then, it seems to me, disseminate them to the public at large and encourage a public debate that is vastly more informed than the pure prejudice, mythology, and fear that social security reform debates currently engender.

Well, those are a number of examples of the point that I wanted to make, that the creation of the national accounts was a heroic, synthetic exercise that had benefits well beyond the economics profession. It has been a sea change in the literacy not only of populations at large but of the character of public policy debate. Only such heroic syntheses can enable debate and policy formation to move forward in other areas that are likely to seem as intransigent as macroeconomic policy-making once did (and many aspects of which still do!). Let me just add a few more examples.

There is a growing myth in most western societies that we all face a rising level of dependency ratios, as the baby boom (which Canada had in a magni-

fied way) moves through to old age. I have just had a demographic lesson that persuades me that this is not nearly the demographic threat that it is popularly believed to be. But as the aged do become absolutely more among us, institutional pressures will be exerted of a particular kind as we move expenditures from child care to aged care and have to choose the forms of aged care, the ratio of public support to private support, and so on. I should note that these seem more frequently public support decisions in Canada than they do in the United States. Within the aged-care issue, in turn, lie issues of who will do the caring and how it will be done: Is it a dominantly female occupation, an underwage occupation? And if there are not revolutions in social thought, are we not likely to go through a charade in which the same people take care of old people as always, with an explicit wage (and, hence, entering the national accounts), but a low wage, with all of the strains that that may invite. Again it seems to be an issue on which quite simpleminded arraying of systematic data on nationwide choices can inform the debate. Of course, economic and behavioral research is critical, but the arraying of the data itself is critical to the sophistication with which research and debate may take place.

Finally, to the environment. To join with Charlie Schultze, I find the issues here, as he does, intimidating. The UN report, The Commission on the Economy and the Environment (Mrs. Brunt, the Prime Minister of Norway, was the chair of that) has not, I believe, had as much currency in the U.S. as in other parts of the world. Elsewhere, it has launched a public debate and has launched the natural sciences, of which we spoke this morning, into a series of international conferences intent on assembling international and national data banks of environmental data and improving the science. This makes one optimistic that we may slowly but surely grow the capacity to array to decision makers models of economic–environmental interaction that provide productive leads on how to manage this problem, both domestically and in its interactions with the international institutions of trade and finance, and the worldwide allocations of resources.

So those are some thoughts as a contributor to the debate. They are born, as I have said, out of the radical view that some forms of reform can only be engineered in their totality, that partial reform invites too much resistance, misinformation, and misunderstanding to be brought off. If radical change is considered, then one has to be able to display alternative states in sufficient detail that policymakers and the electorates can make rational choices.

Roger B. Porter

We have been treated to three remarkably stimulating and provocative sets of opening remarks.

Charlie Schultze noted the highly decentralized nature of the statistical

gathering, analysis, collection, and dissemination system in the United States and the virtues of bringing a little more order to this system. Rather than go all the way to a single centralized agency, as in Statistics Canada, his proposal, as I understand it, is to create an office of statistics and lodge it in the Office of Management and Budget to help coordinate the federal government's statistical activities.

I am very sympathetic to the problem he raises, and would simply note from my experience in the Ford administration how we dealt with this problem in a less ambitious, and possibly less successful, way. One of the working groups, or subcommittees, of the Economic Policy Board in that period was a Subcommittee on Economic Statistics. It was chaired by one of the members of the Council of Economic Advisers, Burton Malkiel. Its members included the directors of the Census Bureau, the Bureau of Labor Statistics, Bureau of Economic Analysis, and, if my recollection serves me correctly, eight or nine other officials from policy-making and statistical agencies. The subcommittee tried to undertake several of the roles that Charlie envisions for the central statistical officer. The subcommittee identified long-range planning priorities for expenditures on economic statistics. It served a crucial function in the annual budgeting process, preparing a detailed analysis for the director of the Office of Management and Budget, Jim Lynn, as to where changes ought to be made in the budgets of various statistical agencies and how resources ought to be directed. Jim Lynn indicated to me that he found the work of this subcommittee enormously valuable, and that he adopted their recommendations almost in whole.[2]

Charlie also mentioned, as a function of the CSO office, dealing with the long-term problem of merging and matching data files. In seven years in the government I have seen a fair amount of blood spilled and some ferocious debates, but I do not think I have seen anything to quite match the ferocity of the discussion when the IRS and Census Bureau debate the issue of matching and merging data files. The argument is a very compelling one by the group that is having their files merged: "These data were collected with a promise of confidentiality to the user and we believe that when data are matched and merged the confidentiality cannot be safeguarded. If that confidentiality is ever transgressed our ability to collect the data that we need will severely suffer." I would hope that whatever entity is created, whether it is a chief statistical officer or something else, that we could solve the merging and matching problem.

Rudy Penner, in his challenging and stimulating set of remarks, referred to the frustration that many policymakers have with the preliminary data that come their way. We live in an instant society, policymakers are anxious to take the pulse of what is going on. Most policymakers, in my experience, are des-

2. Volume editors' note: The subcommittee continued to function in much the same way during the Carter administration, where it was chaired by CEA member, Lyle Gramley.

perately worried about being behind the power curve, about finding out things too late. They want to discover a problem that needs correcting before the problem has gotten too serious. Accordingly, they reach to get all the data that they can as quickly as they can to take the economy's pulse. But as Rudy pointed out, very frequently the preliminary data that are being provided policymakers go through enormous revisions. In the meetings I participated in, frequently the preliminary data receive a great deal more attention than the subsequent revisions. I concur with Rudy's notion that perhaps some greater delay in releasing certain numbers is in order and that the compulsion we have to get a hold of preliminary data may need to be arrested.

Finally, Ian Stewart provided us with a very provocative set of remarks both commending the tremendous contribution the national income accounts have made to the structuring of economic policy discussions, and stressing the need for a similar type of synthetic accounting in dealing with a broad range of social issues. From my experience in attending policy discussions on both economic and social issues, I feel there is a lot to what he says with respect to the quality of those discussions and debates. The national income accounts have done a remarkable job in helping to structure discussions of economic policy. I am perhaps a little less confident than he is that a similar synthesis can be produced, that we can guarantee some comparably useful set of accounts, for many of the social problems that we face. His observations, however, certainly ring a true bell with me.

Panelists' Discussion and Responses to Questions from the Floor

Charles L. Schultze. You might handle Rudy's problem about the initial GNP releases by calling the first one a forecast. Do not do anything different, just call it forecasting one month ahead on all data and two months on some data.

Ian Stewart discusses the tremendous contribution that the invention of the national income accounts has made to the discussion of public policy, and I agree. It calls to mind, however, the old motto that the best is the enemy of the good. That is, the NIPA were put together only because we did not let all the theoretical types loose on the national income accountants. If you brought in a pure theorist who had never heard of the NIPA and described them, and told him that people sometimes used those accounts for describing what has happened to economic welfare, he would give you 85,000 reasons why this is a terrible series. So it may also be that in creating a unified framework of social statistics one of their requirements is going to have to be forgetting some of what they know.

Rudolph G. Penner. I might ask Charlie a question. First of all, I never found much of a problem in working in government arising from the fact that

our statistical gathering is so decentralized. I may just have had the wrong experiences, but I think we do a fairly good job of coordinating the effort—probably as good a job as coordinating separate divisions of a centralized office.

But if you do believe centralization is important, I am not really clear as to why you did not go all the way and want a Statistics Canada–type centralized bureau. I'm very bothered by the notion of putting a statistical czar in some agency like OMB. While OMB is described as the center of neutral competence by political scientists, I have always thought that was a very bad description. Every agency has a role and OMB's role is to save money. Jim Lynn, a former director of OMB, used to call himself the "abominable no-man." I really think there is a conflict of interest between collecting and coordinating good data and saving money for the government, and I think you would run into that conflict wherever you put your czar. So why not have a big agency if you really think it is important to have central control?

Charles L. Schultze. (*a*) You won't get it; (*b*) I am much less ambitious than you are. You ask, If you don't centralize it, where do you put it? I have a fundamental problem with an independent central statistical office whose director would never see the president—he would have little influence when it really counted. That is my problem. If you look around at the relatively small independent agencies in the United States government, they have very little clout, except where they get it directly through Congress. So I do not think operational centralization is very important, but I think centralization of planning and budget it. I want a planning head, some sort of an overall supervisory head, and a budget allocation head, I don't want an operating head. The central problem here is not that you have to put a new CSO in OMB—you'd face the same problem if you had an independent agency.

Let me make one final point: I think there is a little bit of an advantage to having a very mild competition between the agencies in terms of the integrity of their statistics, and the imagination they can put into it. That competition is not very intense, and it should not be, but it is there and it is useful.

Ian A. Stewart. On the statistical agency organization issue, faraway fields look green. We are rather proud of our centralized agency. The question that always rises in our minds, however, is: If it were divided amongst the user agencies, would the motivation of the statistical arm of the user agency—whether it is treasury or finance or whatever—be stronger than the motivation it can sustain in an isolated centralized agency?

I am not sure our centralized organization solves the allocation of resources to statistics any better than you do. It is certainly a continuous problem to sustain interest in the adequacy of resources being applied to information gathering, whether there is a centralized agency or whether it is a series of diverse agencies spread amongst the agencies of government. I think Statistics Canada employees would generally agree that the most exciting period of that agency was during the birth of the national accounts. I think it is fair to say

that virtually every economist with academic respectability in Canada spent a summer at some time or other working in Statistics Canada as part of that exercise. It was the era in which that agency participated in economic debate in town and in economic policy formation, in a formal and informal way, far more than it now does. It is now becoming an isolated statistical agency, and there is a price for that isolation.

Question from the floor. I wonder if it would not be the case that Charles Schultze's coordinating body would not be a very tempting target to those who would like to push the political levers rather quietly in order to achieve political objectives?

Charles L. Schultze. I see, on the one hand, no reason to believe it would be easier for the president (or the White House staff) to tromp on this chief statistical officer than it would be for the White House to tromp on the head of the Bureau of Labor Statistics. It obviously does depend on the kind of people you pick. You have to initiate the new office in the same spirit of integrity as we have already created in the major statistical agencies; you have got to build up a tradition of people who have a lot of integrity. And if you do not do that, you are in trouble. You would be in trouble if you had a hack as head of either the new CSO or the BLS. In fact, if I had to push this, it is probably a little harder to lean on a presidential appointee in the executive office of the president maybe, than it is on the head of an agency within one of the cabinet departments. And finally, I do want to have as CSO someone who has some ability occasionally to trade off a bit of statistical purity for nonstatistical policy purposes, but in an informed and prudent manner.

Rudolph G. Penner. The difficult political problem is knowing how to perfect the statistics that are used to distribute billions of dollars around the economy. For example, the poverty line is in so many formula grants, and there are numerous other statistics of this type. As our experience on the CPI showed, it is almost impossible to improve fund allocating statistics because the improvement involves the rearrangement of so many bucks. I do not think a czar can do it. I have given thought to the notion of outside commissions and all sorts of other things, but it is a very serious problem because it generally means that we are stuck with very bad numbers, because they cannot be improved for political reasons.

Robert Eisner (from the floor). It seems to me that policymakers are circumscribed in their framework for discussion and decision by the data that happen to be available and by the way that these data are formulated. I hope that the economics profession and the data collection agencies themselves will show some initiative in terms of trying to recast data and collect data in series that would be useful.

Consider all of the discussion we hear on investment, and whether enough of our resources are going to investment, and what our national saving rate is. Those discussions are oriented overwhelmingly around a very narrow measure of investment. With all due respect to Charlie's objections to the theo-

rists, any economist knows that investment constitutes all economic activity that accumulates wealth or resources for future production. The gross investment of our domestic economic series constitutes perhaps about 15%–20% of what we ought to count as investment, which would include human capital, government capital accumulation, household capital accumulation, investment in the environment, and the like. I hear economist after economist bemoaning that the national saving rate has gotten so low and that we have to do something. But the national saving rate they are talking about, whether low or not, has almost nothing to do with the national saving that provides wealth for the future. Some of us have made efforts collecting data of this kind, and the Bureau of Economic Analysis even had a section working on this, but the budget costs were such that the section was cut out. I do not know where to start to try to persuade policymakers, or the profession, to push. I think these conceptual issues may have a much bigger payoff for policy determination than all of the questions we are discussing about whether to have one statistical agency or many, or how to put them together.

Thomas Juster (from the floor). On Charlie's notion about the czar, it seems to me that the problem is not that the present set of things is not reasonably well coordinated. The basic difficulty is that there are lots of occasions in which what is needed is some kind of increase in resources from somewhere to do something that is nontrivial.

Everybody agrees we need to understand something about productivity in the services. That is not a new problem, that problem has been around since at least the 1960s; this is now the 1980s, the problem has gotten worse because the services have gotten bigger. At no point along the last several decades has someone in a policy-making position come along and said: "This is a problem where (*a*) there is some data we could generate and (*b*) some analysis needs to be done that we're going to support." I guess if you had a czar, and the czar had enough foresight, something might have been done about x years ago. Certainly something needs to be done about it now. But the input comes from one agency, the output from another agency, the price index is from a third agency, god knows if they are consistent.

The reason for a czar is that you cannot handle certain kinds of local allocation problems of a major sort. I am very uneasy, however, about putting it in a place (OMB) that has two functions—that is, minimize paperwork burden and minimize budget. As soon as you put a czar in a place where, if you want to do something you have to *not* do something else, that is bad news.

On public access to merged files, the barrier is that the central location for that is the Census Bureau; they are, with some justification, worried about the flak that will appear if someone goes and does something foolish. An obvious solution to that is put some pretty stiff penalties on people who abuse access to merged files. Then people would understand that, though there is a nonzero risk of identifying people, there is a pretty stiff penalty if you get accused of revealing confidential data, and you have got to pay it out of your own salary.

Somehow or other, you have to get away from the notion that you can't use merged files unless there's a nonzero risk of identification, because nothing that you ever do will give you a nonzero risk, and if it is so small as to be approaching zero, but still nonzero, the Census folks are under pressure of law to say they cannot afford to take the risk.

Charles L. Schultze. On the second point you made, I know little about it but based on what little I know I agree with you. On the first point, you did make one comment on which I think you have things backward—that the problem of putting the czar in OMB is like putting the fox in charge of the chickens. There exists, for example, a science adviser to the president who is often terribly useful in helping allocate among various science budgets, but who is terribly greedy in trying to enlarge the overall budget for science. So in my estimation the problem would be almost the other way—I might have a real claimant right in the middle of OMB. I do not think I would worry too much about the chief statistical officer being penurious. I would worry more that the budget director has got himself a presidential appointee representing a vested interest.

Rudolph G. Penner. I guess I disagree with that. I really do think that you have grave difficulty serving more than one goal. The problem goes beyond the point of just the budget for data collection. There are some sorts of data that some people would rather not collect, because they may suggest very expensive programs to correct some problem you formerly did not know about. So I think there would be very severe biases at OMB—biases we need very badly in all sorts of other policy areas.

Unidentified questioner from the floor. In this discussion of possible political problems in OMB or within an administration, we lose sight of another political question, and that is the direct statistical policy-making role of Congress. It seems to be increasing—for example, in the trade bill there are a lot of provisions about statistics. Do the speakers regard that as a problem?

Charles L. Schultze. You are quite right. I have not paid that much attention to the trade bill, but every trade bill apparently does it. In order to get a large majority vote on the Tokyo round trade bill in 1980, the then Special Trade Representative agreed to let Senator Russell Long put in an amendment that prohibited the Census Bureau from reporting currently the f.o.b. value of imports. These issues are not terribly important to somebody who is trying to negotiate a trade bill, so some stupid statistical things come out. I do not know what you do about it. You face it all the time, and I hope the less of it the better, but I do not have any answer.