

Economic Census Conference Keynote Address

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Good morning.

It is a great honor and a privilege for me, on behalf of the United States Census Bureau, to help open this “International Workshop on Economic Census.” I want to thank the United Nations Statistics Division, particularly Paul Cheung and Vladimir Markhonko for organizing the conference and China’s National Bureau of Statistics (NBS) for hosting this event. I also want to thank the many countries that are participating in what I consider to be a groundbreaking event.

This conference is groundbreaking in the sense that it is the first international conference I recall that is devoted to the Economic Census. This week we have the unique opportunity to share the experiences of a diverse set of countries. Some countries here like the United States conduct economic censuses, other countries like Canada and the UK have well-established programs of economic statistics that do not include periodic censuses of the economy, other countries may be considering economic censuses. One thing we all have in common is the challenge of measuring our constantly changing economies.

I would like to start with a quote concerning the statistical needs of American businesses, given at an annual American Statistical Association conference:

“...in the future it seems certain that statistical requirements will increase rather than diminish. The past decade has witnessed many changes in the political, social, and industrial life of the nation; but the next few years promise even greater, perhaps revolutionary changes. Statistics will be required as never before by those in high places, both in business and in government, as a guide for finding the right solution to the questions of the day. The statistician will be called upon to furnish these data....”

I think many of us at this conference would agree with this forecast, but you may be surprised to discover that these remarks were made by William Hathaway in 1918. While the fundamental need for reliable, relevant, and timely statistics has not changed in the past 90 years, the economic landscape, related data needs and how statistical agencies respond to these needs have changed dramatically.

This morning I want to describe how the Economic Census in the United States serves as the cornerstone for our Nation’s economic statistics infrastructure. I will discuss the goals of the economic census, touch lightly on its history, describe some of the census underpinnings, and conclude by talking about the important challenges we all face and what I see as keys to improving our economic statistics programs in the years ahead.

Economic Census Goals

The Economic Census in the United States has four important goals:

First, *Provide the Nation with comprehensive and detailed information about the changing structure of the U.S. economy.* The 2002 Economic Census covered approximately 24 million individual business locations, provided data for over 1,000 different industries, and published detailed information for the nation, 50 states, 3,200 counties, 400 cities, and more than 4,000 places with 2,500 or more inhabitants. Over 1,600 separate census reports tells us what industries exist and where they are located, provides detailed information on their inputs such as employees, capital, and materials used in the manufacturing process, and their outputs including information on 8,000 manufactured products and thousands of merchandise and service groupings. Data were collected from 5 million locations with paid employees; administrative tax data obtained from the Internal Revenue Service were used in lieu of direct reports for 2 million small employers and 17 million businesses with no paid employees.

The second goal is *To establish and maintain the statistical foundation for continuing economic analysis by policymakers and business.* The economic census serves as the keystone of the Census Bureau's integrated program of economic statistics. These programs provide about 75 percent of the source data used by the Bureau of Economic Analysis in developing the National Economic Accounts, the framework for developing quarterly estimates of GDP.

The economic census also serves as the benchmark for current measures of economic activity such as quarterly GDP estimates, the Bureau of Labor Statistic Producer Price Indices, and many of the Census Bureau's monthly, quarterly, and annual economic surveys. Revisions to the North American Industry Classification System are always tied to economic census years, reflecting its central role in the U.S. statistical system.

The third goal is *To provide information needed to maintain the Census Bureau's Business Register*. Keeping the organizational structure of companies with multiple locations current and up-to-date is an expensive and resource intensive operation. Annually we survey 50,000 of the 180,000 companies operating multiple locations to identify structural changes, but we depend on the economic census for complete coverage of all 1.6 million establishments affiliated with multi-location companies. Besides providing detailed financial information the economic census identifies new, idle, or dead establishments, acquisitions, and divestitures. Similarly, the report forms mailed to some 2 million single location companies also identify changes in company structure and these changes are reflected in the Business Register. Finally, detailed product information as well as some of the special inquiries collected in the economic census provide supplemental information that permits us to design more efficient and more targeted sampling frames for current economic surveys.

The final goal is *To extend Economic Census detail and coverage in areas of special National interest*. Besides the establishment-based economic census that cover the various economic sectors, the economic census also includes a number of related programs such as the Survey of Business Owners, the Business Expenses Survey, the Vehicle Inventory and Use Survey, and the Commodity Flow Survey. These programs provide data on the gender, race, and characteristics of business owners; the characteristics and use of the Nation's trucks; and information about the movements of commodities. These programs are able to leverage the economic census infrastructure, lowering program costs.

Development of the Economic Census

The Economic Census program in the United States has evolved over almost 200 years, changing and responding to different data needs and the changing economic landscape. The first information on manufacturing was collected in the 1810 Decennial Census and during the 1800's Decennial census coverage was broadened to also collect data on mining and agriculture. Census offices were administered by the Department of State from 1790-1840 and by the Department of Interior from 1850-1900. In 1902 a permanent Bureau of the Census was established, initially in the Department of Interior. But the next year the Census Bureau was transferred to the new Department of Commerce and Labor and then in 1913 to the Department of Commerce when Commerce and Labor were established as separate departments.

The economic census has a long history of innovating. The 1905 Census of Manufactures and Mining was the first to mailout report forms with return envelopes and also used the Hollerith card readers; the 1910 census used 60 different manufacturing report forms each by industry; tax data were first use in 1912 to identify large tobacco producers; census coverage was expanded in the 1930's to include construction, hotels, retail, wholesale, and additional industries, the first Business Register was created in 1945; 1954 was the first unified census covering most sectors of the economy and the first to use tax data for editing and in lieu of direct reports. The 1960's and 1970's added related programs on transportation and business owners and the 1972 census was the first to use bar code labels and scanners. In the mid-1980's the de-regulation of financial, transportation, and utility industries resulted in a significant expansion in service industry coverage in 1992 with the addition of finance, insurance, real estate, utilities, and transportation industries. This brief history lesson I hope points out how the economic census program has evolved to meet changing data needs, technological advances, and changing business practices.

Underpinning of the Economic Census

The longevity, growth, adaptability, and long-standing support for the Census Bureau's quinquennial Economic Census rests on some important underpinnings.

First, the statutory authority for the economic census, title 13, mandates that an

economic census is conducted every 5 years, collecting data for years ending in “2” and “7”. This law requires businesses to participate, makes data provided to the Census Bureau immune from legal processes, establishes the confidentiality of individually identifiable records, establishes penalties for the wrongful disclosure of confidential information by Census Bureau employees, and pledges that reported information will only be used for statistical purposes. Title 13 also directs the Census Bureau to acquire and use information available from other sources in lieu of direct collections “to the maximum extent possible” consistent the statistical program requirements. Finally, in the same spirit title 13 permits the use of sampling in the economic census.

Title 13 mandates the taking of the economic census but leaves the Census Bureau tremendous discretion over the actual content, questions, methods, industry and geographical level of detail. This flexibility has been critically important in permitting the economic census content, coverage, and methods to respond to changing conditions and needs. A more specific and prescriptive statute I believe would hinder program changes and innovation.

Another important underpinning of the economic census is the availability and extensive use of administrative data acquired from the Internal Revenue Service, the Social Security Administration, and the Bureau of Labor Statistics. These administrative data not only provide critical source data for the Census

Bureau's Business Register, the sampling frame for the economic census, they also are used in lieu of direct reporting for some 2 million small employers and 17 million businesses without paid employees. BLS and SSA industry codes provide much needed industry classification information while the IRS employment, payroll, and tax return information also are used for data editing and imputation of missing responses. Access and use of these administrative data sets has permitted the Census Bureau to reduce data collection costs and business reporting burden, improves data quality, and generates low cost new data products.

The cooperation of American businesses has been essential to the success of the economic census program. In the economic census data collection year, years ending in "3" and "8" we mail economic census report forms to some 5 million business locations, imposing over 6 million hours of reporting burden on these businesses. Even though businesses are required by law to file their economic census report forms, the Census Bureau has to adopt a "carrot, rather than a stick" approach to obtaining responses from them. Companies that do not file a report by law can be fined \$500. This threat is not overly effective since many businesses would gladly pay \$500 per establishment to be excused from the economic census. While the Census Bureau has threatened to prosecute delinquent businesses for noncompliance, the threat of prosecution usually elicits a response. After all, many large businesses would gladly pay \$500 per

report form to be excused from the economic census. Rather, we work hard to convince intransigent businesses to file their report forms. In the 2002 Economic Census our unit response was 84%, but well over 90% of sales.

Finally, the way we have organized the management of the Census Bureau's economic statistics programs has facilitated our implementation of an integrated economic statistics program. Organizationally, we have vested overall budget, program and resource responsibility for the economic census, census of governments, and the current economic statistics program in a single position, either the Associate or Assistant Director for Economic Programs. He or she oversees funding requests, allocates resources to participating divisions, both in and outside of the Economic Directorate, and has overall responsibility for decisions related to census and current survey scope, content, methods, and products. Subject matter staff in the various economic divisions generally are assigned to either current survey or economic census branches, while programming and statistical support staff are more likely to be organized functionally rather than by program. Having an ultimate decision maker who has responsibility for economic census and current economic surveys has helped us respond to diverse and often competing needs of different data users.

Next, I want to briefly discuss some of the challenges statistical programs are already facing or are likely to face in the next several years.

Program Challenges

Securing adequate resources for statistical programs is going to be increasingly difficult. Over the past 50 years, the fundamental need for the U.S. economic census has been seriously challenged only once in 1953; however, securing adequate funding especially in data collection years has been a periodic problem, most recently in 2003.

In 1953, the Eisenhower Administration failed to provide funding for the 1953 Economic Census. Then Secretary of Commerce, Charles Sinclair Weeks, wanted to know if the Economic Census was indeed necessary. To answer his question, in October 1953, he appointed Dr. Ralph J. Watkins, Director of Research for Dun and Bradstreet, Inc., to form an Intensive Review Committee to study the issue. The Committee made its report, "Appraisal of Census Programs," in February 1954. Thereafter known as the "Watkins Commission Report," its series of unreserved testimonials – from the business, financial, professional, and governmental groups represented on the Committee – led to the recommendation to reinstate the Economic Census for 1954.

The most recent major threat to the economic census occurred in 2003 when the Senate appropriation committee threatened to cut the budget request by 30% or

\$25 million, two months before the mailing of 5 million report forms. We ultimately received full funding 5 months into the fiscal year, but only after the personal involvement of Allan Greenspan, Chairman of the Federal Reserve Board, who characterized the Economic Census as “indispensable to understanding America's economy,” and Glenn Hubbard, the Chairman of the Council of Economic Advisors, and the vocal support of a number of business and trade organizations such as the National Association of Manufactures.

Over the past 3 years the Census Bureau has fared very well, obtaining new funding for the American Community Survey, full funding for the 2002 Economic Census data collection and processing, and additional monies for new service and e-business statistics. Unfortunately, it appears the future will not be as rosy. In FY 2006, we expect the economic census budget to be cut by 5% and we expect increasing difficulty in securing funding in 2007 and 2008 as both the economic census and the 2010 census request substantially more funds. The Census Bureau is not going to be the only organization facing this problem and we are going to need the energetic and effective support of government, business, and other stakeholders. This support will only be forthcoming if we continue to

provide data that responds to the needs of these constituencies.

We can not use budget constraints as an excuse for retaining the status quo. In fact, our second challenge is ensure that our programs change and improve even in the face of constrained resources. Otherwise we jeopardize future funding for existing programs. Terminating programs and program components is always difficult, but if this is the only way we can fund program improvements, terminate we must.

A third challenge is *Improving cooperation and maintaining high response rates*. Relevant, accurate, and timely statistics require the continued cooperation of our data providers and suppliers. We can not take this support for granted. We must proactively and aggressively seek innovative ways to reduce reporting burden on businesses. To accomplish this goal, we must better understand our data providers' environments and needs. We need to improve our knowledge of their record keeping practices, organizational structure, reporting processes, and data availability. We also need more information about how data providers understand our concepts, questions, and instructions, their reporting problems and concerns, and their ideas about how we can facilitate and simplify reporting. Bottom line we need make sure our data

requests align more closely with accounting conventions and companies record keeping practices.

Keys to Success

Finally let me conclude by sharing some thoughts regarding the keys to successfully to improving our economic statistics programs:

- Clearly establish program objectives and make sure organizational roles and responsibilities are well understood.
- Establish program priorities in close collaboration with key data users; ensure program priorities satisfy important government and public policy needs.
- Target a limited number of new initiatives and priorities, guard against being too ambitious. Our new mantra is concentrate on a handful, not an armful, of high payoff activities. Seek feedback from important stakeholders in determining the high payoff opportunities.
- Use information when determining content, developing data collection strategies, or improving methods. Ironically, statistical agencies often don't use data-driven decisionmaking. The wealth of information we have on response characteristics, item nonresponse, data outliers, and so

on are often not easily accessible or widely used when making content, form design, or methodological decisions.

- Data requests align with business recordkeeping practices and accounting conventions; test new inquiries; avoid collecting data on “rare” activity; use check boxes to identify changing business practices
- Think outcomes, not outputs. Outcomes, the desired result, must resonate with external customers.
- Embrace simplicity, resist complexity.
- Develop a roadmap, measure progress, identify alternative ways to reach our destination, and execute the plan.

Let me close with a couple of proverbs. The first is familiar to all of us from Lao-Tzu “A journey of a thousand miles begins with a single step”. Most of the countries in attendance here have embarked on that thousand mile journey.

When I think we really are getting close to completing the job of improving our economic statistics I recall another Chinese proverb. “On a journey of 100 miles, ninety is but half way.” I agree the job is far from finished and much more needs to be done. This conference is a wonderful opportunity to exchange experiences and I look forward to full and interesting program.

Thank you very much.