Taking Stock after the Shutdown and in Wake of Budget Negotiations:

An occasional note from the Council of Professional Associations on Federal Statistics

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A natural experiment. The 16-day government "shutdown" was an unfortunate incident, but it also created a natural experiment about the value of federal statistics. What we learned from the experiment is that: (1) Managing the national economy cannot be done without data by which we measure its performance; (2) The efficient functioning of various markets relies on the timely provision of objective federal data and information; (3) Private sector information, while very helpful in the short run, is not a substitute for federal statistics; and (4) Statistical agency websites and data stored therein are critical to research and education.

Managing the national economy without requisite data. Alan Greenspan was quoted yesterday as saying that "at this moment, [economists and investors] are flying blind." What he means is that unemployment, inflation, and economic growth measures, the most critical pieces of information that inform the Federal Reserve's decision about whether to brake inflation by changing interest rates or fuel the economy through money supply approaches like "quantitative easing," were missing. The Bureau of Labor Statistics' (BLS) regularly scheduled October 4 jobs report on September employment was unavailable, and the BLS Consumer Price Index (CPI) scheduled for release on October 16 was postponed by 2 weeks, thus failing to inform Fed decisions in October. According to the Cleveland Fed, the repercussions on CPI estimates will "continue for at least seven months, "making "monthly overall inflation estimates derived from the CPI …subject to significant error." Private sector estimates of unemployment helped to inform investors during the blind spot, but they were neither as comprehensive as BLS measures, nor did they reconcile reports of employment from employers with reports of unemployment from households. Consumer price estimates generated by "scraping" prices from internet sources provided indicative information in the interim, but in no way substituted for the statistically-based and carefully constructed official CPI. It's hard to judge at this point the extent to which resultant uncertainty affects the Fed's ability to regulate the economy during a critical period of scrutiny.

Commodity markets flail. Markets for precious metals, energy, agricultural and other commodities are especially vulnerable to data gaps and missing or asymmetrical information. One of the important roles of statistical agencies like the Department of Energy's Energy Information Administration and agencies of the U.S. Department of Agriculture is to provide unbiased, statistically derived information that keeps those markets from going haywire. For example, livestock markets are characterized by many sellers, relatively few buyers, and an invisible marketplace involving private contracts. The asymmetric information market failure (wherein sellers don't know the terms of other buyers' proprietary price offers and contracting arrangements) was resolved by legislation that mandates USDA to collect sales volume and transaction price data on a daily basis. The lack of such information during the government shutdown threw the domestic and international hog markets out of whack. Gaps and delays in USDA National Agricultural Statistics and Economic Research Service market outlook reports confound grains market functions as well. Private sector forecasts provided a moderating influence in the short run, but, since they are based on federal statistical trends and analysis over the longer term, could only provide stop-gap relief.

Scrambles to find data. Federal agencies' general statistics and data points over time give everyone from high school term paper writers, through social science researchers, to private investment advisors, access to the baseline and historical information they need to understand economic and social phenomena. During the government shutdown, when a number of agencies (including the Census Bureau) were forced to shut down the servers that facilitate their agencies' websites, numerous network searches spontaneously sprung up among nongovernmental organizations to see whether others had stored and would be willing to share specific historical federal data series. For example, members of the Community and Regional Economics Network sought out and shared stored data with one another to the extent possible. Search costs appear to this observer to have been high and only moderately successful.

Statistical budgets for 2014. So…if hardships, economic backslides, research failures and other serious repercussions arose from the government shutdown's temporary suspension and delay of statistical information that had *not* already been discontinued as a result of budget sequestration, what might happen during subsequent budget sequestrations?

Prepare for potential cuts in statistical programs. Under Wednesday night's agreement, a Conference Committee comprised of members from the Senate and the House has until December 13, 2013 to come up with a compromise budget resolution. A major part of the discussion will likely focus on the sequestration plan. If the plan remains in place as is, new automatic, across-the-board budget cuts kick in by January 15, 2014. At this point it's anyone's guess what will emerge from the Conference Committee, but observers agree that if the automatic sequestration is eliminated, other cuts to the budgets of discretionary programs will be agreed to and will guide subsequent appropriations.

Statistical agencies are operating under great uncertainty. Each has gone through prioritization processes to identify programs that would have to be discontinued if they receive funding below (or, in some cases, at) the 2013 sequestration level. Most agencies eschew making their own across-the-board cuts since nibbling away at the full suite of current programs would reduce data quality. Users of federal statistics should thus be prepared for potential elimination of some surveys, data series, indicators, and/or statistical programs. When and to what extent this will happen is still up in the air.

For further information contact Kitty Smith, Executive Director,
Council of Professional Associations on Federal Statistics
kitty.smith@copafs.org
703-836-0404