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How Data Sync Can Save US Official Statistics

Bottom line: Enacting legislation to assure consistent use of data for business activity across the three key U.S. economic statistical agencies would result in more accurate official indicators that businesses, communities, and government rely upon for decision-making, including Gross Domestic Product (GDP), productivity, inflation, and U.S. exports, and improve understanding of consequential trends across economic sectors, such as dynamics of business births, deaths, growth, and entrepreneurship.

The structure of the U.S. economy is constantly changing across industry and geographic boundaries, and supply chains are increasingly complex, with firms operating in multiple industries and locations. Thus, understanding the changing U.S. economy requires statistics that are accurate and consistent across those boundaries. This document describes an important opportunity for improving our national data infrastructure, via improved data-sharing within the federal government. In 2002, Congress passed the Confidential Information Protection and Statistical Efficiency Act (CIPSEA), which facilitated the exchange of certain business data among the Bureau of Economic Analysis, (BEA), the Bureau of Labor Statistics (BLS), and the Census Bureau. However, the Act did not provide for the sharing of business data maintained by Census and BEA that originated from Internal Revenue Service (IRS) filings with BLS. Nor did it expand BEA access to certain kinds of IRS business data. As a result, BLS and Census maintain separate, divergent registers of U.S. businesses for survey sampling and statistical weighting. The discrepancies in those registers and the surveys based on them distort measurement of key economic indicators.

To enable sharing of business data from IRS filings, Congress can change section 6103(j) of the Internal Revenue Code of 1986 to allow BLS and BEA to use specified and limited business information that originates from IRS collections under privacy protections. Removing the barriers to synchronization will improve the measurement of key national and local indicators on the health of the American economy, as well as improve the efficiency and cost effectiveness of the agencies.

Protecting Privacy

Passage of the needed legislation has languished for decades due to a lack of champions. Even so, many expert advisory groups (e.g., the Federal Economic Statistics Advisory Committee and the National Research Council) have endorsed such action, while recognizing inherent concerns about minimizing access to IRS records. The Treasury's FY 2022 Revenue Proposals include a proposal (page 101) for data synchronization that addresses these concerns. The legislation also can and should incorporate the applicable privacy provisions from CIPSEA.

Opportunities for Improvement

The benefits of working from better, synchronized business registers for sampling and weighting include the following:

- BEA will rely on fewer assumptions and laborious adjustments to its Census and BLS source data to measure GDP (nominal and real), construct input-output tables, and measure the value-added components of GDP, such as compensation and employment.

- Productivity measurement will be more accurate when the agencies can align BLS hours worked with Census output data by industry.
- The accuracy of BLS's Producer Price Index, a primary gauge of inflation, will improve by consistently classifying businesses by industry and product class across statistical agencies.
- We will better measure the retail and manufacturing sectors, small business and entrepreneurship activity, and emergent trends, such as gig work.
- BLS and Census could eliminate duplicative data collections.
- We will no longer undercount exports by roughly $20-$50 billion, improving our ability to understand supply chains and evaluate trade deals.

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