ECONOMIC SCENE

In numbers we trust, provided they're safe from political meddling.

By ALAN B. KRUEGER

Published: May 30, 2002

FEW people have heard of the Office of Management and Budget's Statistical Policy Directive No. 3, but it affects the way economic news is discussed and is a cornerstone for trust in federal statistics like the unemployment rate and Consumer Price Index.

Among other things, the directive prevents political appointees from publicly commenting on sensitive economic indicators until at least an hour after the professionals who produce the data have had a chance to explain the findings. It also restricts those within the government who can receive sensitive data early.

The directive was initially put in place in the early 1970's, after the Nixon administration commented that a drop of two-tenths of a percentage point in the unemployment rate was significant, only to be contradicted by a career employee of the Bureau of Labor Statistics, who pointed out that the drop did not cross the threshold for statistical significance.

The goals of the directive are laudable: to "strike a balance between timeliness and accuracy, prevent early access to information that may affect financial and commodity markets, and preserve the distinction between the policy-neutral release of data by statistical agencies and their interpretation by policy officials." The practices it establishes prevent political meddling.

Some officials have found that the directive makes it difficult to spin the numbers for political advantage -- exactly as intended.

President Bill Clinton occasionally found it hard to resist commenting on the numbers before an hour had lapsed.

Last year, the labor secretary, Elaine L. Chao, sent a memo to the White House budget director, Mitchell E. Daniels Jr., openly requesting a change in policy "to address the contemporary political climate."

"The advent of the 24-hour news cycle, known as the 'CNN Effect,' " she argued, "has rendered this policy obsolete. Reporters from each network cover the announcement live at 8:30 a.m., and pundits begin to offer their interpretations immediately after the data has been made public.

She added: "Preventing the executive branch from presenting its point of view in the first hour has become a distinct disadvantage, as the tone of the analysis and debate is often already determined by the time an hour has passed."

Ms. Chao requested that senior administration officials be permitted to comment on federal data immediately after their release to "clarify the issues," and that they be given access to data a day early to "formulate a coherent policy." (Ordinarily, the labor secretary is briefed on the unemployment rate by the Bureau of Labor Statistics half an hour before the data are released, but Ms. Chao has opted not to participate in such briefings.)

The budget office wisely decided not to change Directive No. 3.

The issue of who gets what when is of critical importance for economic statistics, as well as central intelligence. The procedures specify that the Council of Economic Advisers receives principal economic indicators as soon as they are available.

The council passes the information on to the president; the Federal Reserve Board chairman, Alan Greenspan; and the Treasury secretary, Paul H. O'Neill.

Mr. Greenspan also has an agreement with the Bureau of Labor Statistics to receive monthly employment data for manufacturing, mining and public utilities two or three days early, ostensibly so the Fed can produce its industrial production statistics on a timely basis, though those figures are not released until 10 to 17 days later. Surely, the chairman's reason for wanting the data early is a ruse; he wants an advanced hint at where the economy is headed.

It is an interesting question whether it makes sense for the Fed chairman and Treasury secretary to receive the information before everyone else. Providing prerelease data may make the chairman seem omniscient and help the Fed and Treasury outfox the markets, but it is unclear whether these advantages increase or decrease market volatility and raise economic growth.

In a paper presented at the Fed's symposium in Jackson Hole, Wyo., last summer, Michael Woodford, a Princeton macroeconomist, argued that "monetary policy can be even more effective" when information is more rapidly disseminated to the private sector.

In addition, privileged access raises the level of cynicism by market participants.

With hundreds of billions of dollars of government spending and tax receipts directly tied to federal statistics, the hurdle to persuade the public that the numbers are free from political meddling is high.

The statistical agencies take many precautions to inspire confidence in government data. Virtually all the agencies' work is done by career employees protected by the civil service system; the Bureau of Labor Statistics has only one political appointee; the Census Bureau, four; and the Bureau of Economic Analysis, none.

Nevertheless, trust in federal statistics is low. Robert Shiller of Yale found in a 1996 public opinion survey that slightly more Americans agreed than disagreed with this statement: "An important reason not to trust contracts indexed to inflation is that someone in the government might deliberately falsify the inflation numbers to take advantage of people like me."

Although such concerns are ludicrous to anyone who has observed the dedication, nonpartisanship and professionalism of the employees of federal statistical agencies, public cynicism toward government statistics runs deep.

The word "statistics" originally meant "state arithmetic." Objective, credible statistics are essential for government, business and personal decisions -- and for the operation of democracy itself. It is important that strong safeguards be maintained to prevent even the appearance of political meddling with the data, and that senior government officials appreciate the justification for such safeguards.