

Publicly Provided Data and the Fed

BY KARTIK ATHREYA

Governments around the world routinely provide many official statistics, including — perhaps most prominently — data that summarize the state of the national economy. The United States is no different. Multiple agencies, including the Federal Reserve, are dedicated to collecting, disseminating, and using macroeconomic data.

Macroeconomic data are forms of information. Information, in turn, can be what economists consider a “public” good. A public good has two features. First, it’s “nonexcludable,” which means its use is something that cannot be effectively restricted: Think of how hard it is to fully “gate” content on the Internet. Second, it’s “nonrivalrous,” which means one person’s use of it doesn’t diminish the ability of others to use it: Any number of people can learn or know the same thing, after all.

Both features suggest that private markets may under-provide information. Macroeconomic information, in particular, is likely to be under-produced. It’s not necessarily in the interest of any one private firm, for example, to produce and maintain data on what the *overall* economy is doing, especially when the firm can’t easily restrict access to this good. Why incur the cost to collect, organize, and maintain data that, once widely known, will give you little or no edge over your competitors?

The origins of arguably the single most important measure of economic performance — gross domestic product — illustrate the poor private incentive to produce basic macroeconomic data. Before the 1930s, no private firms produced these data, and the U.S. government didn’t systematically collect this information, either. The Great Depression prompted policymakers to reconsider this need. The economist Simon Kuznets, who worked at the National Bureau of Economic Research, led a group of researchers at the Commerce Department that developed the first-ever consistent set of accounts to measure the total economic output in the nation over a given period of time. Around the world, other economies faced the same problem, but once Kuznets showed the way, his measurement principles were the basis for many standards adopted by nearly all of the world’s countries over time.

These “national income and product accounts” or NIPA — produced by the Commerce Department’s Bureau of Economic Analysis (BEA) — now provide the basis for our understanding of the state of the economy. Today, few would dispute the enormous value of these data. Economists, policymakers, financial markets, and the public all routinely rely on NIPA-based information to assess the state of the economy as a whole and make decisions.

What are some other examples of critical data produced by the government? Measures of employment and unemployment, which provide important information about the labor market, are supplied by the Bureau of Labor Statistics (BLS). A more recent BLS dataset, the Job Openings and Labor Turnover Survey (JOLTS), provides information on vacancies, hires, and separations between employers and employees. Such information has been key for researchers and policymakers who are trying to understand whether labor markets are functioning well or not, and, in turn, whether Fed policy is appropriately set or not. Thus, as with NIPA, employment and JOLTS data play crucial roles in public policy. But they are also good examples of information that wouldn’t necessarily be in the interest of a private entity to produce.

To be sure, there are also many instances today of valuable privately collected information, like payroll data provided by ADP or the Billion Prices Project produced by the Massachusetts Institute of Technology. There are also new analytical tools that can process all sorts of data much more quickly than before as well as produce unique data — a good example being an index of economic uncertainty, developed by economists Scott Baker, Nicholas Bloom, and Steven Davis, that is based on computational text analysis of newspapers. However, because these private data sources are typically narrower and not as comprehensive or long-standing as many government series, they are best seen as a complement to publicly provided data, not a substitute.

It’s also important to note that, collectively, these government datasets provide a complex and wide-ranging account of the economy — where it’s doing well, and where there’s pain. While headlines in the news often fixate on one number, these data provide economists at the Fed and elsewhere (including private entities) with a far richer and more accurate understanding of our economy — and plausibly help us attain better macroeconomic and microeconomic performance. But to be clear, successful monetary and other policies almost certainly require public support for data collection and management because of the public-good nature of macroeconomic data.

As Kuznets famously once noted, economists often find surprises as they try to “find order in the universe of their study.” With the tools provided by the public-sector entities that produce rich, timely, and accurate data, the Fed and other policymakers are far better equipped to find this order than they ever could in his day. **EF**

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