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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

ACCOUNTING AND FINANCIAL  
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B-203867

JULY 16, 1981

The Honorable John J. LaFalce  
Chairman, Subcommittee on General  
Oversight  
Committee on Small Business  
House of Representatives

**DTIC ELECTE**  
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Subject: Data on Small Business--Much Is Collected But It  
Should Be Integrated For Better Use, (AFRD-81-71)

Dear Mr. Chairman:

In your May 19, 1980, letter (encl. II), you requested that as part of our ongoing review of the impact of Federal programs and policies on small business productivity, we attempt to

- (1) identify the effects of current Federal programs and policies on small business productivity,
- (2) recommend any changes in Federal programs and policies that would have a positive effect, and
- (3) estimate the budgetary impact and effectiveness of those recommended changes.

We briefed your staff on December 16, 1980, on a number of issues that could have an impact on small business productivity, such as access to capital and credit, support of innovation, and regulatory burdens. We pointed out, however, that we could not specifically respond to the questions raised because of a lack of reliable data. At your request, we are providing this report to identify some of the obstacles to acquiring a good data base.

In preparing this report, we interviewed a range of Federal officials responsible for collecting information on small businesses and for formulating Federal statistical policy. Details on our objective, scope, and methodology are given in enclosure I.

The need for a small business data base useful for policy analysis has been recognized by the Small Business Administration (SBA), the White House Conference on Small Business, and others. Most of the existing information on small businesses is collected

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by five Federal agencies. <sup>1/</sup> Our examination showed, however, that legal and technical problems limit the usefulness of this information for analyzing the small business sector and have kept SBA from developing an adequate small business data base, in spite of a mandate from the Congress. It is important that these obstacles be overcome.

RESTRICTIONS ON SHARING DATA AMONG AGENCIES  
CONFLICT WITH SMALL BUSINESS DATA BASE NEEDS

The Small Business Administration requires firm-level data from several agencies in order to analyze the effects of government policies on individual firms. Agencies, however, are restricted either by laws or by regulations from sharing such data with other agencies. Until this conflict is resolved, little progress can be made toward establishing a meaningful small business data base.

In recognition of this need for data the Congress, in the Small Business Economic Policy Act of 1980 (Public Law 96-302), directed SBA to develop a small business data base from existing Federal sources. The act mandates that SBA will establish and provide to the Congress and the administration information on the economic condition of the small business sector. The legislative history of the act indicates that no additional burdens should be placed on the small business sector in determining its economic condition. One way to do this is to use existing data collected by various Federal agencies. The act intended that SBA follow this approach by using advanced data processing technologies and sophisticated statistical techniques. The merging of such data, however, conflicts with confidentiality requirements.

These confidentiality requirements were reinforced by the Paperwork Reduction Act of 1980 (Public Law 96-511) whose purposes include

- minimizing the paperwork burden;
- minimizing the cost to the Federal Government of collecting, maintaining, using, and disseminating information;
- maximizing the usefulness of information collected;
- coordinating, integrating, and to the extent practicable and appropriate, making Federal information policies and practices uniform; and

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<sup>1/</sup> Bureau of the Census, Department of Commerce; Bureau of Labor Statistics, Department of Labor; Internal Revenue Service, Department of the Treasury; Social Security Administration, Department of Health and Human Services; and Federal Trade Commission.

--ensuring that the collection, maintenance, use, and dissemination of information collected by the Federal Government is consistent with applicable laws relating to confidentiality including section 552a of title 5, United States Code, known as the Privacy Act.

The direct focus of the Paperwork Reduction Act is consistent with the Small Business Economic Policy Act since it reinforces the foundation for the efficient and thorough use of existing statistical data. The Paperwork Reduction Act is less direct with regard to resolving the conflict between confidentiality and access. It directs the Office of Management and Budget (OMB) to submit legislative proposals to address this issue.

Until OMB and the Congress increase access, important data on small businesses, now held by individual agencies, cannot be brought together for analytical purposes. This data includes lists of firms and their size, profitability, and worker characteristics.

A number of legislative approaches have been developed to address the efficient use of data while maintaining the confidentiality of individuals and firms. One is to protect designated statistical activities, or enclaves, by naming certain organizational units as being qualified users of otherwise confidential statistical data. With control and limitations on access and disclosure, data could be transferred among approved users.

A second approach would make one level of establishment data available to users in the general research community for approved statistical and research applications. A second level of information would be available only to Federal statistical agencies.

Another legislative proposal would amend title 13 of the United States Code to, among other things, make the Census Bureau's Standard Statistical Establishment List available to other Federal and State agencies for statistical purposes only. The Standard Statistical Establishment List is a comprehensive list of all known business establishments and includes variables such as employment and sales revenues.

We did not review these approaches or proposals in detail and cannot, at this time, recommend one as most appropriate. However, most officials interviewed who have been developing the small business data base supported the need for legislative changes to increase access to data.

We believe that provisions of the Small Business Economic Policy Act cannot be fully carried out until an appropriate balance between practical use of data and confidentiality is achieved.

NUMEROUS TECHNICAL PROBLEMS MUST BE ADDRESSED

In order to develop a small business data base and enable the Federal statistical system to approach its potential, a number of technical problems will have to be overcome. We believe this can best be done through interagency coordination.

Four types of technical problems are generic to each statistical agency:

- Incomplete coverage.
- Lack of comparability.
- Reporting and processing errors.
- Questions of data timeliness.

These problems are magnified drastically when attempts are made to link the divergent data sources into one.

Merging agency files will increase coverage and usefulness of data

No single agency collects all the information needed to analyze small businesses. For example, neither the Federal Trade Commission nor the Internal Revenue Service collect employment data. The Bureau of the Census, for its publication "County Business Patterns," collects vast information on firms by payroll and employment by State, county, and industry, but does not collect information on farms, domestic workers, or the self-employed. Limitations in the coverage lessen the usefulness of the data.

One approach for resolving coverage gaps is to merge records from different data systems. For example, an attempt is being made to merge certain Social Security and Internal Revenue Service files to provide a single report on individual wages. The project could reduce the reporting and paperwork burden for employers and improve administrative efficiency. It could also provide a virtually complete set of annual reports for all wage and salary jobs. Before such data systems can be developed, however, comparability problems must be resolved.

Comparability problems must be resolved

Merging data files from different agencies requires that the agencies use common definitions for variables such as regions, firms, and size. Agencies do not now use common definitions. Therefore, the statistician is often faced with the problem of adapting disparate data concepts and definitions to accommodate statistical needs. One consequence is that different measurement of the same phenomenon--for example, employment by industry--can yield completely different results. This makes reconciliation

of the differences and therefore assessment of the accuracy extremely difficult, if not impossible. Access to the Standard Statistical Establishment List and extensive interagency cooperation are needed to address this issue.

An example of this problem is the use of employer identification numbers. These numbers are widely used for labeling reporting units by the Social Security Administration, the Department of Labor, and the Internal Revenue Service. Thus the numbers would appear to provide a tool for combining the records of these three sources.

Unfortunately, reporting units (businesses) voluntarily record their identification numbers on these reports and do not consistently use the same number on all reports. Unless the numbers are consistently applied in preparing records for the three agencies, the data is no longer comparable or is inaccurate. This was demonstrated in initial efforts to match Social Security payroll reports (forms 941) with Internal Revenue Service tax forms.

Comparability problems also arise in defining firm size. The Federal Trade Commission, for example, uses an asset size of \$2.5 million as its definition of a small business. For statistical purposes SBA defines a small business as one with 500 or fewer employees. Many Census Bureau surveys do not include businesses of 250 or fewer employees. Most agencies that collect data on firms with under 500 employees do not use the same size categories for aggregating the data. Through the efforts of interagency committees, uniform size standards have been agreed upon; this should minimize the comparability problem.

Quality and accuracy of data  
needs to be improved

Analysis can be only as good as the quality and accuracy of the data being analyzed. Some agencies make great effort to ensure the accuracy of information they need to administer their programs. Net income reported to the Internal Revenue Service and taxable wages reported to Social Security Administration are examples. Other information important for statistical uses, such as geographical and industrial information reported to Social Security, is often imperfectly reported, checked, and processed.

Given limited resources, agencies concentrate on areas most important to the administration of their own programs. As a result, information that may be highly important for statistical purposes but only marginally important for program administration tends to receive low priority.

The severity of problems caused by data of poor quality and inaccurate data cannot be easily measured. These are problems, however, that interagency committees need to address.

Data timeliness should be improved

Data timeliness is of great concern to statisticians in all data-gathering activities. Generally, the more current the information is the more useful it is to decisionmakers. Since data is collected and processed primarily for internal use by individual statistical agencies, internal uses are given much higher priority than are general statistical uses outside the agency.

Three factors affect timeliness of data--(1) the promptness and frequency with which data is reported, (2) the time required for the statistical agency to process the data, satisfy its internal needs and then make the data available to outside users, and (3) the difficulty involved in producing the desired statistics from the records.

For example, certain information gathered by the Census Bureau is updated only every 5 to 10 years but is available for statistical uses several months after it is obtained. Some employee-employer information gathered by Social Security is not available until 2-1/2 years after it is obtained.

Timeliness factors such as these affect the statistical usefulness of data for analyzing up-to-date policy questions and will have to be considered by interagency committees attempting to standardize various data systems.

PROGRESS HAS BEEN LIMITED  
IN DEVELOPING A SMALL BUSINESS DATA BASE

Since 1979, SBA has been working with major data gathering agencies to develop a small business data base. Progress in changing those agency practices that have been identified as obstacles to the data base has been limited and slow, however. In addition to the legal problems, a reason for this appears to be that developing the data base is not given a high priority in any data gathering agency. Although the Small Business Economic Policy Act does not give SBA authority to require statistical agencies to alter their practices, OMB, under the Paperwork Reduction Act, can provide the leadership necessary to raise the priority of the small business data base.

SBA and the major data gathering agencies have focused on a number of issues involved in developing a small business data base. They have determined what the necessary data elements are, the Federal sources of that information, and many of the obstacles to integrating the information. They have had less success in agreeing on how to address the obstacles. Though they have been working on these issues since 1979, the agencies have agreed only on uniform size standards for aggregating data by number of employees, sales, and assets. Certain agencies have also worked with SBA to make their own data more useful for analyzing small business activities. For example, where laws and regulations permit,

several agencies have begun a limited effort to match data on individual firms.

While SBA's approach has been effective in helping define the issues, it has not resulted in substantive action by data gathering agencies to make the necessary alterations to data collection and aggregation practices.

To the extent that data gathering agencies are seriously looking at more and better ways to use the data they are gathering, the Small Business Economic Policy Act and the Paperwork Reduction Act are already having a positive impact. We fully support the efforts that are being made but believe much more cooperation and coordination among statistical agencies will be necessary to achieve potential benefits from a larger and more standardized data base. Under the Paperwork Reduction Act, OMB can play an important role in setting statistical policy, developing guidelines, and acting as a primary catalytic force toward increasing interagency cooperation and coordination.

One organizational change that appears particularly beneficial is the impending transfer of the Office of Federal Statistical Policy and Standards from the Department of Commerce to OMB. Since the Paperwork Reduction Act assigned responsibility and authority to OMB, that appears to be a more appropriate location for an office providing the important policy guidance needed to achieve the goals of the act.

Unfortunately, much of the activity among statistical agencies relating to problem identification and solution slowed dramatically in February 1981, awaiting the outcome of the administration's budget reduction decisions.

#### CONCLUSIONS

Virtually all officials we met with at Federal data gathering agencies and the Small Business Administration recognized the need for a small business data base. In our opinion, data gathering, analysis, and dissemination is a valid and important role for the Federal Government. Unquestionably, a wealth of information exists and is routinely gathered, but is not fully used due to legal and technical problems.

The issues of confidentiality and access are being addressed through pending legislative proposals. We believe legislation will be needed to make federally collected data on small businesses more useful for policy analysis while ensuring confidentiality.

The technical problems associated with coverage, comparability, errors, and timing are well recognized among the data gathering agencies, SBA, the Office of Federal Statistical Policy and Standards, and OMB. While many of the problems can be overcome, agencies are constrained by limited resources.

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With the passage of the Paperwork Reduction Act and the impending organizational change placing the Office of Federal Statistical Policy and Standards in OMB, we believe both the mandate and the organizational components to carry it out are appropriately in place to provide statistical policy, agency guidance, and budgetary control for significant advances in data standardization and use, but to evaluate their effectiveness would be premature.

At your request, we did not obtain agency comments on the matters discussed in this report. We did obtain unofficial comments from selected officials of SBA and OMB. These comments have been included in the report as appropriate.

As arranged with your office, we are sending copies of this report to the Director, Office of Management and Budget and the Administrator, Small Business Administration. Copies will also be made available to other interested parties upon request.

Sincerely yours,

  
W. D. Campbell  
Acting Director

Enclosures - 2

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this review was to determine the major obstacles to developing a small business data base. The review was conducted in Washington, D. C.

We interviewed officials of the Policy and Technical Committees on Small Business Statistics at the following agencies: Bureau of the Census and Office of Federal Statistical Policy and Standards, Department of Commerce; Bureau of Labor Statistics, Department of Labor; Internal Revenue Service, Department of the Treasury; Social Security Administration, Department of Health and Human Services; Small Business Administration; and Office of Management and Budget. These interagency committees, chaired by SBA, were established by an executive memorandum in 1979 to develop and implement plans for a small business data base. The agencies selected collect most of the information on small businesses or help formulate Federal statistical policy.

We also interviewed officials from the Brookings Institution, which is developing an interim small business data base using commercial sources of information. We reviewed documents prepared by the Small Business Administration and other agencies related to the development of a small business data base and to general problems in integrating data files from several agencies. Further, we examined documents related to Public Laws 96-302 and 96-511 to determine the intent of each law and the respective pertinent authority of the Small Business Administration and the Office of Management and Budget.

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May 19, 1980

The Honorable Elmer B. Staats  
Comptroller General of the United States  
U.S. General Accounting Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Mr. Staats:

The Small Business Subcommittee on General Oversight has a consistent interest in the productivity decline in recent years and the potential for productivity improvement on the part of small businesses. During 1978, my Small Business Subcommittee held two lengthy hearings on productivity; and during 1979, my Subcommittee on General Oversight conducted two further hearings on productivity.

Testimony before this Subcommittee and testimony at other Congressional hearings, as well as the recent White House Conference on Small Business, have documented the important role that small businesses can play, in terms of controlling inflation, reducing unemployment and increasing the rate and quality of innovation.

Unfortunately, productivity, and thereby the ability of small business to contribute to the attainment of those important national goals, is often affected by factors outside the control of small businesses. For example, government programs and policies affect small business productivity in a number of areas.

The Subcommittee is aware that G.A.O. is planning to undertake a review of how government programs and policies affect small business productivity. I anticipate that this report could play an important role in the Subcommittee's continuing review of productivity and small business, and I urge an expeditious completion of this report.

ENCLOSURE II

ENCLOSURE II

I also specifically request that the G.A.O. report (1) identify the effects, whether positive or negative, of current federal programs and policies on small business productivity; (2) recommend any changes in federal programs and policies that would have a positive and meaningful effect on small business productivity; and (3) estimate the budgetary impact and effectiveness of those recommended changes to the extent possible.

I look forward to your kind cooperation in this matter. If you have any questions concerning this request, please contact Dr. Reid Ewing at 225-9321.

Sincerely,

  
JOHN J. LaFALCE  
Chairman

JJL:TN

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