



ORAL HISTORY – DR. FREDERICK T. KNICKERBOCKER

This is an interview conducted on July 13, 2005, with former Census Bureau Associate Director for Economic Programs, Dr. Frederick T. Knickerbocker [March 1995-April 2005]. The interviewers are Michael A. Hovland, History Staff, and Jason G. Gauthier, History Staff.

Michael Hovland: I'd like to start the interview as we generally do by asking you to describe your personal background in your career before you came to the Bureau of the Census, in general terms at least.

Frederick Knickerbocker: I was a product of the midwest, but most of my education was in the east. I did my undergraduate degree at Williams College (Williams, MA). I majored in political science with a minor in economics. That was an era when many students at the university were enrolled in the Reserve Officers Training Corps (ROTC), I was. When I entered college, the Korean War was going on. About the time I graduated, the armistice was in place in Korea. Nonetheless the military was still calling up people. As a consequence, when I graduated in 1954 I went into the Air Force for three years going through flying training and then being a pilot of a T-29, a twin engine training aircraft. We flew out of Mather Air Force Base (Sacramento, CA), training bombardiers, and navigators of B-52 aircraft. The Air Force made no attempt to keep

people in the service, so at the end of three years, I resigned to follow my interest in the international business world. I went to the Wharton School [of Business] at the University of Pennsylvania {Philadelphia, PA} and majored in what at that juncture was called foreign commerce. I spent a year and a half at Wharton, financed in part by what was then the GI Bill. At graduation I pursued my interest in business with an international flavor to it. I was interviewed by and joined the Eli Lilly Corporation and went to its headquarters in Indianapolis, Indiana. Initially I did some training in sales. Then, in 1962, I went to the United Kingdom, first to a Lilly subsidiary in Basingstoke, where I headed up market research. Subsequently, Lilly established a European headquarters in London, and I was transferred there, where I was responsible for marketing research Europe-wide.

Hovland: **You seem to have come up pretty fast, I mean you were just out of the service at Wharton, you would have been, what, in your late 20s when you joined Lilly?**

Knickerbocker: Yes.

Hovland: **And early 30s by the time you were running marketing research for the corporation?**

Knickerbocker: Yes. I returned to the United States and was responsible for part of marketing research for all of Lilly for a several years. Then I was assigned to become the general manager of their pharmaceutical plant in Florence, Italy. And so in 1966, 1967, and early 1968 I was the general manager of Eli Lilly Italia. I was then asked to come back to the United States to manage Lilly's sales organization for

the north eastern part of the United States.

I was married in 1955 when I was in the Air Force. By 1968, my wife and I, and our children, had moved over a dozen times. So, in 1968 I resigned from Eli Lilly, without any sure notion of what I would do next.

While I had always had great interest in history, my experience obviously was in business and economics. I found a doctoral program at the Harvard Business School (Boston, MA) that seemed to be related to my background. So in 1968 I enrolled in the Harvard Business School's doctoral program. That was an era when Harvard awarded a D.B.A., a doctor of business administration, instead of a PhD.

Hovland: **But you didn't really have any plan to go back in the business? Or did you plan to go back?**

Knickerbocker: I was uncertain at that juncture. I was interested somewhat in business, certainly interested in academia, and always had in the back of my mind an interest in government service. I am of an age to be part of the [President John F.] Kennedy generation, so government service was always something that I've found attractive. In any event, I did well in the doctoral program, stayed on the Harvard Business School faculty for about four and a half years or so after graduation and wrote a book that got published by the Harvard University Press¹.

My name came to the attention of Dick [Richard G.] Darman

¹*Oligopolistic Reaction and Multinational Enterprise*. Cambridge, MA; Harvard University Press, 1973.

[Assistant Secretary of Commerce], a famous name in Washington, who was at that time assistant secretary for policy in the Department of Commerce. Then the Department had a large policy operation, and management wanted to bring in some people with experience in analysis of the multinational firms. I was hired and entered the federal service as a GS-15, because by then I'd had military service, impressive business service, a degree from Harvard, and four years teaching at the Harvard Business School. I reported to work the day [President] Gerald [R.] Ford lost the 1976 election. I reported to work on the day all the political officials became "lame ducks." There was a period of about four months of dead time where I pursued my own research interests. The [President James E.] Carter administration arrived and the new assistant secretary for policy, Jerry [J.] Jasinowski wanted to divide his operation up into three parts; domestic policy, international policy, and basic science and technology policy. Jerry asked me to identify a candidate for the deputy assistant secretary international policy position. I conducted my search for five months, and came to Jerry with the recommendation that I was the most qualified individual. I became the deputy assistant secretary for International Policy Coordination.

Hovland: **(Laughing) So much for hiding one's light under a bushel.**

Knickerbocker: Exactly. I became a deputy assistant secretary, which of course was a political position. So, while I had entered the federal service in the competitive service, that is, I was a career civil servant when I first came in, when I became a deputy assistant secretary I became a political appointee.

Gauthier: **Was that in 1977?**

Knickerbocker: That was in 1977. The Civil Service Reform Act was passed in 1978, which created the Senior Executive Service (SES) system. Even by 1979 it was by no means clear that President Carter would be reelected. One of the features of the Civil Service Reform Act of 1978 was that if one had been a career civil servant, even though you were now in a political position, you could opt to revert back into career status. In other words, you could opt to become a career member of the SES, which I did, as did a number of other political appointees.

Hovland: **Yes.**

Knickerbocker: That took place in 1979. From 1979 on I was a career member of SES until I retired. The year 1980-1981 was a period of confusion when the administration changed and then the large office of policy was disbanded. The new [President Ronald W.] Reagan administration established first an Assistant Secretary, then an Undersecretary, for Economic Affairs. This was a variation on organizational arrangements that had existed before, like the old Social and Economic Statistics Administration (SESA). This arrangement joined together parts of the old office of policy; the Census Bureau, the Bureau of Economic Analysis (BEA), parts of the assistant secretary for technology, and the National Technical Information Service (NTIS). Under Secretary [Malcolm] Baldrige we also had special offices like an Office of Competitive Analysis and an Office of Auto Affairs. Once it was all established, Bob [Robert G.] Dederick became the assistant secretary, and eventually the Undersecretary of Economic Affairs. I became executive director of

the Office of Economic Affairs, basically a senior SES member, to help him run the operation. In the early days, there was substantial policy work, and so I was very much involved in any number of policy studies.

Hovland: **About what period of time was this?**

Knickerbocker: I'm talking about 1981 through 1986.

Hovland: **First half of the Reagan Administration.**

Knickerbocker: Yes. By the second half of the Reagan Administration, the policy agenda dried up significantly, and as a consequence, my job, as the executive director, became much more administrative. I dealt extensively with budget issues. The administration, as it had fulfilled its policy objectives, turned more and more to administrative matters for example, so there was extensive attention to management by objectives. We had any number of micromanagement programs imposed that affected BEA, the Census Bureau, and the rest of the organization. I was the person who tried to coordinate all of these managerial initiatives. The point I'm making is that the portfolio of the executive director changed from being policy rich to basically being very much an administrative job.

Hovland: **Did that have any bearing later on your decision to come to the Census Bureau?**

Knickerbocker: Yes it did. As we moved from Reagan to [President George H.W.] Bush's administration, in the administrative component of the job

continued to be most important. Then we moved into the [President William J.] Clinton administration and that reinvigorated the policy content of the job somewhat, but it was still largely administrative. That gets you to where I was in 1995. From 1981 through 1994-95, I had been the executive director, and as I say, the job had moved from policy and analysis, to administrative work. Meanwhile Chuck [Charles A.] Waite [Associate Director for Economic Programs] retired, in 1994, from his job at Census.

Chuck's position opened up and Ev [Everett M.] Ehrlich [Undersecretary for Commerce for Economic Affairs] asked me whether I would be interested. I felt that Chuck's job would have much, much more substance than what I was doing downtown. And so, I was delighted to come to Census and become the Associate Director for Economic Programs in 1995. Again, I had occupied that job [at the Office of Economic Affairs] for so long and it had become so routine that there was little zest in it. The opportunity to come out to the Census Bureau and take on the new job was very appealing to me.

Hovland: **I was just thinking, when you said you lost your zest for the job that there are a number of people around the Census Bureau who seem to have done so too.**

Knickerbocker: I ought to send you a copy of the first speech I gave—it's a long speech—to everybody in the economic directorate about why I came here. Among the points I made is, first that I had dealt with the Census Bureau downtown for close to 15 years, and had a background in business and business analysis. I had used the Census Bureau data; I'd written my doctoral dissertation using the

Census Bureau data. I knew the business world a good bit and was familiar with all the economic data Census put out. I felt comfortable with coming to the Census Bureau. I was certainly very familiar with what the Census Bureau was doing on the business side. Not on the demographic side or the decennial side, but certainly on the economic side. I felt I came in with a very comfortable background in terms of economic programs area. Moreover, I felt that the economic directorate was a very exciting place and “where the action was.”

Hovland: **Chuck Waite was a fairly activist associate director, how did you find the economic directorate when you got here?**

Knickerbocker: I was extraordinarily fortunate. By then Tom [Thomas L.] Mesenbourg was the assistant director [Assistant Director for Economic Censuses], and it didn't take very long before Tom and I developed an effective specialization of labor. Tom became basically the COO [Chief Operating Officer], the man responsible for running things on the inside, and I, like Chuck, concentrated on things on the outside. I worried much more about our relationships with the business world and our relationships with the academic world. A lot of my time was devoted to the Center of Economic Studies (CES) and to its relationships with academe. It was a fortunate division of labor. I said in my early days that I would back up Tom on any decisions he made about the day-to-day operations of the directorate and I did. It is remarkable that in the ten years I was here working with Tom, we never had a disagreement nor did an angry word ever pass between the two of us. It was a marvelous working relationship.

Not only that, but I had a superb group of division chiefs. Let's face it, they're the ones that do the work. I was extraordinarily lucky. I inherited [Thomas L.] Mesenbourg [Chief, Economic and Surveys Division; later Deputy Director and Acting Director], good division chiefs, a couple of fine special assistants, and a very good staff.

When I came in in 1995, we started to have significant problems with the budget, and so in 1996 we started reductions in programs. We shut down a number of retail programs, some regional data, geographical data, and some quarterly programs on investment plans. We were contracting things around the periphery, not any of our core programs, but budget problems always persisted. Nonetheless, staff morale and performance stayed good.

In terms of specialization of labor with Mesenbourg, given my background, one part of the organization that I handled almost exclusively was the Foreign Trade Division, which is of course a quite distinctive activity, because it deals with administrative records. I worked very closely with the Foreign Trade Division during my entire tenure at Census.

Hovland: **When you accepted the job, did you come here with any particular, specific goals or projects that you wanted to carry through at the Bureau? Had you identified anything when you were down at Commerce that you thought needed to be worked on?**

Knickerbocker: When I came here I said that the thing we needed to do was to make our statistics more obvious to, more applicable to, more valued by, the business community. We needed business support

in our budget battles.

A lot of what the Census Bureau did, and still does in the economic directorate, is in aid of BEA. The BEA does generate the macro data, but BEA is not going to win many budget battles on our behalf. The BEA, moreover, has got budget battles of its own. Much of what we did at the Center for Economic Studies, was a benefit to academe, but academe wasn't going to help us much either. As a consequence, I spent a lot of time working with, for example, the National Association for Business Economics (NABE). And in fact, as time went by, the NABE became a vocal and effective advocate for us on budget matters and definitely helped us on a number of occasions.

I did not come to the economic program area at Census with a notion that there were glaring shortages, glaring gaps, in the data we were producing. My first objective was driven really by budget concerns. So, we took steps to make our statistics relevant. When I got here, by 1995, it was the early days of the internet, the "dotcom" revolution. By 1999 it had become a mania. Any number of organizations were putting out estimates of how big internet business would be. From about 1997 on, we spent a lot of time thinking about measuring business over the internet. What sort of data could we produce and more particularly, could we produce data that would bring some truth to what retailing over the internet would be?

Hovland: **Well I remember that was about the time that we started every presentation to the economic advisory committee with something on e-commerce.**

Knickerbocker: Exactly, and so we eventually produced data for the first time in the last quarter of 1999 on e-retail. It was at that time that we showed that 0.6 of 1 percent of retail business was happening over the internet. This is when there were any number of people on Wall Street, for their own particular financial reasons, were asserting that 20 and 30 percent of all retailing would occur over the internet.

Hovland: **It's still not nearly as large as they wanted to make it.**

Knickerbocker: After a couple years, a number of the firms that were in the business of prophesizing how big the e-retail business would be disappeared, and today everybody benchmarks their estimates to the estimates that we put out. We did some smart things—we linked our e-retail estimates to our regular monthly surveys. We can tie our e-retail estimates into our regular monthly and annual estimates so you can always compare how total retail business and e-retail business performed. So we integrated our e-retail program into our regular retail program. That gave us power.

By the same token, a year or so later, it was either 1999 or 2000, we started releasing the e-stats reports. We put out special reports covering not only retail but also wholesale, manufacturing, and selected services industries. These were much more comprehensive annual reports in that they shed more light on the whole “dotcom” revolution. Importantly, we showed that the real growth is in business-to-business internet activity and that business-to-household activity was a minor part of the whole situation. In any event, when you talk about new initiatives, I'd have to say our entry into getting data on internet activity was probably a

major activity.

Hovland: You mentioned Foreign Trade earlier and I know this is a major interest for you. There was an enormous amount of work done on the import/export data during your tenure here. Do you want to expand on that a little bit? Including the introduction of the automated system?

Knickerbocker: The government in the mid-1990s was motivated to get better information on exports for export control purposes. This was a period when you had the export of satellites to China and there was a big rhubarb that we were shipping security sensitive exports around the world. We needed better ways to get better information on exporting. So the Proliferation Prevention Act was passed which required that anybody who exported anything that was on the State Department's Ammunition List or the Commerce Control List had to report their shipments electronically.

That was the camel's nose in the tent because it was followed by more legislation requiring that all exports had to be reported electronically. In short, there was a series of laws enacted in the second half of the 1990s that increasingly insisted that all the export data be reported electronically. On the import side, better than 99 percent of all imports were reported electronically, so that was not the real issue. The real issue was that we needed to have electronic reporting on the exports side. In the mid-1990s, better than 40 percent of data on exports was still reported on paper, which was quite imprecise, full of errors, and slow to process. The laws called for the Census Bureau, along with a number of other federal agencies, to justify these changes. Even today, in 2005, the

Census Bureau's involved in writing the regulations applying to the electronic reporting of exports. We're at the point right now where I think that only 2 to 3 percent of exports data are still coming in on paper. This has meant reeducation of the export community, changes in our own systems for processing export data, and the creation here at the Census Bureau headquarters of an internet filing system. The basic filing system to file electronically was over phone lines which was cumbersome and so the Census Bureau—on its own, with its own money—set up an internet filing system as well. Now a very substantial portion of all exports reports are filed by exporters over the internet to our own facilities right here at the Census Bureau.

Hovland: **When the Bureau used its own funding, what kind of impact did that have on the economic directorate's budget?**

Knickerbocker: We did it remarkably cheaply, we did it for a few hundred thousand dollars. This is something that's always rankled with me. The Customs Modernization Act requires modernization of all the data processing systems at Customs. Congress approved \$1.6 billion for the modernization. We, by contrast, created an internet system for all exporters for a few hundred thousand dollars.

Hovland: **An 8,000 to 1 ratio. You getting any credit for it?**

Knickerbocker: Very little. So mandatory electronic filing of all export data was the first big challenge for the Foreign Trade Division. Secondly, Secretary Evans² wanted to accelerate the release of the export data. The export data now comes out something like 40 days after

²Donald L. Evans, Secretary of Commerce, 2001-2005

the reference month. When Secretary Evans assumed office it was almost 50 days after the end of the reference month. He wanted to get the export data out much sooner. We developed a program to do this.

The process started, must be 4, 5 years ago with Secretary Evans. We've asked for monies for accelerated data release in every budget cycle since, but never got a penny for it. Simply by internal efforts on the part of Harvey Monk and his people, we were able to cut the time to produce the monthly trade statistics by about a week. But release time is still nowhere near down to being as prompt as people would like. On top of this, we, the Census Bureau, have acknowledged for close on to 10 years that we probably undercount exports by about 10 percent. This is because, among other things, a significant proportion of our exports go across the southern border, and that's very hard to monitor. We have asked for funds to correct this shortfall for five or six budget cycles in a row, but those funds have never been forthcoming.

Then, the last big issue on the trade front, is "9/11" and the concerns about protecting our borders on the import side. Obviously that's basically Customs' responsibility. Still, on the export side, there are problems of money laundering, the continued export of sensitive materials, precursor chemicals, biological agents that may be used in biological warfare and the general need to have prompt collection of export data. That's to say to, there is the notion that all trade data should be made available to all relevant agencies. That could be the Federal Bureau of Investigation (FBI), the Central Intelligence Agency (CIA), the Department of Defense, State Department, Homeland Security, etc. Our export data,

however, are confidential under law.

Hovland: **That was my next question, what impact did this have on confidentiality?**

Knickerbocker: Unless a national interest of determination is made, export data are confidential.

Hovland: **Who makes the determination of national interest? Is that the Secretary of Commerce?**

Knickerbocker: The Secretary of Commerce, under law, is authorized to make national interest determinations, and, he through an administrative order, has delegated that responsibility to the Director of the Bureau of the Census. After "9/11" we received requests from Homeland Security to get access to all export data. The Customs Service wanted to be able to get import data from foreign governments while shipments were still in foreign ports. It was a form of quid pro quo. The United States would give foreign countries our export data, and give them access to our export data, realtime, in exchange for access to their data realtime. And by access to export data, I mean access to every data point. This would breach confidentiality. There were suggestions that the director of the Census Bureau should make national interest determinations and that the Census Bureau should no longer honor its responsibility to protect export data. This is the issue that confronted [C.] Louis Kincannon [Director, 2002-2008]. Prior directors of the Census Bureau like Martha [F.] Richie [Director, 1994-1998] and Ken [Kenneth] Prewitt [Director, 1998-2001], never were confronted with this problem.

So this is the problem that Louis Kincannon and Hermann Habermann [Deputy Director] had to confront. Harvey Monk [Associate Director for Economic Programs] and I discussed this issue with Louis and Hermann on a number of occasions. The conclusion was that, making a national interest determination which would basically obliterate the Census Bureau's obligation in law to protect export data, was totally incompatible with the Bureau's fundamental responsibility. It would be totally inconsistent with Census Bureau policy and would give fodder to those critics who allege that the Census Bureau cannot be trusted with sensitive information. The Census Bureau basically refused to break the confidentiality of export data, with one arcane exception. We did agree to a very tenuous provision of certain types of disguised data to the Mexican government in exchange for the Mexican government providing certain source data to the United States. This was done under a national interest determination that the Secretary of Commerce made. But even here, we are not providing actual data. We are only indicating that transactions fall within certain broad ranges of value to the Mexican government. To the best of my knowledge, although this arrangement was set up a year and a half ago, the exchanging of this disguised data has never taken place.

It is a fact, nonetheless, that, between Kincannon, Habermann, myself, Monk, and presumably the Undersecretary, there has been discussions about whether we should keep the foreign trade program in the Census Bureau if it is going to be constantly subject to pressures to break the confidentiality of export data.

Hovland: **It would compromise the Bureau's position on confidentiality.**

Knickerbocker: It would compromise the Bureau's overall position on confidentiality. As of the moment, it is an issue that may or may not surface again.

Hovland: **With regard to confidentiality in particular, I wanted to ask you to comment on the privacy and confidentiality requirements placed on the Census Bureau, particularly those involving the Bureau's use of administrative records from other agencies. Now I know you personally had some run-ins with the Internal Revenue Service (IRS) over some of this.**

Knickerbocker: Within the economic programs, we make very extensive use of the data from IRS. Indeed, if we had no access to IRS data, 90 percent of the economic directorate programs would come to a halt shortly. The IRS data are used extensively in the development of the economic censuses; they're used to develop our frames; they're used in developing our business register—the business register of course is the foundation stone of all our surveys. We have made extensive use of IRS records ever since 1947.

Over time, there was always a question of exactly how we were using the IRS data. Clearly the law makes it plain that for us to use IRS data (to develop sample frames or to develop our business register) was perfectly okay, but there were always questions about the extent we could use IRS data for analytical purposes. There were disagreements with IRS, dating back to the 1970's, about exactly what use we could make of IRS records. Most of those interchanges and negotiations with IRS ending up with agreements

to disagree—the issue languished and was never brought to a head. What brought things to a head and led to several uncomfortable years with IRS was the slow expansion of our activities at our Center for Economic Studies.

The CES was started in the early 1980's. It is an organization that makes it possible for external researchers, basically academic researchers, to get access to individual Census Bureau data files. These are Title 13 data files and in the case of economic directorate, those Title 13 data files have embedded in them IRS data (comingled data). We took the position that when the IRS data came to the Census Bureau, they came under the umbrella of Title 13, and that we had all the commitments of Title 13 to protect the data. In the early days, just a few researchers got access to confidential data. Researcher access to confidential data was highly restricted and controlled. Users could never reveal their data, only analytical findings. We were confident that the data were being protected and that this should suffice so far as IRS was concerned. Indeed, the history of the operations of the Center for Economic Studies—up until today—has never revealed an instance of a violation of the confidentiality of the Title 13 data, or indeed the IRS data embedded in it. From 1995 on, I encouraged the expansion of the Center for Economic Studies. First Bob [Robert H.] McGuckin [Chief, Center for Economic Studies] was in charge and we had the Center located at Census Bureau headquarters, which meant that researchers had to come to Suitland to do work. And then Bob set up the first satellite research center up in Boston in 1994 or 1995.

Hovland: **This was the research data center (RDC) program.**

Knickerbocker: Yes, the research data center program. Next Bob agreed to set up a center at Carnegie Mellon University (Pittsburgh, PA). That was done in 1996 or 1997. Bob McGuckin [Director of Economic Research at the Conference Board] left us, joining the Conference Board in 1996. I convinced John [C.] Haltiwanger [Chief, Center for Economic Studies] to become the Chief Economist, which meant becoming the manager among other things, of the Center for Economic Studies. John wanted, and I encouraged him, to expand the RDC network. Moreover, he wanted to regularize the process and to get some financing, so he worked out an arrangement with the National Science Foundation (NSF) where the NSF and the Census Bureau would be co-partners in expanding the RDC network.

Hovland: **Well that's what really got the IRS excited.**

Knickerbocker: Yes. Whereas beforehand one was talking about a handful of academic researchers, by 1998 two applicants to establish research centers came in from the west coast—the University of California at Berkeley and UCLA. There was the prospect of more and more RDCs and therefore an ever increasing cadre of academicians getting access to sensitive data. So, the IRS came to us and said they totally disagreed with our point of view, that we were in violation of IRS rules, that co-mingled data meant that the uses of it had to be approved by IRS, and that they insisted that we shut down all of the projects taking place in the RDCs. They gave us three months to finish projects nearing completion, but that all others had to be shut down. They simply said that the IRS would make the decision on what research projects could be established.

At that juncture, we had a project going with the Bureau of Labor Statistics (BLS) comparing our business registers, and of course our business register had IRS data in it, and IRS insisted that that project stop, too. Basically, they took the position that the only thing the Census Bureau could do with the IRS data was to use it for constructing the frame for the economic censuses and for our business register. In other words they took a very circumscribed, a very narrow view of how we could use the IRS data.

This led to a very, very tense 12 months. Many agencies in town “live off” our data and therefore, indirectly, off the IRS data. The strength of our data in part is a function of having access to the IRS data, so that the proposed restrictions meant that there could be a contraction or emasculation of the data we could provide to BLS, the Federal Reserve, and other agencies. All these user agencies had an interest in preserving our access and comprehensive use of the IRS data. The agencies got involved. Academicians got involved. Business did not. Business in some sense didn’t want to antagonize the IRS.

Eventually the head of the Office of Information and Regulatory Administration (OIRA)—at that time Sally Katzen [Administrator of the Office of Information and Regulatory Affairs (OIRA)]—convened a series of meetings. These were conclaves of senior executives. A series of white papers were prepared that codified a deal between the Census Bureau and IRS. The Census Bureau conceded some points. When researchers now want to do projects that would entail the use of IRS data, summaries of those projects, including the data to be used and how the data would be used, are sent to IRS, and IRS has to sign off on them.

Hovland: **Is there a time limit? How long can they hold this up?**

Knickerbocker: The IRS gets a research prospectus which outlines what the researcher wants to investigate, the data the researcher wants to use, the length of the project, where the research will be conducted, who will work on the project, and the backgrounds of the people who will be working on it. We report quarterly to IRS on all research projects and then annually produce a very extensive report on who's using the data, who has special sworn status to get access to the data, that sort of thing.

So, whenever IRS data are involved, a very elaborate, administrative apparatus operates to supervise all research projects and once a year we give IRS a complete listing of how we use IRS data. The report runs to hundreds of pages every year, a complete description of how we use the data and how the researchers are using the data. From 1998 through 2000, we were at loggerheads with IRS and it was uncertain what would happen. Since 2001 we have a *modus vivendi*, which is working out reasonably well. Albeit there are still people associated with IRS that think that the Census Bureau is using the IRS data in ways that go beyond the confines laid out in the legal provisions.

In any event, this does mean when you're talking about the confidentiality of Census Bureau economic data there are two layers of protection, not only the Census Bureau's layer of protection, but also IRS's layer of protection. To illustrate, RDCs are closed, secure facilities. Indeed, all the actual data are housed back here at the Census Bureau's Bowie computer center.

Basically RDCs just have “dumb” terminals. For example, people at a research data center out at the West Coast type at dumb terminals, we have complete logs of who’s logged on, who’s trying to get access to what data, how long they use the data, what they run, and so on. We have 24-hour surveillance of what’s going on in terms of researchers who are using data.

Hovland: **Has anyone ever considered or thought that there might be a reverse breach of confidentiality, that the IRS somehow get hold of through this operation?**

Knickerbocker: They don’t get...

Hovland: **Well they don’t actually receive data.**

Knickerbocker: They don’t get Census Bureau data. This is something that rankles IRS because we get their data because the law says we should. By contract they have never got access to confidential Census Bureau data. There is a provision in the law governing the IRS that if an IRS employee comes upon any data that suggests any fraud in compliance with tax laws, the IRS employee is obliged to identify the malefactor. Therefore, if IRS employees were to get access to our business register or certain of our survey data, where we’ve got revenue numbers and other information, and they can compare the revenue numbers filed on a corporate tax form versus revenue numbers filed with us, it’s safe to say that IRS may occasionally find discrepancies. The IRS might take action based on Census Bureau data. This is behind our somewhat tense relations with IRS—this asymmetry in who gets access to the information. Indeed, there has been, and we’ve never been able to work it out, an attempt to let

people from IRS come to the Census Bureau, be sworn in, and work at the RDCs and with our CES right here. We've never been able to get over this threshold issue about this requirement on IRS employees that they have to blow the whistle on any violation of tax law no matter how they discover the violation.

Hovland: **You managed to reach an operating agreement with them?**

Knickerbocker: Yes. It's time consuming and bothersome, but it works. In fairness to IRS, in the same sense that we at the Census Bureau are obsessed about the impact of breaches of confidentiality, IRS is equally paranoid about what happens with breaches of confidentiality in IRS data. If the word were to get out that IRS was casual in protecting its data, this would certainly discourage individuals and companies from complying with the tax laws.

Hovland: **Particularly given the fact that our tax system depends on voluntary compliance, really, despite the horror stories about IRS.**

Knickerbocker: Right, to be sure.

Hovland: **I'd like to move on to something else. Particularly the classification work at the Bureau. Now, by the time you got here the North American Industrial Classification System (NAICS) was pretty much implemented.**

Knickerbocker: Yes, that had started under Chuck Waite. The kickoff was a meeting down in Williamsburg in 1991.³ The basic configuration,

³The International Conference on the Classification of Economic Activities, held in November

structure, themes, organizing principles of NAICS were well established by the time I arrived at Census in 1995 and, of course NAICS, in its 1997 version, was first used, in the 1997 Economic Census. Over the next few years there was some updating of the NAICS resulting in the NAICS 2002 version—which identifies more industries in the electronic industry, makes some clarifications in terms of wholesaling, etc.

Hovland: **How has the implementation of NAICS gone?**

Knickerbocker: Among the statistical agencies there has been a bit of a problem in the sense that BLS is now producing employment statistics on a NAICS basis, but they never produced anything using NAICS on a 1997 basis. They did not implement NAICS for their programs until they adopted NAICS 2002.

BEA has to move from SIC (Standard Industrial Classification) to the NAICS basis as well. These transitions are wrenching. When you really get down to the data processing system and how the millions of bits of data are categorized and put together, the systems that have been developed to aggregate or to split apart NAICS categories are enormously complex.

Hovland: **Well, a simple look at the NAICS manual and the bridging tables that are required for the 1997 and 2002 data will give you something to think about.**

Knickerbocker: Right. It is an enormous task for any statistical agency to adopt a new industry coding system. We at the Census Bureau have taken

1991, in Williamsburg, VA.

the position that NAICS should be subject to review and some modest modification every five years. That is not accepted throughout the other statistical agencies.

Hovland: **Are you including the international agencies, I mean the Canadian and Mexican agencies?**

Knickerbocker: Canada and Mexico pose minor technical problems, but there is the whole other issue of how you relate NAICS to the classification system used in Europe and then to the international classification system as well. That is an issue marked by confusion and disagreement, but principally by arcana. By that, I mean to say that there are about four people in the world that can understand and who sit down and talk about NAICS and all of the NAICS and all of International Standard for Industrial Classification (ISIC) and the Belgium classification system and everything else and the best of luck to them.

Hovland: **Rather like the “Schleswig-Holstein question,” right?**

Knickerbocker: Exactly, exactly. Like the “Schleswig-Holstein question,” right. Only two people knew the issue and one forgot.

Hovland: **One died and one forgot.**

Knickerbocker: Exactly. Right. I mean it’s terribly arcane stuff. I mean there are notions about having a world-wide industry classification system. I think we are decades and decades away from that, if ever.

Hovland: **Well, talk of NAICS brings up the next one, the North American**

Product Classification System (NAPCS) that the Census Bureau is working on. Now that seems sort of a natural extension of the work we did on NAICS.

Knickerbocker: It is.

Hovland: **What involvement was there by the Census Bureau in the decision to develop the NAPCS? Was this something that came from outside or inside?**

Knickerbocker: I think the Census Bureau probably more than anybody else was the motivating institution to set up NAPCS. First of all, NAPCS follows along naturally from NAICS. In some sense the concept of NAPCS is inherit in what we've done in manufacturing ever since "day one," where we generate manufacturing data by industry. We recognize that a company that makes organic chemicals produces very different categories of products within organic chemicals. We have always made the distinction between an industry which in some sense a fiction, it's a way to simply say "the predominate activity of this business, or of this particular plant, is in this particular industry." We create these industries, but we recognize that a particular plant produces particular products. Other industries may produce the identical products. So we've always made the distinction between industries and products. We have the predilection that having done NAICS, one would naturally want NAPCS to come along behind it. I think the Census Bureau leads the NAPCS development effort. We incorporated in a preliminary way, some NAPCS data, in 1997 and we certainly incorporated NAPCS data in the 2002 economic census. We will incorporate even more NAPCS data in the 2007 economic census.

However, the introduction of the new system raises a very real question; does it make sense to have NAPCS data across all sectors? Is it feasible? Is it doable? Can you get companies to report at that high level of specificity? Can you get processing systems that can process them all? When you ask for that much data does it backfire? o companies simply say, “The hell with it, I won’t fill out the form, this is overreaching.” How do you organize the data, etc? In theory, if you’re interested in analysis, I think NAPCS is incontestably a highly desirable program activity, something the statistical system should do, but it faces a host of issues of feasibility.

Hovland: **It’s logical, but not necessarily practical.**

Knickerbocker: Right. One reason that I have been a strong supporter of NAPCS is because it was largely directed at generating data on parts of the services sector. One of the great issues in economics these days is what’s happening to productivity in the services sector. So long as your services data is only at the industry level, data are at such a high level of aggregation that you can’t really do the sorts of analysis that you would need to do to explain productivity trends in the services sector. If, for example, you look at NAICS under finance—the sector of finance—you will find that there are 23 subsectors, that is, 23 industries. If you take a look at the NAPCS codes within those 23 industries, you find there’s 230 NAPCS categories. This gives you much more refined data so that you have a much greater ability to tease out what’s going on in all of these service industries. I’ve encouraged work in NAPCS, particularly in the services sector, because I think it provides a data

base that's responsive to a principal need of academe.

Will NAPCS progress, will you see NAPCS data collected as completely, as aggressively as the NAICS data? I think not. I think right now we're trying to access just how hard we can push NAPCS. What's the payoff from NAPCS? Do we collect less NAPCS data? In what sectors is NAPCS data most useful? Let us abandon the lock-step notion that we'll collect NAPCS data for every services industry. Let's back off and be more discriminating in terms of where we collect NAPCS data. I think this balancing role is going on and will play itself out in the 2007 Economic Census.

Hovland: **What's interesting also, in terms of general classification, not only for NAPCS, but for NAICS, is the recent signing of the Central American Free Trade Area Agreement with the United States, and including Canada, Mexico, with various Central American countries. It seems to be based on the assumption that they will in effect enter the North American Free Trade Area (NAFTA), or have the same relation to the individual countries within the NAFTA, as the countries actually within it. How will the classification systems be expanded to these countries, or will these countries adopt the classification systems now in place within NAFTA?**

Knickerbocker: I have no idea how that will play out. Of course the six-digit code in NAICS is the country-specific code and there are trilateral meetings all the time going on about NAICS. That's difficult enough when you've got the three countries involved. Now add all of Central America and the Dominican Republic. Where is Guatemala or any other of the Central American countries going to get the five or six

people who can afford to devote their lives to worrying about NAICS codes and things like that? There are very practical issues here.

Hovland: **Alright, let's go on to something else. I wanted to bring this up because it's a personal hobby horse of mine. A year after you came to the Bureau, the census of agriculture was transferred to the National Agricultural Statistics Service (NASS)⁴, Department of Agriculture. The agricultural program had been part of the census since 1840. Why do you think support on the part of the agency's oversight committee seemed to dry up so quickly in 1995 and 1996? In 1995 I'd heard nothing about it, in 1996 it was a done deal. They were gone.**

Knickerbocker: In the early days of the budget appropriations for 1996, our House appropriating subcommittee reduced the funding for the 1997 Ag census by a third. The question was what could we do? While 1996 is several years ahead of the actual data collection year, it is an important planning year. We did an analysis and we concluded that we could do the agricultural census at reduced funding if we changed the definition of a farm. Now, a farm is any locality in the United States that has annual revenue from the sale of agricultural products of \$1000 a year, or has the potential to generate agricultural revenue of \$1,000 a year. We said let's change the definition of a farm and raise the threshold from \$1,000 to \$10,000. The consequence of that would be to reduce the number of farms by 50 percent. So instead of, roughly speaking, 2.4 million farms, you came down to 1.2 million. Well, the farm establishment was

⁴The National Agriculture Statistics Service is the Department of Agriculture's principal statistical office.

appalled. The agricultural interests were appalled at the prospect of changing the definition and reducing the number of farms in the United States. After all, there is one member of the Department of Agriculture for every three farms in the United States.

So, our proposal was an enormous threat. Martha Riche was Director at that time and these were the very early days of the American Community Survey. She was concentrating on “selling” that. I don’t know how she could have traded that off with the Department of Agriculture. She may have been concerned that, with the American Community Survey coming along, she could see the handwriting on the wall that this would be another major demand on funding for the Census Bureau. That may have been a concern to her. There are people within the Bureau who simply said that some big deal was struck between various people here and OMB (Office of Management and Budget). I was never privy to that. I saw our loss of the census of agriculture as strictly driven by the budget situation. Of course NASS always wanted to do it. They wanted to take it over. So in any event, we went back to the appropriation committee and said, “Ok, if you’re going to give us one third less, this is how we propose to do the census of agriculture.” The machinations went on, the census of agriculture went to the Agriculture Committee, and the agriculture appropriation committees in both houses, and by 1997 the appropriations for the 1997 Census of Agriculture went up by 80 percent, compared to the monies Congress proposed to give the Census Bureau to do the same job.

I always cite that as a case in Civics 101, right?

Hovland: (Laughter). Well I guess it would be. “Them that has the interest...”

Knickerbocker: Right.

Hovland: Well, ok. I wanted also to ask you about strategic planning at the Census Bureau. It’s been a major effort within the agency, at least since John [G.] Keane was director. And it seems to be a continually ongoing project, which it should be I suppose.

Knickerbocker: Right.

Hovland: Now I know you were intimately involved in strategic planning activities at the agency as a member of the executive staff. Sometimes it seems to the rest of us that strategic planning mostly involves making up new slogans. What can you tell us about the real process and the way strategic decisions were made by the executive staff during your tenure here.

Knickerbocker: I was aware of Keane’s activity, even when I was downtown. When I came here Martha Richie was leading strategic planning. It was done conscientiously, but I do not think it was particularly effective. I’ll explain why I thought that over the years. We have concocted a strategy within the economic directorate program that I think has been effective. This goes to one of my basic points—that the strategy exercise has been operating at too high a level for it really to be effective. It’s hard to conceive of a Bureau strategy when in truth we have an economics program, a demographics program and a decennial program, each of which needs to have good

cohesive strategies.

All along my objection to “strategy” as I’ve seen done here, is that strategy to my mind means choice. Strategy means concentrating on a few things to do. Practically all our strategic plans ended up with a little bit for everybody. That is simply to say they were driven by the notion of trying to maintain harmony within the Census Bureau— among all the associate directors—so everybody was appeased. I find that it is hard to point to our strategic documents and extract from them indications of hard definite choice. Strategy, if it means anything, means it advantages certain parts of an organization and disadvantages other parts of an organization. Strategy really means a well-thought out orientation of resources. And it’s not clear to me that we never really tried to reshape in a major way our resources.

Now, in fairness to the people involved in strategic planning, there is a recognition that Congress might not go along with attempts to change things in a major way. There are vested interests in Congress and there are vested interests in our three major program areas. Most of our changes are tinkering around the edges. But, can we abandon certain parts of our programs, possibly to shift monies to other major program areas? Only with difficulty.

I’ll digress to illustrate the point. Congress wasn’t going to give us enough money to fund the economic census. So we said we would abandon the census of mining. This was when the chairman of the subcommittee came from Kentucky and the ranking minority member came from West Virginia, both great coal-mining states. They reacted negatively, to say the least, at the Census Bureau

threatening to shut down the census of mining. We got \$4 million more back to do the census of mining by that threat. That's a digression, but that shows that there are major constraints on what Census can do in terms of what I would call the reorientation of resources.

Strategy really does mean concentrating resources on doing a few things and abandoning others. You cannot find that type of decision in our strategic documents. I come back to the fact that they were done conscientiously, I mean people have taken them seriously and thought through things they would like to do. I would say that I think the principal benefit for them is down in the program areas because I think you find more meat on the bones in terms of the strategic statements of the directorate's than you do for the agency level. The strategic statements for the economic program's area, the last several that we put out, I think are good documents. They do specify the things we definitely want to do, and by inference things that we're not going to do and we don't think are important. They are clear indications of what's important and what is not. Strategy should allow managers to understand that, at the margin, if forced, "I know how the associate director's going to come down on this or that question." The managers have a clear sense of his priorities. There's less of that in the Bureau's statements, and lamentably our Bureau statements of strategy are largely platitudes.

Our strategic statements say good things. I mean we value our work force—that's a good thing to say. It's nice to say those sorts of things. But again, they're not translatable into action. They are not tangible. They are not incisive. They're not trenchant. You can read them, but when you go back to your office and you're confronted

with a problem, do they give you guidance? And I think that's the problem of our overall bureau strategy statements. They are the result of a useful process in the sense that once every year or two it gets all the associate directors and top management and all the budget people off for a couple days and talk and they reach some understanding. They serve the useful purpose of building community spirit among the executive staff. But that's a different purpose than generating documents that should convey a sense of what needs to be done, down through assistant division chief level at the minimum.

Hovland: **On a related matter, this isn't strategic policy here, it's just general question on the implementation of the bureau policy. How closely was the Department of Commerce involved in the formulation and implementation of bureau policy during your tenure and did it become more involved or less involved? Or was it purely a question of what the interests expressed were—by the secretary or higher ups—at the time?**

Knickerbocker: First, did downtown ever intervene in the production of any of the principal economic indicators? Never. Secondly, did I feel at any juncture any pressure on the economic statistics I was producing? No. Downtown did give projects. He different under secretaries had different projects that came along, different policy projects. They would ask for support and so we'd have to take on tasks, do analysis, do research, send data downtown, send teams downtown, help them out. That was okay. I don't count this as political pressure. You would get queries like, "The International Trade Administration wants to get out export data by state a little bit sooner. Can you help them do that?" These requests touched

administrative matters. They didn't raise issues about changing data or compromising data. They were just about helping other parts of the Commerce Department in certain ways. I never felt that they compromised our data whatsoever.

On all matters relating to Foreign Trade statistics, we kept the Department apprised of what was going on, and they let us know when they had questions. The Secretary, for example, wanted to see if we could get the data out sooner, but when we pointed out a number of other problems we've had to solve, they accepted our judgment. I don't think the Department ever micro-managed our economic programs.

Hovland: **They didn't try to intervene in Census Bureau operations?**

Knickerbocker: No. Certainly the Department of Commerce was sympathetic with us in the IRS battle; they were very supportive of us then. I would say that the last several under secretaries have been basically quite supportive of our economic programs. That's about all I can say.

Hovland: **Ok, let's turn to the Census Bureau then. You were here from 1995 to 2005. You were under five different directors. Could you assess the contributions and strengths and weaknesses in your working relationships with those directors? Or were there any in particular that stand out in your mind now as either good or not so good?**

Knickerbocker: Well I believe one of the reasons the economic directorate is a very effective directorate, is because the director and the deputy director

have to worry about the decennial all the time. My interaction with the directors was somewhat limited. Riche was interested in the American Community Survey—she was a demographer and had rather little interest in economic statistics so I had rather few dealings with her. Ken Prewitt came along, and Ken was totally caught up in the 2000 Decennial Census. There was an issue of the request by the Congressional Budget Office (CBO) to access some of our confidential data. This was an offshoot of the flack with IRS and I was involved with Ken on that a little bit. But really, during the whole period when Ken was here, he was immersed with the run-up to the decennial census. I had rather little interaction with him.

Hovland: **Well he was frequently gone, I know he spent a lot of time touring the country.**

Knickerbocker: I dealt with Bill [William G.] Barron [Deputy Director] a good bit more because he was deputy director, so you had to deal with him in terms of budget matters and things like that. But Bill also soon got caught up very much in the 2000 Decennial Census and the adjustment issue. I didn't "clear" data in the early days. Richie didn't want to. Prewitt didn't want to. Barron didn't want to.

Hovland: **They let you run your own show.**

Knickerbocker: They let me run my own show. I haven't cleared the different economic indicators with any of the directors. We put the data out and that was it. And of course those are very important data. They attract a great deal of press attention. I did keep the Directors apprised whenever problems arose. Every once in a while you had

to delay a release for a day, or something like that. You keep them apprised if there was a problem, but they didn't get involved in correcting the problem. We [the economic directorate] produce many annual reports, but those reports contain far less analytical content than do the demographic reports. In demography you cover the questions that are policy sensitive. Our retail reports, wholesale reports, manufacturing reports, and service reports contain just the facts. So that the policy sensitivity of what we were producing was far, far less than was the case for the demographic reports.

We worked with the directors or deputy directors on strategic planning exercises, attended executive staff meetings, worked with them obviously on budget exercises, that sort of thing. But in terms of basic program operations, we had relatively very low levels of interaction with them. Louis [Kincannon] and Hermann [Habermann] got very much involved in the foreign trade issue because it was blowing up at the very same time that we had all the other requests for the data that the Department of Homeland Security was making. The whole foreign trade issue was really just a subset of the larger issue about the Census Bureau and its' commitment to protect confidentiality.

Hovland: **We're nearing the end of our time here, so before we finish up is there anything else you would like to comment on about your tenure at the Bureau or the Census in general?**

Knickerbocker: We haven't talked about data sharing, that is, the sharing of confidential data among federal statistical agencies or federal agencies in general. Proposals to authorize data sharing first surfaced in the mid-60s but nothing came of them. Then

consideration of data sharing became serious in 2001. I was involved with a team examining data sharing and I spent about two years working on data-sharing legislation, which eventually resulted in the Confidential Information Protection and Statistical Efficiency Act of 2002 (CIPSEA). If a historian really wants to write a history of data sharing, they ought to go to my old files, which are still here. There's hundreds upon hundreds of pages of the documentation on data sharing.

Of course the central question is, what can be done under data sharing? Data sharing re-raised the issue of access to IRS data. If data sharing is going to mean anything for the Census Bureau it means that we give other statistical agencies, e.g., BLS or BEA, business data which could be co-mingled with IRS data. But the law has yet to be passed that would permit the Census Bureau to provide data co-mingled with IRS data to BLS or to BEA. Under current data sharing rules, we can provide data files to BEA and BLS that do not contain IRS—in other words, pure Title 13 data, with no IRS data involved in it. But we still cannot provide all our files to BLS or BEA. The first part of CIPSEA deals with the protection of information, which takes Title 13 prohibitions and applies them across all statistical activities in the federal government. That's very useful. But the second part of the CIPSEA, basically Title 2 or Title B of CIPSEA, permits the sharing of business data between BLS, Census Bureau, and BEA. That is a provision in law that has really never flourished because the conforming changes in IRS law have never been made. There are parties up on the Hill that are dead set about changing the law.

We've not mentioned LEHD (Longitudinal Employer-Household

Dynamics Program) either, I was very much involved in the formation of the program. I've been a big supporter of LEHD....

Hovland: **It's been a rather sensitive question around the Bureau for the last few months.**

Knickerbocker: Yes. It obviously involves all sorts of issues: confidentiality, control of data, and highly complicated data processing systems. Getting funding for it also has been a major issue. It is been a program that I have supported because I think the analytical benefits from LEHD can be enormous. But it's now what, 6 or 7 years old, with a slow, painful growth. It's a marvel that some of the early people that have been involved with it have stuck it so long in terms of the frustrations that have been thrown in their paths.

Hovland: **The value of the kind of data is obvious to anybody that works with statistics. The problem seems to be that there are a lot of people who are getting very sensitive allowing any sort of access to this sort of data set outside the agency.**

Knickerbocker: To be sure. Take a look at LEHD. We knew, the Director, the Deputy Director, Nancy Gordon [Associate Director for Decennial Censuses], myself, and our academic colleagues that it was highly sensitive and kept the data strictly here at home for all the early years of the program. We recognized from the outset that there would be a very slow birthing process because of the high sensitivity of the program, and the need to slowly satisfy the concerns of the user community, congress, and privacy advocates.

Gauthier: **The worry seems to be that the LEHD will be compared to the**

system that Statistics Canada had, and I guess....

Knickerbocker: It's not the same thing. It's a bad rap to say LEHD is the same thing.

Gauthier: **Right. But there's that comparison that some are making.**

Knickerbocker: Right. But I think the bottom line will be will we find enough sponsors in the federal government, and outside the federal government, to keep funding the program. I mean, it has had "hand-to-mouth" funding from the beginning, but the time is drawing nigh when either the world agrees that you have invented the better mousetrap, and so wants to give you money to do it, or alternatively nobody's really ready to back you on the concept. I'm sure this is something that the executive staff is thrashing out every day. Still, LEHD offers the prospect of an analytical bonanza.

Hovland: **I think that's it then. All we have to do is thank you for participating in this and ask if there's anything else you would like to say.**

Knickerbocker: I enjoyed my years at Census. I had a superb staff and great division chiefs. Tom Mesenbourg was absolutely indispensable to me. The staffs, the senior staffs, the assistant division chiefs were excellent people. I never once felt that economic directorate was an underperforming organization. Our employees have abundant good ideas. The problem is not that our staffs do not know what needs to be done to make their organizations better, or to better serve the needs of the user community. They knew full well what could be done to make our statistics more useful. The challenge is simply

finding the resources needed.

Hovland: **Thank you again.**

Knickerbocker: Thank you.