



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

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PROGRAM ANALYSIS
DIVISION

RELEASED

B-206199

FEBRUARY 16, 1982

The Honorable Lloyd M. Bentsen
United States Senate



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Dear Senator Bentsen:

Subject: How Much Does the Federal Government Spend on Economic Modeling Activities? (PAD-82-26)

On May 22, 1981, you requested that we identify fiscal year 1978 and fiscal year 1980 Federal payments for economic modeling services from each of four private economic forecasting firms-- Data Resources, Inc.; Chase Econometrics; Wharton Econometric Forecasting Associates, Inc.; and Merrill Lynch Economics, Inc. You subsequently asked us to identify total Federal expenditures for both internal and external modeling activities.

Because obtaining audited data would have been very time-consuming, your office agreed to our obtaining unverified data from 24 Federal departments and agencies, through a letter of inquiry, and from the four forecasting firms. (See enclosure I for a list of agencies.)

In our letter of inquiry to the departments and agencies, "economic modeling activities" were defined as periodic forecasts, economically-related simulations of all types (national, regional, and industry), and special projects involving single and multiple equation regressions. We requested the amount of money spent on both internal and external activities. Internal activities are such things as in-house development and use of specialized models, forecasts, and data bases, while external services are such things as specialized studies, subscription costs (both access and hard copies), and consulting services. (External activities require contracts and purchase and delivery orders.) The figures represent best estimates, based on available information, of the modeling expenditures for each agency, department, and firm and their individual interpretations of what constitutes modeling activities.

Combined payments received from the Federal Government by the four companies totaled approximately \$1.8 million for FY 78 and \$3.3 million for FY 80. These receipts are not limited to payments made

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by the 24 departments and agencies. (For a breakdown by company, see enclosure II.)

The figures represent different amounts of service, from subscription fees only, to complete costs of model access, consulting, and computer time sharing. For example, Data Resources, Inc. is the only company that provides total services--both the models and access to the models through their own computer time sharing system. So, they believed their figures accurately reflected that portion of work that represented actual modeling/ forecasting activities. Each of the other three companies provide model access through separate time sharing vendors. Consequently, their reported figures represent identifiable Federal expenditures and may not necessarily include any or all computer time sharing costs.

The 24 Federal departments and agencies reported that in FY 78 they had spent \$20,192,000 on internal activities and \$20,587,000 on external activities, for a total of \$40,779,000. In FY 80, the figures are \$27,223,000 and \$23,283,000 for a total of \$50,506,000.

Inconsistencies noted in their responses indicate that reported internal and external figures are far from accurate. In some cases, they include costs not directly attributable to modeling activities. In other cases, total costs were not available. For example, some agencies

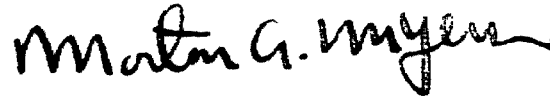
- reported those figures that were most readily available, whether actual, obligated, or estimated;
- provided only extremely rough estimates based on judgment, because they did not maintain cost accounts relating specifically to modeling activities;
- included total costs allocable to activities that had, as a part of the total, some form of modeling or forecasting;
- limited themselves to activities at their headquarters only; or
- could not provide costs at all.

We attempted to clear up as many inconsistencies as possible both by responding to the inquiries of agencies and contractors and by following up with questions about responses received.

In summary, information obtained from both Federal entities and private firms are only "best estimates," which were made based on available information and individual interpretations of what constitutes modeling activities. Since we have not verified these figures, you should exercise care in interpreting the information.

As arranged with your office, we did not obtain agency comments on the contents of this report, and, unless you publicly announce its contents earlier, we plan no further distribution until 30 days from the date of the report. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in black ink that reads "Morton A. Myers". The signature is written in a cursive style with a large, sweeping initial "M".

Morton A. Myers
Director

AGENCIES INCLUDED IN ECONOMIC MODELING INQUIRY

Civil Aeronautics Board
Congressional Budget Office
Congressional Research Service
Council of Economic Advisers
Department of Agriculture
Department of Commerce
Department of Defense
Department of Education
Department of Energy
Department of Health and Human Services
Department of Housing and Urban Development
Department of Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
Department of Treasury
Federal Reserve Board
Federal Trade Commission
General Accounting Office
Interstate Commerce Commission
Office of Management and Budget
Office of Technology Assessment
Securities and Exchange Commission

BREAKDOWN OF FEDERAL EXPENDITURES FOR ECONOMIC MODELINGPROVIDED BY MAJOR ECONOMIC FORECASTING FIRMS

	<u>FY78</u> ----- (000) -----	<u>FY80</u> -----
Merrill Lynch Economics, Inc. <u>a/</u>	\$ -0- <u>b/</u>	\$ 30
Wharton, E.F.A., Inc. <u>c/</u>	535	1,154
Chase Econometrics <u>d/</u>	588	311 <u>e/</u>
Data Resources, Inc. <u>f/</u>	<u>680</u>	<u>1,836</u>
Total	<u>\$1,803</u>	<u>\$3,331</u>

a/ Does not include computer time sharing.

b/ Merrill Lynch had no Federal economic modeling contracts until FY 80.

c/ Includes payments to Wharton, E.F.A., Inc., as well as all identifiable Federal expenditures with their computer time sharing vendor--UNI-COLL.

d/ Costs represent subscription costs and related "consulting" services. FY 78 figures include identifiable time sharing expenditures provided through ADP Resources and one major consulting contract.

e/ FY 80 figures do not include total time sharing costs. During this time, Chase offered computer time sharing primarily through Interactive Data Corporation (IDC) and received royalties for their models. Federal contractors generally paid subscription costs to Chase and time sharing costs to IDC.

f/ Includes subscription, access, and time sharing costs. However, figures only include that portion of work that DRI believed to be representative of their actual modeling/forecasting services. The figures are not necessarily the total cost of their contracts with the Federal Government.