

Comments on the first Allsopp Report

by Ray Thomas, Faculty of Social Sciences, Open University, Campion Fellow, Royal Statistical Society (email: r.thomas@open.ac.uk).

Summary

The First Report rightly expresses reservations about the quality of at Gross Value Added statistics at the regional level. I wish the Team every success in the production of these statistics but suggest that the Second Report gives more attention to the production of statistics relating to the labour market. I suggest that:

- 1) High priority should be given to the development of statistics for employment derived from the monthly PAYE/NI returns made by employers,
- 2) Provision should be made for the production of labour market statistics for a selection of travel to work areas (TTWAs) in order to increase comparability of statistics derived from home-based and workplace-based sources, and:
- 3) The Labour Force Survey should be used to produce statistics for entrants to ILO unemployment that (on the bases of evidence from the Count of claimants) can be expected to help explain geographical variation in unemployment rates.

Most of the points made in this submission can be supported by evidence that is already available in the public domain and will be known to members of the Allsopp team. But point 3) and Section 4 below on entrants to unemployment refer to material that has not been widely published. I would be pleased to elaborate on the evidence supporting this discussion relating to the provision of statistics for entrants to unemployment.

1 Gross Value Added

The First Report points out that regional accounts focusing on the production of GVA statistics may be more subjective and less accurate than their national equivalents. Such accounts depend upon the production of statistics for geographical location rather than for enterprises as a whole. The production of such statistics depends upon information from the accounting systems of enterprises operating at more than one geographical location. For the multinational company it can be expected that the accounting systems relating to particular countries are guided and constrained by legal considerations and by recognition of differences in tax and currency matters in different countries. These influences on the accounting system can be expected to be stable or subject to change by identifiable influenced – such as changes in currency rates.

The production of accounting information for establishments of an enterprise at different geographical locations within the UK can be

expected to be less guided and constrained. The provision of such information depends upon judgments, conventions, practices, etc made by the enterprise. Obtaining such information may be difficult. But the First Report does not point out that it may also be more difficult to interpret aggregate geographical statistics based on such information. Such statistics are not objective, but are dependent upon the accounting practices of enterprises. It may never be wholly clear whether such statistics reflect a reasonable allocation of revenue and costs between establishments at different locations and the extent to which they reflect the accounting practices and managerial policies of the governing enterprises.

I wish the Team and the ONS every success in the production of regional accounts. But I suggest that the Second Report could well give more attention to labour market statistics. Labour market statistics may be of equal importance in terms of their potential contribution to economic policy making and questions of allocation by geographical location are less troublesome.

2 Workplace and residence based statistics

One of the main problems with statistics in the labour market area is the relationship between statistics based on place of work and place of residence. Chapter 7 of the First Report suggests that discrepancies between ABI and LFS estimates of employment at national and regional level should be pursued as a matter of urgency. But we know that there are systematic and often unavoidable differences between statistics that relate to where people work (e.g. workforce series, ABI statistics, New Earnings Survey) and where people live (e.g. Labour Force Survey, Census of population and other population based statistics).

One way of reducing this discrepancy is to use regions and sub regions that are relatively self-contained with regard to journeys to work. The existing system of Travel to Work Areas (TTWAs) aims to identify such areas.

Statistics for NUTS areas have the advantage of being based on administrative areas. It is suggested that the Second Report should consider the contribution that could be made by statistics for perhaps a selection of TTWAs that would help reconcile home-based and workplace-based statistics.

3 Employment statistics

It is difficult to exaggerate the potential value of accurate and reliable statistics on employment. In order to get credible indicators of month to month changes in the labour market policy makers have to rely on mainly upon statistics of claimant unemployment. The coverage and consistency of the Count of Claimants is inadequate. But at a broader scale sample size limits

the accuracy, reliability, and detail available of statistics of both employment and unemployment from the Labour Force Survey.

Statistics of employment are based on contracts between employer and employee and are inherently more reliable than statistics of unemployment that are dependent on individual attitude or volition. But existing ABI statistics for employment are out of date and of untested quality at regional and local levels. ABI statistics are not easily available. It is necessary to make special application and pay £100 to get access for a year's figures. Statistics for 2002 have recently been made available through the Nomis system. Users are obliged to pay £100 to update their subscription and are required to specify the uses that will be made of the statistics.

Many local authorities take a great interest in the level of employment in their area and many of them make their own estimates of the level of employment in their area. But the cost and difficulty of obtaining these statistics makes it difficult to believe that they are widely used by local authorities. The implication is that the quality of ABI statistics for local areas is untested because comparisons between locally based estimates are rare.

The Inland Revenue receives returns every month from employers giving payments of tax and national insurance on the part of their employees. At present legal requirements restrict the use of information from these returns outside the Department of Inland Revenue. Statistics could be produced by reducing these restrictions (by new legislation if necessary) or by production of the statistics for public use within the Department of Inland Revenue.

There would be problems in producing statistics on the basis of these returns. Employers are not obliged to give the workplace location of their employees. The returns do not cover employees who don't pay tax National Insurance Contributions. The returns are subject to changes in tax rates and changes in earnings that affect individuals' liability for tax. But if solutions to these problems can be found, the use of Inland Revenue data for statistical purposes could be used to reduce the burden of form-filling on businesses.

Currently firms have to make PAYE and NI returns, and are required to respond to various surveys such as the Annual Business Inquiry. If the PAYE and NI returns became the prime statistical source, the scope of special surveys such as the ABI could be reduced, and the information demands made of businesses in these surveys could be reduced accordingly.

Accurate and reliable statistics on employment from the PAYE/NI returns are potentially available in detail and would support far more detailed analysis of labour market trends and patterns than is currently possible. The use of publicly accessible employment statistics of quality and timeliness by local authorities and other organisations with local interests could be expected to make a

positive contribution to their quality. That contribution would add value to these statistics for use by central and regional authorities.

4 Entrants to ILO unemployment

There are a number of important differences between the statistical information obtainable on Claimant unemployment and that obtainable from labour force surveys on ILO unemployment. It is well known that the coverage of unemployment in the Count of Claimants is severely limited. But the Count of Claimants system does include statistics for on-flow - the number of entrants to unemployment. The behaviour of these on-flow statistics suggests that the number of entrants to unemployment is an important factor in explaining regional variation in levels of claimant unemployment. I suggest therefore that consideration should be given to the production of statistics from the Labour Force Survey on the number of entrants to ILO unemployment.

Research I am associated with finds that variation in claimant unemployment *exit rates* for different regions is relatively small. Differences in the levels of claimant unemployment in regions are mainly attributable to the variation in the number of entrants to unemployment rather than exits. The ratio of entrants to Claimant unemployment to employment in the North East region, for example, is three times that of the South East.

A variety of factors could help to explain variations in exit rates. It is not clear that the level of employment in a region is the best denominator for making inter-regional comparisons. The variation could be explained in terms of differences in social composition, differences in industrial structure, or differences in eligibility to receive job seekers allowance. But the extent of inter-regional variation and its persistence over time indicates that there is a need for parallel investigation on the basis of wider definition of unemployment.

This research on entrants to unemployment originated with investigation of population at risk (PAR) unemployment rates (that is supported by the award of a Champion Fellowship from the Royal Statistical Society). The findings on entrants to unemployment come from a project being conducted with Professor John Adams at Napier University supported by Scotecon (a body funded by the Scottish Parliament). But neither the Champion Fellowship nor the Scotecon project are adequate to tackle the problem that the Labour Force Survey does not provide statistics for the number of entrants to ILO unemployment.

Questions on unemployment in the LFS are addressed only to respondents who are unemployed at the time a survey is conducted. The LFS does not therefore fully cover short term unemployment - i.e. those who entered unemployment within the reference/qualifying period who are not unemployed on the date of the interview. One consequence of the restriction of questions on unemployment to those who are unemployed at the time of the survey is that LFS unemployment statistics are subject to what has been called 'length-biased sampling'. The required statistics

on entrants can only be practically obtained through reform of the LFS.

I suggest that the LFS should include a small number of questions on experience of unemployment that would be addressed to all respondents. These questions should ask about unemployment experience in, say, the preceding three month or six months. Such questions would support the production of the on-flow, or number of entrants, to ILO unemployment. Such statistics should be a valuable forward indicator of labour market trends in their own right, and, because they would be addressed to all respondents, they would be subject to a smaller sampling error than other LFS statistics on unemployment.

It can be expected that the main value of the resulting statistics of entrants to ILO unemployment is that they would also provide a major component of explanation of differences in the level of ILO unemployment in different regions and countries of the UK. The range and variety of other LFS question in conjunction with statistics of entrants can be expected to throw a rich light on such matters as regional variations in labour market flexibility.

Ray Thomas 13 Feb 2004