

## **Economic Data Inquiry**

### **David Hume Institute**

#### **Introduction**

The David Hume Institute commissions and publishes research on topics of public policy. It is independent of governments and political parties. The Institute welcomes the opportunity to contribute to the Committee's inquiry into economic data. This response consists of three parts:

1. an acknowledgment of progress since devolution in 1999;
2. a summary of the principles that guide the Institute's response to the Committee's questions and which may be helpful to the Committee in its deliberations; and
3. our proposals as to priority areas in which further progress could be made.

#### **Progress since devolution**

We believe that it is important to acknowledge the considerable progress that has been made in the production and dissemination of economic statistics in Scotland since 1999. From an evolving set of national accounts to regionally-disaggregated labour market data; from regular intelligence on innovation activity to improved export statistics; from a retail sales index to consumer confidence indicators and in many other areas, statisticians and economists in the Scottish Government have expanded the range and quality of data available to us all. Moreover, the process by which improvements have been made has shown officials to be open and responsive to the proposals of people who use statistics.

As a result of these developments Scotland enjoys a rich set of economic data which allows debate on most policy questions to be informed. An example of both the progress that has been made and the range of data available is the diagnostic tool developed for the Ayrshire Pathfinder. It permits a detailed assessment of economic conditions and of the various constraints to growth. Of course, gaps remain and improvements are possible.

#### **Principles**

Two principles guide our approach to questions about the development of economic statistics.

1. We believe the primary purpose of economic statistics should be to inform debate about the economy and decisions about economic policy.
2. The production of economic statistics entails costs for government and for the people and firms who provide the raw data. Thus, we believe that decisions about whether to expand economic statistics should be taken

within a clear cost-benefit framework: how much would it cost to produce the numbers and what would we be able to do differently if we had them?

These principles give rise to at least four consequences. First, the priority for future developments should align with Parliament's current economic policy powers, although with an eye to possible further devolution. Second, under the current devolution settlement Scotland has few powers to affect the economic cycle. For example, monetary policy remains reserved to the UK government and the Bank of England. The economic powers which have been devolved to Parliament are likely most to influence economic performance over the long-term and data developments should reflect that: it is more important to understand long-term and structural developments than to devote additional resources to understanding the recent past. Third, policies that affect economic performance are not only economic policies narrowly-defined. Aspects of health, education, transport, housing, planning and other policy areas affect the economy. Consequently, statistics that reflect developments in these areas can be as important in informing debates and decisions about economic matters as are conventional economic statistics. Finally, as our knowledge is never comprehensive it is unusual for analysts to declare that there is enough or even too much data. That means there will likely always be a constituency for "more data" and claims for more should be subject to appraisal in the same way as other claims for resources.

### **Priorities for progress**

As the proportion of economic activity that is digital rises measuring aspects of the economy becomes an increasing challenge to conventional techniques. This is a matter that confronts all statistical authorities, not only those in Scotland as the Bean Review makes clear. We assume that Scotland will benefit from the post-Bean developments, including the work of the Economic Statistics Centre of Excellence (ESCoC). Is there scope for Scotland to offer itself as a test bed for innovations that ESCoC may recommend?

While there has been considerable progress in the provision of economic statistics there is a related area in which much progress can still be made. Evaluation tells us whether interventions are achieving their intended outcomes and the costs of doing so. A comprehensive programme of evaluation would allow the Committee and others to assess the extent to which policy is achieving its objectives, whether expenditure offers value for money and whether current resource allocation is optimal or should be changed. We believe that insufficient attention is paid to evaluation in Scotland and that the development and implementation of policies, and consequently outcomes would be improved with more evaluation. While effective evaluation will likely require some economic statistics of the conventional kind more important will be the collection of data that allows policy makers to trace the impacts of interventions. The opportunity cost of delivering additional conventional economic statistics will be evaluation opportunities forgone and we do not believe that is a cost worth incurring.

Most economic statistics are collected from either people (e.g. the Labour Force Survey) or enterprises (e.g. GDP, vacancies, innovation). Only a small proportion of statistics draw on administrative sources (e.g. benefit claims). The Committee may wish to investigate the scope for greater use of administrative data and for linking data sets. For example, linking data on school performance, post-school education and training, and earnings would allow estimates to be made of the returns to different types of education and training investment and the wider economic impacts of those investments, important information we do not currently know. More prosaically, councils collect council tax and non-domestic rates income. Information on payment and non-payment flows could act as an early indicator of cyclical changes in local economies. In short, there is scope for considerable advances in the use of administrative data.

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