

## Economic Data Inquiry

### Hervey Gibson

We have come a very long way, and made a great deal of progress.

Before devolution, there was more published in English about the Icelandic economy (population 350 000) than the Scottish economy (population then 5.1 mn) (Gibson, 1997 March). In twenty years we have covered most of the major bases as far as the powers available to the Scottish Government are concerned. The data we have collated and generated has demonstrably improved in quality over the period, and often those improvements have stimulated or provoked others, notably ONS, the Treasury and even the UK Statistical Authority, to bring themselves up to the Scottish standard.

Not only has what our officials do on our behalf been good, but we have developed a community of interest around measuring the economy in part of a sovereign state. In Europe this is only matched in the capital cities of London, Paris and Berlin and the prominent regions of Bavaria, Catalunya and Euskadi. Parliamentarians and parliamentary advisors have been part of the Scottish community. This is most especially an achievement for Scotland because the commanding heights of most businesses that operate here<sup>1</sup> are located beyond our borders.

But, there is more to be done ...

#### Reliability

It is rare now that 'errors' of substantial magnitude are found in Scottish economic data, but they can be substantial, and the worst were 'imported' from the rest of the UK.

In the worst example I am aware of, ONS made a complete mess of the oil industry in the national accounts. It concluded that there were no oil refineries in Scotland (I sent them a nice fiery picture of Grangemouth, which it had presumably misclassified as a chemical plant). The ethylene cracker at Mossmorran existed without feedstock. Our oil service firms (based round Aberdeen and mainly serving the UKCS) were shown in the supply and use tables underlying the UK national accounts as selling to oil *refineries* (mainly based around London and the south coast).

There were other UK national accounting problems with primary products, especially those not grown in England – the entire UK paper industry, including Caledonian Paper, used no timber input. There was no use of natural fibres in the UK. There were no agricultural products used in the edible oils and fats industry. There was no tobacco imported to the UK for processing ...

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<sup>1</sup> When weighted by size

In these cases, amongst other difficulties, ONS was unable to comply with international standards promulgated by the United Nations in 2008 and mandated by the European Union in the European System of Accounts 2010.

- ONS allows firms to report as one reporting unit in a single industry, whereas the European System of Accounts requires reporting 'Local Kind of Activity Units' where a firm has to say what it does at its different sites. Where a firm does something different in Scotland to its main line of business (as at Grangemouth) this makes a big difference. Scottish statisticians now make a special ad-hoc adjustment for this when they can identify it, but there will surely be many small errors below the radar which firms could eliminate at the stroke of a pen – if ONS asked the question..
- Under severe cost pressures, ONS 'temporarily' suspended the purchases inquiry into what products business buy. 'Temporary' became ten years, and it has only just begun to be restored. This meant it could not properly balance the demand for a product (across all uses) against the supply from all sources. *In compiling national accounts this is the most important mechanism for improving reliability of statistics – cross checking them, and worrying at the difference until they match.* Scottish data is partly insulated from this because we have had annual input output tables since devolution. But because Scottish import figures are a result of our cross-checking, and we do not have any reality-based direct figures as input into the cross-checks, we will only have escaped the worst impacts – there will be minor errors we do not have the resources to detect.
- Also under cost pressure, ONS tried to relocate part of the national accounts function away from London. The great majority of staff left the organisation. Related skill losses at ONS meant that the implementation of a new and improved standard industrial classification was botched.

The lesson here is that to be reliable, statistics need to be as harmonised as possible with international norms. No jurisdiction has the resources to develop its own standards and so:

- Whatever happens constitutionally we should strive to align Scottish and UK systems
- Whatever happens constitutionally the UK should strive to align with European systems
- Europe should strive to align with world (UN) systems

The third point may seem academic for Scotland, but the European System of Accounts pays scant accord to the 'informal' economy as reflected in the UN manual. However the EUs biggest – and most contentious – budget item is the Common Agricultural Policy, whose design was politically influenced by peasant farming in the original EU members. Peasant farming has a very strong 'informal' element.

Practical conclusions

ONS should develop estimates of trade between the regions and nations of the United Kingdom. A first step would be to ask what is known as the 'regional question'

on VAT returns (as is done in most countries of Europe). The cost of compliance to firms and collation by HMRC would be trivial.

Scottish Government statisticians should maintain and enhance links with ONS, and also seek to link professionally with official statisticians in the EU, OECD and United Nations and its agencies. Apart from its compulsory participation in Eurostat, it seems fair to say that the UK tends to take a back seat in international forums (if it attends at all).

Scottish statistics should move as rapidly as possible to a full 'social accounting' methodology, including balance sheets and flow of funds. Not only would this provide the cross checking as described above on the existing accounts, but would integrate SNAP, GERS, and household accounts, and income distribution and flow of funds into a single fully consistent table. This would embrace Gross National Income, Imports, and many of the other features of current work plans, and enable one part of the work to reinforce and support the others.

Undoubtedly some of the estimates in the Social Accounting Framework would be imprecise to begin with, but by publishing them, using them and debating them we would gradually evolve to higher quality and more reliable estimates.

I attach a set of answers to the specific consultation questions. I would be glad to expand on this to the Clerk and his staff, or to the Committee.

**Hervey Gibson**  
**Research Affiliate,**  
**School of Interdisciplinary Studies**  
**University of Glasgow**

Reference: Gibson. (1997 March). Fragmenting Kingdom - a Tartan Tally. Glasgow: Glasgow Caledonian University. Retrieved from [https://www.researchgate.net/publication/294561228\\_A\\_Tartan\\_Tally\\_Inaugural\\_Lecture\\_13\\_March\\_1997\\_The\\_development\\_of\\_Scottish\\_economic\\_statistics](https://www.researchgate.net/publication/294561228_A_Tartan_Tally_Inaugural_Lecture_13_March_1997_The_development_of_Scottish_economic_statistics)

Answers to specific consultation questions

### **Accuracy**

- How reliable is the economic data currently available at the Scottish level?

In general, it can be relied upon as far as it goes. Most of the significant errors I have detected recently have come from UK-level datasets, some of which have had traumatic problems (see main body of argument). When errors are detected in Scottish datasets, Scottish Government statisticians are exemplary in 'fessing up' and putting them right.

- What are the areas of strength and of weakness of provision within Scotland and at UK level?

Where it has any capacity in economic data at all, Scotland is almost always the strongest part of the UK. Northern Ireland, however, has control of its own business survey, enabling it better to understand the operation of local subsidiaries of UK operators, and to add additional questions, for example on exports. It also obviates some disclosure issues by asking respondents if data can be released.

In Scotland the consultation framework on economic statistics is very good. The Economic Statistics Consultation Group is a very worthwhile forum which (usually) the Government takes notice of. The Input Output Expert Users Group is a real interchange between statisticians and users, almost in a workshop environment. It is unique in the UK and people invited to attend from ONS and Northern Ireland are invariably envious of the quality of discussion, and quite often go off and implement things they have picked up in Scotland. It is sad that there is not more private sector participation, but that is because few businesses employ economists in Scotland. If they are big enough to employ economists they tend to do it at head office, and if they are big head office tends to be in London or outside the UK.

The input output tables are a continuing source of strength, and the decision to put them on an annual basis immediately after devolution has had untold benefits.

One of these has been the Scottish National Accounts Project. SNAP is immensely useful and serves as an integrating force for what economic data we do have and a way of making reasonable estimates where data is scant. It should be extended.

Data on some issues like housing, health and transport, and the distribution of income could be better linked in to economic data.

Apart from transactions involving government, which after years of GERS seems to me to be now fairly sound, data on financial flows is very weak, and some gaps could be readily filled. We don't know enough about savings and investment by people or businesses – or about financial assets either.

Journalistic comment on Scottish economic statistics is better than it might be, and sometimes very good and constructive or finger-pointing in the public interest. But sometimes it is trivial, predictable, and annoying to many, and demoralising to statistical staff (and even Ministers!).

- What could be done by Scottish Government and/or others to improve the quality of data? How would this be funded?

One more shove, from SNAP and the IO tables into compiling a full social accounting matrix, would require investment of design and implementation over about a year, but would then make issues like GNI estimation or imports enormously easier, and give us a proper understanding of Scotland's economic assets and liabilities, so the development would be breakeven over 3-4 years.

This work should be mainly done by government, but could be shared with consultants and academia.

- Do you have any views on how data is collected, specifically the role of businesses and households in providing economic data?

Business data should be collected by compulsion from firms above SME size (even if their Scottish operations are smaller) and with great persuasion from smaller firms. I believe that we already have powers in Scotland to do this. The Scottish Development Agency had power to require statistical compliance from firms, with approval from the Secretary of State. This power was inherited by Scottish Enterprise when it was established under the Enterprise and New Towns etc Act. As far as I am aware the power has not ever been used, but I believe it still exists. The Parliament might seek advice from its lawyers on whether it has been or could be transferred to Scottish Ministers. If it could then Ministers might consider using it, for example, to require banks to disclose more details of their operation in Scotland (which I gather they could easily do). In my comments below on disclosure I argue that if firms benefit from social and legal structures, like limited liability, they have a moral obligation to tell us something of how they are using them.

Sampling will always be an issue, not just because of small size but because of the variety within Scotland. It is therefore even more of a priority for Scotland to use administrative data (like VAT returns) and big data (like traffic on telephones or roads and railways, and cash flows) to strengthen the system. Some of this would be on a grace-and-favour basis from UK entities and UK Government Departments, and Scotland's right to use it should be legislated.

### Utility

- How are economic statistics used by local, regional and national policy-makers to deliver and scrutinise policy?

Let me count the ways ...

They are uncountable ... I have built models based on Scottish economic data and the models have been used by almost every council and many agencies and government departments

Use is patchy, partly because some things have not been disseminated, and partly because users are selective: they choose the numbers to suit their priorities and prejudices. The best strategy to overcome this is to make sure there is so much truth available from the numbers that selectivity and special pleading is self-defeating.

- Where are the gaps in provision?

Systematic financial data is almost absent, other than the Government Sector data compiled for the GERS exercise. We also do not have enough links within our data, so that we could trace wages paid in industries to household income, for example.

The World Bank produces a measure of statistical capacity, on a scale of 0-100. During September I will make an estimate of where Scotland would fit on this scale, and be pleased to report it to the committee. I will also, if the Committee is interested, estimate as best I can where we are in relationship to the United Nations Sustainable Development Goals, which place economic data in an holistic perspective.

- Can you identify examples of international good practice and case studies?

The Netherlands and Norway are always good: the Dutch are leaders on methodology, and the Norwegians are good disseminators and find a good balance between policy relevance and statistical comment. French methods are sometimes different and individual, idiosyncratic even, but good and interesting. The tensions between the two regions and the capital in Belgium can provide lessons. There are too many differences between systems across the German Länder: they are not quite anarchic, but comparisons should be easier, so Britain shouldn't follow the German system but might find some isolated lessons. The statistical offices of the 'old Commonwealth' of Canada, New Zealand and Australia are slipping from their former excellence, but retains some good aspects – for example interprovincial data in Canada.

- Are there barriers preventing the Scottish or UK Governments from improving statistical provision?

Of course there is never enough money.

As far as businesses are concerned the confidentiality provisions of the Statistics of Trade Act and the Statistics Act are increasingly interpreted far too narrowly by ONS. Companies that choose to benefit from the enormous protective umbrella of limited liability should accept that they have a duty to tell the community what they are doing. Some basic information like establishment existence, should be disclosable immediately on publication, some like employment after three years, and summary financial information (eg sales, wage bill) after five.

Personal information is a different matter. Privately I applaud the system in Scandinavia where, to expose gender bias and tax evasion even individual tax returns are public documents. But I accept that this would be hard to implement in the context and the norms of British society.

### **Interpretation**

- What are the key issues in making sense of the data?
- What are the barriers to better understanding and how might they be overcome?

For me as someone who has spent most of his life working with economic data the answer to both questions is 'few'. That is true for most people I deal with in my work, who are professionals. I do not believe it is true for people in wider society, who could often understand better not only the numbers, but the

structures and mechanisms from which they come. A more considered answer would require much more space and time.

### Scrutiny

- What are we measuring and what should we be measuring?

We are measuring many of the things that matter under devolved powers, but nothing like enough to consider whether those powers should be extended under any constitutional regime, including the present one. Whatever constitutional arrangement people, parties or parliament consider is desirable, Scotland should have sufficient data already existing to comply in its own right with Eurostat regulations and entry to and membership of the European Union, the Eurozone, and the United Nations and its agencies. Price and trade data is an obvious example.

Our national accounts coverage should bear comparison with that of similar countries in the UN compendium, and other data should be fit to take its place in international collections, such as those of IMF, World Bank, WTO, FAO, WHO, ILO, UNWTO, OECD and IEA (International Energy Agency). This would require not just extracting Scottish data from collections for the rest of the UK, but considering interactions with the rest of the UK as if we were a separate sovereign country. This view is not based on my personal constitutional or political views (which may not be what people think) but on professional judgement of what Scotland needs in the present uncertain world situation. We need to be able to fight our corner with figures.

- What data is necessary for effective parliamentary scrutiny by the Economy, Jobs and Fair Work Committee (our remit also covering energy)?

This is too big a question to answer satisfactorily in a consultation response. I would need to work carefully through the remit piece-by-piece. But for example, the gender mix for people in employment is now based on sample surveys, so it is not even reliable for Council Areas, whereas it could be estimated almost exactly down to the most local level from National Insurance records (as ONS used to do) and that would not be 'disclosive' under any circumstances.

- Are the current National Performance Framework indicators the best way of measuring innovation, internationalisation, investment and inclusive growth in the Scottish economy?

I have not used them recently myself and would need to examine them carefully in a special study. But, for example on investment, the base data to construct adequate indicators does not yet exist, so the NPF could not be good enough however hard it tried.