

**Working Paper 5:
Submission to the Allsopp Review**

Review of the statistical requirement for monetary
and wider economic policymaking

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Introduction

In February 2003, the Chancellor of the Exchequer asked Christopher Allsopp, Fellow in Economics at New College, Oxford, to undertake a wide-ranging review of the informational and statistical requirements for monetary and wider economic policymaking. The terms of reference for the review are:

to advise on changes in the statistics and information necessary if the UK were to join the European single currency;

to deliver an assessment to the Chancellor, the Governor of the Bank of England and the National Statistician, with a first report by the 2003 Pre-Budget Report on the following:

- the regional information and statistical framework needed to support the Government's key objective of promoting economic growth in all regions and reducing the persistent gap in growth rates between the regions;
- whether the changing economic structure of the UK is being properly reflected in the nature, frequency and timeliness of official economic statistics.

GLA Economics was established by the Mayor of London in May 2002 to provide high quality analysis and information about the economic issues facing London. The unit's mission statement is to provide economic analysis and a firm statistical, factual and forecasting basis for policy decision-making by the Greater London Authority (GLA) and the GLA group. Given this, our primary interest in relation to the Allsopp Review is with regard to the provision of regional economic information.

Important principles for the provision of regional economic information

Establishing priorities

There is currently a paucity of official regional economic information available from the Office for National Statistics (ONS). Potentially there are many information gaps that could be filled, but realistically not all can be filled straightaway. It is important to establish clear priorities about which pieces of regional economic information need to be provided, or where the quality of existing information needs to be improved as soon as is practically possible.

This submission sets out what GLA Economics sees as important gaps in the quality or quantity of regional economic information. Having argued the need for clear priorities, we must set out our first priority for improvement.

Immediate priority should be given to the construction of annual real regional Gross Value Added (GVA) figures that appear on timely basis, that is within six months of the end of the year to which they pertain.

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By implication this means we place particular importance on the development of regional GVA deflators. Without these, it is impossible to construct estimates of real regional GVA from the current price estimates of regional GVA that ONS currently produce. The Department of Trade And Industry (DTI) has constructed approximations to real regional GVA, but the regional deflators they use only take account of the different industry mix in each region and the resulting differences in prices. These deflators do not reflect regional differences in prices within industries. This is not a criticism of the DTI. Its approach is the best that can be achieved given current data constraints, but it does mean that current DTI estimates of real regional GVA are somewhat rough and ready. Hence the development of full-blown regional GVA deflators is of the highest importance.

Once reliable estimates of real regional GVA are produced, it will be possible to combine them with existing estimates of regional (workplace-based) employment to derive improved estimates of regional productivity.

Reliable estimates

Statistics must be produced in ways that are accepted as reliable and likely to lead to accurate estimates by users and analysts. In the area of regional economic statistics, the production of regional GVA on an income basis alone is of particular concern. National GDP is measured on three bases – income, output and expenditure – and the income measure is generally considered the least reliable method of estimation. We are not aware of any insurmountable problems with estimating regional GVA on an output basis. This approach should also allow the production of regional GVA directly on a workplace basis, where the output of workers is allocated to the region in which they work rather than where they live. At present, information on commuting patterns is used by the ONS to derive workplace-based estimates of regional GVA from what were initially residence-based GVA estimates. As set out below, GLA Economics believes workplace-based estimates of regional GVA are more important.

Frequency of statistics

Existing regional statistics are available at a variety of frequencies. For example, GVA data is available on an annual basis, workforce jobs are available quarterly and claimant unemployment figures are available monthly. We anticipate that many submissions to this review will call for regional economic data to be provided more frequently. In particular, we expect calls for regional real GVA on a quarterly basis and for the expenditure components of regional GVA ($Y = C + I + G + X - M$) to be made available on a quarterly basis.

However, GLA Economics does not view increased frequency of regional data as an immediate priority. In particular, we do not see the provision of quarterly regional GVA and quarterly expenditure components as an immediate priority. Macroeconomic policy remains the preserve of central government. Instead regional economic policy is focused on the longer-term supply side task of building regional economic capability. Hence, there does not appear to be a strong immediate requirement for quarterly GVA data.

As noted above, our first priority is an improvement in the quality of annual regional GVA figures. In addition, the provision of data for the expenditure components of regional output, again on an annual basis, would be extremely useful for the analysis and understanding of the economies of the UK's countries and regions.

Timeliness of statistics

With the exception of labour market statistics, there are long delays before the release of regional economic statistics. For example, revised regional GVA data released in August 2003 only covers a period up to 2001. Delays of this length inhibit up-to-date analysis of the UK's regional economies. At present, up-to-date analysis can only be undertaken by using estimates of real regional GVA produced by various private sector organisations, such as Experian Business Strategies and Cambridge Econometrics. As noted above, the timely delivery of real regional GVA statistics is very important, but the need for timely statistics goes wider than this. The ONS and other producers of official statistics¹ should aim to produce regional statistics within six months of the end of the period to which they pertain. For example, annual statistics for 2004 should appear by the end of June 2005. We recommend that ONS and other producers of official regional statistics be required to produce action plans setting out how they will meet this requirement by 2005.

Comparing data across regions and time

There is an obvious need for regional data to be comparable across regions at any one point in time, to facilitate valid inter-regional comparisons, and across time for individual regions, in order to allow analysis of change over time. We have supported improvements to the methodologies underlying some regional statistics in this submission. Where these and improvements suggested by others are taken up, they will obviously introduce discontinuities in the regional data.

It will be important to overcome these discontinuities in order to allow valid time series analysis to continue to be undertaken. Cross-sectional or inter-regional comparisons would not be an adequate substitute for time series analysis. Hence, it is essential that where new or improved methodologies are introduced that data is, where possible, backcast using the new methodologies to construct a consistent time series. For example, if the measurement of regional GVA was improved, then regional GVA data should be backcast to 1989 on the new definition. If it is not possible to produce backcast data on the new methodologies, then it should be produced for an adequate period (eg five years) on both the old and the new definitions. This will allow time series analysis on the old definitions until spliced series can be created on the new definitions.

For data to be comparable across regions or other geographies, data for related variables (eg employment and unemployment) should be produced for all regions by one organisation. The appropriate central organisation for most regional economic information is the ONS. Devolving the production of data to different regional organisations would inevitably lead to it being produced on differing bases in different regions and countries of the UK.

¹ For example the Small Business Service who annually produce regional statistics on small and medium-sized enterprise. The latest regional statistics published in April 2003 relate to 2001 – a delay of 16 months.

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Workplace or residence-based statistics?

It is important to be clear on the issue of whether regional statistics should be on a residence or workplace basis. Residence based variables measure things on the basis of where individuals live, while workplace based variables measure things on the basis of where individuals work. Most notably, ONS estimates regional GVA on both a residence and a workplace basis. For London, these two measures of regional GVA are very different because of the large numbers of people who commute between London and the South East or East of England regions. For example, GLA Economics estimates that in 2001, 677,000 people commuted into London from the South East and the East of England to work and 224,000 Londoners commuted to these two regions for work.

Measures relating to economic performance such as output, employment and (product) wages should be on a workplace basis. An obvious example is that it makes sense to measure the size of London's economy on the basis of the output produced in London, that is, GVA on a workplace basis rather than a residence basis. Similarly, employment in London clearly relates to individuals whose workplace is in London, regardless of whether or not they live in London.

In contrast, measures relating to the welfare or wellbeing of people in a region, such as income, employment and poverty, should be on a residence basis. For example, the employment rate of people living in London, derived from the Labour Force Survey, is a valid measure of how Londoners are faring in the labour market.

Priorities for improved regional economic data

We have set out the importance we attach to the annual production of the following pieces of regional economic information:

- regional GVA deflators to allow the production of real regional GVA – the top priority
- regional GVA on an output basis
- expenditure components of regional GVA.

In addition, below we set out our views on other important regional data requirements.

Regional input-output tables

The production of regional input-output tables would significantly aid our understanding of inter-industry connections within and between the regions. Hence we would support an investigation into the feasibility of constructing such tables.

Regional consumer price indices

We have already set out our case for the construction of regional GVA deflators. In addition, there is a strong case for a regional retail price index or similar to estimate regional differences in the cost of living and allow the construction of regional real (consumer) wages and regional real household disposable income figures. In fact, in his Budget 2003 speech the Chancellor of the Exchequer made the commitment that, '... in the future we plan regional price indexes showing differences in regional inflation rates...'. This commitment was re-iterated in the Chancellor's statement on UK membership of the European Single Currency in June 2003 when he said, '...in the future we plan to publish data on regional prices and inflation ...'.

We welcome the recent announcement by the ONS that it intends to produce regional price indices this Autumn, building on the survey it conducted in 2000, and that it will follow up with a revised survey of regional price differences in Spring 2004. These developments will provide information on differences in regional price *levels* at 2003 and 2004. The ONS has set out the difficulties that need to be overcome in order to produce annual regional inflation rates² and we welcome their commitment to investigate this matter further. This area of work should be a high priority for the ONS.

Public spending and taxation

The Government's regional agenda has gained increasing prominence, and in this context there is much debate over the optimal distribution of public expenditure across the regions and countries of the UK. Significant improvements have been made in the availability of estimates of public expenditure in the regions. However, even in the latest Public Expenditure Statistical Analysis (PESA) publication, only 79 per cent of total public expenditure is identified and allocated to a particular region of the UK. Of the remaining percentage, only some of it is difficult in principle to allocate regionally, for example overseas aid. An additional problem is the delay before the data is available. The latest PESA, published in May 2003, only includes regional data up to 2001/02.

The position on regional taxation statistics is significantly less advanced. ONS produced a regional breakdown of income tax, council tax and vehicle taxes for the years 1995 to 1999 on what appears to have been a one-off basis in *Economic Trends* in May 2002. Even this study did not cover important taxes such as corporation tax, VAT or customs and exercise duties. Clearly, statistics on the regional distribution of public expenditure and even more so tax revenue require further development.

Sub-regional statistics

Employment, unemployment and wages all vary at least as much within regions as between them. Thus, the appropriate level of geography for labour market analysis is often sub-regional. However, there are often sample size constraints with data from the Labour Force Survey and other surveys at this level of spatial disaggregation and administrative datasets are often very useful because of this. Hence, it would be worth investigating both the feasibility of boosting sample sizes in relevant surveys and looking at whether greater use can be made of administrative data. For example, data on the receipt of welfare benefits from the Department of Work and Pensions (DWP) could be used to produce measures of worklessness that are wider than claimant unemployment, which is derived from administrative sources.

² See section 4.3 of D. Fenwick and J. O'Donoghue, 'Developing estimates of relative regional consumer price levels', September 2003, available at www.statistics.gov.uk/cci/article.asp?ID=429

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The UK's changing economic structure

Tourism and the service sector are especially important to the London economy. The modernisation of economic statistics would be assisted by greater disaggregation of service sector statistics in line with the detail already provided for manufacturing. The contrast between manufacturing and services in this regard has become increasingly outdated, as the importance of services to both the UK and London economies has long outstripped that of manufacturing.

There is a lack of good regional tourism statistics. Regional accounts do not adequately capture the economic impacts of tourism. This is because the economic characteristics of the tourism 'industry' are defined by its consumers, not its products. The development of regional Tourism Satellite Accounts (TSAs) should provide good economic data on tourism. Several regional development agencies are seriously considering regional TSAs, but their achievement is being hampered by the quality of existing regional information.

Conclusions

There is currently a dearth of official regional economic statistics. This means it is vital to establish clear priorities about the improvements required in this area. Our top priority is the construction of real regional GVA figures produced on an annual basis by June of the following year. This obviously requires the construction of regional GVA deflators.

In addition to establishing clear priorities, other important principles for regional economic information are: improving the reliability and timeliness of regional economic data; ensuring continued comparability of statistics both across time and across regions; and finally, ensuring that regional statistics are produced on the appropriate workplace or residence basis.

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Chinese

中文
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Hindi

यदि आप इस दस्तावेज़ की प्रति अपनी भाषा में चाहते हैं,
तो कृपया निम्नलिखित नम्बर पर फोन करें अथवा दिये
गये पता पर सम्पर्क करें

Vietnamese

Tiếng Việt
Nếu bạn muốn bản sao của tài liệu này bằng
ngôn ngữ của bạn, hãy gọi điện theo số hoặc
liên lạc với địa chỉ dưới đây.

Bengali

আপনি যদি আপনার ভাষায় এই দলিলের প্রতিলিপি
(কপি) চান, তা হলে নীচের ফোন নম্বরে
বা ঠিকানায় অনুগ্রহ করে যোগাযোগ করুন।

Greek

Αν θα θέλατε ένα αντίγραφο του
παρόντος εγγράφου στη γλώσσα
σας, παρακαλώ να τηλεφωνήσετε
στον αριθμό ή να επικοινωνήσετε
στην παρακάτω διεύθυνση.

Urdu

اگر آپ اس دستاویز کی نقل اپنی زبان میں چاہتے
ہیں، تو براہ کرم نیچے دیئے گئے نمبر پر فون کریں
یا دیئے گئے پتہ پر رابطہ قائم کریں۔

Turkish

Bize telefon ederek ya da yukarıdaki
adrese başvurarak bu belgenin
Türkçe'sini isteyebilirsiniz.

Arabic

إذا أردت نسخة من هذه الوثيقة بلغتك، الرجاء
الاتصال برقم الهاتف أو الكتابة الى العنوان

Punjabi

ਜੇ ਤੁਹਾਨੂੰ ਇਸ ਦਸਤਾਵੇਜ਼ ਦੀ ਕਾਪੀ ਤੁਹਾਡੀ ਆਪਣੀ ਭਾਸ਼ਾ
ਵਿਚ ਚਾਹੀਦੀ ਹੈ, ਤਾਂ ਹੇਠ ਲਿਖੇ ਨੰਬਰ 'ਤੇ ਫੋਨ ਕਰੋ ਜਾਂ ਹੇਠ
ਲਿਖੇ ਪਤੇ 'ਤੇ ਰਾਬਤਾ ਕਰੋ:

Gujarati

જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં
જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર
ફોન કરો અથવા નીચેના સરનામે સંપર્ક સાધો.

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