OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Jobs and Fair Work Committee

Tuesday 26 September 2017

The Scottish Parliament
Pàrlamaid na h-Alba

Session 5

Tuesday 26 September 2017

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ECONOMY, JOBS AND FAIR WORK COMMITTEE
24th Meeting 2017, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

Jackie Baillie (Dumbarton) (Lab)
*Ash Denham (Edinburgh Eastern) (SNP)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
Richard Leonard (Central Scotland) (Lab)
*Dean Lockhart (Mid Scotland and Fife) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Gillian Martin (Aberdeenshire East) (SNP)
*Gil Paterson (Clydebank and Milngavie) (SNP)
*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Craig Dalzell (Common Weal)
Ghill Donald (Reform Scotland)
Russell Gunson (Institute for Public Policy Research Scotland)
Professor Campbell Leith (Royal Economic Society)
Graeme Maxton (Club of Rome)
Rebecca Riley (Economic Statistics Centre of Excellence)
Martin Weale (Royal Statistical Society)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Economy, Jobs and Fair Work Committee

Tuesday 26 September 2017

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning and welcome to the 24th meeting in 2017 of the Economy, Jobs and Fair Work Committee. I ask everyone to turn any electrical devices to silent so that they do not interfere with the proceedings. Apologies have been received from committee members Richard Leonard and Jackie Baillie.

Agenda item 1 is to decide whether to take items 3 and 4 in private. Do members agree to do so?

Members *indicated agreement.*

Economic Data

09:30

The Convener: Agenda item 2 is our economic data inquiry. For our first panel of witnesses, we have, in no particular order, Rebecca Riley, who is director of the Economic Statistics Centre of Excellence; Martin Weale of the Royal Statistical Society; and Professor Campbell Leith of the Royal Economic Society. I welcome all three witnesses.

I will start with a fairly general question. Will you give a brief synopsis of your take on the current provision of economic statistics in Scotland? What are your views on the nature of the statistics and data that are available?

Martin Weale (Royal Statistical Society): My sense is that the account of the availability of data in Scotland was summed up quite well by something that was previously said to the committee. If it is seen as a region of a country, Scotland is very well provided for but, relative to nation states, the provision of statistics for Scotland is rather thin for many practical reasons. Whether the glass is half full or half empty depends on how we want to look at it. There are many practical reasons why the provision of statistics that independent countries have would create difficulties in Scotland, as it is intimately bound up with the rest of the United Kingdom. My sense is that the Scottish Government could do things to improve Scottish statistics but, fundamentally, we get what we pay for, and I am not aware of things that could be done costlessly.

Rebecca Riley (Economic Statistics Centre of Excellence): My understanding echoes what Martin Weale has just said. If we look at Scotland as a country or a region within the UK, we see that the statistics are relatively good but, obviously, there are statistics that a nation state would have that are more difficult to compile for Scotland. I understand that key economic data are missing, but that is related to the difficulty of providing sub-national statistics. There are quite a few opportunities to develop additional data or improve existing data, some of which are in train at the moment.

Professor Campbell Leith (Royal Economic Society): Officially, I am here wearing the hat of the Royal Economic Society. I think that it asked me to give evidence because of my experience as a commissioner for the Scottish Fiscal Commission for the past three years, in which role I have been quite a heavy user of Scottish data.

A lot of the focus has been on national accounting data and constructing gross domestic product and its components. In forecasting devolved taxes, the Scottish Fiscal Commission did not rely so much on that national accounting data; we tended to use specific data relating to the tax base associated with each individual tax. For example, we look at house price transactions data for land and buildings transaction tax. We have simple models to extrapolate the data and more complicated models to build them up into a tax forecast.

The income tax forecast starts with HM Revenue and Customs data on the distribution of taxpayers in Scotland and scales that up with nominal wage growth forecasts. It uses wage data and labour market statistics, which are quite good data for Scotland, not national accounting data. In discussing where you need to expand data coverage in Scotland, you need to consider the decisions that are made for both the expenditure and the revenue sides—what taxes need to be forecast and what variables are needed to forecast the tax bases. National income statistics should not always be the main focus of what data coverage to expand.

However, part of the Fiscal Commission's remit is to forecast GDP and to assess when Scottish GDP could move significantly out of line with the rest of the UK, as that could trigger the use of additional borrowing powers. There is increasing emphasis on forecasting what will happen to Scotland if it is hit by an asymmetric shock. The Scottish Government owns a macro model, and I think that it has just put out to tender the procurement of a new one, so there is interest in building such models to analyse the adjustment process. You might want to expand data for areas of the national accounts so that you have more knowledge of the adjustment process if Scotland is hit by a shock relative to the rest of the UK. If the UK is hit by a shock, monetary and fiscal policies adjust, but if Scotland alone is hit by a shock, there is no monetary policy to adjust; fiscal policy is, in essence, a balanced budget; and there are quite limited borrowing powers. Therefore, to come out of the shock, Scottish wages and prices will have to adjust for Scotland to regain competitiveness relative to the rest of the UK and the rest of the world. We do not really have the data for prices and so on to model that adjustment process—we do not know how long it would take or how painful it would be—and that is the area of macro policy in which more statistics could be used.

John Mason (Glasgow Shettleston) (SNP): What changes are happening in the gathering of statistics in the UK or internationally? Are there changes at a UK level that will impact on Scotland—for example, will the Office for National Statistics collect more regional data in future? Anything that you can tell us will be helpful.

Martin Weale: I will say something on that, although I am sure that it will hardly be the whole picture.

In a sense, this goes in cycles. In some periods, the ONS is keen to make more use of administrative data, and in others, it worries that administrative data do not answer quite the right questions and cause difficulty. At the moment, there is a lot of interest in making more use of administrative data, partly because of the increased computational power that is available. The ONS wants to make more use of VAT returns as a high-frequency clue to what is going on in the economy.

Charlie Bean argued in his report that VAT returns could be used as a good regional source because most of the businesses that are putting in those returns are relatively local, so we know where they are. I worry slightly about the fact that large firms may put in one return for the whole of the United Kingdom, which means that we do not know whether their sales are in Scotland, England, Wales or Northern Ireland. I am nervous that the use of VAT data as a guide to what is happening in Scotland and other parts of the United Kingdom may not yield as much data as Charlie Bean's report suggests. Nevertheless, work is starting on that at a national level and the ONS will investigate the use of VAT returns, because part of its mandate is to improve the provision of regional data. The techniques that will tell us more about the north-east of England will also tell us more about what is happening in Scotland, provided that the issue of coverage does not prove to be an insuperable obstacle.

John Mason: I want to follow up on what you said about the use of administrative data being in a cycle of sometimes being more popular and sometimes less so. Last week, our witnesses gave me the impression that there was an international trend towards using more administrative data and relying less on surveys. That was quite convincing, because surveys do not seem to be dependable. Would you argue that that is just the current fashion and that surveys can be quite good?

Martin Weale: No, it is more than a fashion. Changes in computing techniques mean that we can do things with administrative data that we could not do in the past. Sweden and Norway provide good examples of statistical offices that rely almost entirely on administrative data, because they collect data that the public would not tolerate being collected in the United Kingdom.

There are some things for which surveys will always be needed. For example, given that the unemployed are those who are not working and are actively looking for work, if you want to measure unemployment, unless you have all sorts of monitoring of use of websites for jobs and so on, the only way in which you can find out whether people are actively looking for work is by asking them. There is a separate issue about areas where you might find that administrative data cannot answer the question that you are asking and so they have to be supplemented by surveys. For example, VAT may tell you about a company's total sales, but it will not necessarily tell you what industry the company operates in—a firm might be classified as one industry, but it might be operating in two or three—so you are likely to need surveys as a supplement.

John Mason: Thank you. That is helpful.

Rebecca Riley: There are significant developments in administrative data. Some statistical offices abroad use such data and there are opportunities to exploit such data in the UK, which have not yet been taken. The programme is supported by the Digital Economy Act 2017, which it is hoped will make access to some of the databases easier to facilitate and available to a wider set of researchers, who can then investigate the issues.

As Martin Weale said, there are difficulties in compiling regional statistics from the admin data. They are useful, primarily because of their extensive coverage. I realise that the Scottish Government provides a boost to many of the surveys that are done by the ONS so that they can be used to produce reliable Scottish economic statistics, but in some cases the admin data are closer to a census, so they have many more observations and can be used to compile relatively reliable statistics for some types of indicators.

There is the issue of apportionment—how do you split a company's activity, given that it does not have to report what activity it carries out in different parts of the UK? If you are not going to collect that information directly, you have to make a rule about how to allocate that to the different areas within the UK. There is a programme at the ONS to use admin data to develop regional statistics where different apportionment rules will be used and tested for different answers. That will be a weakness of the statistics, but there are still very significant benefits in using those data. They can also provide more timely indicators of GDP, at a sub-national level, for example.

The other development is the use of more broadly defined big data—non-traditional data are being used increasingly by statistical offices and might also be used to develop regional statistics. For example, ESCOE has a project to explore the use of freight data and satellite images for transport to develop statistics on interregional, intra-UK trade. That has already been explored in the Netherlands. The use of admin data is therefore not the only development; there are opportunities to use other non-standard forms of data to develop sub-national statistics.

09:45

John Mason: It seems to me, as an outsider, that the obvious thing would be to collect the VAT information that we want by getting companies to break it down and feed it in separately, but I guess that that would require an HMRC change. Would that meet a lot of resistance, would it just not be possible, or can you not comment on that?

Rebecca Riley: I do not think that I am in the best place to comment on that. Certainly we would not be able to take that data backwards in time and use it retrospectively. It is possible that one could, at smaller cost, conduct a survey to investigate for some companies the likely error by using different apportionment rules without rolling something out more widely.

The Convener: I should have said to witnesses that if you wish to come into the discussion, please indicate that by raising your hand. You should not feel that you have to answer every question. Your microphones are operated by the sound desk. I will bring in Campbell Leith on Mr Mason's question.

Professor Leith: I agree with the points that have been made. Apportionment is one of the big issues with trying to apply survey data and admin data to Scotland. Companies that work across the whole of the UK may not even know what is attributable to Scotland—they may not think about their businesses in that way. That is a big issue to deal with.

On the question of admin data, now that we have started generating our own revenues from devolved taxes there is also admin data within Scotland. For example, LBTT revenues were less than anticipated in the first year, and there was a big debate about whether the progressiveness of the tax was damaging the top end of the market. There are various possible reasons for that—it could have been a behavioural response or it could have been that the market in Aberdeen was suffering. People provide lots of bits of data when they do their LBTT returns, so there is data in the returns that are filed. Revenue Scotland could produce that data, which would allow us to dig deeper into whether Aberdeen is suffering relative to the rest of the country in terms of generating LBTT revenues, what behavioural responses there are to changes in the tax system, and so on.

John Mason: Are you suggesting that that data is not coming out into the public domain?

Professor Leith: No. What we get from Revenue Scotland is the aggregate data, which is broken down by tax band within LBTT but is not broken down by region within Scotland. In our last report, we resimulated the Scottish Government's model using local data for prices to forecast how much revenue should be generated by Aberdeen and the area around it. We looked at what was forecast for house prices and what happened to house prices in Aberdeen. That could account for a significant part of the shortfall in LBTT revenues, but we will not know how well that model actually works in Aberdeen unless we have the outturn data for Aberdeen. That data is there—it is on the forms—but it has not been produced by Revenue Scotland. There is potential.

John Mason: I do not want to push this for too long, but did Revenue Scotland give any reason for not being able to produce regional data?

Professor Leith: Just resources—the resource cost of doing so.

The income tax forecast also relies heavily on admin data. The public use tape, which is produced by HMRC, gives us the full anonymised tax returns for Scotland. The forecast takes that distribution of tax returns, splits them up into the age groups of the Scottish population—middle-aged people earn most and pay more higher-rate tax, as they are at the peak of their careers, so a lot of the revenue comes from that age group—and forecasts taxes by age group.

However, for the 2017-18 budget forecast, the only available public use tape data was for 2013-14. There is quite a long lag between the generation of that admin data and the year that we are trying to forecast revenue for. That is partly because self-assessment comes after the tax year, so it takes a while for the data to settle down, but we could have earlier rounds of pay-as-you-earn data generated by HMRC, which would be more up to date and could inform the forecasts just prior to their being produced. There is scope to liaise with HMRC and get your hands on that admin data in a more timely way to improve forecasting.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Before I move on to my question, I have a comment on the topic of VAT returns and their use. As somebody who completed VAT returns for the best part of 30 years, I know that there was a change in the VAT return form about 20 years ago: it used to ask only for total turnover but then it asked for turnover within the UK and turnover outwith the UK. Changes can be made if there is a political will to do so.

Will you outline the key recommendations in the Bean review? You have touched on the possible use of additional administrative data, but what other recommendations did the review make and what impact would they have in Scotland?

Rebecca Riley: One of the key recommendations or issues that was picked up on was the timeliness of GDP data for Scotland. Quarterly GDP estimates are produced, but they have a much longer lag than happens with those for the UK as a whole. That came up quite strongly in the user engagement. We will certainly work to improve the timeliness of those indicators. One of the ESCOE projects, which is being conducted by the University of Strathclyde and Warwick business school, is looking at using admin data, survey data and other indicator data more broadly—and possibly also the returns data—to try to align the timing of the release of the sub-national GDP data more closely with that for the UK as a whole. We do not know whether that will be possible, but that research is being undertaken with the objective of aligning the release dates. The research is being done because it seems a worthwhile pursuit and there is an opportunity to bring the release dates closer together. That is the hope.

Professor Leith: The Bean review suggested that the UK Statistics Authority should produce a more nuanced assessment of the quality of what counts as national statistics. At the moment, the authority gives a seal of approval to data that is produced according to certain standards. The Bean report suggests that it should strengthen that role and give more of a quality assessment alongside the data. It would be particularly useful for the economists who produce the Scottish data to have that more nuanced and stronger assessment.

Martin Weale: The Bean review led to the Digital Economy Act 2017, section 81 of which makes the UKSA the conduit of administrative data for statistical purposes to other users, including the Scottish Government for the production of Scottish statistics. The powers in the 2017 act give the national statistician the power to require administrative data to be made available for statistical purposes. That means that the Scottish Government and Scottish statisticians will have to work through the UKSA if they need to use the powers in the act to obtain their data. At least, that is my reading of the law.

Campbell Leith mentioned the issue of giving a more nuanced view. For some Scottish statistics, the providers give quite a good qualitative view of the statistics' quality. In the UK national accounts, variables used to be given the codes A, B, C and D, and what those meant was explained—that can be found in the book on sources and methods that Rita Morris published in 1968. That system has rather gone away. Although Charlie Bean did not say this explicitly, the implication of the recommendation that Campbell Leith just mentioned is that there might be a move back to an attempt to be more quantitative about what we know and do not know.

Another issue that Bean raised with regard to accuracy was that of improving the governance processes that affect statistics. The Bean review did not mention this but, to an observer from outside Scotland, what sticks out is the five-day advance notice that some users get of the publication of official statistics, whereas even in countries where pre-release data are still made available to some people, typically they get that data only a few hours or less than a day in advance. I think that in that regard Scotland is very much an anomaly relative to almost the whole developed world.

Gordon MacDonald: You touched on the Digital Economy Act 2017. Some of the evidence that we have read suggests that under the act the devolved Administrations will not get direct access to data. Is there any reason for that?

Martin Weale: I suppose that in answering that I draw an inference from the fact that the national statistician, whom Parliament appointed, is the national statistician for the whole of the United Kingdom. I did not read the 2017 act as saying that you will not get direct access to the data; I read it as saying that, if Scottish statisticians want to make use of the power to require administrative data to be made available for statistical purposes, they need to work through the UK Statistics Authority. To my mind, that is very different from saying that Scottish statisticians will not get direct access to the data.

Gordon MacDonald: I am just reading the evidence from the Royal Statistical Society. That is what it says.

Martin Weale: That may be the society's interpretation; I read the 2017 act as saying that the Scottish Government will have to work through the UK Statistics Authority.

Gil Paterson (Clydebank and Milngavie) (SNP): The Royal Statistical Society's submission says that the 2017 act will not provide devolved Administrations with direct access. That is quite straightforward. It also says that those administrations "should" be able to get access; maybe that should be changed to "will", so that there is some compulsion or statutory entitlement. From the outset, it seems that the Scottish Government and the other devolved Administrations—apart from Northern Ireland—almost need to beg to get the information. It is a new act, but we are back to where we started. That is my view; what is yours?

Martin Weale: A new act has come in—it became law just before the general election. Perhaps it is too early to ask whether there have been any difficulties in using the process that is described in it. As I said, as I read it, the conduit is the UK Statistics Authority, and perhaps its being a conduit is what the authors of the RSS submission meant when they said that devolved Administrations will not have direct access. Being practical, I would want to know whether people have had any problems in interacting with the UK Statistics Authority and making use of the powers. As the act became law at the beginning of June, presumably it is too early to say.

Gil Paterson: Does anyone else have an opinion on whether access should be statutory?

Professor Leith: You could test the process and see. If it produces data easily, it is okay; if that is a struggle, it needs to be revisited.

Gil Paterson: I do not think that anyone questions the quality of the data.

Professor Leith: No—it is about how easy access is.

Gil Paterson: I would have thought that in Scotland the problem would be about the quantity of the stats, because they are so low in number as to be meaningless.

10:00

Rebecca Riley: I echo some of the things that have been said. It is a new act and it will probably take a little time to find out how the process is going to work. However, a law has been passed and there will be a process for getting those data from other departments into a form that the ONS will be able to use and to work on with other researchers to develop into national statistics, but I expect that the process will not be immediate.

Gil Paterson: How relevant will the process be to Scotland? Could you say more about the benefits that we hope will flow from it?

Rebecca Riley: In so far as the Digital Economy Act 2017 will make access to admin data and other forms of data easier, it is an important development for national statistics, broadly defined, and therefore also for Scottish economic statistics.

Professor Leith: I gave the example of the admin data that is used in income tax forecasting. If the 2017 act allows the Scottish Government and the Scottish Fiscal Commission to access that underlying admin data in a more timely manner, that is to be welcomed.

Martin Weale: The discussion has focused on the letter of the law and the powers of compulsion. As I understand it, until the 2017 act was passed, holders of administrative data, such as HMRC, thought that they were not allowed to release those data for statistical purposes. Therefore, a lot of the point behind simply passing it and making it perfectly clear that they are allowed to release data was that that may mean—and I would expect it to mean—that in practice the powers in the act do not have to be used. The question is not only whether the conduit through the UKSA works, but whether Scottish statisticians can build the relationship with the holders of administrative statistics that is needed to create the data without making any use of the formal powers in the act.

Gil Paterson: Thank you.

The Convener: You mentioned the pre-release of data. How does the system in Scotland compare with that in other countries? Is there anywhere else with a comparable set-up? Do other systems have an independent check on the manner in which the data is presented before it is publicly released?

Martin Weale: As I said, I am not aware of other countries where some people in Government have five days' warning before data are released. In the United Kingdom, the period used to be shorter, and it went completely in July. In other countries, it may be a few hours. To my knowledge—and I have not looked everywhere—there is nowhere else that has anything remotely as long as Scotland has.

In terms of independent release of data, I know that one of the aims was that there should be a single website through which all official data are released—the gov.uk website. Scottish data and Scottish data releases appear on that website at the same time, I assume, as they appear on the Scottish Government website, so in that sense the process for standardised presentation is working in the way that it works for other Government departments that produce data in the United Kingdom.

I think that you also asked about an independent check.

The Convener: I was wondering whether other countries have a system of independent checks on how data is presented prior to its release.

Martin Weale: I would think that, in other countries, as I assume is the case in Scotland, data release is the responsibility of the statisticians rather than other civil servants. To the extent that this is true, the statistical service for the United Kingdom as a whole is independent. Of course, it is questionable what independence means for a body that is intimately wound up with the process of government. In that context, it is very different from the independence of the monetary policy committee of the Bank of England. The guarantee has to be the independence of the statistical civil servants, rather than having a separate body.

The Convener: Do other panel members see any difficulty with the current system as regards the pre-release of data?

Professor Leith: It is increasingly viewed as best practice to avoid the pre-release system, so it would be best to fall in line with UK practice, I think.

Rebecca Riley: May I come back to Gordon MacDonald's question on the Bean review?

The Convener: You may comment briefly on both that question and my question.

Rebecca Riley: I will focus on Gordon MacDonald's question. You asked about some of the key points coming out of the Bean review, Mr MacDonald. Some of them are particularly relevant to sub-national statistics, but many recommendations are for UK national statistics as more broadly defined and will be of benefit to Scottish economic statistics.

One of the key areas is addressed by the recommendation to undertake research into what it is that we are measuring. A key issue is that we have a changing economy, and our statistics need to change to continue to reflect accurately the economy as it changes. One example of that is the increasing reliance on the service sector. The economy is made up of different sectors of activity, and the service sector is a very broad sector. Many of the price indices that we collect, which enable us to measure real activity in the service sector, are not as well developed as those for some other sectors, which were more important decades ago but are perhaps less important in size terms these days. There are recommendations to improve such statistics, and I believe that there are developments in that area.

To try and better understand the implications of the increasing digitisation of the economy and what that means for what we measure, we might ask whether the shift between what we produce in the marketplace and what we produce at home matters for our interpretation of statistics as they are compiled today, or whether we should be revising how we compile some of those things. The deflator issue is important for some of those areas. There is a feeling that there are production factors in the digital economy that we do not measure very well.

One of the Bean review's recommendations is that we try to explore the importance of those changes for economic measurement. Of course, that is not specific to country-level or sub-national-level statistics, but it should lead to improvement throughout the system.

Gordon MacDonald: On that very point about the digital economy, I will give an example that I saw as I read through the evidence. If somebody books a holiday through a travel agent, that counts towards GDP, but if they book a subsequent holiday via the internet on their own, that does not count towards GDP. The GDP of the country would therefore go down, because the ONS does not measure that. Is that correct?

Rebecca Riley: GDP typically measures market activity. If activities move from the market into the home, they may no longer feature in GDP statistics. However, there are exceptions. For example, activities that are particularly large—I do not know what the threshold would be—or which are deemed to be very important economically might feature in the national accounts in some way or another, or in satellite accounts.

There is currently a sense that quite a few types of search or arrangement activity, such as the one that you mention, have moved from the market into the home. We obviously do our own searches for all kinds of things on the internet, when we would previously have gone out into the marketplace. The question is how important those activities are. We do not really have a sense of the magnitude of those changes and how important they are likely to be. Maybe the sum of the changes is important. Even if we do not change the national statistics, we would maybe want to appreciate what the changes imply for our interpretation of national statistics.

The Convener: On that point, we will move on to Gillian Martin's questions.

Gillian Martin (Aberdeenshire East) (SNP): My question relates to what has just been discussed. There is a debate about whether what we measure represents progress towards a Government's or a country's economic aims and whether, to ascertain whether the aims have been met, we should measure different things, such as non-market activities for which no figure goes into HMRC or whatever but which have an economic impact.

What alternative measures could be used to measure such economic activity? It could include things that happen in the household that have an economic impact, such as caring. Another example is the voluntary sector, where work is done and, although no money changes hands, that has an economic impact on the country's success.

Martin Weale: I will make some observations. The ONS does a study for the whole United Kingdom—as far as I know, it does not specifically identify Scotland—that looks at how people use their time. As best it can, it estimates the value of the sort of activities that you describe. That has been looked at.

I caution against believing that things moving to and fro between the market sector and the non-market sector is a new phenomenon. I remember reading somewhere that people used to buy their furniture ready made and make their sandwiches themselves, whereas they now perhaps tend to buy sandwiches in shops and buy flat-pack furniture to put together. Such things have always been going on. The replacement of a travel agent by a web-search site is the consequence of technical progress, but it fits into a pattern that has always been there.

I also caution against thinking that measured GDP necessarily goes down because of that pattern. The people who used to work in travel agents, whose labour income, along with the travel agent's profits, was counted towards GDP, are in all probability doing something else now—even though we do not know what it is—and that something else will be counted towards GDP. To the extent that resources are saved because of digital developments, that does not necessarily mean that GDP will go down; it may simply mean that people are doing other things that we measure.

Rebecca Riley: As has been said, it is important to observe that the phenomenon is not new. For example, childcare is a very big activity that is not reflected as economic activity. Childcare has changed over time; it has increasingly moved out of the household and into the market. The key thing is to understand how such developments affect overall output. Whether we incorporate them in one way or another is a separate issue, but we want to understand the impact of the changes, which may be rapid. For example, digitisation is a development that has happened very quickly recently. If some of those activities are significant, that might affect the time profile of measured growth, and we simply want to understand what those patterns look like.

10:15

Professor Leith: Modern economies are big and complex and have lots of things going on all the time, and there is no silver-bullet policy that will have a big, measurable effect on GDP growth. As a result, looking at such growth or a revised measure of it will not really capture the success or failure of a package of policies.

The kinds of policies that are pursued in advanced economies are micropolicies that focus on various subsets and individual groups—for example, the introduction of free school meals for all children. The microeconomic data is used to assess whether the policy is having an effect in schools and whether it is, say, improving performance or affecting behaviour.

Such small-scale, microeconomic data is what is needed. Ideally, randomised control trials would also be run—the policy would be introduced in some schools but not in others, and then the differential impact would be looked at. That is how to make evidence-based policy. The hope is that, across the board and collectively, good policies are being put in place and they will add up to something.

Gillian Martin: The microdata that you are talking about is available in a devolved nation such as Scotland, and we have the mechanisms to measure it. It is just a case of spending money on that, which brings us back to the very first point that was made.

Professor Leith: My family take part in one of the data collection exercises; we are one of the objects of data for the growing up in Scotland study. Periodically, someone will come to my house, test my children and their cognitive abilities and interview us about our income, various aspects of schooling and so on. That will build into a profile of microeconomic data on education in Scotland. We are a data point in that, and it is the collection of such data that allows such policies to be evaluated.

Gillian Martin: I think that some of my colleagues want to come in on the back of that.

The Convener: Andy Wightman, Ash Denham and, I think, John Mason have questions.

Andy Wightman (Lothian) (Green): I want to move away from the current line of questioning, convener—I do not have anything to follow up on.

The Convener: Perhaps Ash Denham can come in, then.

Ash Denham (Edinburgh Eastern) (SNP): I will ask about GDP, because I am fascinated by the idea that what you measure counts. Recently, even *The Economist*, which is known to be fairly conservative, concluded after an online debate that

“GDP is a poor measure of improving living standards”,

and the Organisation for Economic Co-operation and Development has also referred to the

“assumption that growing GDP meant life must be getting better.”

I think that we have all moved on and know that the situation is not quite as simple as that.

To touch on Gillian Martin’s question, I think that if we want to measure progress we have to work out what our version of progress is. In Scotland, it will definitely include environmental sustainability and social inclusion. Professor Leith just said that there is no way to use a big measure to capture progress, but is that true? Other countries and bodies such as the New Economics Foundation are developing indexes—I do not know whether you have heard of the happy planet index or the living planet index. Is there a place for a big measure that might in the future replace GDP?

Professor Leith: Such big measures can be constructed. A range of assumptions will be needed to build up an aggregate measure of welfare, but people might or might not like those underpinning assumptions.

As for evaluating the very large number of individual policies, the number might be driven by policy or by external events that policy makers have no control over. If GDP is used as a means of evaluating the success or failure of policy, the link will probably not be strong. Even with more economic questions, such as forecasting devolved taxes, we rarely find a robust link between such forecasting and GDP. As a result, GDP is not used as a driver of our forecasts for income tax; instead, nominal wage growth is a far better predictor of where income tax revenues will go.

GDP is a big headline measure over which there has been lots of debate and around which there is a big narrative. We can talk about the impact of Brexit on GDP and so on, but it is not used a great deal to evaluate policy and predict tax revenues.

Ash Denham: The effectiveness of the Government’s economic choices seems to be judged on how GDP is performing.

Professor Leith: Yes. Policy is only one of the factors that affect the GDP number.

Martin Weale: Some of the problems with GDP, including the issues that you mention, have been known for a long time. GDP is a measure of output—that is the beginning and the end of what it is. It is a gross measure. As GDP is periodically redefined and investment is put into software and so on, all the very short-lived items of capital have the effect of increasing the gross measure of output, but they have much less impact net of depreciation. Simply looking at net rather than gross would be a considerable improvement. The capital that depreciates has to be replaced and a country does not become better off by having more depreciation going on in its economy.

Even in real terms, there is a distinction between product and income. Income is measured relative to the costs of consumption—the things that people buy directly and which the Government buys on their behalf—whereas product reflects the prices of imports and exports. If we want a measure of performance, it is better to consider real national income rather than real GDP.

There are other issues. For example, GDP is a plutocratic measure of people’s living standards, as it gives more weight to the growth that people with high incomes experience than to the growth that people with low incomes experience. One thing that we are doing at the ESCOE is coming up with ways to produce what might be alternatives that give equal weight to everyone's growth experience.

Dean Lockhart (Mid Scotland and Fife) (Con): I would like to elaborate on the point and get views on the availability of statistics that will allow us to effectively measure the Scottish Government's four Is economic policy—inclusive growth, innovation, internationalisation and investment. Last year, an Audit Scotland report suggested that it was quite difficult to measure some of those factors because there might not be readily available statistics to benchmark what is happening in something like innovation. How can we effectively measure the success or otherwise of the four Is economic policy?

Rebecca Riley: Ash Denham's question about GDP touched on inclusive growth. There is definitely room for additional measures, as Martin Weale suggested, and the ESCOE is producing inclusive growth measures for the UK as a whole. I do not know whether it would be possible to take that down to a sub-national level—the sample sizes might not be adequate for that. GDP is an important figure, and there is plenty of space for additional measures such as inclusive growth measures or sustainability to be considered in conjunction with it.

You mentioned the four Is approach. Inclusiveness is part of that and internationalisation is important, too. I think that Scotland has a separate survey to collect information about its exports to the rest of the UK and the world. I understand that, from a Scottish perspective, a missing bit of the internationalisation picture is information about imports. That is complicated by the fact that Scotland is a sub-national area, which makes it difficult to collect that information.

That is an area where one of the partners in the ESCOE is trying to develop new measures or is certainly investigating the feasibility of developing new measures of internationalisation for Scotland. That could be applied elsewhere and not just to Scotland, although Scotland is a good place to start because it already has quite a lot of data. However, in principle, some of those measures could be rolled out to other sub-national areas.

As I perhaps mentioned earlier, the Fraser of Allander institute is looking at novel forms of data to better proxy the trade flows across Scotland and the rest of the UK. That is taking place over the next 18 months, and I hope that there will be recommendations on what might be feasible to improve statistics on internationalisation for Scotland.

There is a community innovation survey for the UK, although it might have a slightly different name now. Such a survey is conducted in a similar way across European countries so that we can compare countries' innovation activities. The survey has about 15,000 observations, and there is also regional information for the UK. Obviously, there will be a relatively small sample of sub-regional data, so there might be limitations. However, that survey measures innovation activities in the UK.

It is possible to use such data to look at area-specific innovation, but I do not know whether that is done. However, the same issues of apportionment as exist for all types of surveys and administration data would arise. For example, the question with regard to a large innovative company would be whether its research and development unit operates in Scotland or elsewhere in the UK, but we might not know that. We will know where the employment is and might be able, from knowing the industry coding of plants that underlie big companies, to make assumptions about where the R and D activity takes place. However, there are additional complications, as with other data that comes from surveys.

Dean Lockhart: Do other panel members have views?

Professor Leith: The four Is are very large high-level concepts, but I understand that there is a list of associated targets by which the Government wants to be assessed. Clearly, there must be data to evaluate those targets. There is maybe a slight danger in specifying exactly how a high-level concept or a specific target will be assessed. For example, if we want to assess the quality of the school system by introducing a literacy test at a certain age, there is always the danger that teachers will teach to the test in order to improve achievement of the target, which does not necessarily fulfil the wider, higher-level objective of improving literacy throughout the school system. We therefore might not want to be too tied to specific targets, or we might want to ensure that the targets cannot be manipulated easily and that they capture what is happening in a specific area.

To go back to an earlier point, lots of individual policies will be introduced to achieve the high-level objectives and they will address specific things, in the hope of contributing a little to the higher-level objective. However, we might be more interested in the microdata that assesses a specific policy.

A higher-level objective might or might not be achieved. It might be achieved because of policy or just by good luck. A good policy might be blown off course by bad luck; just because of how the world is evolving at that point in time, fate might be against it. We should therefore hone our data to assess the things over which we have control.

10:30

Martin Weale: I will make one further observation. We should not only hone our data but be rather careful about how we do so.

An example that involves the UK Government sticks in my mind; it concerns a target for GCSEs, so it was not relevant to Scotland. The target related to the proportion of children who were getting five GCSEs at grades A to C. Because the target was defined in that way, teaching tended to focus very much on pushing children who were on the boundary between four and five over the boundary to five. If, instead, the target had been defined in relation to the average GCSE score, with some scoring metric, teaching resources would have been devoted rather differently. It is for policy makers to decide whether they want to focus resources on the four-to-five GCSE margin, but my guess is that the measure was adopted as a quick and easy target, without anyone having thought of the consequences.

When we try to assess performance relative to the four Is by using specific targets, we need to think rather carefully about whether we are choosing our target in a way that achieves the policy that we want to achieve or whether it will deliver an outcome that, ex post, we might not be very happy with.

Dean Lockhart: I have a quick follow-up question. Is there an internationally recognised definition of inclusive growth—for example, according to the OECD—or does the concept tend to mean different things to different people?

Martin Weale: I am not aware of an internationally agreed definition. I do not know whether my colleagues are but, as they are shaking their heads, it seems that they are not.

The Convener: We move on to a question from Andy Wightman.

Andy Wightman: In the debate around Scottish data, the question has arisen whether Scotland should have more autonomy to collect data. At the moment, it does not have statutory powers to do so. As we have heard, there may be issues with the Digital Economy Act 2017. I am interested in the Royal Statistical Society's submission, which says that

"the RSS does not believe this is an appropriate time for the Scottish Government to move away from the current system in which ONS produces economic statistics for the whole of the UK".

As we have heard, not just in this inquiry but in previous evidence sessions, the problem is that the data we have relies on UK data, on sub-national samples and perhaps on additional surveys being done in Scotland and so is not terribly reliable. Given that the Scottish Government is not like other Government departments and is an executive that reports to a Parliament that is trying to grow the whole of the economy, using a variety of measures such as improving education to have an impact on the economic performance of a whole jurisdiction, why is the RSS so clear that this is not the appropriate time?

Martin Weale: Since the question was asked with reference to the RSS, may I say something on that?

First, there is one area in which Scotland has its own statistical authority, which is the Registrar General. For people who want to understand what is happening to the population in the whole of the UK, that is a source of problems that people would feel uncomfortable about being replicated elsewhere. If we look at the ONS website, for example, it is often quite a lot of work to find statistics that relate to the whole of the UK rather than to England and Wales. I remember that there were issues with the 2001 census about how very small numbers of returns should be treated. Data could not be published if it showed only one person in a particular cell, because statisticians regard such things as disclosive, even if only the people concerned can identify themselves. As far as I remember, the Registrar General in Scotland adopted a different solution to that problem from the solution that was adopted in England and Wales. We ended up with two censuses that, at a high level, fitted together, but, when we went into the detail, did not. That did not allow people to make comparisons between what was happening in Scotland and in England as easily as they would have liked to.

With that warning, I must say that I feel rather nervous about it. However, I should say that I see the issues that you mentioned about the quality of Scottish data very much as a consequence of someone's assessment of benefits relative to cost, rather than as a problem with the statistical powers of the Scottish Government.

This is a particular problem that arises in relatively small jurisdictions. The performance of a survey depends only slightly on the proportion of the population that is surveyed; it depends mainly on the number of people in the sample. If we want Scottish data from sample surveys to be as good as the data that we get for the whole of the United Kingdom, we need a Scottish survey with a sample size much the same as is used for the whole of the United Kingdom. To my mind, that is the fundamental trade-off that we face—it is not about whether the Scottish Government has enough powers. To put it another way, if I wanted to investigate that further, I would ask: what is it that the Scottish Government would like to be able to do and is prepared to pay to do that it finds that it cannot do because of the current statutory arrangements?

Professor Leith: I tend to agree. I am quite happy with the UKSA being the overall regulator of statistics and the assessment of their quality. I want Scottish statisticians to be active partners with the ONS in generating data for Scotland. They should piggy-back on the surveys that are already done and the data that is already generated and augment them, where necessary and where funds are available, to improve the quality or scope of statistics.

Andy Wightman: You mentioned the Registrar General. Other agencies, such as the Registers of Scotland, collect data, but their data has to be paid for—it is £3 plus VAT for a wee bit of data. In general, do you believe that all economic data should be open?

Martin Weale: We need to be very careful. There are two questions: what we mean by “open” and whether people are charged for access. I remember hearing the view that data should just be collected and made available, and users should make of them what they want. That seems completely to ignore the role of statistics as a science in drawing inferences from what I would call raw data. The science of statistics has developed over the past 100 or 150 years, and it focuses people’s attention and saves a lot of work, so I certainly would not want that sort of openness.

On the question whether users of public data should be expected to pay for them, I am afraid that I do not know what one is charged £3 for, but over the past 20 years or so the ONS has moved from wanting to charge people and collect money to making statistics freely available over the internet. That is a thoroughly good thing. Although I do not know the specifics of Andy Wightman’s example, my general view is that official data prepared by statisticians so that they show the answers to material questions rather than just being an amorphous mass of numbers should, in general, be freely available. However, there may be circumstances where people want very bespoke things, say from the census, and I certainly would not say that it is never appropriate to charge people, particularly if they ask for an ad hoc piece of work.

Rebecca Riley: Official data are obviously a public good, and that is very important. I do not know about that exact example of paying £3 for data. There has been a move towards making microdata available much more widely at no cost. That is a good thing and enables researchers to ask new questions and analyse the data in ways that differ from the focus of the ONS. It is important to make data available so that people can consider the range of questions that one might address with those data.

At the moment, when you use such data, the purpose has to be of public good. That is an important aspect of having access to the data. However, I would point out that when users use those microdata, they may use them in very different ways for good reasons. It is therefore important that we have information on what the data are so that people can use them in an educated way and do not draw incorrect inference from them.

It is useful that data are provided through things such as the virtual microdata laboratory, to allow projects for public good. It is important that that access is accompanied by explanation documentation of the underlying data so that the microdata can be used in the best way possible.

Professor Leith: I agree.

The Convener: We are running out of time, so we must move on. I can allow a follow-up from Gordon MacDonald and a brief question from Jamie Halcro Johnston.

Gordon MacDonald: I have a quick question on Andy Wightman’s original point about whether there should be a separate Scottish statistics authority. Northern Ireland has its own Statistics and Research Agency; according to its last accounts, it has a staff of 412, with 301 statisticians. Why do you think that it is necessary for one part of the UK to have its own statistics authority, but it is not necessary for Scotland?

Martin Weale: I would answer that partly with reference to what I saw when I was a member of the Statistics Commission, in the early days of devolution. Just after 2000, one of our big concerns was the United Kingdom tending to fall further apart statistically. That was a particular concern about Scotland, because the Scottish health service was collecting different administrative data from the English health service—for very good reasons. Scotland wanted to do different things and, after all, that was the purpose of devolution. However, that made it harder to know what was happening throughout the United Kingdom.

In the Statistics and Registration Service Act 2007, it was recognised that an important part of the statistical service was to produce comparable statistics for the whole of the United Kingdom. Of course, Northern Ireland’s history is different from the history of Scotland. I do not know about the Northern Irish statistical arrangements and the way in which they work, but my preference would be to run as much as possible on a UK-wide basis so as to maintain comparability and ensure that the same approach is used so that what superficially looks like the same data mean the same thing for the different constituent parts of the United Kingdom. At the very least, I would be reluctant to follow the Northern Ireland model simply because that is what history has delivered us for Northern Ireland.

There are some surveys that are just for Great Britain and exclude Northern Ireland. Many users tend to ignore that or do not pay enough attention to realise that that is the case. In statistical terms, there is a lot to be said for having a good picture of the whole of the United Kingdom and meeting the needs of the devolved Administrations within that, rather than having what could easily turn into a patchwork quilt. In economic terms, Scotland is much more important than Northern Ireland, so if one were to go down the Northern Ireland path, the risk of disruption to statistics that represent the whole of the United Kingdom would be much greater.

10:45

Gordon MacDonald: Surely the question should be whether Scotland is well served by the ONS, given that it has more than 3,000 staff and we often do not get much Scottish sub-data from UK subsets. Are we getting value for money from the ONS?

Martin Weale: The issue with subsets is how much one is prepared to pay to boost the sample, particularly for survey-based data. I return to what I said at the beginning of the discussion: it is easy to see how you could have better statistics, but they cost money.

Gordon MacDonald: Would that mean that Scotland would, in effect, pay twice? We already pay to support the ONS for not providing the service that we require; therefore, you are asking for us to pay for it twice.

Martin Weale: I would rather not get into how the ONS is financed relative to contributions from Scotland, because I do not regard myself as expert on that matter.

The Convener: I am sorry to interrupt, but we are running up against our time limit. Do the other two panel members have a brief opinion to express on that point?

Professor Leith: The example of the consumer price inflation statistics shows that sampling in Scotland is more or less proportional to the population of Scotland. In order to get representative data for the whole of the UK, the sample has to be spread out with appropriate weights throughout the UK. To then produce statistics for Scotland, that size of sample may not be enough. The question is whether you want to augment that sample by just enough to create the quality of statistics separately for Scotland; that cost benefit analysis has to be thought through.

Jamie Halcro Johnston (Highlands and Islands) (Con): My question has largely been answered during the discussion. I represent the Highlands and Islands, which is a large, diverse area with a diverse economy with different sectors. Is there local data that we could use now that would give us a better local picture within Scottish regions or even within council areas? Could that data have more of a role in producing a national picture?

Rebecca Riley: That question takes us back to what admin data is available. I read in something from the ONS group that looks at sub-national statistics that there are plans to develop local area statistics; that was also one of the recommendations in the Bean review, I think. If you have a near census provided by the admin data, you should be able to create statistics at lower-level geographies with different boundaries. All the issues that apply when creating sub-national statistics for countries, such as for Scotland, will not go away when you get a much smaller unit of economic activity—they might possibly be magnified.

Professor Leith: Forecasts for devolved taxes have a sub-Scottish regional element; for example, LBTT will be focused in the big cities as major generators of those tax revenues, and higher-rate taxpayers will tend to be concentrated in the same areas. A regional breakdown can help with forecasting those taxes. You would probably want different breakdowns to assess policy interventions with different groups, and other breakdowns to forecast revenues—it depends what decisions you are making.

The Convener: I thank the witnesses for coming. I suspend the meeting to allow the next panel of witnesses to take their places.

10:50

Meeting suspended.

10:54

On resuming—

The Convener: I welcome our second panel of witnesses. We have, in no particular order, Russell Gunson, who is director of the Institute for Public Policy Research Scotland; Ghill Donald, who is a member of Reform Scotland's economic advisory group; Craig Dalzell, who is head of research at Common Weal; and Graeme Maxton, who is secretary general of the Club of Rome.

I will start with a fairly general question. What do each of you view as the strengths and weaknesses in the current suite of economic statistics or data for Scotland? How might the weaknesses be addressed?

The sound desk will operate the microphones, so there is no need to push any buttons. If you want to come in on the discussion at any point, you should indicate that by raising your hand. Who would like to start?

Russell Gunson (Institute for Public Policy Research Scotland): On the strengths, it depends on what we are looking for from the data. As a sub-state part of the UK—a nation within the UK—it is clear that we are stronger than most other parts of the UK on most of the data that we collect and that we can use and have access to. However, we have weaker data in general to draw on compared with that of an independent country or that at the UK level.

On the strengths and weaknesses within that data, it is clear that there are big gaps at the macro level. There are whole Government accounts that we are missing on imports, exports and inflation. There are clear weaknesses there.

From my perspective, coming from the organisation that I come from, the biggest weakness is on the analytical side in respect of the remits of the committees that look at things, interpretation and scrutiny. We can improve the collection of data and the sharing and linking of it but, most of all, we can improve the analysis and the capability in and outside Government to learn lessons and develop solutions from that data.

Craig Dalzell (Common Weal): I should have gone first, as Russell Gunson has stolen all my lines. I whole-heartedly agree with everything that has just been said. We need to consider why we are looking at data and we need to ask what its purpose is. Sometimes we will ask a question to form a policy and find that the data is lacking or insufficient. Sometimes we might even find that we are just gathering data as a matter of routine and that not much is being done with it. While we consider the strengths and weaknesses of the data, we need to have a broader look at the overall strategy around why we are doing all that work, basically.

Graeme Maxton (Club of Rome): I cannot talk specifically about Scotland's policies because I do not live here. I was born in Scotland, but I do not live here now; I live in Switzerland. We take a global perspective.

I can talk about what is and what should be measured. What is measured determines not just policies, but the opinions of the people in that country. I am sure that most members of the committee know that tracking GDP is a very bad measure of social progress. There are many better measures of economic and social development. If the Scottish Government is going to set up a separate statistical organisation, there will be a very rare opportunity to redraw the boundaries of what is measured and policy can then be influenced in a fundamentally different way. The opinions of Scottish people on what they want from their economy and their society can be changed. You have an opportunity to lead the world to some extent by setting up a new statistical organisation, but only if you choose to measure the right things.

Ghill Donald (Reform Scotland): I agree with the point that Russell Gunson made. There are gaps—for example, in whole-of-Government accounts—but I defer to Graeme Roy, who said that "Government Expenditure and Revenue Scotland" provides

"a pretty accurate picture of where Scotland is"

economically. It is not definitive and it cannot be, but no statistical model or data set can ever be so.

A strength that I see that I probably had not realised is that the objectives are in place. Scotland has an economic strategy, purpose targets, national indicators and the four Is. That is a strength because the structure exists. In my view, the weakness is that the statistics need to be applied to those different objectives. If we want economic growth to happen, we need to say by what percentage and then measure against that. There is an amorphous mass of data, and we can run around looking at all the trees in the forest, but we need to know what the direction of travel is—what our objectives annually and over three to five years are against the criteria of growth, innovation and the four Is—and then measure according to that. If there are shortages and gaps, we can fill them according to those objectives, but in my view the objectives come first and the data comes second. There is a bit of a gap in that at the moment.

11:00

The Convener: That leads on to a question that Gil Paterson has.

Gil Paterson: Yes. What are the key gaps in coverage in Scotland and what are your priorities in filling them?

Ghill Donald: Do you mean gaps in data?

Gil Paterson: Yes.

Ghill Donald: Like Graeme Maxton, I am not a data expert, but I think that there is a regional gap. Aberdeen's economy is very different from Glasgow's, which is very different from Edinburgh's, which is different from the economy in the Highlands. Each has different priorities. The objectives for economic growth in each of those areas will be completely different. That is a gap at the moment. We have a macro picture across Scotland—our objectives tend to be very general. I am not sure that we are tying in to and finding synergies with the local data, particularly the Scottish local government financial statistics, which are pretty detailed. There is a regional gap that needs to be addressed.

Graeme Maxton: I want to pick up on something that Ghill Donald said, because I have quite a different view on the issue. The idea of trying to stimulate economic growth is exactly what I am saying is the wrong policy. Europe does not need growth. If we take the GDP of Europe and divide it by the population, we find that there is enough economic wealth, income and work for everyone. The problem is one of distribution—those things are not evenly distributed. Most of us have a basic idea that economic growth creates jobs, reduces inequality and reduces poverty, but those are all false assumptions. Economic growth does not create jobs, reduce inequality or reduce poverty. You need to focus on wellbeing—the overall standard of living for the Scottish population—and how to boost that, which is down to education, health and a bundle of measures of happiness and satisfaction. Economic growth is not the key. That is what I mean when I talk about measuring the right things and having an opportunity to change what you measure, because it changes what you do.

Craig Dalzell: One important point is that we cannot boil down an economy to one number such as GDP or even down to something such as wellbeing or happiness. We need a full suite of measurements to do it adequately.

I definitely agree that we are quite weak on some of the regional data, especially when it is derived from UK or even Scottish subsets. That said, some of the data that has been generated from local authorities directly can be good, because they are focused—they know exactly what question they are asking and they look for a direct answer.

Another big weakness that has been picked up on in other evidence sessions is to do with data on trade. We have limited data on Scottish exports and almost no data on Scottish imports, so we cannot really talk about Scotland's balance of trade, particularly within the UK. That is perhaps just a consequence of Scotland being part of the UK, because intra-UK trade is not so important from an economic point of view, although it can be from a political point of view. Another issue that we could come across in these conversations is about whether we are looking for data to make an economic point or to make a political point. Both might be valid, but they might be different questions.

Russell Gunson: I have already mentioned imports and exports—the trade statistics that Craig Dalzell has just referred to. Having a Scottish measure of inflation also seems more pressing now that social security powers have been devolved, and there are already other payments for which a Scottish inflation rate would be more relevant.

Aside from that, I think that productivity is a key issue that needs to be measured and which we need to get underneath. Indeed, that was shown in a much better way last week. It is not just an issue for Scotland, but a challenge across the world, and we need to understand the key constituent elements and what sits underneath the success in productivity in parts of our economy and the lack of success in others.

Certain core macro measures are missing. To the side of that—and this probably leads on from Graeme Maxton's earlier point—I think that the question that we have to focus on is what we need in order to support policy making that is specific to Scotland. Certain core things will need to be comparable with the rest of the UK or internationally, but there will be things that matter just to Scotland and to policy making here and which will probably stem from the economic strategy, although they might equally stem from the national performance framework, which I know is being reviewed at the moment. They might well stray much more into the area of inclusive growth or wellbeing, but those things are missing, and we need to look at what might make sense in that respect.

On Ghill Donald's point about the sub-Scotland level, we seem to have regionalised everything, but often without using the same borders—or, I should say, boundaries. We have things like city deal regions, local authority areas, regional college areas, the new regional improvement collaboratives in education and the developing the young workforce regional groups, all of which have different boundaries, and finding ways of building up from the bottom, perhaps with microdata, should give us data that works for all of those regions. After all, that will be incredibly important to ensure that we can scrutinise the impact of, for example, city deal investment and the regional policy changes that we are making. In short, therefore, we need regional or at least sub-Scotland data and there is some macro data that we are clearly missing, too.

Gil Paterson: So there are perhaps three options open to us. First, the Parliament could push for a totally devolved system such as the one in Northern Ireland; secondly, we could have some kind of statutory involvement with the ONS to ensure that the data comes automatically; or, thirdly, we could stick with what we have and put more resources into the subsets to ensure that we home in on certain aspects instead of looking right across the board. Which option should we choose?

Ghill Donald: You should start with what you need, and as I have already said, I think that Aberdeen's needs are different from those of Glasgow. That job needs to be done, and then it needs to be done at a Scottish level.

Being cynical, I would say that I would work with anyone to get the best data that we can. For example, with regard to clean energy, we might want data from Norway or Denmark; the source of that data might not be the ONS. We should use any available sources that are excellent in their fields, but the point is that we need to define what we need, and I am not sure that we are doing that because of the continual focus on raising

"the GDP growth rate to a UK level."

That is why we find ourselves in this debate over GERS. That target is simply too general—it needs to be far more Scotland-specific and regionalised. Everything will spill from that, and you will just collect the data that fits.

Gil Paterson: I suppose that, like running a business, it is a chicken-and-egg thing. If you looked at the statistics, you would not be able to run a business.

Ghill Donald: That is the way that I look at it.

Gil Paterson: Instead, I would analyse how I was performing and make my decision. Do we not need quality stats—although in Scotland the stats might need to be quantitative rather than qualitative—before we make our move, or can we do it in a different way?

Ghill Donald: I think we can. For example, as far as Aberdeen is concerned, we know that there is a looming crisis with oil and gas. Once the decommissioning money is spent, what happens to Aberdeen? What do we do with it? No statistics will give you the answer to that—you guys need to get that answer.

There is an energy resource up there: there is talent, and a great university. Why not consider doing something whereby Aberdeen is Britain's centre of excellence in energy? That requires investment in education, and it requires focus. You need to attract young talented people so that businesses will then come and want to invest, like with biotech in Cambridge. That comes first, not the data.

Russell Gunson: On the question of whether we need separate, new powers for a statistical agency, the outcome that you want is to retain a core of statistics that you can compare across the UK and internationally. As I have said, there would be a set of much more Scotland-specific statistics to the side of that, allowing us to do policy making that is much more specific to us.

I know that this came up earlier today and last week, but in going over to full devolution or to having a fully independent statistics authority, we risk the comparisons. The risk in the status quo is that we cannot get the data that we want for our own policy making. I guess that there is a middle way, dare I say it. We need powers to ensure that we get the Scotland-specific data that we need, while keeping in with some of the UK-wide and more international comparative data, whether through a voluntary arrangement or not.

Craig Dalzell: Even within your range of options, if we moved to a model that involved creating a Scottish statistics agency, it could be very centralised, with one body that deals with all the stats that Scotland needs. It could also be a fairly decentralised network of groups of specialist organisations examining specific areas. Both those models are valid, and countries move up and down that spectrum. Scotland currently has a fairly hybrid system, with a relatively decentralised statistics network pulling in stats from different bodies, but we are also quite reliant on a fairly centralised UK system.

One of the ideas that Common Weal is discussing is that, if we are developing a Scottish statistics agency, it could perhaps play more of an overseer role. The ONS provides methodological kitemarks to say that a given set of statistics is worthy for policy making. If Scotland wants to go above and beyond that standard, we need to think about a Scotland-specific kitemark for decentralised bodies so that we can say that their work is worthy of examining for policy-making purposes.

You might think about going beyond Government organisations. You could have groups such as Common Weal or the Fraser of Allander institute producing research. If that adheres to the appropriate levels of methodological standards, they could get a secondary kitemark, so we could pull in data from more than just Government sources.

The Convener: Jamie Halcro Johnston wanted to ask about regional data collection.

Jamie Halcro Johnston: There seems to be widespread acceptance that one of the gaps is in regional or local data. What data is currently available? Is there enough to do something focused on the north-east or Aberdeen, say, or on various council areas? If not, what would we need to do to get that?

Russell Gunson: On administrative data or microdata, particularly around business, there is a business survey that almost gets to census level.

As we move on with income tax and VAT—although VAT is particularly problematic—HMRC should hopefully provide income tax data at a household or individual level, which should be very useful.

Beyond that, there is a lot of collection among entities and actors such as the city deals and the local authorities and the regions that I mentioned. The overall point is that there might well be a lot of data out there already. I am sure that it is not enough and that it could be improved, but what we really lack is the ability to analyse that data, to learn the lessons from it and to develop solutions, or at least options, for you and others at different levels of decision making.

There is a lot of data out there right now. We can improve it, but where we have furthest to go is on the independent analysis and scrutiny of what is happening, so that we can learn the lessons and develop solutions.

Ghill Donald: Our recommendations start with the Scottish local government financial statistics, which are not optimised against GERS and other Government statistics. That would be a good starting point that would take us forward from where we are at the moment.

The Convener: We have a follow-up question from Gordon MacDonald, then John Mason will move on to a different area.

11:15

Gordon MacDonald: I have a couple of quick questions. Of the issues that have been raised so far, one that concerns me is the lack of regional stats for Scotland and another is the question of having some kind of Scottish inflation measure. Is the ONS capable of providing that information for Scotland, or does there need to be a change in political will? Secondly, if there was a separate Scottish statistics authority—although I accept that we need some commonality between what is measured in Scotland and what is measured in the UK—is there a set of international standards for economic statistics that we could use? I am thinking about the likes of the OECD, which compares various measurements from 75 countries? Is there a set of international standards that everybody would sign up to?

Russell Gunson: On your final question, yes, there are a fair few of them, as I understand it. I could not describe myself as an expert, but I know that there are standards set by the United Nations, the OECD and the European Union, and we could continue to adhere to the EU regulations even if we are outside the EU. As you have heard from the previous panel, data of that kind are high level by their very nature, so at the micro level you could still see differences that get in the way of analysis. However, as you implied in your question, there is nothing to stop us keeping that comparability across the UK and internationally, even with an independent statistics authority.

That is down to behaviour and culture, but it also all comes down to funding and, whether an independent agency in Scotland or the ONS was doing it, it would cost a lot of money—more than 10 per cent of the budget—to do a population equivalent for Scotland, on inflation for example. Where would that money come from? A case could be made for it being the UK Government's decision to do that, because we have devolution, or for Scotland funding it, because we want a bespoke package. Either way, the money must be found, almost regardless of where the power lies.

Craig Dalzell: That said, the point of gathering the data would be, I hope, to improve the economy of the country. One should always ask whether, although something costs money, one will make it back through the benefits of economic growth or better wellbeing.

Ghill Donald: I do not think that it is an ONS issue. I am going to get very boring today, but my priority is how we improve regional data given the different economies that we have in Scotland.

John Mason: One or two folk have mentioned whole-of-Government accounts as something that is missing. Can you explain why that is important? What do we not have because we do not have whole-of-Government accounts?

Russell Gunson: There are a few things, including liabilities, assets and imports and exports, but most of all what we lack is a much more accurate understanding of what is being spent in and on behalf of Scotland, and what is being brought in on behalf of Scotland. That would give us a much more accurate way of measuring our performance as an economy and as a spending and income-raising Government.

Ghill Donald: Having whole-of-Government accounts tends to avoid balance-sheet trickery. The private finance initiative is a classic example, because it can be parked into the future but it remains a liability—it might not appear in GERS, but it is a liability in the long term. Whole-of-Government accounts allow you to pick that up and mark it as something that you owe in the future.

John Mason: That is helpful; thank you very much. We have heard slightly different evidence from different witnesses. Some have said that users and producers of data should talk to each other, so that the producers produce what the users want or need, but we have also heard that it is perhaps not a good idea for the Government both to produce data and to be a user of data. I am just trying to get my head around how we can get the balance right and have a bit of independence and a bit of working together. Does anyone have any thoughts about that?

Craig Dalzell: A Scottish statistics agency would definitely have to be kept at arm's length from and be fairly independent of the Government. We saw the benefits of that in terms of being able to speak truth to power the other week when the ONS made some comments to Boris Johnson.

John Mason: But if there is a kite mark and whoever produces statistics—be they in the private sector, the third sector or wherever—has to get that stamp, why does it matter who produces them?

Craig Dalzell: Well, it might not. With a fairly decentralised model, we could look at who had expertise in a specific area and go to whoever could produce the data. We could simply ask them to produce it at a sufficiently high level. The Scottish statistics agency's role would be to set that level, to regulate it, to gather the data and to combine it in a way that allowed communication between different groups and allowed people to gather and process it.

John Mason: So is this about how data is used and potentially twisted rather than about who actually produces the hard core?

Craig Dalzell: Interpretation is always the side problem with data. Anyone can pull out exactly what they want to make their political point, for instance. There are ways of addressing that, such as demanding that whenever someone produces a body of statistics they also publish the methodology behind it, so that it can be properly scrutinised.

Russell Gunson: We are almost talking about independence within the sphere of Government. Should we have an independent statistics authority that separates the production of data and the use of data within Government, to try to tackle any undue influence—even inadvertent influence—of the people who produce data by those who want to use it? I would guess that, given the nature of these things, we would struggle to avoid that, but there are benefits, which John Mason alludes to, of ensuring that what is produced is useful, for example.

This view is perhaps based just on my perception, but I do not see undue influence as a big issue. The big issue is trying to have much greater scrutiny of Government decisions and much more support for potential options by having an independent statistics authority. That is not the route by which those things are achieved in the rest of the UK and in other countries, where independent scrutiny comes from journalists and newspapers, stakeholders and civil society organisations such as the ones that are represented on the panel. I would argue that if we want to achieve greater scrutiny and greater support for decisions, we need greater capacity in that territory.

This depends on what we are trying to achieve. I do not see undue influence as a big issue—we are in hammer-to-crack-a-nut territory there—but there is a big issue with independence and the scrutiny capability outside Government.

Ghill Donald: Interestingly, we have the talent up here. Graeme Roy, who is outstanding, has taken on the Fraser of Allander institute role. We need only to look at the IFS and the regard in which it is held as an independent body that does excellent work across a range of economic subjects in the UK to see what we could do with the likes of the Fraser of Allander institute. Using Graeme Roy and his team as a Scottish IFS would give us the independent data inquiry that we are perhaps missing at the moment. Relative to the UK, we are completely underfunded.

John Mason: But the UK is 10 times the size of Scotland. We just cannot afford to copy everything that it does.

Ghill Donald: It is not a case of copying. Look at the credibility of the IFS and the quality of the work that it produces; we could do with some of that. There is no point in having a Fraser of Allander institute with a few hundred grand of funding when the IFS gets £4 million of funding and makes an impact across the UK.

Russell Gunson: It is not new money. A great deal of money goes out the door, through the Scottish Government and the Scottish Fiscal Commission, to academic research. No doubt that is doing good, impactful things, but there is a decision for the committee and the Parliament to make about whether any of that money should be going towards helping the Economy, Jobs and Fair Work Committee to make decisions around the economy and other committees to make decisions around Brexit, demographic change and the other big issues that we know are coming. We can begin to analyse the problems, but we are not getting near to developing solutions.

Some of that may not be new money. Ultimately it comes down to not copying everything that exists in the rest of the UK or internationally, but working out what we need and what is missing. I would argue for the equivalent of the IFS, or something wider than that, as being necessary and worth copying, drawing on existing funds.

The Convener: I want to ask Graeme Maxton about international experience. I appreciate that the committee is a bit Scotcentric—that is unsurprising given that we are a Scottish Parliament committee; it is our job—but do you have any examples from your international experience of how different regions or areas gather useful data? Is there international practice that is relevant that we could look to?

Graeme Maxton: There are some bodies that are clearly very good at it, such as the United Nations and the Organisation for Economic Co-operation and Development, and some countries are better at it than others.

I listened to the committee's earlier conversation and it seems that the matter is being approached from the bottom up, rather than the top down; you are saying that you need to collect data and are asking how that should be organised and where the data should be collected, whether it is the region, Scotland or London. However, the first conversation should be about what we are trying to achieve as a nation. Once you have answered that question, you must ask how to measure whether we are achieving that. Then you can ask about how and where to collect the data.

Setting up a Scottish statistical office is a political decision—that is what the discussion sounds like. However, that is not what I am here to talk about because I do not understand that. What I can tell you about is that if you want to achieve something different as a nation, you need to set the goal, work out what measures you will have to track progress against that goal and then measure those. From where I am sitting, that is the most important thing if you want to move Scotland forward.

The Convener: Can you give an example of a nation or area where that has been done?

Graeme Maxton: Lots of people have been trying to do that. The Bhutanese Government is very famous for trying to set up a national happiness index, the French Government has looked very hard at trying to do something similar and studies have been done in London. There are Governments around the world that are looking at the issue in various half-hearted and less half-hearted ways. The OECD is coming out with a whole new series of measures covering everything from housing to income to jobs to civic engagement and health, which are internationally comparable. There are plenty of examples.

There are also 20 or 30 alternative measures of social development other than GDP and economic growth—I can give you a list of them. Something that has been done regularly in Norway is simply to ask people how satisfied they are with life and how optimistic or pessimistic they feel about the future. That is a simple way of tracking every year whether people are feeling better or more optimistic. The measures do not have to be very complicated.

However, I must come back to my main point. What are you trying to achieve? You have to answer that question before you can work out what you want to measure.

Gillian Martin: A couple of the papers submitted by last week's panel were quite critical of the discourse around the economy in the media and politics, where we focus on things such as growth, rather than inclusive growth, and do not focus on the things that Mr Maxton has mentioned, such as happiness, satisfaction and social wellbeing. That happens every time that a report comes out on the Scottish economy.

We will put a report together ourselves following our next investigation, which is into the performance of the Scottish economy. What should our next inquiry focus on so as not to feed into a discourse that is very limiting and sometimes very depressing?

11:30

Graeme Maxton: Exactly. That is why I said at the very beginning that I think that you have an opportunity. The Club of Rome's view of the world stems from a book that was published in 1972 called "The Limits to Growth". The Club of Rome was started by a Scotsman and an Italian. Basically, the book said that if we carried on increasing our impact on the planet as we were doing in the 1970s, we would hit a crisis in around 2030. We would argue that that crisis is already under way.

We now focus on two major areas: social problems and environmental problems. Those both stem from the same basic cause: our economic system. The system increases inequality, does not count the value of nature or the planet and increases unemployment and poverty. The economic system is the cause of all our problems.

If you are going to think about a new statistical system or a new economic system, the place to begin is to ask: how do we change both the economic system and people's views so that they understand that this is not just about economic growth and jobs but about the much broader level of social welfare and wellbeing that we are trying to achieve, particularly in the rich world?

This is an opportunity for Scotland to take a different path and to realise that the economic system is the main cause of your problems. All our social and environmental problems are because of the current economic system. I could talk about it all day if you wanted me to, but basically the current economic system is the root cause of all our problems.

When you think about what we measure, you can think about what you value and can change the system and change the way that people view their economy. What is the economy for? It is not about growth. As one famous economist said, the only thing that wants to grow for ever is a cancer cell.

Gillian Martin: I am happy to hear other people's views about a rounded discourse around the economy.

Russell Gunson: We very rarely get the opportunity to start from scratch. Even with the new powers coming to the Scottish Parliament, there is a legacy from those powers not having been devolved and from the education of citizens and journalists and the culture around the economy and what people value—whether that is correct or not.

Much though I agree with a lot of what Graeme Maxton says, I am not sure that I am all the way over where he is, as there are things that we will continue to need to measure, produce and publish. The key point is to make sure that we are not focusing on one thing. In a way, the idea that GDP is the be all and end all has been totally disproven over the last 10 years. Growth in GDP has been back at sub-average levels for a lot of the past 10 years but life chances, quality of life, pay rates and tax revenue per head have not gone with it. Beneath that, the quality of work is also an issue.

First, we should not have one measure. Secondly, we should measure things that we value, whether they feed into GDP or into a quality of life measure or a wellbeing measure. Employment rates are interesting, but we must get underneath that and measure the quality of work, the security of work and how volatile that work is. That would be really interesting territory for your next inquiry to explore. In essence, it enables us to describe what we value in Scotland's economic model. What is the economic model that we wish to achieve in Scotland? What are its constituent parts? Can we begin to measure them?

Some of that work is possible now. For example, we get snapshot measures of the volatility of work or the level of zero-hours contracts. I would be itching to look at that data, which would tell us in a much more flavourful way what is happening in the labour market right now, but we do not have the capacity to look at it. Quality of work is a really good example, as data exists right down to a Scotland level, but we do not have the capacity at IPPR or elsewhere to look at the data, to let you know about the issues and to develop solutions.

Gillian Martin: So, one of the things that we should be looking at is what is actually happening in people's homes—in the household itself.

Russell Gunson: Yes, and there are valuable perception measures in that regard, which Graeme Maxton talked about, and there are harder measures—not to say that harder is better—around pay rates, family experience and so on. If all of that can be brought together, you will get a much better picture of the individual, group or neighbourhood experience of our economy.

Ghill Donald: I would like to make two points. To some extent, you are a victim of your own purpose targets. Your purpose targets are to raise GDP growth to the UK level and to match the GDP growth rate of small European countries. There is also a productivity target, and we all know the dangers around productivity. As long as your objectives are set as broadly and as basically as that, there will be a discourse around growth—that will be it.

There are four Is in the Government's approach—innovation, inclusive growth and so on—but where are the policies and targets that directly relate to that approach? Is there a target to have, for example, 5 per cent more innovative enterprises next year than we had this year? When you have such targets, you have a narrative of success and positive progress. However, as long as we are stuck with the purpose targets, the discourse in the papers will just continue.

Craig Dalzell: I agree with that. Discourse starts with communication. Often, the discourse in the media is bad because GDP is quite a simple number, so people think that they know what it means and quoting a simple number makes a good headline. If you want to consider a broader and more comprehensive set of wellbeing factors, it takes time and effort to explain them. However, that time and effort is worth while.

Andy Wightman: I agree that GDP as a measure is disproven, and has been for decades—Russell Gunson today described it as disproven. Why, therefore, do the Scottish Government and the UK Government still use it? Should we abandon it as a key purpose target, as Ghill Donald describes it?

Russell Gunson: Certainly, for the past 10 years, GDP has not been linked to the things that it used to be linked to in Governments' minds. The thinking went that if a country had GDP growth, it would get a better employment rate—there are links there—and it would get in tax revenue, it would get quality of life, happiness and so on, and it would be popular, to bring it down to the electoral arithmetic. That has not happened in the past 10 years. I am not saying that GDP is disproven beyond that time period and it might return—who knows?

Why do we keep using it? It is difficult to get other measures. If a Government or Parliament shifts from GDP, there is a risk that it looks as though it is trying to cook the books. In order to avoid that accusation, you need a heap of education to show that you are actually measuring something that is much more important to people. This might speak more to Graeme Maxton's view, but I would argue that there is a little bit of faith involved in trying something different, and Scotland has an opportunity to do that, to push for different headline measures that it can set itself as a test and to see whether public opinion and the electorate is ready for that. That is a big risk, and it probably takes consensus across parties.

Graeme Maxton: There are two reasons why we still think that GDP is a good measure. First, after the second world war—between 1945 and the late 1970s—GDP was a good measure because, as it increased, the general wellbeing of the population of the developed world increased in parallel. There was a different political system at that time, with a much greater welfare state, which was one of the buffers. Because GDP was a good measure of social progress in the post-war period, we have got it into our heads that it still is. However, since then, happiness indexes have stayed pretty flat and inequality and unemployment have gone up, and GDP has become a much less good measure.

The second reason is that, systematically, from the 1970s onwards, we have been persuaded by a group of economists—those in the Mont Pelerin Society, which started at the Chicago school of economics—that we need to do something very simple for economic progress, and that that involves having small government, open markets and less regulation.

All of those things have become common thinking and we believe all of them, even though we have a system that benefits the rich more than anybody else and that, between 1990 and 2010, GDP in the rich world—the Organisation for Economic Co-operation and Development countries—grew at the fastest level in history but unemployment and inequality figures went up. We have had the wrong picture in our heads for the past 30 years. However, once that system of beliefs exists, it is very difficult to change it. That is where the problem lies: we have become used to something that is fundamentally factually incorrect.

Ghill Donald: I agree that it is an interesting question, but fundamentally, we need GDP growth because of the bond markets. Who will buy bonds if we do not know our GDP growth? As long as the capitalist system stays in place, irrespective of whether we disagree with it, that has to be the way because we would otherwise not sell our bonds. However, to put it in context, GDP growth is just one measurement and there are far more interesting aspects that the Scottish Government could look at, particularly around productivity. Productivity fascinates me. I watched a committee session recently at which John McLaren described productivity as peeling back the onion. Productivity is the great intangible, but when we peel that onion back, we get to the magic, which is people: motivated people at work. If people are happy at work, they will produce more. It is not just a case of throwing less money at things and creating efficiencies.

With the automation that is coming down the line, we have an opportunity to draw a line in the sand about what productivity means in Scotland as opposed to what it means elsewhere. I suspect that our archetype is in people. I certainly ran my business in London like that. I had a higher degree of investment in people than any other agency in my area of business because I reckoned that I would lose fewer people and would have a happier workforce. That flew in the face of common views about productivity, but it worked.

On the purpose target, productivity needs to be drilled down into before we get caught up in the idea of "Oh, productivity. That just means if we pay the living wage in McDonald's, the automation's going to come in quicker." That is the answer that we are going to get. However, I argue that if there is a happier workforce in McDonald's and there are bonus targets in place that mean that if the staff exceed level X, the staff participates in Y and the Government puts incentives in place for staff to do that—and the business encourages rewarding staff in that way—then we have a different model. London will only ever go down that route of hard-core productivity, but I do not think that that is the Scottish way.

Craig Dalzell: We must remember that Scotland is not the only country that is wrestling with this problem. For example, Ireland saw its GDP grow last year by about 26 per cent because, in essence, a bunch of multinational companies bought another bunch of multinational companies overseas. The GDP figure therefore did not reflect anything to do with the Irish economy, and Ireland is now having the conversation about what else to do. We can argue about the limits of any single economic measure and we can even try to game them if we want, but that just goes back to why we need to have a broad suite of them, because we cannot rely on a single number.

Graeme Maxton: I want to go back to productivity, because Ghill Donald is right that it has been really important. There are basically two sources of economic growth: one is productivity improvement and the other is population growth. In the rich world, both of those are tending towards zero and no matter how much money we spend or what we do, productivity will not increase. From the 1960s to today, GDP growth per head has been trending down every year throughout the rich world. It has gone down particularly fast in places such as Japan, but it is now coming down in Europe and it will come down in the US.

Why is that happening? It is because the economic system is going into a fourth stage. The first stage of economic development was the industrial revolution. If we take people off farms and put them into factories, we can boost productivity dramatically. The next stage was to put people into the service sector. We can improve productivity by putting people in offices, but the opportunity for increased productivity declines. We are now moving into the next stage, which is about the care sector. Everything that can be automated will be automated and the jobs that will be left will be those in services and care, where it is very difficult to improve productivity. We cannot improve productivity in services and care by cutting hair faster or looking after an elderly person faster—we cannot improve productivity by playing a Beethoven symphony faster.

We will get to an economic situation in which there will be no economic growth. If we have a stable population, we cannot improve productivity. That is the situation to which we are heading and it is why Japan has had no growth for 20 years and why the EU's growth rate is progressively falling. We will hit a stage at which, for the next 30 years, we will not be able to achieve any productivity improvement, which means that we will not be able to have any economic growth. That is why we need a different economic system and a different perspective.

11:45

Andy Wightman: Thank you. The question of what we measure is fundamental to our inquiry on economic data, but I will put that aside for the moment. Common Weal suggested that Estonia is doing very well on data capture and data sharing, which I presume is leading to more intelligent decisions. Perhaps Craig Dalzell could reflect on that.

In a press release this morning, Reform Scotland

"calls for more reliable data to reduce risk of bad policy decisions".

Perhaps Ghill Donald could give us one or two examples of what Reform Scotland regards as "bad policy decisions".

Craig Dalzell: Estonia is famous for having a very developed digital or information technology sector. In the course of our discussions, we have found that, if you rely on survey data for your statistics, especially at the sub-sample level, it becomes prohibitively expensive to get sample sizes that are large enough to base decent policy decisions on, whereas if administrative data such as people's income and tax data is gathered directly to near census-level resolution—provided that the infrastructure is there to do that automatically—quite often, the work is already done for you.

Andy Wightman: Are you basically saying that Estonia has a very good system of capturing administrative data?

Craig Dalzell: Essentially, yes. I do not think that it would be possible to take a system from any one country and simply transplant it into Scotland, but it would certainly be possible to learn the lessons from countries such as Estonia.

Ghill Donald: Our point is about centralisation—we think that there should be more regional responsibility for the likes of business rates and that more devolved powers should be given to local government. We think that the data that local authorities have is insufficiently used. Although they control only 14 per cent of the spend, their data is very good. If we used it more, decisions might be reversed in their favour. That is where Reform Scotland is coming from on that.

Andy Wightman: I understand that—that forms the substantive part of your written evidence—but in the headline of your press release, you talk about reducing the risk of "bad policy decisions". Is that just an abstract risk, or do you have concrete examples?

Ghill Donald: I defer to Geoff Mawdsley on that.

Russell Gunson: I will not take up the invitation to identify bad policy decisions in Scotland, but if we look around the UK, including Scotland, we can see that the culture around decision making and public policy making is different from that in some other countries. New Zealand is often cited as a country that takes a very long-term view—a 25 or 30-year view is taken of the positive and negative impacts of every policy decision on the public finances. I am intrigued by the fact that, in New Zealand—albeit that there has just been an election; we will see what kind of Government it ends up with in the future—a quite right-wing centre-right Government invested in welfare, using the model of neoliberalism, which might or might not be discredited. It invested early because, over the long term, that saves money.

That is a good illustration of the fact that—without blaming a particular political party—in our culture, a much shorter-term view is taken of spending decisions. In New Zealand, politicians look to a much longer-term horizon, which in my view seems to be leading to better decision making. We would need much better data—as well as analysis of that data and options development using that data—to get to the position that New Zealand is in.

Dean Lockhart: I have some questions about strategic alignment, which cuts across some of the issues that you have discussed. The Scottish Government spends more than £2 billion a year on skills and enterprise development. As you know, a new strategic board has been established to align the activities of the enterprise and skills agencies, which I think is a good thing.

What is the best data to use to achieve that alignment and ensure consistency across those agencies? To my mind, some of the objectives of the four Is are difficult to measure—for example, inclusive growth and innovation are difficult to measure. What policies will encourage inclusive growth and innovation, and how can we measure that?

A supplementary question might be: do we need a new set of detailed key performance indicators to track the four Is, to measure what policies might be effective, and to measure progress against the four Is?

Russell Gunson: I agree that there needs to be alignment of the data needs across the enterprise and skills bodies, and this is a really good opportunity to get there. There is a balance—it is a bit like the answer to the previous question about independent statistics agencies—in that some performance data are required to ensure that you are running a system correctly and you will absolutely and utterly need to keep them. The interesting opportunity is around the different ways of measuring the outcomes of the spend of that £2 billion-plus investment.

What do we need to measure? I have not quite given up on productivity, but perhaps I am behind the curve on that. We must look at pay rates; career progression is an important precursor if you are trying to tackle in-work poverty. The quality of work is a really important measure for our skills system, as is productivity.

Do we need KPIs around the four Is? Yes, is the short answer to that. A much longer answer would be about how to measure innovation and inclusive growth, for example. I know that the Joseph Rowntree Foundation is developing a diagnostic tool around inclusive growth. There are also moves in Government to develop a tool that will allow us to define and tell what inclusive growth is. It might be useful for the committee to contact both.

Craig Dalzell: On the point about inclusive growth, one of the members of the earlier panel suggested that there is not really a good definition of what inclusive growth actually means. It feels a little bit like one of these political phrases that can be pulled either way, depending on how you want it to go.

If we take on Graeme Maxton's point, and say that the growth will not come because we are hitting the limits of that economic model, "inclusive growth" just means inequality. Perhaps we need to reflect on what the four Is will mean. Perhaps they need to be adjusted, although that might be another conversation to be had.

Graeme Maxton: The two most famous ways of measuring inequality are the Gini coefficient and the Palma index, which measures the distribution of wealth between the top 10 per cent versus the bottom 40 per cent.

To some extent, the phrase "inclusive growth" is an oxymoron. Thomas Piketty's book, "Capital in the Twenty-First Century", is the best-selling economics book that nobody has actually read because it is so complicated. Its basic message is that economic growth increases inequality. That is what it does. It moves wealth from the poor to the rich. It increases the gap between rich and poor because those who have wealth at the beginning can invest it and get returns from it. It is another fake belief of ours that inequality is reduced with economic growth. Economic growth increases inequality. The Gini coefficient of the rich world over the past 200 years from 1820 to 2000 in Organisation for Economic Co-operation and Development numbers shows that inequality has gone up. Despite all that economic growth and industrialisation, inequality has gone up. The gap between the rich world and the poor world is three times bigger today than it was in 1820.

Economic growth is not a source of greater equality. If you want inclusive progress, you have to do something different.

Ghill Donald: I will pick up on the point about innovation. Research and development investment is clearly central to that. Looking at the national indicators on that, we see that there is a graph and it all looks very successful. However, it is interesting that it suggests that research and development spend in the general EU is 1.8 per cent. Germany is spending 3 per cent, Denmark is spending 3 per cent, and Austria is spending 3 per cent. The Confederation of British Industry's recommendation is that the UK should spend 3 per cent. The UK spends only 1.8 per cent. Research and development spend is the central measurement in innovation and I do not think that we spend enough.

Russell Gunson: Very quickly, on inclusive growth, although the overall picture is as Graeme Maxton describes in that, across the globe, we have improved and then regressed back to levels of inequality of 200 years ago, the more hopeful and optimistic part of me sees that, in history, that has not always been the case and that some countries have far lower levels of inequality than others. My organisation is thinking through what economic model would drive equality rather than inequality. That may or may not be a capitalist one—we can hear what Craig Dalzell and Graeme Maxton have to say on that—but we are a bit more dispassionate as to the principles that sit underneath it, and we think much more about the outcome.

Some countries are closer to equality than others and, at UK level, we have been closer to it than we are now. Our commission on economic justice is looking afresh at the economic model across the UK, and we will look at Scotland as part of that. We will see what comes out of that, but we have not given up entirely on inclusive growth or improving economic prospects for the country.

Graeme Maxton: I keep being portrayed as an anti-capitalist, but I am not anti-capitalism or anti-market at all. Some countries have achieved high levels of growth and equality, such as Japan in particular, Sweden and Austria, where I used to live. They do it because they have a balance between the welfare state and business. It is not that they are totally for one or the other; they achieve a balance because they set the political priorities to do that. They do not just go for open-market growth-oriented objectives; they go for a broader range of measures. The Japanese in particular have been clever at that, as have the Austrians. Those are the countries to look to if you want to reduce inequality. In the past 30 years, inequality has not increased in those countries and, in France, it has gone down, for the same reasons. It is about inclusive policies and a balancing welfare state.

The Convener: Ash Denham has a question that relates to this area.

Ash Denham: Yes. I was going to ask about the four Is, but Dean Lockhart has covered that. I should probably declare an interest, in that I used to work for Common Weal.

I want to go back to Russell Gunson's point that we are not lacking data but lacking analysis of the data that we have. That came up in the panel that we heard from last week. What would changing that situation ideally involve? Would it be an independent statistics agency, more Scotland-specific think tanks or maybe just academics in Scottish universities spending time looking at the data that we have?

Russell Gunson: An independent statistics authority may or may not be useful, but it would not be useful in this territory. If we are looking for independent analysis, scrutiny and options development, that is not the role of a statistics authority—or not usually, anyway.

What I had in mind on that is, in essence, the ecosystem around policy making. That could involve journalism, civil society, stakeholders, think tanks and certainly academia. Do we need more think tanks? As a member of a think tank, I believe that the more the merrier. We are two years into our existence in Scotland, and Reform Scotland, the Fraser of Allander institute and a few others, including Common Weal, have developed or redeveloped over a similar period.

I think the more, the merrier on that, but funding is lacking, and that is always tricky. In the rest of the UK and other countries of a larger scale, private sector funding comes in and trusts and foundations help to fund that independent activity. Smaller countries often have to provide public funding at arm's length. I would not be so bold as to suggest that we would want that, because it would be very self-interested of me to do so. However, we should certainly look at the funding that comes through the Scottish budget for research and consider whether at least part of it could be brought into a near-term focus and really aligned with the priorities of the Parliament or the Government. That is an interesting idea. The more organisations, the merrier, but funding streams are probably the key.

Craig Dalzell: The question speaks to the kind of statistics agency that we would have. If we were to have a very centralised body that produced the bulk of the statistics, we would need outside scrutiny of that. If the SSA were to be an overseer of a decentralised network, it would almost be performing an analytical role in gathering data, combining it and communicating it. Again, there would need to be scrutiny on top of that, as Russell Gunson has said; I agree with him.

12:00

We can also speak to the communications side and ask how data should be presented so that other organisations can reach it and look at it. Someone who is a professional statistician will look for one level of depth to the data; a politician trying to form a policy will look for a different depth; and a member of the public who just wants to know what is going on will need another degree of depth. We need to be able to speak to all those people. We need to break down what are sometimes very complicated statistics in such a way that they can be easily understood by a layperson.

There are good examples of that. The late Hans Rosling produced a website called Gapminder, which looks at global demographic data in a really user-friendly way. Users can go in and see countries by geographical size and population density over time. They can just plug away at a graph and it will show the information. That is a user-friendly front end to the data portal that still allows users to download the raw data and manipulate it themselves, which is very valuable.

Other places, such as Eurostat, while not quite as user friendly as Gapminder, also provide that level of accessibility. There are perhaps lessons to be learned there.

Ghill Donald: Russell Gunson and Craig Dalzell have made good points. The only other one that I would make is that there is an excellent potential statistics body in the Fraser of Allander institute, which I think could be beefed up to be a Scottish version of the Institute for Fiscal Studies, looking at regional problems and addressing them with solutions.

We touched on academia. I will stretch the data to a slightly different area. It is interesting to look at Palo Alto, in California, where innovation is exemplary. That is because there are universities such as Stanford and Caltech sitting there and business comes straight in on the back of that. The talent and innovation are there. They share data and they share what they are doing. The same happens in Cambridge, which could be a city of 2 million people, because it is the centre of biotech. AstraZeneca moved there because that is where the information is coming from. I am not sure that we have that here to the degree that we should. For growth, it is essential that we tie up what is happening in universities with the private sector and with the Government.

Ash Denham: At last week's committee meeting, the panel suggested that the reason for academics in Scotland not spending as much time looking at the Scottish data is that it is not good for their careers. Would any member of today's panel like to comment on that?

Russell Gunson: Perhaps I should declare an interest, in that my wife is an academic. However, I would not know too closely whether what was said to you is the case as far as the incentives and disincentives in the system are concerned.

I do know that, through the Scottish Further and Higher Education Funding Council, we put out of the door academic research funding that is certainly into the hundreds of millions of pounds. That is Scottish money, in contrast to the research council money that applies across the UK. It is worth looking at whether we would like to take any different priorities from the UK-wide ones with that funding. Bringing it nearer term and into the public policy issues that committee members and their colleagues in Parliament are wrestling with could be quite an interesting thing for academics to do—or for organisations that the committee has heard from today to do.

The Convener: Would anyone else like to comment on their career prospects?

Ash Denham: Just to clarify, I think that the comment was just because it was not a national set of data. If published data covers the whole of the UK, it is a bit more interesting in that way. I am just wondering whether Scotland is losing out because of that. We could probably agree that we are.

Craig Dalzell: As I work for a think tank, I think that I am making quite a good career out of analysing data. I cannot speak for academia, I am afraid.

Ghill Donald: It is an interesting point. A good friend of mine is the director of the National Institute of Economic and Social Research, and he spends his time rainmaking. It gets its funding largely—in fact, almost exclusively—from the private sector, but that is because the sector is interested in the institute's work on Government spend, IFS analysis and so on and because the data itself is of superb quality. Again, we do not have that up here; we do not attract private funding, because we do not produce the degree of work that would do so—yet.

The Convener: Is that partly to do with the size of Scotland's population compared with, say, England's?

Ghill Donald: That is true to a degree but, looking at the economic challenges that lie ahead for Scotland and the economic advantages, particularly in the area of finance, I see no reason why we cannot entice private companies across the world into investing in an analysis of Scottish financial opportunities.

Russell Gunson: Some of this comes down to scale. Other countries of a similar scale have seen market failure in this—I realise that that the term is not quite accurate—and have stepped in.

However, it is not just that; there is also a cultural issue to deal with. I do not think that our culture has quite caught up with the powers that are already devolved or which might well come to the Parliament in future. Often, UK-wide organisations that have the resources to do this type of work are much more focused on UK-wide rather than Scotland-only issues.

The Convener: I wonder whether each of our guests would like to highlight to the committee their key point from today's evidence session.

Russell Gunson: I go back to where I started; in a way, the previous question leads on from there. We need a Rolls-Royce—or whatever term you want to use—standard of data collection, and we must absolutely ensure that we share it and link it together. We need to be collecting the right things with regard to our priorities and doing so at the right level, whether that be at a Scotland, regional or more local level. However, unless there are people who can analyse that data and use it to work up solutions for people like you, we—or someone else—will be spending a lot of money without making the impact that we could make.

All of those issues are real, but I would emphasise the analysis of data and the development of solutions on the back of that as a key issue for us.

Craig Dalzell: Scotland has a great opportunity to go above and beyond what is already being done. A lot of flaws have been identified and quite a few solutions offered in the course of this inquiry, and it will be very interesting to track progress as we move forward from here.

Graeme Maxton: Scotland already has a very high reputation around the world for policy development in a number of areas, including climate, energy and social inclusiveness, and I think that it has an opportunity to remain at the heart of a European Union that thinks much more along the same lines as Scotland on such issues. In thinking about collecting data and what should be measured, you have an interesting opportunity to set a standard—indeed, to be the standard bearer—for inclusive social development. However, as I have said before, you need to ask the question "Why?" before you ask the question "What?" You need to ask why you want to measure this thing and think about what you are trying to achieve, and then ask "What?" and "How?"

Ghill Donald: I suggest that we look through the other end of the telescope. We have purpose targets and an economic strategy with its four Is; the data must serve those objectives, but at the moment they are not quantifiable to a sufficient level. Once they are quantifiable, you can then search for data from the best sources you can find and analyse it. We cannot let the data dictate where we go, because ultimately it will not do so. All it enables people to do is take positions, and that means that progress will not happen.

The Convener: I thank all our guests for their evidence. We now move into private session.

12:09

Meeting continued in private until 12:40.

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