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# Economic Perspective

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## THE NEW UNEMPLOYMENT STATISTICS

by David Bell\*

During the last few months, the government has introduced a radically different method for recording unemployment. Rather than performing a manual count of those registering as unemployed, the new system is based on the numbers collecting unemployment and supplementary benefits. The stated reasons for this change are on the grounds of economy and convenience. By abolishing the need to register in Job Centres, it is claimed that £10m per year can be saved in administrative costs. The new count is largely based on the computerised records of benefit payments. It can thus be made very speedily and cheaply. Added convenience for the unemployed is claimed because the necessity to register both at the Benefit Office and the Job Centre has been removed.

There are various reasons why one might expect differences between the old and new counts. Firstly, those who are unemployed but cannot claim benefit are excluded. This will primarily affect married females who are ineligible for supplementary benefit and may not qualify for unemployment benefit unless they have been making the full national insurance contributions: it also affects school-leavers who cannot draw supplementary benefit before certain specific dates. For example, those who have left school in the summer cannot claim benefit until the first Monday in September. Secondly, severely disabled people are now included amongst the unemployed because they cannot be separately identified in the new records. Thirdly, because benefit records are kept more up-to-date and because the new system is largely computerised, the new count can take into account more recent information.

Of these changes, by far the most important is that resulting from the exclusion of the unemployed who are not claiming benefit. Thus the overall effect is to reduce the recorded level of unemployment. In October 1982, the new count was 246,000 less than that under the old system in the UK. The corresponding Scottish figures showed a reduction of 25,800.

At the UK level, 41% of the reduction is believed to have resulted from the changes in coverage (exclusion of the non-claimants, inclusion of severely disabled etc). The remaining 59% is the result of the new computerised method of counting the unemployed which reduced the delay between an unemployed person finding a job and that fact being officially recorded.

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\*The views expressed in this article are those of the author and not necessarily those of the Fraser of Allander Institute.

During the period May to October 1982, the two systems of recording unemployment were running in parallel. Comparative Scottish figures for this period are shown in Table 1 below:

**Table 1 Unemployment Statistics Based on the Old and New Collection Methods, May-October 1982 (Scotland)**

| Month     | Total |       | Males |       | Females |       | School Leavers |      |
|-----------|-------|-------|-------|-------|---------|-------|----------------|------|
|           | New   | Old   | New   | Old   | New     | Old   | New            | Old  |
| May       | 303.1 | 324.7 | 214.9 | 223.3 | 88.3    | 101.4 | 14.0           | 16.7 |
| June      | 302.3 | 341.2 | 213.9 | 232.1 | 88.4    | 109.2 | 14.0           | 32.4 |
| July      | 312.7 | 348.8 | 219.1 | 235.0 | 93.6    | 113.8 | 14.6           | 34.8 |
| August    | 316.4 | 356.1 | 222.3 | 240.3 | 94.1    | 115.8 | 14.9           | 34.2 |
| September | 327.9 | 352.4 | 229.0 | 238.5 | 98.9    | 113.9 | 25.1           | 27.3 |
| October   | 327.0 | 352.8 | 229.6 | 239.7 | 97.4    | 113.0 | 21.8           | 23.9 |

**Source:** Department of Employment Gazette

The old system recorded a level of unemployment which was on average 9.9% above that produced by the new system. Since the extent of reclassification for males was likely to be more limited than that for females, there is a considerable difference in sex composition under the two forms of measurement. Male unemployment was on average 6.1% higher under the old system, whilst that for females was 19% higher, the bulk of this difference being explained by the ineligibility for benefit for many females who are, in fact, seeking work.

The changes in the pattern of unemployment amongst school leavers are even more dramatic. Since school leavers are not eligible for benefit until after the end of the summer vacation, there is no apparent rise in their unemployment level during June and July. Thus, periods of peak activity for young people in the labour market are not recorded as such under the new system. By the time that school leavers become eligible for benefit, a large number of those unemployed earlier in the summer will have found jobs. Thus the major yearly peak in unemployment amongst school leavers will now be recorded as being less severe and as coming later than was the case previously. A separate count of unemployed school leavers is to be kept during the summer months but it will be published separately and not included in the main count.

At the aggregate level, the new system has thus resulted in a number of significant changes. The overall level of unemployment has apparently fallen. The sex composition of the unemployed has altered, with females now receiving less weight. There have been radical changes in the level and pattern of recorded unemployment amongst school leavers.

Even more radical changes can be observed at the local level. Unemployment statistics have long been regarded as one of the most important local economic indicators in the UK. They have achieved such importance mostly by default since there are virtually no other local economic indicators which are collected regularly.

Yet the introduction of the new collection system has resulted in some radical changes in small area unemployment statistics. This is primarily the result of the new method of classifying the location of the unemployed. The old system allocated an unemployed person to the employment office at which the person registered. Each office was allocated an area over which it was responsible. The new system uses the home address, or more specifically the postcode, of unemployed individuals to allocate them by area.

It need not necessarily have been the case that unemployed individuals actually lived in the area in which they were registered. This was particularly true of the conurbations where local labour market boundaries are ill-defined. Thus the new statistics give a more accurate reflection of where the unemployed live, rather than where they are seeking work.

There are other contributory factors to the sudden disjunction in local unemployment figures. An attempt has been made to replicate the old employment office areas by building these up from postcode areas. Inevitably there are ambiguities in such a procedure which imply that some individual have to be allocated on somewhat arbitrary grounds. Inaccurate postcoding is also a problem. This is not as serious a problem as one might imagine, however, because the DHSS has a financial interest in ensuring the accuracy of the postcodes which it uses for benefits payments. There are also problems in allocating those whose records are not yet computerised.

The extent of some of the dislocations in local area statistics is shown in Table 2\* overleaf, which gives old and new unemployment totals for several employment office areas in October 1982. These represent the most extreme changes which occurred as a result of the changeover. Notice that a compensating decrease has occurred in the Rutherglen area. This shift is a prime example of the dislocation which can occur within conurbations as a result of the new system. From the total of 115 employment areas in Scotland, there are 16 where unemployment levels have changed by more than 25%. In many areas the change has been much less dramatic however. It is impossible to determine whether these fairly small changes are themselves the result of compensating errors on postcoding, reclassification etc. Figure 1 shows the distribution of changes over all Scottish area offices.

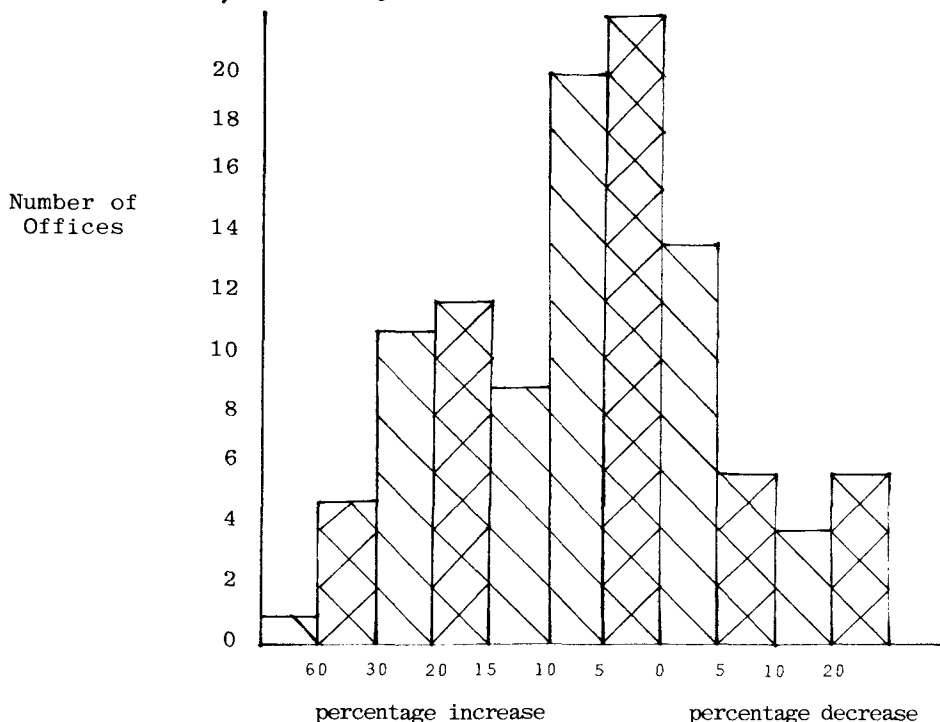
On average, area offices experienced a fall of 5.74% in their level of unemployment. The distribution is fairly wide, however, indicating that a majority of area offices have experienced a significant change in unemployment purely as a result of the new method of collecting the unemployment data.

**Table 2 Comparison of Old and New Unemployment Counts by Selected Employment Office Area (October 1982)**

| Area            | Old  | New  | %change | %females |      |       |
|-----------------|------|------|---------|----------|------|-------|
| Penicuik        | 614  | 828  | -25.8   | 36.8     | 39.6 | 7.6   |
| Bellshill       | 1800 | 2446 | -26.4   | 29.8     | 34.1 | 14.3  |
| Glenrothes      | 2042 | 2829 | -27.8   | 35.5     | 38.1 | 7.3   |
| Hillington      | 1454 | 2048 | -29.0   | 27.6     | 26.9 | - 2.7 |
| Leith           | 3410 | 5103 | -33.2   | 27.1     | 25.2 | - 7.0 |
| Dalkeith        | 1877 | 2929 | -35.9   | 36.8     | 32.8 | -10.9 |
| Portobello      | 1665 | 3202 | -48.0   | 30.4     | 26.5 | -12.9 |
| Glasgow Central | 2365 | 4693 | -49.6   | 20.6     | 28.2 | 37.3  |
| Larkhall        | 2061 | 4998 | -58.8   | 35.6     | 38.3 | 7.6   |
| Rutherglen      | 2705 | 6993 | -61.3   | 27.5     | 27.6 | 0.4   |
| Anstruther      | 384  | 303  | 26.7    | 35.2     | 35.3 | 0.3   |
| Govan           | 5901 | 4514 | 30.7    | 23.7     | 25.1 | 6.1   |
| Kelso           | 515  | 381  | 35.2    | 32.1     | 39.9 | 24.4  |
| Barrhead        | 4359 | 3031 | 43.8    | 23.8     | 25.9 | 8.6   |
| Huntly          | 283  | 178  | 59.0    | 35.9     | 29.2 | -18.5 |
| Hamilton        | 4583 | 2240 | 104.6   | 34.0     | 37.3 | 9.6   |

\*A full set of tables, ordered by extent of change, level of unemployment and female share of unemployment for all Scottish employment offices areas is available from the author on request.

**FIGURE 1 PERCENTAGE IN UNEMPLOYMENT LEVELS BY EMPLOYMENT OFFICE AREAS, OCTOBER 1982**



Aside from these local area differences, the new collection method has also resulted in considerable changes in the types of additional information which is being collected on unemployment. Industrial analysis of the unemployed will no longer be available and occupational analysis will only

be available through those who voluntarily register at Job Centres. No information on unemployment amongst disabled people will now be published. However, improved data on unemployment flows is being collected. Age and duration analysis will continue to be available. Finally, some valuable information on repeat spells of unemployment will result from a continuing study of a 5% sample of the unemployed.

In the long-term, the combined effects of this radical change in the method of collecting unemployment figures will be seen to have both positive and negative aspects. Improvements in some areas of subsidiary unemployment statistics are counterbalanced by a marked deterioration in others. Yet the final judgement is likely more to depend on the perceived adequacy of the basic count of the unemployed. The new system has the advantage of more accurately accommodating the latest information. Yet it suffers from the fundamental objection that it clearly does not include all those who are willing and able to work. Of course, the same objection could be made to the previous method of collection. The 'unregistered unemployed' under the old system were those who were out of work, but were unable or unprepared to register as unemployed. This was a voluntary decision on their part and one might have had reasonable grounds for questioning their attachment to the labour market. The new system takes a quite different approach. It deliberately excludes a group of individuals (those not eligible for benefit) from the unemployment count, even though members of the group have been prepared to register with the Job Centres as unemployed and seeking work. In this instance, the government has **chosen** to remove a significant number of individuals from the unemployment count. The deficiencies of the old system were due to **acquiescence** of successive governments to the fact that some people claimed to be unemployed but did not register. The final judgement of the new system is likely to be made in the light of this difference in motivation. One wonders if the government would have recognised such a pressing need to save money had the likelihood been that the new system would have resulted in an increase, rather than a decrease, in total unemployment.

In the short-term, any radical change in methods of collecting statistics is bound to cause problems of continuity. At the level of the unemployment office area, the new method of classifying the location of the unemployed has resulted in some dramatic discontinuities. When considering larger areas, the changes are not so marked because 'boundary crossing' declines in importance. Nevertheless, because the two systems ran together for only a few months, there is insufficient information to adequately produce a 'back run' of the new statistics. The experience between May and October 1982 showed that the relationship between the 'old' and 'new' series was by no means constant. Yet, for example, the adjustments made to the 'old' series to produce a backcast 'new' set of data prior to May 1982 at the Scottish level are insignificantly different from a constant, suggesting that, at best, they are a crude approximation. Thus, problems of continuity occur not only at local levels, but at every level of area aggregation because of the difficulty of adequately splicing the old and new series.

Taken together, the short-term and long-term effects of the change in the method of collecting unemployment statistics suggest that it has resulted in a significant deterioration in the provision of information to economists, politicians, planners and the general public. Any financial saving and the improvement in certain areas of subsidiary statistics is outweighed by the lack of coverage of the unemployed and the discontinuities in the basic unemployment count at all levels. With unemployment now the most pressing economic problem in the United Kingdom, it now seems appropriate to devote resources to clarifying the unemployment situation, rather than obscuring it.