

The labour force survey in the dock

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The impact of the Job Seekers Allowance on the Count of Claimants diverts attention from what is happening, or might be happening, to employment. here is no headline grabbing monthly count of employment. The picture given by the quarterly Labour Force Survey (LFS) statistics is generally accepted without question. In fact the LFS statistics are inconsistent with most other sources, and may well be giving a seriously misleading picture of what is happening in the labour market.

One curiosity is that the LFS Employment series includes about 300 thousand Job Seekers. The Employment series counts everyone who does paid work for more than an hour a week. Job Seekers are allowed to work up to fourteen hours a week before losing entitlement to unemployment benefit. Entitlement to Unemployment Benefit is lost if earnings are more than they would receive in benefit. The UB regulations thus encourage the growth of low-income part-time jobs which could well be specially designed for the unemployed.

This curiosity is symptomatic of a range of other problems associated with part-time employment. The LFS does not tell us how many people in part-time jobs would like to work full-time. The LFS follows the International Labour Organization definitions in counting everyone who works more than an hour a week as in employment. Respondents who work part-time are asked why they took a part-time job, but they are not asked whether they would like to work full-time.

The number of part-time jobs has increased substantially over the last decade. This increase could mean a reduction of unused labour supply because those in part-time work would otherwise be unemployed. Or it could mean an increase in unused labour supply because many of those in part-time work want to work full-time.

Employment in Britain 1978-1996 according to the Workforce in Employment Series, the Labour Force Survey, and the number of National Insurance Contributors

Year & quarter	WIE	LFS	NIC
1978 Sept	24,686	-	24,829
1979 Mar	24,666	24,210	-
Sept	25,035	-	25,193
1980 Mar	24,807	-	-
Sept	24,682	-	24,323
1981 Mar	23,970	23,606	-
Sept	23,858	-	23,545
1982 Mar	23,449	-	-
Sept	23,425	-	22,976
1983 Mar	23,012	22,944	-
Sept	23,528	-	22,852
1984 Mar	23,612	23,467	-
Sept	24,023	-	22,964
1985 Mar	23,962	23,850	-
Sept	24,239	-	23,430
1986 Mar	23,994	23,984	-
Sept	24,317	-	23,476
1987 Mar	24,289	24,368	-
Sept	24,996	-	24,006
1988 Mar	25,251	25,279	-
Sept	25,813	-	24,683
1989 Mar	26,128	26,093	-
Sept	26,435	-	25,016
1990 Mar	26,423	26,324	-
Sept	26,462	-	24,908
1991 Mar	25,868	25,792	-
Sept	25,454	-	24,097
1992 Mar	25,176	25,206	-
June	25,091	25,276	-
Sept	24,767	25,114	23,623
Dec	24,768	24,799	-
1993 Mar	24,591	24,907	-
June	24,740	25,085	-
Sept	24,774	25,075	23,618
Dec	24,905	24,928	-
1994 Mar	24,712	25,093	-
June	24,879	25,341	-
Sept	24,997	25,359	-
Dec	25,162	25,221	-
1995 Mar	24,956	25,350	-
June	25,128	25,644	-
Sept	25,117	25,625	-
Dec	25,267	25,530	-
1996 Mar	24,966	25,578	-
June	25,193	25,853	-

Notes and Sources:

The WiE Series, produced mainly on the basis of postal surveys of employers registered for PAYE tax, relates to a particular day in the months of March, June, September and December. The WiE Series depends upon the LFS for estimates of the number of self-employed. The LFS Series is based on averages for surveys of households carried out over a 13 week period. There was no LFS in 1980 or 1982 and the LFS was carried out only in the Spring quarter (March, April & May) until 1992. The NIC Series aims to cover all employees and those self-employed contributing during the financial year ending in April. For ease of comparison with the other series the NIC figures are centred in this table on the previous September.

The WiE figures for the period 1978-1991 are from the *Abstract of Employment Statistics, 1994*. The later WiE figures are from Table 1.1 of the *Monthly Labour Review*. The LFS figures are from the *MLR* for Dec 1996. The NIC Series come from the annual *Social Security Statistics*. The NIC Series is subject to retrospective revision. This table gives the most recently published figure for each year.

Charge No.1: The LFS doesn't do what it is supposed to do because it does not ask part-time workers if they would like to work full-time.

The LFS is not the only employment series. The oldest series, no longer even called an employment series, is for the number of National Insurance Contributors (NIC). The latest published figures relate to the financial year ending in April 1994. The number of people who paid contributions in a job in that year totalled 23.6 millions. That is well over a million less than the number in employment at that time - 24.8 millions according to the LFS.

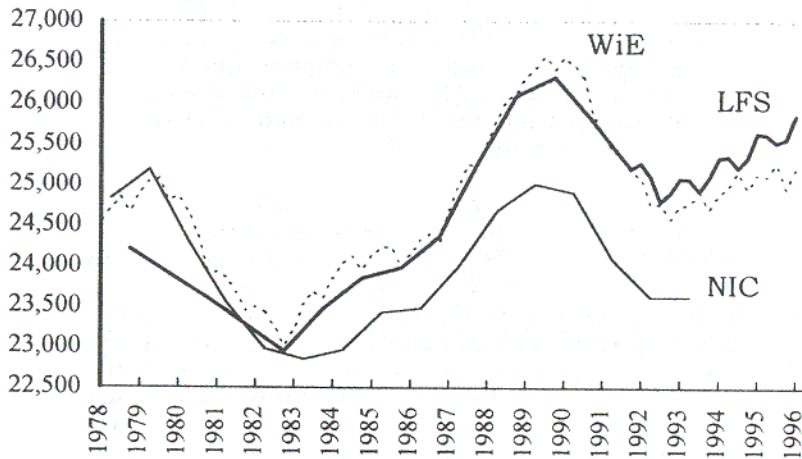
It is to be expected that employment as measured by the NIC series would be greater than that measured by the LFS. The NIC series covers people who paid contributions at any time in the year, while the LFS series aims to measure the numbers in employment at a particular point of time (or, to put the matter more accurately, the average number in employment in each of the 13 weeks of the quarter). In 1979 the number of NI contributors was nearly a million greater than the 24.2 million recorded by the first LFS conducted in the Spring of that year.

Why has the number of NI contributors lagged the increase in employment as recorded by the LFS by 2.5 millions? Does this mean that the number of jobs falling below the NI insurance exemption limits of £57 a week has increased by 2.5 millions in this period? Does it mean that employers have been cheating their employees and not passing on payments to the Ministry of Social Security?

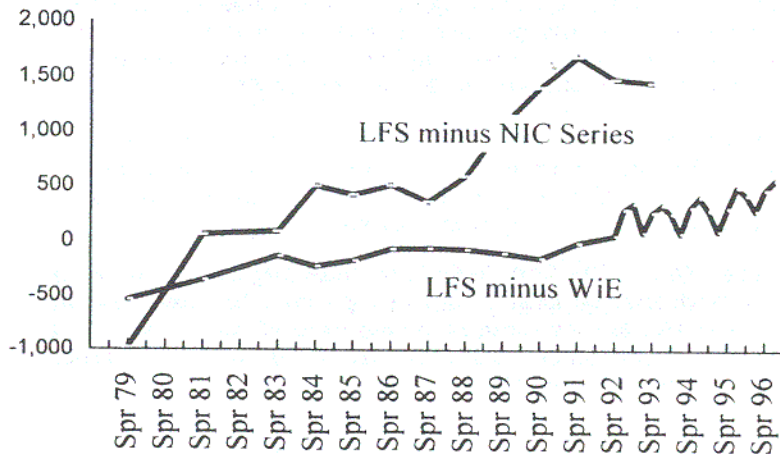
A discrepancy of 2.5 millions is too large to ignore. Why didn't this figure enter the debate on the Government's pension proposals made in the dying months of the Major administration? Nobody seems to know.

Charge No 2: The LFS doesn't include any question on NI contributions, so that it doesn't provide information on whether the labour force is taking care of its future, and the LFS statistics can't be used to help reconcile differences with the NIC series.

Employment in Britain 1978-1996 according to the Workforce in Employment Series, the Labour Force Survey, and the number of National Insurance Contributors



Differences between levels of employment as measured by the Labour Force Survey and other series 1979 to 1996



There is a third employment series. The LFS surveys households, but the Workforce in Employment (WiE) series surveys employers. In the Summer of 1996 the number in employment, according to the LFS, was more than half a million greater than the number according to the WiE series.

A big difference between the two series is that the LFS series counts people and the WiE series counts jobs. According to the LFS there are about 0.8 million people with two jobs (Perry, 1995). If all these second jobs were included in the WiE series the discrepancy between the two series would be 1.3 million!

On the other side it is estimated that the LFS includes about 0.8 million jobs which are not counted in the WiE series. The WiE is based a sample of employers registered for PAYE and is designed to cover jobs which contribute to the GDP measure of economic activity. The 0.8 million jobs which the WiE misses which are picked up by the LFS include unpaid family workers, manual homeworkers, domestic servants, non-PAYE employees, Embassy staff, members of the Armed Forces, and many part-time and low paid jobs (Perry, 1996. Spence & Watson, 1993).

Jobs of these kinds do not explain the *current* discrepancy with LFS indicating half a million more jobs than the WiE series. Department of Employment studies indicate the discrepancy is in full-time jobs (See Perry, 1996, p 25). Nor do they explain the *historical* discrepancy with the LFS showing an increase of about a million more jobs than the WiE series since the 1980s.

A lot of attention has been given to possible sources of error in the WiE series. The sampling frame is based on the Inter Departmental Business Register which the Office of National Statistics now uses for all its business statistics. The recently published 1995 Census of Employment, which supports the WiE series claims an overall 90% response rate - with only 27% estimation for non-responding organisations and sampling for smaller firms (Roberts et al., 1996). It seems likely that the WiE series does miss some employment in organisations which have a short life. One investigation revealed that "50 percent of new PAYE registrations were received more than six months after the recruitment of the first employees" (Perry, 1995). Such

delays would mean lags in the series in counting increases, and they would lead to underreporting if firms went out of business without ever reporting on the numbers they had employed (and without ever paying their tax or NI contributions!).

Such omissions are unlikely to be substantial. It is difficult to seriously challenge the accuracy of the Employment Census Count. It seems more likely that the LFS is a source of error. There is a case to be answered.

Charge No. 3: The LFS persistently overstates the level of employment and employment growth.

This charge has to be pressed because the government, economic pundits, and the rest of us are misled every month by the Count of Claimants statistics. Everybody knows that the series is invalid and unreliable, but the Count of Claimants has a baleful influence because it is the only monthly indicator of conditions in the labour market.

Way back in the 1960s there were employment statistics based on exchange of national insurance cards. The Census of Employment which supports the WIE series was started in 1971 (Brimmer, 1981). The Thatcher regime favoured reliance on the LFS in the 1980s because, unlike censuses and surveys of employment, it also covers self-employment. There is a clear and obvious need for a reliable monthly series for employment based on administrative records. But the use of the LFS as a prime source is consistent with the Rayner-inspired ONS policy of minimising the burdens of its surveys of business, which limits the range of questions asked of employers - but the policy does not extend to limiting the burden on respondents to the LFS.

Employers are obliged to collect tax from employees on behalf of government and to collect and pay national insurance contributions on behalf of employees. Government has a responsibility to ensure that these payments are made. With the currently available range of information technologies it is inconceivable that government in the course of exercising these responsibilities cannot at the same time get information every month on the number of employees.

Charge No.4: The government in relying upon the LFS for estimates of employment is misusing the household survey. Government should address its responsibilities of ensuring that employers pass on tax and National Insurance Contributions and use the exercise of these responsibilities to produce monthly statistics of the number of employment.

The LFS has become a primary source for statistics of unemployment as well as employment. In the production of statistics of unemployment in accordance with ILO definitions the LFS also asks respondents if they are Claimants. But the estimated number of claimants derived from grossing up the LFS responses is substantially below that of the Count of Claimants.

The Department of Employment response to this discrepancy is facile. The Department assumes that respondents who say that they are not economically active are not willing to say that they are claimants. In other words the Department alleges that respondents tell the truth about not seeking work or about not being available, but lie in answer to two questions: 'Have you attended an Unemployment Benefit Office in the last four months?' and 'So may I just check, were you claiming Unemployment Benefit last week?'

Making this assumption supports the production of a statistical series for *Economically inactive claimants*. The numbers in this group do not vary as if they were economically inactive. When the level of employment increased the number of *Economically inactive claimants* falls. When the level of employment falls the number of *Economically inactive claimants* increases. In other words this group do not behave as if they were economically inactive. They behave as if they tell the truth to the Unemployment Benefit Office. (see, Thomas, Forthcoming, *Integrating Measures of Unemployment*, for further discussion). Such a contradiction of the Departmental assumption is too stark and long enduring to be ignored.

Charge No. 5: The LFS produces statistics which are inconsistent with the Count of Claimants and the differences are not resolved.

When it comes to the measurement of unemployment there are other problems with the LFS. The LFS slavishly follows the ILO guidelines in drawing the line between employment and unemployment - as already indicated - and in the dubious use of a retrospective period for job search. These problems belong to the ILO definition rather than the LFS (see Thomas, Forthcoming, *Harmonisation or Bureaucratisation?* for detailed discussion). But the LFS must take the survey questionnaire international booby prize for ambiguity for the question which reads 'If a job had been available last week could you have started within two weeks?'

My count is four ambiguities. A job on offer, or job offered to the respondent? Any job, or a job in line with the respondent's expectations? What assumption do respondents make about the period between the interview and last week? Does the 'two weeks' refer to the period starting with the availability of a job or from the date of the interview?

The surveys conducted in most other countries refer to 'a job offered' rather than use the equivocal term 'available'. But the wording varies. It is almost difficult to recognise in some cases, such as the Netherlands, that the questions are supposed to be the same. The Dutch ask *Assuming that you can obtain a job for 20 hours or more a week, a job which suits you well and where everything is satisfactorily arranged, including payment, would you be able to start within two weeks?* (Official translation). It is difficult to see that there is international comparability in unemployment statistics with such variation in the questions asked.

Charge 6: The LFS in its question on availability does not do justice to the measurement of unemployment - nor to the reputation of survey methodology in Britain.

The LFS is Britain's largest social survey, and a great deal of work goes into maintaining its quality. The LFS samples 60 thousand households every quarter using the Postcode Address File as a sampling frame and achieves a response rate of more than 80% on the first wave of interviews. But there is scope for the development of systematic error through differential response rate affected by the same sorts of factors which led to the missing millions in the

1991 census, through non-response in subsequent telephone interviews (households stay in the sample for five quarters), and through the use of proxies (i.e. respondents are asked questions on behalf of other members of the household).

Consider an extreme example. Suppose that the LFS has come to miss 2.5% of the population of working age, and that the population missed are not in employment including a sizeable proportion of claimants. Such a combination, which is not implausible in the light of the undercount in the 1991 Census, would largely explain the discrepancy between the LFS and WIE series. The LFS would find that, say, 80% of respondents were in employment. When this figure of 80 out of 97.5% is grossed up the national total would have been overestimated by about 430 thousands. But on the other side the number of claimants would be substantially under-represented in the 97.5%. This under-representation could help explain the discrepancy between the LFS and the Count of Claimants.

Charge 7: The LFS has not been checked for systematic bias which might help explain what may be overstatement of the level of employment and understatement of the level of unemployment.

The difficulty in the 1990s of escaping from systematic bias in household surveys underlines the seriousness of Charge 4 above on the misuse of the household survey. But none of these charges should be interpreted as meaning that the LFS is not needed. Estimating the national level of employment by household interview instead of getting the information from administrative data is a cack-handed way of producing statistics. But under-response in the 1991 Census and its Validation Survey may well strengthen the need for social surveys such as the LFS.

The LFS is needed for proper investigation of trends in employment just as much as it is needed to check on the inadequacy of the count of claimants as a measure of unemployment. The LFS provided a rich source for investigation of both the 0.8 million who have more than one job and the 0.8 million who have jobs not included in the WIE series. If the LFS also included questions on National Insurance Contributions its value would be substantially enhanced.

The growth of non-PAYE, non-NIC categories of employment support the government's claim to have created a more flexible labour market. It would be appropriate to spell out this claim with statistics of the identifiable groups which seem to be the most flexible. The LFS is desperately needed in order to answer such questions as 'How many of the unpaid family workers, manual homeworkers, domestic servants, non-PAYE employees, part-time and low paid jobs are real jobs?'

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