

Public Understanding of Economics and Economic Statistics

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Public Understanding of Economics and Economic Statistics
Johnny Runge and Nathan Hudson
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Abstract

This study explores the public understanding of economics and economics statistics, through mixed-methods research with the UK public, including 12 focus groups with 130 participants and a nationally representative survey with 1,665 respondents. It shows that people generally understand economic issues through the lens of their familiar personal economy rather than the abstract national economy. The research shows that large parts of the UK public have misperceptions about how economic figures, such as the unemployment and inflation rate, are collected and measured, and who they are produced and published by. This sometimes affected participants' subsequent views of the perceived accuracy and reliability of economic statistics. Broadly, the focus groups suggested that people are often sceptical and cynical about any data they see, and that official economic data are subject to the same public scrutiny as any other data. In line with other research, the survey found consistent and substantial differences in economic knowledge and interest across different groups of the UK population. This report will be followed up with an engagement exercise to discuss findings with stakeholders, in order to draw out recommendations on how to improve the communication of economics and economic statistics to the public.

Keywords: public understanding, public perceptions, communication, economic statistics

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Public Understanding of Economics and Economic Statistics

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Executive Summary

This report examines the public understanding of economics and economic statistics. We conducted a series of 12 focus groups across the UK (N=130) and a nationally representative online YouGov survey of GB adults aged 18+ (N=1,665) to explore how British people view different aspects of the economy and economic concepts, and how they evaluate main economic indicators. This report summarises our main findings on the public understanding of economics in the following areas: the economy and economic performance, inflation, unemployment, GDP, interest rates, trade, and deficit and debt. The study was carried out as part of the research programme of the Economic Statistic Centre of Excellence (ESCoE) and funded by the Office for National Statistics (ONS).

General findings

The research identified some pockets of public economic expertise, in which many people were fairly well-informed, often driven by perceived relevance to their everyday lives and personal finances. Our research shows that the British public has a better understanding of some measures, such as inflation and interest rates that have a greater bearing on people's personal finances, than previous survey research has shown. However, the research also demonstrated that public understanding of economic concepts is often relatively limited. Many focus group participants could give broad definitions and speak in broad terms about economic concepts. However, when they were asked to provide more detailed explanations, they were generally unable to do so, and had typically never considered factors beyond their 'personal economy'. Generally, focus group participants understood economic issues through the lens of their familiar 'personal economy' rather than the abstract 'national economy'. This meant that while focus group participants often demonstrated detailed knowledge about, and interest in, the personal impacts of economic indicators, they often struggled to relate this to the broader economy.

In addition to a relatively limited knowledge of economic concepts, people demonstrated a weak understanding of the size of different economic indicators, and a lack of confidence in assessing and judging economic figures. In many cases, focus group participants had simply never considered these issues, such as what a normal or ideal inflation rate would be, for instance. Perceptions were often based on assumptions and common sense, which sometimes yielded similar views to economists, and at other times not. Some of the most common findings were an aversion to deficits and a preference for lower interest rates and inflation rates. Mostly, however, focus group participants often found it difficult to speak about or evaluate the size of economic indicators when expressed as absolute numbers or as proportions or rates in percentages. People preferred to speak in broad terms about the size of economic indicators, and could typically not make sense of numbers without any prior information. Participants often asked for different shortcuts to gauge whether an indicator was considered normal, low or high, for instance by seeing the historic trajectory, or by seeing comparisons with similar countries. Furthermore, participants sometimes confused the difference between levels, changes, and rates of change, especially in relation to price levels, changes in prices (inflation rate), and changes in the inflation rate.

Similar to existing research, we found consistent and substantial differences in understanding, confidence and interest in economic statistics amongst different subgroups of the UK population. Survey respondents were more knowledgeable, confident, and interested in economic statistics when they were male and older, from higher socioeconomic groups and had higher education levels. Equally, the focus groups showed how age and personal circumstances, as well as previous formative experiences, can impact the understanding of, and attention paid to, economic statistics.

Finally, our focus group research identified distrust in economic statistics among some participants as well as a general disillusionment and apathy about the economy and people's ability to influence economic outcomes. Often, this distrust stemmed from the view that economic issues were communicated in an inaccessible way, using unnecessary economic jargon, which was detrimental to people's engagement. Furthermore, the research shows that large parts of the UK public have misperceptions about how economic figures, such as unemployment and inflation rates, are collected and measured. These misperceptions tended to support the commonly held view that actual unemployment and inflation rates are higher than official figures suggest, and therefore may explain some of people's distrust in unemployment and inflation data.

In addition, focus group participants often had misperceptions about who produced and collected economic statistics. In reality, economic figures such as the unemployment and inflation rate is collected and published by the ONS, the UK's national statistical institute who are independent of government, but participants often associated economic data with politicians who presented and discussed the figures in the news, and they saw the government as the source of the data. This led some focus group participants to express a lack of confidence in the accuracy and reliability of economic statistics. While any issues related to trust were unprompted, the conversations showed that focus group participants were often keenly aware that data and statistics can be used to promote a particular view. Some were therefore sceptical about any data they saw. This research suggests that official economic data are subject to the same public scrutiny as any other data, especially when people have misperceptions about how concepts are measured, and who statistics are produced and published by.

The following sections summarise our specific findings for each economic concept and statistic.

The economy and economic performance

Our survey and focus group research show that most British people are deeply interested in the economy and economic issues, though this interest is mainly focused on their own personal economy and the impacts on their own personal lives, rather than the national economy. Focus group participants reported they paid particular attention to the economy

and certain economic indicators when it had big personal financial implications, such as getting a mortgage, or when downturns in the economy affected their job prospects and finances. However, at the same time, participants admitted and regretted that they lacked a detailed understanding of the economy. They felt economics was difficult to engage with properly for the average person, and felt it was communicated in an inaccessible way, describing the economy as 'confusing', 'complicated' and 'difficult to understand'. Furthermore, focus group participants often expressed disillusionment with the economy, seeing it as an external negative force outside their own control, seen as a threat 'constantly hanging over us', and people said they had been 'hit by the economy', 'suffered because of the economy' and 'got smacked in the face by the economy'. Generally, participants recognised that the economy affected everything around them, and sometimes the economy was seen as a catch-all phrase for all components of our society, or as a way of measuring how well the country is doing. Often, focus group participants associated the economy with money, including the amount of money held by individuals or how much was in the country's 'money pot' as well as the movements of money in the economy, through earnings, taxes, personal spending, government spending, and trade.

Focus group participants found it difficult to judge economic performance. They felt it was complicated to assess for an average individual, especially when they felt they regularly received conflicting information about the country's economic performance.

Inflation

Our survey and focus group research show that the British public generally have a fairly good understanding of what inflation is, especially relating it to price growth and changes in prices over time. Focus group participants stated they paid close attention to price changes in their personal consumption, especially due to its impact on shopping costs including fuel, food, tobacco and alcohol. However, people had rarely considered the reasons why prices rise over time. When asked, a number of different aspects were at the forefront of people's minds, including oil and petrol prices, improvements in technology, interaction between demand and supply with specific focus on hits to supply due to natural disasters, profit maximising by companies, and changing consumer habits such as shopping in discount supermarkets.

Focus group participants generally preferred to speak in broad terms about different levels of inflation, such as 'low inflation', 'steady price growth' and 'prices staying the same', rather than in absolute numbers such as 2%. The survey showed mixed views about the perceived best levels of inflation, and the focus groups showed this was not necessarily something people had thought about before. The general theme was that people thought it was best for businesses and for the economy as a whole when prices stay the same or rise slightly, while they said it was best for individuals and their families when prices fall or stay the same. Our focus group research show that participants tend to acknowledge the risks of

'really high inflation', especially amongst older participants who often remembered very high rates of inflation in the UK during the 1970s and 1980s. When asked about the impact of falling prices (the term 'deflation' was rarely used by participants), the main response was that this never happened.

Generally, some focus group participants spoke about inflation in relation to wage growth, to the extent that some participants defined inflation in terms of wage increases or cost of living. Some focus group participants said the best level of price growth would be determined in relation to salary increases, including to the minimum wage, to ensure that living standards were not eroded. Some participants strongly felt that wage growth had not kept up with price growth in recent years. As such, many participants clearly understood the importance of 'real term' wage growth, though they rarely used this economic term. Indeed, many had never heard about it. However, there were also many participants who had never thought about the relationship between prices and wages, and some had simply dismissed the term as 'wordplay', as they felt it was sometimes used in public debate to promote a certain view.

When provided with official data showing average price growth in the UK during the past year (1.5% at the time), our research shows mixed views about its perceived accuracy. Most survey respondents felt average prices had risen by more than official figures suggested, and in focus groups this perception contributed to cynicism about the figures. Based on their personal experiences, focus group participants often made an implicit argument that there was a difference between 'my inflation' and 'their inflation', and many assumed that official data placed too much emphasis on luxury items, and failed to take into account large expenditure items such as council tax and housing costs that were more relevant to their own consumption. Generally, focus group participants showed limited knowledge about how inflation was calculated. Typically, participants either assumed inflation measurement was based on a very simple basket of everyday goods, such as bread, milk and alcohol, or alternatively a basket with a large range of items that were unweighted and excluded important items. While a few participants seemed to have picked up the terminology commonly used for inflation measurement, such as a 'shopping basket' and 'basket of goods', this did not always improve their understanding; in fact it sometimes seemed to confuse participants who thought inflation was measured by looking at items sold in supermarkets.

Unemployment

When provided with official data on the unemployment rate (3.8% at the time), our survey showed that the UK public are divided about whether current unemployment figures are seen as accurate, and a large part of survey respondents felt that unemployment seems higher than current figures suggest. Our focus group research showed this view to be held strongly by some participants, often based on personal and local experiences, including

those of friends, family and colleagues. This led some focus group participants to express a lack of confidence in the accuracy and reliability of unemployment statistics, sometimes believing these were 'massaged' and 'fudged' by governments to reflect well on their performance. Some older participants backed this up with shared memories of changes to unemployment statistics in the 1980s, which formed the basis of their suspicion that the unemployment rate was still changed through 'creative accounting', 'reategorising people' and by 'moving the goalposts', and through putting benefit recipients on 'government schemes', 'work-related schemes' and 'training schemes'. Our study did not explore in detail people's awareness or perceptions of the sources of economic statistics. Focus group participants, however, rarely mentioned the ONS or the idea that statistics are produced independently of government (even when the ONS were explicitly acknowledged by interviewers as the source of the statistics). Instead, many participants seemed to assume unemployment statistics are based on benefit claimant data, held and collected by the Department for Work and Pensions. As such, they saw the government as the source of the data, which affected their trust in the figures. In practice, unemployment data are collected through a survey of around 35,000 households by the Office for National Statistics (ONS), the UK's independent national statistical institute.

While our research suggests that the British public have a fairly good understanding of unemployment as a concept, considerable nuances exist, especially in relation to public understanding of its measurement. Our survey research suggests that the British public overwhelmingly lack knowledge about how the rate of unemployment is measured. In fact, our findings suggest that most people assume that the unemployment rate is calculated as a proportion of all working-age adults without a job (similar to the employment rate) rather than as a share of those who meet the criteria to be classed as economically active, known as the labour force. At the time of the research, this misperception would imply an actual UK unemployment rate closer to 24% than 3.8%, which may explain some people's cynicism about standard unemployment figures. Focus group participants expressed surprise about the term 'economically inactive', and typically said they had 'never heard of it.' Focus group participants reacted in different ways to this information, with some people acknowledging that the low official unemployment rate now 'made more sense'. The more typical response, however, was more cynical, describing the term 'economically inactive' as a 'smoke screen' and as a 'loophole'.

A major part of the distrust in unemployment statistics was related to how different types of employed workers and unemployed people were categorised in official data, and whether people believed these classifications to be justifiable. Prior to being told about unemployment measurement and about the term 'economically inactive', it was prominent that focus group participants criticised these classifications, highlighting that 'job quality' and 'suitability' mattered to how people perceived labour market performance. As such, it was commonly argued that 'low-quality jobs', often perceived in terms of hours, pay and job conditions, should not be counted fully towards official employment statistics. Our research provides detailed data on how people perceive different categories of people, and

how they think they are categorised in official unemployment data.

GDP

Our survey research found that less than half of the British public are able to correctly identify the definition of GDP from a list of options, and that the vast majority of focus group participants demonstrated little to no understanding of GDP. Typical misunderstandings included confusing GDP with the value of exports, the exchange rate (due to the similarity to GBP) and even general data protection regulation (due to the similarity to GDPR). Focus group participants also demonstrated little knowledge about the size of GDP growth rates and did not typically understand what was meant when economic indicators were reported as a proportion of GDP. In fact, GDP was seen as economic jargon, contributing to the feeling that economics was largely inaccessible to them.

Interest rates

Our research found that the British public are often much more familiar with the concept of interest rates than other economic concepts, driven by its perceived importance and relevance for everyday lives and personal finances. Focus group participants described sometimes monitoring and comparing interest rates, stating that they were an important factor in their financial decisions, especially in relation to mortgages. Focus group participants were usually able to define interest rates fairly accurately, especially by describing what different levels of interest rates meant for savings or borrowings. Similarly, our survey findings show that three quarters of the British public were able to identify whether low or high interest rates were best for borrowers and savers, respectively. Furthermore, both survey respondents and focus group participants showed a high level of awareness that current levels of interest rates are considered low.

While participants demonstrated a fairly detailed level of understanding about how interest rates affect their own personal finances, their understanding of the rationale behind the setting of interest rates was mixed. Some participants identified that low interest rates could be implemented to encourage spending and 'boost the economy', but often struggled to rationale rises in interest rates. During focus group discussions, answers rarely touched on interest rates' impact on inflation or the Bank of England's inflation target. When provided with this information, many said they had not heard about it or understood it. Finally, while focus group participants agreed that interest rates could be controlled, there were initially mixed responses about who were responsible for setting interest rates, including banks, the government, the Chancellor of the Exchequer, and the Bank of England.

Trade

Focus group participants demonstrated a good intuitive understanding of trade, including concepts such as exports and imports. Our survey found that a majority of the British public knew that the UK is operating a trade deficit, and focus group participants often expressed a high level of certainty, rooted in historical knowledge of the decline of certain industries such as manufacturing, and that the UK had developed into a service economy. Focus group participants viewed a trade deficit as a negative and a trade surplus as a positive. Many simply felt this was logical and natural, especially that a trade surplus would be more profitable for a country. Others focused on the missed employment opportunities for domestic workers caused by a trade deficit; the increased reliance on foreign products which reduced the incentives for domestic entrepreneurs to develop new ideas and technologies, or exposed the UK to other countries charging higher prices. At the same time, participants sometimes recognised why the UK had a trade deficit, especially due to the difficulty in competing against countries with lower production costs. Despite the fairly accurate knowledge of the UK's trading position, and despite the public debate about trade negotiations in recent years, focus group participants demonstrated less knowledge about trade deals, and were most often only able to speak about it in broad terms as a 'contract' or 'agreement' between countries. Participants rarely brought up or accurately explained specific aspects of trade deals such as tariffs and common standards.

Deficit and debt

Focus group participants had a fairly good basic understanding of the government budget, including that it could be in deficit and surplus (though not everyone knew these exact terms). Participants were broadly aware of the main components of government income and spending. Some participants placed a particular importance on specific, smaller spending items such as EU contributions, MPs' pay and expenses, and foreign aid. Our survey and focus group research suggests that the term 'deficit' is highly salient in people's minds, and that it may sometimes obscure the understanding of the concept itself. In fact, while a majority of survey respondents correctly identified that the UK government runs a budget deficit, respondents were substantially more divided when asked the same question in everyday language, i.e. whether government spending is higher than its income through taxes.

Focus group participants said it was the norm for the UK to run a budget deficit, with most expressing a high level of confidence that the UK currently ran a budget deficit, sometimes emphasising that they simply had never heard the term 'budget surplus.' In fact, some participants reasoned that it would be difficult to govern with a surplus in a democracy, as there would always be pressures to spend any surplus money to improve public services. However, at the same time, it was a strong theme that focus group participants instinctively thought that it was bad to run a budget deficit. Participants often could not

give a detailed rationale for this view, other than it seemed logical. Others focused on the need to borrow money and the subsequent interest payments on those loans which could have been used to improve public services. Some also argued that deficits led to debt, which led government to adopt austerity measures, which again damaged the quality of public services. Sometimes, the perception that a budget deficit was inherently a bad thing changed during the discussions, once participants reflected that it was usual for personal households and businesses to hold debt most of their lifetime. Subsequently, some participants argued that governments should invest more to boost the economy, as the interest payments would currently be low. As other research has shown, throughout the discussions focus group participants frequently confused and conflated debt and deficit, and used the terms interchangeably.

Future work

One of the key aims of this research is to inform future efforts on how to improve the communication of economics to the public. This report will be followed up with an engagement exercise to discuss findings with stakeholders – such as the ONS, the Bank of England, journalists, researchers, public bodies and departments, policymakers, politicians, private and third-sector organisations – in order to draw out recommendations on how to improve the communication of economics. This will be summarised in a follow-up report. You can find more information about this in the conclusion, including how you can contribute to this exercise. The conclusion also points to potential future research studies on public understanding of economics and communication of economics. This includes suggestions for studies that test ways of presenting economics to the public and ways of communicating how economic statistics are collected and calculated, as well as studies that explore public understanding of everyday economics. Furthermore, we recommend that future studies involve economists and other experts themselves as research participants. Generally, we recommend that economics as a profession, as well as intermediaries of economics communication, invest considerable efforts in this area and fully recognise the importance of improving how we communicate economics to the public.

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Any errors, omissions or weaknesses in our report remain, of course, entirely our own responsibility.



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Contents

EXECUTIVE SUMMARY	4
ACKNOWLEDGEMENTS	12
LIST OF TABLES AND FIGURES	17
INTRODUCTION	18
CHAPTER 1: GENERAL FINDINGS	20
Overview and summary of key general findings	20
Section 1.1: How do people view their own economic understanding	22
Section 1.2: Economic judgements	25
Section 1.3: Understanding of economic measurement	26
Section 1.4: Difference between personal and national economy	27
Section 1.5: The use of economic jargon	28
Section 1.6: Variations by different subgroups	29
Section 1.7: Sources and messengers	30
CHAPTER 2: THE ECONOMY	32
Overview and summary of key findings	32
Section 2.1: What is ‘the economy’?	34
Section 2.2: Main actors and players in the economy	42
Section 2.3: Interest in the economy	44
Section 2.4: Economic performance: measures and indicators	49
Section 2.5: The performance of the UK economy	53
CHAPTER 3: INFLATION	58
Overview and summary of key findings	58
Section 3.1: Definition of inflation	60
Section 3.2: Interest in inflation	66
Section 3.3: Why do prices change?	67
Section 3.4: Different levels of inflation	71
Section 3.5: Current level of inflation	75
Section 3.6: Measuring inflation	79
Section 3.7: Controlling and affecting inflation	84
CHAPTER 4: UNEMPLOYMENT	86
Overview and summary of key findings	86
Section 4.1: Current level of unemployment	87
Section 4.2: Classification of employment and unemployment	96
Section 4.3: Measuring the unemployment rate	107
CHAPTER 5: GDP	112

Overview and summary of key findings	112
Section 5.1: Knowledge of GDP	112
Section 5.2: GDP growth	115
Section 5.3: The limitations of GDP	116
CHAPTER 6: INTEREST RATES	118
Overview and summary of key findings	118
Section 6.1: Knowledge of interest rates	119
Section 6.2: The relevance of interest rates	124
Section 6.3: Setting the interest rate: Bank of England	129
CHAPTER 7: TRADE	132
Overview and summary of key findings	132
Section 7.1: Trade balance: Trade deficit and trade surplus	133
Section 7.2: The benefits and disadvantages of trade	138
Section 7.3: Trade deals and tariffs	141
CHAPTER 8: DEFICIT AND DEBT	144
Overview and summary of key findings	144
Section 8.1: The definition of budget deficit and surplus	145
Section 8.2: The level of the budget balance	147
Section 8.3: Understanding the budget deficit	151
Section 8.4: Debt	156
CONCLUSION	160
Follow-up report: Stakeholder engagement	160
Future research studies	160
REFERENCES	164
APPENDIX 1: DETAILED DESCRIPTION OF THE METHODOLOGY	169
Part 1: Literature review	169
Part 2: Focus groups	169
Part 3: Online survey	170
APPENDIX 2: LITERATURE REVIEW	172
Overview and summary of key findings	172
A2.1: Overview of the literature	174
A2.2: How people understand 'the economy' and economics	177
A2.3: How people understand inflation	183
A2.4: How people understand unemployment	185
A2.5: Knowledge gap between the public and economists	187

APPENDIX 3: SURVEY SAMPLE	191
APPENDIX 4: FOCUS GROUP SAMPLE	192
APPENDIX 5: SURVEY DESIGN	195
APPENDIX 6: FOCUS GROUP DESIGN: DISCUSSION GUIDE	202
APPENDIX 7: FOCUS GROUP MATERIALS	210
APPENDIX 8: ADDITIONAL SURVEY ANALYSIS	215
APPENDIX 9: EXPLAINERS AND FACT CHECKS	216

List of figures and tables

Figure 1. Self-reported understanding of economic concepts, without test warning	24
Figure 2. Self-reported understanding of economic concepts, with test warning.	24
Figure 3: Interest in economic issues, proportion of respondents on 1-10 scale	45
Figure 4. Interest in economic issues (1-10). Means by gender, social class, age, education level	45
Figure 5. Self-reported understanding of inflation	60
Figure 6. Defining inflation	61
Figure 7. Proportion who defined inflation correctly, by demographics	61
Figure 8. Perceptions of best levels of inflation	72
Figure 9. Perceived accuracy of inflation statistics	76
Figure 10. Inflation perceptions	77
Figure 11. Perception of whether 1.5% inflation rate is considered low, high or normal	77
Figure 12. Perceived accuracy of unemployment statistic	88
Figure 13. Perceived accuracy of unemployment statistic	89
Figure 14. Perceived unemployment rate	89
Figure 15. Perceptions of whether 3.8% unemployment rate is considered low, high or normal	90
Figure 16. Proportion who thought unemployment rate is considered low.	91
Figure 17. Employment classification of different person types	97
Figure 18. Own perception of how different types of people should be classified (focus group)	98
Figure 19. Self-reported understanding of unemployment	107
Figure 20. Identification of unemployed people in hypothetical population	108
Figure 21. Calculating the unemployment rate for population of 5 people	109
Figure 22. Defining GDP	113
Figure 23. Proportion of correct GDP definitions, by demographics	113
Figure 24. Self-reported understanding of GDP	114
Figure 25. Self-reported understanding of interest rates	119
Figure 26. Perceptions of whether current interest rates are high, low or normal	120
Figure 27. Proportion of respondents who thought interest rates are considered to be low	120
Figure 28. Perception of best interest rates	122
Figure 29. Perceptions of trade balance	134
Figure 30. Perceptions of the budget balance	148
Figure 31. Self-reported difficulty in understanding economic news, by gender (%)	194
Figure 32. Self-reported interest in economic issues, by gender (%)	194
Table 1. Survey sample demographics	191
Table 2. Overview of focus groups	192
Table 3. Focus group sample	193

Introduction

Arguably, the public understanding of economics and economic statistics is essential for a well-functioning society. Economics pervade everything we do, and it plays a key role in most aspects of our lives, including at home and at work, and understanding economic issues helps us perform our democratic duty to hold decisions-makers accountable, and evaluate policy decisions and government performance. Nevertheless, research on public understanding of economics is surprisingly sparse, and few studies go beyond the headline survey finding that the public lack a basic understanding of economic issues.

Therefore, this report examines public understanding of economics and economic statistics, with a specific focus on exploring in more depth how people understand economics in their own words. Through research with the public, we explore how British people perceive and view different aspects of the economy and economic concepts, such as unemployment, inflation and GDP, and how they judge and evaluate main economic indicators reported in the media.

Our research included a nationally representative online YouGov survey with 1,665 respondents (GB 18+) and a series of 12 focus groups with 130 public participants. The survey included 20 questions and was carried out on 26-27 February 2020. The focus groups were carried out in October 2019, in Manchester, Birmingham and London. The participants were recruited by a market research company, to include a variety of participants, though we excluded those with very little interest in economic issues and those with prior economics training at A-level or at university. The appendices include a detailed description of the focus group and survey methodology, including sample information.

The study was carried out as part of the research programme of the Economic Statistic Centre of Excellence (ESCoE) and funded by the Office for National Statistics (ONS). One of the key aims is to inform how to improve the communication of economics to the public. This report will be followed up with a stakeholder engagement exercise to discuss findings and draw out implications and recommendations on how stakeholders, ranging from the ONS and the Bank of England, to politicians, government departments, and the media, can improve their communication of economic issues. This is described in further detail in the conclusion, including how you can contribute.

The report is structured as follows:

- Chapter 1 describes the general findings of our focus group and survey research, identifying the common themes across all areas and stages of the research.
- Chapter 2-8 present the focus group and survey findings for each economic topic. Each chapter explores people's perceptions of one topic: the economy, inflation, unemployment, interest rates, GDP, deficit and debt, and the trade balance, respectively. Each chapter starts with a brief summary of the key findings.

- The conclusion summarises our key findings, describes the forthcoming stakeholder exercise, and recommends areas for future studies.
- The references include a full list of articles and research reports used in this study.
- The appendices include a detailed description of our research methods; a review of the existing evidence on public understanding of economics; sample information for the focus groups and survey; the survey and focus group design as well as all focus group materials including explainers and factchecks; and regression results from the survey analysis.

Chapter 1: General findings

Overview and summary of key general findings

This chapter presents the general findings of our focus group and survey research, identifying those themes that appeared across all stages of the research, and across different economic concepts and statistics. The subsequent chapters will then present specific findings in relation to each concept: the economy, unemployment, inflation, GDP, deficit and debt, interest rates, and trade. The key general findings were:

- Generally, our research shows that the British public are interested in the economy and economic issues, and recognise its importance to their own lives. However, many focus group participants also admitted and regretted they were not appropriately well-informed about the economy, and thought that economic issues are communicated in an inaccessible way. Participants often wished economics were taught more widely in schools, and that they were better able to interpret economic information.
- The research identified some pockets of public economic expertise, in which many people were fairly well-informed, often driven by perceived relevance to their everyday lives and personal finances. In particular, interest rates were seen as important especially to people's mortgages, and therefore focus group participants tended to pay more attention to levels and changes to interest rates, and understood the implications of lower and higher rates on their personal finances. However, in line with previous research, the research also demonstrated that public understanding of economic concepts is often relatively limited. Many focus group participants could give broad definitions and speak in broad terms about economic concepts. However, when they were asked to provide more detailed explanations, they were generally unable to do so, and had typically never considered factors beyond their 'personal economy'.
- Generally, focus group participants understood economic issues through the lens of their familiar 'personal economy' rather than the abstract 'national economy'. This meant that while focus group participants often demonstrated detailed knowledge of the personal impacts of economic indicators, they often struggled to relate this to the broader economy. As an example, while participants often had a good understanding of the personal consequences of different interest rate levels, they struggled to identify reasons why the Bank of England would raise or reduce interest rates, and how this affected the broader economy. Similarly, participants broadly understood that inflation was related to price changes, and some had vivid memories of living through high rates of inflation in the 1970s and 1980s, and the personal impacts of this, but they were uncertain why inflation had been high, and generally people were unsure about why price levels change over time and about inflation's impact on the broader economy.
- In addition to a relatively limited knowledge of economic concepts, people demonstrated a weak understanding of the size of different economic indicators, and a lack of confidence in assessing and judging economic figures. In many cases, focus group participants

had simply never considered what was a normal or ideal level of, say, inflation rates, and perceptions were often based on assumptions and common sense logic. The focus groups identified a strong perception among participants that surpluses were inherently better than deficits, including for the budget and trade balance. However, in the case of budget deficits, it was common for participants to nuance their views during discussions, as they realised that budget surpluses implied that the government could have invested more money in public services, and as they recognised that it was normal for individuals and businesses to borrow money to invest. The focus group research also identified a preference for lower interest rates and inflation rates, driven by the perception that higher interest and inflation rates reduced living standards, by making people's borrowings and personal consumption more expensive, respectively. Furthermore, focus group participants found it difficult to evaluate economic statistics when expressed as absolute numbers, or as changes or proportions in percentages. They preferred to speak in broad terms about the size of economic indicators, and could typically not make sense of numbers without any prior information. Participants often asked for different shortcuts to make sense of the statistics, for instance by comparison to historical data or the figures of other countries. Similarly, participants sometimes misunderstood and confused the difference between levels, changes, and rates of change, especially in relation to price levels, changes in prices (inflation rate), and changes in the inflation rate.

- Focus group participants demonstrated limited knowledge about how measures such as unemployment and inflation rates were actually calculated, and in many cases had simplistic or wrong assumptions about their methodology. As an example, our survey suggested that the assumptions held by most British people about unemployment measurement, mainly the misperception that all economically inactive people were categorised as unemployed, would imply an actual UK unemployment rate closer to 24% rather than the 3.8% at the time of the research, which was prior to Covid-19. Similarly, focus group participants had many different and often naïve assumptions about how inflation was calculated, especially simplistic views about the composition of goods that were used in the calculations. These misperceptions tended to support the commonly held view that actual unemployment and inflation rates are higher than official data suggest, and therefore may explain some of the distrust that was identified about the perceived accuracy of unemployment and inflation data.
- Our research suggests that the use of economic jargon is not only detrimental to people's engagement, by making economics inaccessible to the public, but it can also negatively affect people's understanding of economic statistics. Main examples were using terms such as GDP and 'real terms', but the research also highlighted the use of terms that are perhaps not commonly considered economic jargon. For instance, some focus group participants' knowledge of inflation terminology such as 'shopping basket' contributed to their perception that inflation is calculated based on a basic shopping basket with a few supermarket items. Another example was that specific terms, such as 'deficit', could come to dominate people's understanding of economic concepts, as they were strongly

imprinted in people's minds, possibly activating a range of psychological triggers associated with displeasure with economic performance. Sometimes, the use of economic jargon also added to a sense of distrust in economic statistics. For instance, some participants had never understood the meaning of 'real terms', and suspected it was sometimes used in public debate as 'wordplay' to support a certain narrative.

- We found consistent and substantial differences in understanding, confidence and interest by different subgroups of the UK population. This study found differences across all economic concepts as well as economic interest by gender, age, social grade, and education level. Survey respondents were more knowledgeable, confident, and interested when they were male and older, and when they had higher socioeconomic status and higher education level. Equally, the focus groups showed how age and personal circumstances could impact the attention to certain economic indicators. Similarly, previous formative experiences, such as witnessing periods of economic crises and instability, could affect economic understanding, especially by making certain economic facts more salient. For instance, older participants with clear ideas about typical inflation levels often recalled periods of hyperinflation in the past, and older participants who were confident that the UK was operating a trade deficit often cited the historic decline of sectors such as manufacturing. Similarly, the financial crisis and the subsequent austerity measures had shaped some participants' understanding of deficits and debt. There is every reason to believe that the current Covid-19 pandemic will represent a similar formative experience, shaping people's future attention to, and understanding of, certain economic indicators, such as debt, unemployment and inflation.
- Another theme was the public's perceptions of the messengers and sources of economic statistics. More research needs to be done on this, but generally, our research suggests that, especially on unemployment and inflation, the public seemed to consider the government and politicians as the main source of statistics, regardless that the source was presented to them as the ONS. This meant that some people's broader cynicism and distrust in government and politicians affected their trust in unemployment and inflation statistics sometimes believing they were 'massaged' and 'fudged' to reflect well on government performance.

Section 1.1: How do people view their own economic understanding

Generally, our research shows that the British public are hugely interested in the economy and economic issues, and recognise its importance and real impacts on their own personal lives. However, many focus group participants also readily admitted and regretted they were not appropriately well-informed about economic issues. People felt economics was difficult to engage with properly. They said the economy was communicated in an inaccessible way that was 'confusing', 'complicated' and 'difficult to understand', and often using economic jargon. During discussions in the focus groups, it was not unusual for

participants to pause and reflect on their own lack of economic knowledge and inability to interpret the economic information that was presented to them. This often led to regret that this was the case, and suggestions that economics should be taught more widely in schools.

Often, focus group participants also showed their lack of understanding more indirectly, through speaking about economic concepts in vague and uncertain language, including by emphasising they were 'uncertain' and 'not sure', or using phrases such as 'I think' and 'I assume', or by conflating and confusing different concepts, or by articulating nonsensical views. Generally, on most economic topics covered in the focus groups, people's descriptions and assumptions about economic concepts were at the broadest surface level, and as soon as interviewers asked for more detailed explanations or reasoning, participants were generally unable to do so, and had typically never considered factors beyond 'surface economics.' As an example, even though some older focus group participants strongly remembered the consequences of living through high rates of inflation in the 1970s and 1980s, they struggled to explain why inflation had been high during that period and generally people were uncertain about the factors affecting the rate of inflation. Similarly, participants with a detailed understanding of the personal financial implications of higher and lower interest rates still struggled to identify the reasons why the Bank of England would raise or reduce interest rates, and how this affected the broader economy.

Our survey included self-reported questions, in which respondents were asked to rate their own understanding of different economic terms. Figure 1 shows that for 'unemployment' and 'interest rates', more than half of the British population said their understanding was 'very good' or 'good'. GDP was the least understood concept, with only a third of respondents expressing their understanding was 'very good' or 'good'. Figure 2 shows how these results changed when the other half of the survey sample, with similar characteristics, were asked the same question, but were warned that they would be tested on the meaning of the economic concepts later in the survey. This reduced people's confidence, and in fact, there was no longer a majority of respondents who said they had a 'very good' or 'good' understanding for any economic concept. This reduction in confidence echoes our focus group findings that people's understanding of economic concepts tends to be at the surface level, with some participants readily acknowledging this limitation.

Figure 1. Self-reported understanding of economic concepts, without test warning.

Understanding, no warning: "How would you describe your understanding of the following economic terms?" (N=789). 'Very weak' includes those who 'have never heard of it'.

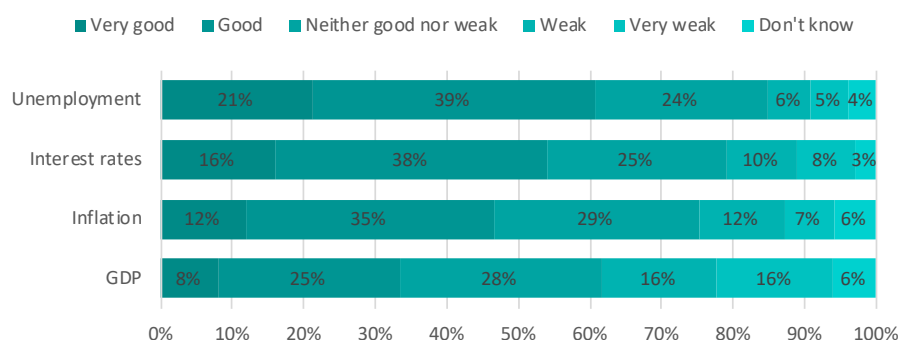
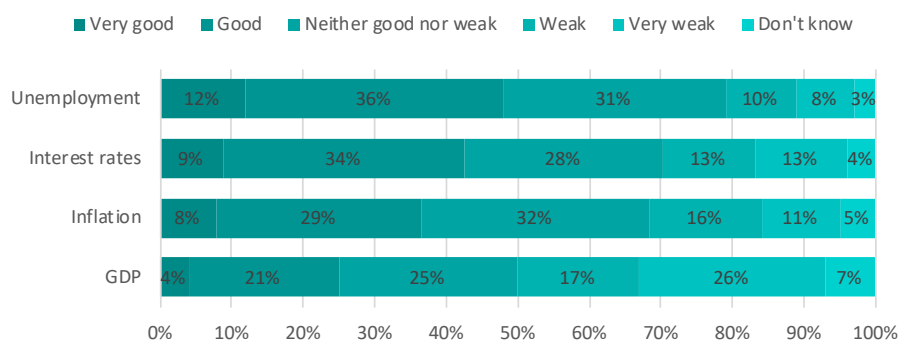


Figure 2. Self-reported understanding of economic concepts, with test warning.

Understanding, with warning: "Given you will be tested on these later in the survey, how would you describe your understanding of the following economic terms?" (N=876). 'Very weak' includes those who 'have never heard of it'.



The order of the concepts was the same in both treatments. People felt most confident in their understanding of unemployment and interest rates, and least confident about inflation and GDP. Our focus groups backed up these findings. Participants were most confident about discussing unemployment and interest rates, which were perceived to be relevant to their own personal lives and finances, including their job prospects and mortgages. Inflation seemed to be somewhere in the middle, as most focus group participants said they paid attention to price changes in their personal consumption and some recognised the impacts of inflation to their wages, but very few thought about the inflation rate as such, and few had thought about the role of inflation on the broader economy. GDP was by far the least accessible economic concept among focus group participants, with most unable to provide a definition of the term, and some participants described it as economic jargon.

Section 1.2: Economic judgements

Our research demonstrated that people's views and judgements about the size of economic indicators were weak. In many cases, people had simply never considered beforehand what different sizes of economic indicators meant, for instance what a normal interest rate would be, or what the best level of inflation would be. This meant that focus group participants often based their judgements on assumptions or common sense logic, which sometimes yielded the same view as economists, but at other times this was not the case.

One of the most prominent judgements identified during the course of the research was the view that a 'deficit' is inherently a bad thing, and that a surplus is better than a deficit. Typically, focus group participants instinctively felt this was the correct answer, and did not feel this required further explanation. For instance, participants felt that it would be better to export more to other countries than we import (i.e. run a trade surplus) and similarly that it would be better for the government to raise more money in taxes than they spend on public services and welfare (i.e. run a budget surplus). However, during the focus groups we also identified a difference in some people's first instinctive reaction ("System 1" in Kahneman's dichotomy) and their subsequent reflections and deliberate discussions on the topic ("System 2"). In particular, while participants' usual first reaction was that it was better for governments to run budget surpluses, their views often became more nuanced during discussions. Participants realised that budget surpluses imply that the government could (and should) have spent more on public services such as the NHS. Some participants also made comparisons to the finances of private individuals and businesses, recognising that it was often a sound financial decision to borrow money to invest.

Other prominent perceptions were that low interest rates were better than high interest rates, and that low inflation was better than high inflation. These views seemed to stem mainly from the perception that higher interest and higher inflation rates harmed people's living standards, by making their borrowings and their personal consumption more expensive, respectively. Focus group participants often took this personal perspective when evaluating economic indicators, and mostly considered the direct personal impacts of the size of the economic statistic, rather than considering the indirect impacts, such as the impact on the broader economy and the subsequent indirect impacts on their own living standards and job prospects.

Another prominent theme was that focus group participants found it difficult to evaluate economic indicators expressed as absolute numbers, or as changes or proportions in percentages. Whether participants were told that the trade deficit was £31bn, or the GDP growth rate was 1.5%, or the budget deficit was 1.5% of GDP, participants often said this did not make much sense to them, and indeed it contributed to the sense of confusion and alienation of economic issues. Participants therefore tended to be more comfortable in speaking on broad terms about economic statistics, such as 'low inflation', 'steady price

growth' and 'prices staying the same' rather than in absolute numbers such as 2%. They also often asked for different shortcuts to gauge whether an indicator was considered normal, low or high, for instance by seeing the historic trajectory of the indicator, or by seeing comparisons with similar countries.

Focus group discussions sometimes revealed general misunderstandings around the difference between levels (e.g. the price of a pint of milk is 50p), changes (e.g. the price of a pint of milk has gone up by 1.5%, which is the inflation rate), and the rates of change (e.g. the inflation rate has gone down by 0.2 percentage points since last year, from 1.5% to 1.3%, which means that the price of milk has not increased by as much as last year, but it is still increasing). In particular, participants tended to confuse levels with changes, for instance they sometimes spoke simply about price levels when answering questions about the inflation rate, and participants tended to confuse changes with the rates of change, for instance by assuming that prices had decreased if the inflation rate had gone down.

Section 1.3: Understanding of economic measurement

Public understanding of economic statistics is especially weak in relation to the measurement of economic statistics. Focus group participants demonstrated little knowledge and sometimes misperceptions about how measures such as unemployment and inflation rates were actually calculated. In many cases, people had simplistic or wrong assumptions about their methodology. As an example, our survey suggested that most British people's assumptions about unemployment measurement, mainly the misperception that all economically inactive people were categorised as unemployed, would imply an actual UK unemployment rate closer to 24% rather than the 3.8% at the time of the research. Similarly, focus groups participants had many different and often simplistic assumptions about how inflation was calculated. This included views that inflation was calculated based on a very simple basket of everyday goods excluding important items such as housing costs, disproportionate weighting of luxury items that did not form a major part of their personal spending, and assumptions that discounts and sales and the phenomenon of shrinkflation was not captured in the inflation statistics. These misperceptions tended to support the commonly held perception that official unemployment and inflation data were lower than they should be, and this may, at least partly, explain some of the distrust about official unemployment and inflation data.

In some instances, the focus group materials highlighted limitations with economic measurement. For instance, the explainer on GDP noted that while GDP is often used as a measurement of the overall health of the economy, there are some aspects of the economy that GDP doesn't necessarily measure, such as people's wellbeing, environmental impacts, unpaid work and digital technology. Similarly, the explainer on deficit and debt noted that there were a debate among economists about whether there is a level of debt that is too high. In these cases, rather than recognising the transparency about methodological and

conceptual uncertainties provided in the explainer, focus group participants sometimes reacted with suspicion, stressing that they did not understand how such fundamental issues had not been addressed or solved, and that it only confirmed their scepticism and lack of trust.

Section 1.4: Difference between personal and national economy

There are pockets of public economic expertise, in which many survey and focus group participants were fairly well-informed. This was often driven by perceived relevance to people's everyday lives and personal finances. For instance, interest rates were seen as important to personal finances, especially people's mortgages, and therefore focus group participants tended to pay more attention to levels and changes to interest rates, and understood the implications of lower and higher rates on their personal finances. Similarly, unemployment was directly related to their employment situation and job prospects. In contrast, even for those participants who knew broadly what GDP was, this was not a concept they engaged with or paid attention to.

The perceived personal relevance was also related to which aspects of economic concepts that people were most interested in and knowledgeable of. For instance, while people generally demonstrated a high level of understanding of the implications of lower and higher interest rates on their personal finances, they had rarely considered why interest rates are set low or high in the first place, or about interest rates' broader impacts on the economy. Similarly, while people reported paying a lot of attention to price levels and price changes for their own personal consumption, this did not extend to broader knowledge about inflation. And even though some participants were acutely aware of the historic weakening in the UK's trading position due to the decline in traditional sectors such as manufacturing, and sometimes expressed how this had impacted their own job prospects, they demonstrated a fairly limited knowledge of other aspects of trade, such as the purposes of trade and what a trade agreement was.

Personal relevance also mattered for how people judged the country's economic performance, and how they judged different economic indicators. For instance, when focus group participants were asked what measures or indicators might be used to judge the performance of the economy, the most common examples were related to the direct impacts on people's everyday lives and personal financial position. The most common measures were interest rates (due to the impact on savings and borrowing), the state of the labour market and the performance of the high street and business (due to the impact on employment and as a reflection of how much people are able to spend), wages and cost of living (due to the impact on income and household spending), and the quality of public services (due to the impact on living standards).

Generally, throughout the focus groups we identified a focus on aspects related to people's

'personal economy' or 'my economy' (wages, employment, cost of living etc.) rather than the 'national economy', the 'global economy', or 'their economy'. Many participants recognised that the national and global economy has profound impacts on their own personal economy, but this was often seen as something external, shaped by larger and impersonal forces, or alternatively something controlled by the elite. In any case, focus group participants generally saw it as something outside their control, and seemed to focus on those aspects which had relevance to their own personal lives and finances.

Section 1.5: The use of economic jargon

Our focus group research suggests that the use of economic jargon can be detrimental to people's engagement in economic issues. Throughout the focus groups, many participants made comments that economic news were communicated in an inaccessible way, and that the economy was seen as 'confusing', 'complicated' and 'difficult to understand'. In particular, people said economic news was often communicated using 'economic jargon', which contributed to the feeling that economics was inaccessible to them. This theme was especially prominent during discussions about GDP. Participants described GDP as an example of economic jargon, and often did not understand when other economic indicators were reported as a proportion of GDP.

Sometimes, the use of economic jargon negatively affected people's understanding of certain economic concepts. For instance, a few participants seemed to have picked up the terminology commonly used for inflation measurement, such as a 'shopping basket' and a 'basket of goods'. This seemed to give them a false sense of confidence in how the inflation rate was calculated, as they were sometimes led to think that inflation was only measured by looking at price changes for items sold in supermarkets. For some participants, this contributed to the common perception that the calculation of inflation was based on a very basic shopping basket with only a few supermarket items, such as milk and bread, but excluding large, important items such as petrol, housing costs and council tax. This type of misunderstanding contributed to subsequent cynicism about the accuracy of the official inflation rate.

Another example was that the salience of an economic term could come to dominate people's understanding of an economic concept or statistic. For instance, the focus group research showed that the term 'deficit' was strongly imprinted in people's minds, while they had barely ever heard about the term 'surplus'. The term 'deficit' seemed to activate a list of psychological triggers for participants, such as the displeasure with economic and government performance, which made the concept very salient to participants. The survey revealed how the salience of the term 'deficit' can both lead people to misunderstand economic concepts, and lead researchers to overestimate people's understanding. When half of the survey sample was asked whether the UK government ran a budget deficit, balanced budget or a budget surplus, survey respondents overwhelmingly responded

correctly that the UK ran a budget deficit. However, when the other half of the sample was asked essentially the same question in more everyday language, i.e. whether UK government spending (on public services, welfare, pensions etc.) were 'higher than', 'about the same as', or 'lower than' UK government income through taxes, the responses were much more mixed. While 67% of respondents in the first group thought the UK ran a budget deficit, only 38% thought so in the second group. And conversely, while only 3% of respondents in the first group thought the UK ran a budget surplus, 26% thought so in the second group.

At other times, discussions showed that focus group participants actually understood the meaning of an economic concept well, even though they had never heard about the economic term, or had never understood it when it was used. For instance, some focus group participants accurately described the relationship between the rise in their own wages and inflation, and strongly articulated the negative impacts on their income when wage increases had not kept up with price increases in recent years. These participants had, however, rarely heard the economic term 'real term' wage increases, and would not necessarily have understood a news story using this term, or indeed accurately defined the term in a survey question.

Finally, the use of economic jargon sometimes added to a sense of distrust in economic statistics. For instance, some participants had never understood the meaning of the term 'real terms', and this played into their distrust of the term, especially the suspicion that it was sometimes used in public debate as 'wordplay' to support a certain narrative.

Section 1.6: Variations by different subgroups

Similar to existing research, we found consistent and substantial differences in understanding, confidence and interest by different subgroups of the UK population. The survey found differences across all economic concepts as well as economic interest by gender, age, social grade, and education level. Survey respondents were more knowledgeable, confident, and interested when they were male and older, and when they had higher socioeconomic status and higher education level.

Equally, the focus groups showed how personal circumstances, such as home ownership and living situation, could impact how much attention people paid to certain economic indicators such as interest rates. This was often related to age, and participants often described how they had become more interested in economic issues as they had grown older.

Similarly, previous formative experiences, such as witnessing periods of economic crises and instability, could affect economic understanding, especially by making certain economic facts more salient. For instance, older participants who had experienced

hyperinflation in the past often had a clear perception that current inflation levels were low, and often compared current low levels to high inflation levels of around 15% in the 1970s and 1980s. Similarly, older participants' personal experiences with the decline of traditional sectors such as manufacturing also seemed to play into their high level of confidence in the fact that the UK was operating a trade deficit, and that the UK had become a service economy.

Section 1.7: Sources and messengers

Another theme was the public's perceptions of the messengers and sources of economic statistics. Generally, especially on unemployment and inflation, focus group participants seemed to consider the government and politicians as the main source of statistics, regardless that the source was presented to them explicitly as the ONS. Throughout the focus groups, it was common for participants to refer to the sources and messengers as 'they', in most cases interpreted as referring to the government and politicians. When they mentioned the sources directly, it was usually: the Government, the Prime Minister, the Chancellor, or politicians more broadly. Some participants' broader cynicism and distrust in governments and politicians affected their view of unemployment and inflation statistics themselves. In particular, focus group participants often expressed a lack of confidence in their perceived accuracy and reliability, sometimes believing they were 'massaged' and 'fudged' by governments to reflect well on their performance.

The survey included two questions about the perceived accuracy of unemployment and inflation statistics, respectively. Respondents were told what the current unemployment/inflation rate was, but they were divided into three treatment groups according to the source of the statistic: the UK government, the ONS, and no source. Broadly, it was remarkable how little difference there were in perceived accuracy between the conditions, especially given the large discrepancies in trust between these actors shown in other research. While more research is needed to provide robust explanations for this, the most apparent interpretation, based on our focus group research, is that people simply see the source as the UK government regardless what they are told. These findings will be covered in more detail in the unemployment and inflation chapters.



Chapter 2: The economy

Overview and summary of key findings

This section presents our findings on people's perceptions of 'the economy'. The focus groups covered 1) people's understanding of what 'the economy' is, and how much people think about the economy in their everyday life; 2) people's understanding of economic performance, how they judge whether the economy is doing well or badly, and whether and how the perceived state of the economy affects their own personal decision-making; and finally; 3) people's perception of who the main economic actors and players are. In addition, the survey included a question about level of interest in economic issues.

The key findings were:

- Focus group participants often associated the economy with money. Participants focused on the stock of money in the economy, by referring to how much money the country had in its 'money pot', or how much was held by households or individuals. People also focused on movements of money in the economy, both within the domestic economy through earnings, spending, taxes and government spending, and how much money come in and out of the country through imports and exports.
- Participants also spoke about the economy in terms of the country's performance, seeing the economy as a measure of how well the country was doing. Often, economic performance was spoken about in negative terms, by saying the economy was 'in crisis' and 'in decline', and in terms of perceived uncertainty as people felt the economy was unpredictable. The uncertainty was also felt on a personal level, as participants thought it was difficult to decipher what was going on in the economy.
- The economy was sometimes seen as all-encompassing in the sense that the economy affected everything around us, and as a catch-all phrase for all components of society. Participants often listed a long list of economic concepts as important to the economy such as employment/unemployment, interest rates, borrowing and lending, prices and inflation, wages, housing, production, trade, businesses, GDP and so on. Of these, the most salient aspects of the economy, in terms of describing what the economy is, seemed to be issues related to the labour market such as employment and wages; the production of the country with focus on businesses and trade; and issues around interest rates with specific focus on people's own mortgage costs.
- Participants were deeply aware that the economy has real impacts on their personal lives, such as their housing situation and mortgages, and their employment prospects. At the same time, participants expressed disillusionment and apathy, as they felt the economy was outside their control, and controlled by elites and 'money men down south.' Similarly, the impact of the economy was mostly perceived in a negative way, in the sense that it was seen as a constant threat to individuals and businesses. The treat was seen as 'constantly hanging over us', and participants said they had been 'hit by the economy',

'suffered because of the economy' and 'got smacked in the face by the economy'. In contrast, very few spoke about the economy in a positive way, as an external force that could enable career progression or opportunities.

- Generally, participants made the distinction between their personal economy and the country's economy or the wider economy. They spoke about how their personal economy, such as wages, employment and cost of living, was impacted by the wider economy, and sometimes even the global economy. Participants sometimes felt there was a disconnect between the performance of their personal economy (which was often seen as bad) and the country's performance. For instance, some people questioned why it could ever be said that the economy is doing well when it was at the same time reported there was rising food bank usage, homelessness and poverty.
- Focus group participants often saw the economy as 'confusing', 'complicated' and 'difficult to understand'. While participants acknowledged the importance of the economy, they often admitted they lacked a detailed understanding of it. Despite this, most participants said they were interested in the economy, at some level or another. This was also reflected in the findings of the survey, in which a majority of British people expressed interest in economic issues. In most instances, focus group participants paid attention to the economy and certain economic indicators when it had big personal financial implications such as when getting a mortgage, or when downturns in the economy affected their job prospects and their finances. Sometimes, participants' attention depended on their personal circumstances, such as the need to administer one's own finances or buy a house, which often varied by age. For some, Brexit had propelled a newfound interest in the economy and made them realise how much it impacted their lives, though for others, Brexit had led participants to become disinterested in economic affairs, at least temporarily while Brexit was on-going.
- Focus group participants saw the government (especially the Prime Minister and Chancellor) and politicians as some of the main actors in the economy, mainly due to their power in making decisions that affected the economy. In addition, participants saw business and industry as some of the main players, both small businesses that were described as the backbone of the economy, but more prominently large corporations and global companies, especially in the finance sector.
- Focus group participants generally found it hard to judge whether the UK economy was currently doing well. They said it was complicated to assess for an average individual, and people felt they constantly received conflicting, and often biased, information about the country's economic performance. Participants themselves judged the country's economic performance on a range of indicators. Interest rates were prominent in these discussions, in large part due to the impact on personal finances, especially through the costs of mortgages. Most participants saw low interest rates as a good sign for economic performance. Another indicator for economic performance was seen to be job

opportunities, with emphasis on the availability of jobs that enabled people to sustain a decent standard of living. For some people, economic performance was determined by how much money people had 'in their pocket at the end of the month'. While participants rarely used the term 'real wage growth', they often argued that the relation between price and wage growth impacted living standards and was a key indicator of economic performance. Participants also spoke about business performance, and the performance of high street shops and large corporations were often discussed. Finally, participants spoke about the quality and availability of public services as a key indicator, as well as trade performance with specific focus on the decline of certain industries such as manufacturing.

Section 2.1: What is 'the economy'?

Focus group participants were asked to introduce themselves and briefly say what they thought the economy was, and how they would describe it. The interviewer said that the economy was understood differently by different people, and therefore implicitly recognised the fact that there was not necessarily one correct answer to this question. Even then, it was clear that 'the economy' was seen in many different ways by the participants, ranging from very specific aspects of the economy, to seeing the economy as all-encompassing. Most often, participants said they associated the economy with money:

'When I think of economy, you just automatically think of money, lack of.'

Female participant, Manchester.

'I would think of money straight away.'

Female participant, Birmingham.

There were a number of different ways participants saw money as important to the economy. First, participants spoke about the amount of money in the economy, focusing on how much was produced within the country, and how much money were held by the country or state:

'In a nutshell, it's essentially how much money the country makes, whether that be through trading or just the employment.'

Male participant, Manchester.

'The economy for me is the money that the country makes and spends. Obviously, we always seem to be in debt and owe millions or billions, and it's one where they're always trying to get the deficit down and sort out how to spend the money that we're all paying our taxes for.'

Female participant, Birmingham.

Similarly, the economy was sometimes also described with reference to a 'pot' or a 'money

pot', which seemed to symbolise how much money the country has as a whole. For instance:

'How much there is in the pot.'

Female participant, Manchester.

'It's an amalgamation of what the country has in the pot, whether that be the finances from taxes, revenue. It's just the grand sum from local government to central government to trade, etc., etc. It's just the final balance really.'

Female participant, London.

Other participants focused on how much money was held by households and private individuals:

'I think on a personal level it's whether you have more or less money in your pocket as the years go on.'

Female participant, Birmingham.

'How much money each person has in their pocket'

Male participant, London.

'I think of the economy as the finance of the country and everything that gets measured, and at the end of it, it is how much money we all have at the end of the day.'

Female participant, London.

Second, participants spoke about the movements of money in the economy, and sometimes spoke of 'where the money's going from and to.' This could be in terms of how much was earned and spent by households, or how much money came in and out of the country through imports and exports:

'I think of money straight away, what we earn and what we spend.'

Female participant, Manchester.

'When I think of the economy, I think of the money that we bring into the country and then it goes out.'

Female participant, Birmingham.

Often, participants noted how the movements of money affected real people, either through government investments and distribution, or through affecting earnings:

'I see the economy as money going in and money coming out of the country, and how it's distributed to other people.'

Female participant, Manchester.

'What our government then decides to invest money into or not invest into.'

Female participant, Birmingham.

'I think that economy depends on what comes in, and then what goes out and the fine balance, starting with the grass roots, starting on a personal level, going up into various organisations, and then going to government level, and to those who don't even need to work. Where the money comes from, how it is spent, whether they increase it or whether it depletes. Whether it's taken from the pockets of those who can't afford it.'

Female participant, London.

Sometimes, these movements were also described without direct reference to money. For instance, this participant spoke about the economy as a 'spreadsheet', in which government incomes affected expenditures:

'The economy to me is about employment, it's about making money for the nation. It's about imports, exports. It's about basically paying off the national debt from a government point of view. The more people in employment, the more tax they're paying. The more tax we're paying, the more we can pay into the Armed Forces or the roads or whatever it happens to be. Like I said, to me the nation is like a spreadsheet.'

Male participant, London.

In addition to speaking about the stock and movements of money, another common theme was that participants spoke about 'the economy' in terms of the country's performance. The economy was described as a measure of how well the country was doing:

'I consider the economy to be a business measure of how successful the country's doing at the moment. When we vote, we try to choose something that will boost and strengthen the economy.'

Female participant, Birmingham.

'I believe the economy is a reflection of where we are as a country, financially and how well our businesses are doing or not doing.'

Female participant, Birmingham.

'I see the economy as the prosperity of the country. If you're in a recession and the country's struggling, I think it's a gauge of how financially secure and prosperous the country really is.'

Male participant, Birmingham.

Participants also spoke less directly about the economy as a performance measure, by talking about the current performance of the UK economy. For instance, participants answered the question about what the economy was by saying the economy was 'in crisis', 'a mess', 'in dire straits', 'reasonably healthy', 'in decline', and so on. By far, most ad hoc

references to the performance of the economy were negative. The positive references tended to be participants who compared the UK to the rest of the world, for instance:

'I've got my own company... I've seen business drop significantly this year. I'm still quite hopeful when I think compared to the rest of the world that we're in a strong place, and that things will get better eventually.'

Female participant, Birmingham.

'I think in terms of the economy I think it's reasonably healthy at the moment, when you look around the world.'

Male participant, Manchester.

Rather than speaking about whether the current economic performance was good or bad, however, it was more common for people to highlight the economy as 'uncertain' and 'unpredictable', particular in terms of the future economic prospects. This may, however, be reflective of the timing of focus groups, which were conducted during October 2019, leading up to one of the Brexit deadlines on 31st October 2019. Nonetheless, while the political circumstances seemed to have driven some participants' responses about uncertainty, many comments were more general about the economy as inherently uncertain and unpredictable:

'I don't think it's ever a certainty, nobody can ever say the interest rates are going to stay at this level, because nobody knows, it's all about forecast.'

Female participant, London.

While participants spoke about the inherent uncertainty of the economy, particularly the uncertainty in forecasting and the difficulty in predicting the future path of economic growth, interest rates, inflation, unemployment and so on, others said they were uncertain themselves, as they could not decipher what was going on in the economy based on what was reported in the news:

'Everything that you see on the news, you don't know, you only know what the media are telling you, so everything's a bit in the air.'

Female participant, Manchester.

'It's just a bit like we don't know what's going on with the future. I'm just listening on the radio and watching the news, and I'm a bit confused at the minute with it all.'

Female participant, Manchester.

Sometimes, this uncertainty was seen as directly related to the Brexit process, which was described as 'chaotic' and 'messy', with changing Prime Ministers and disagreement in Parliament identified as important factors. Generally, as the subsequent section on the key actors and players in the economy will describe, participants often spoke about politics,

politicians and government as integral to the economy, and particular the fact that the economy was currently going through a period of uncertainty:

'Until Brexit happens, I think the economy is in no man's land. No one knows whether to go in reverse, go forward, go sideways. What do people do, they stand still. I think some part of industries, as they stand still, sadly we won't replace people because we don't know where we're going to go three months from there, and delaying Brexit is making it worse, whichever way they decide. Someone's got to make a decision.'

Male participant, London.

Participants often described the economy as consisting of many different components. As such, a typical way of describing the economy was that participants listed a number of economic concepts, such as employment and unemployment, interest rates, borrowing and lending, prices and inflation, wages, housing, production, trade, businesses, GDP and so on. Of these, three seemed most salient. First, people often highlighted and described issues related to the labour market, particularly related to employment and unemployment, the job market and wages. Second, people often mentioned the production of the country, with focus on businesses and exports/imports. Thirdly, interest rates and borrowing, with particular focus on own mortgage costs.

There was recognition among many participants that the economy affected many aspects of their lives and society. The economy was described as an 'organic entity with its tentacles into pretty much everything' and as 'an amorphous thing that affects everything', and others simply said the economy was all-encompassing and signified 'everything'. In this sense, participants sometimes spoke about the economy in terms of how it was managed and structured. These participants saw the economy as a way of structuring our society and our country.

Some participants also provided specific examples of how the state of the economy affected them, such as their housing situation and mortgages, their business, and their employment prospects. However, there were also a few participants who felt the state of the economy did not matter to them, due their own personal circumstances:

'I don't think a lot of it affects me personally. I don't have a mortgage, so interest rates don't bother me... I don't care if we sell things to Germany, or we buy things from Germany.'

Male participant, Manchester.

'I don't really think the economy bothers me really. I think it's for the money lending really, isn't it? So really, it very rarely affects me with my wages. It's just the shopping and that's it.'

Male participant, Birmingham.

'In a way the economy does have an effect on everyone in their own little way, it's whether that little thing particularly bothers that individual. For me, it hasn't really affected me too much.'

Male participant, Manchester.

The theme of disillusionment and apathy about the economy was a running theme throughout the focus groups. For some participants, this view was based in the belief that the economy was controlled by the elite:

'It's the money men down south who control what happens, and we're just on the receiving end of it if you like. But we all have an input in it by paying our taxes, so that's how I generally see the economy.'

Male participant, Manchester.

'Don't really affect me either, the economy... as this gentleman just said there, it's the money men who are really interested in it. They're the ones that produce the graphs and all that for us workers.'

Male participant, Manchester.

The majority of participants, however, acknowledged that the economy had a real impact on their lives. This was often perceived in a negative way, in the sense that the economy was an external force which people could not control or predict themselves, but it was nevertheless seen as a constant threat to individuals and businesses. There were very few examples of the economy being described as impacting on people in a positive way. Instead, participants described how they had been 'hit by the economy', 'suffered because of the economy', 'got smacked across the face by the economy' and generally that it was something that was 'constantly hanging over us':

'I think a lot of the time you don't really understand how it affects you..., until you suddenly get smacked across the face by it in some way... I'm currently unemployed so I'm feeling it hard at the moment.'

Male participant, London.

'As a former retailer I was hit pretty hard by the so-called credit crunch, and my business suffered because of the economy.'

Male participant, London.

'I feel like I have very little effect over [the economy] and it's something that's constantly hanging over us.'

Male participant, Manchester.

In the few cases when people spoke positively about the economy's impact on them, it was often described as more gradual changes, compared to the dramatic negative shocks:

'For me, if the economy's doing well, you seem to have the psychological belief that you have a drip-drip effect, and it's going to be positive for me that inflation will be lower, and you've got more chance of getting a job.'

Male participant, London.

In this sense, participants often spoke about their personal economy (wages, employment, cost of living etc.) and how that was impacted by the country's economy or the wider economy. Some participants went even further, and spoke about the distinction between our country's economy and the global economy. Again, they acknowledged that the larger economy, in this case the global economy, affected the smaller economy:

'The economy is vast. It's not just restricted to our economy. The global markets have an effect on our economy.'

Female participant, London.

'My general gist is that it's basically the capital being shifted around, not just this country but around the entire world really.'

Male participant, Manchester.

'There's many economies. There's our personal economy, our country's economy, there's the global economy and maybe a few more somewhere. It just depends on what you're looking at.'

Female participant, London.

While many participants recognised the domestic and global economy as important in affecting their lives, some were pessimistic as to whether they had any influence on the economy. As previously described, people often spoke about the economy as something shaped by larger forces, such as the impact of the global economy on the domestic economy, or by impersonal forces. Throughout these conversations, some participants argued that the economy was not serving the 'working people', but instead it was geared towards serving the elite:

- 'It tends to be the ordinary people who suffer at the end of it.'

- 'Absolutely, how many people died through that recession, how many felt their lives were ruined by the people that caused it, they're still living the high life, they're still okay.'

Dialogue between male participants, Manchester.

'I do think everything, but I think you hear a lot on telly about these big fat cats, these big bosses. Industries go downhill and they give themselves massive rewards and money and we're on basic pay and it's not fair.'

Female participant, Manchester.

'I don't think [the economy] is serving the people, working people at all. I think it's serving

the wealthiest, and I think it's making everyone else poorer at the moment.'

Male participant, Manchester.

While focus group discussions were not purposefully structured to explore whether participants found the economy or economic news accessible, this was a prominent theme. For many participants, the economy was seen as 'confusing', 'complicated' and 'difficult to understand'. These were typical comments:

'For me, the economy is a big jargon.'

Female participant, London.

'To me the economy is a mess and I do watch a lot of the news, and I don't understand half of what's going on.'

Female participant, London.

'I think the economy's a bit of a minefield.'

Male participant, London.

While most participants acknowledged the importance of the economy to their everyday lives, many participants readily acknowledged that they lacked detailed knowledge about the economy:

'It relates to money, but apart from that I've got literally no idea.'

Female participant, Manchester.

'It's not very often I'll listen to anything to do with the economy, half the time I haven't got a clue what they're on about.'

Male participant, Manchester.

'I don't really have an in-depth knowledge of the economy at all.'

Male participant, Manchester.

Some highlighted how Brexit had affected their interest in the economy, both positively and negatively. On the one hand, Brexit had meant that people were much more interested in economic issues as they had realised how much it impacted their lives. On the other hand, Brexit had made some people disinterested in economic affairs, at least temporarily while Brexit was on-going:

'I've just completely switched off from it all now since all the Brexit started. It's dragged on that long. The MPs seem to disagree just for the sake of it, and everything seems doom and gloom about the economy, and I just completely switched off with it all now.'

Male participant, Manchester.

Some participants seemed to link Brexit intrinsically to the economy, and when asked to describe the economy they listed Brexit alongside unemployment, employment, wages and so on. In some groups, the interviewer had to remind people that the discussions were about the economy rather than Brexit. Other participants noted that 'the economy had been overshadowed by Brexit' and clearly separated the two, though they acknowledged the potential impact of Brexit on the economy.

Section 2.2: Main actors and players in the economy

Focus group participants were asked who they saw as the main actors and players in the economy. Participants had different and varied responses. The full list included government, politicians, small and large businesses, the finance sector, interest and pressure groups, the Bank of England, media, rating agencies, and international organisations such as the EU and IMF.

Most prominent responses were government and politicians, with participants specifically mentioning the Prime Minister, the Chancellor and MPs. Most often, participants focused on the fact that the government and politicians were 'in charge' or 'in power' of making decisions around the economy, for instance:

'[The politicians] are the ones who play with the country's money. They decide the interest rate, and they know how much there is in the black hole that is getting bigger and bigger, I think.'

Female participant, London.

Participants also focused on the ways through which the government was influenced on economic issues. This often included those with business interests and pressure groups, who gained influence through affecting the government:

'I think the government can be bought, politicians have interests, corporations whatever, so you have huge lobbyists influencing the government in what they decide to do.'

Female participant, London.

'They said the NHS has big outside bodies, nothing to do with the people who provide the drug system, they have a huge financial influence on the NHS. If you take our tablets. They may not be the best brand or the most economical, but the drugs go in and money follows behind.'

Female participant, London.

'I'd say interest groups as well like the institute of business, how they have close relations with the government, and it really effects what they've spent and where the money's going as well.'

Female participant, London.

'Big businesses, any business earning a suitable amount of money and is paying a certain amount of tax will have an influence on the government. So, the CBI has influence as well on government.'

Male participant, Birmingham.

While some participants also argued that smaller businesses were the 'backbone of the economy', participants most often spoke about large corporations, global companies and the FTSE100. In particular, participants discussed the influence of the finance sector, including banks, large financial companies, the stock market, investors and hedge funds. Some typical comments were:

'I think there's a lot of commercial enterprises and private organisations and people who have a massive influence over world economies. You just take a look at companies like Goldman & Sachs and JP Morgan, the likes of them, they're always involved when something big happens... If you just keep digging, you'll find them there in the background, a combination of government and the private sector, all of the money.'

Male participant, Birmingham.

'Banking, that plays a big part in the economy, not just in terms of us putting our money in there... but in terms of how they play the market game.'

Female participant, London.

'You can't ignore the banks as well when it comes to economy. They caused the recession, they were lending out money to people they knew never would have been able to pay it back in a million years, subprime mortgage lending in America, so don't forget the people that caused this, none of them have gone to jail.'

Male participant, Manchester.

'I think the bankers and Canary Wharf seems to monopolise the whole thing.'

Female participant, Manchester.

One participant mentioned rating agencies implicitly:

'Didn't the US get knocked down AAA to AA*? Am I making that up? Whoever sets that...'*

Male participant, Birmingham.

The Bank of England and its then-Governor, Mark Carney, were sometimes mentioned. These respondents typically described the Bank of England as a main actor due to its

responsibility of setting interest rates. International organisations were referenced briefly. This mostly included the EU and IMF, albeit in largely unspecific way:

'IMF, I don't even know what the IMF does too much, but that's stuff to do with how we're managing our finances.'

Female participant, Manchester.

'What about things like the IMF and stuff, are they involved in it? International Monetary Fund is it or something like that.'

Male participant, Birmingham.

The media was only mentioned once as a response to the question about key actors and players. This participant highlighted the media's power to set the agenda and affect key economic indicators:

'Yesterday's stories saying there was a good deal for Brexit and all of a sudden, the pound is stronger, based upon no fact, based upon a meeting that may or may not have taken place, and a conversation that was unrecorded, and a bit of leaked stuff to the press. All of a sudden, the pound's stronger, no other walk of life would you make big decisions based on hearsay. You couldn't do it in a court of law, but the global economy can change through a whisper and that's the media.'

Male participant, Birmingham.

Section 2.3: Interest in the economy

People's interest in the economy was explored both through the focus groups and the nationally representative survey. The survey showed that the UK population is broadly interested in economic issues. Figure 3 shows that a total of 64% of responses were on the positive part of the scale (6-10); 20% are on the negative side of the scale (0-4), with 13% at the middle point (5). Another way of dividing the sample would be that 17% are 'less interested' (0-3); 27% are 'fairly neutral' (4-6); and 53% are 'more interested' (7-10).

Figure 3: Interest in economic issues, proportion of respondents on 1-10 scale

“On a scale of 0-10, where 0 means not interested at all and 10 means extremely interested, what is your level of interest in economic issues?” (N=1,665). Graph excluding “don’t know” responses (2% of total)

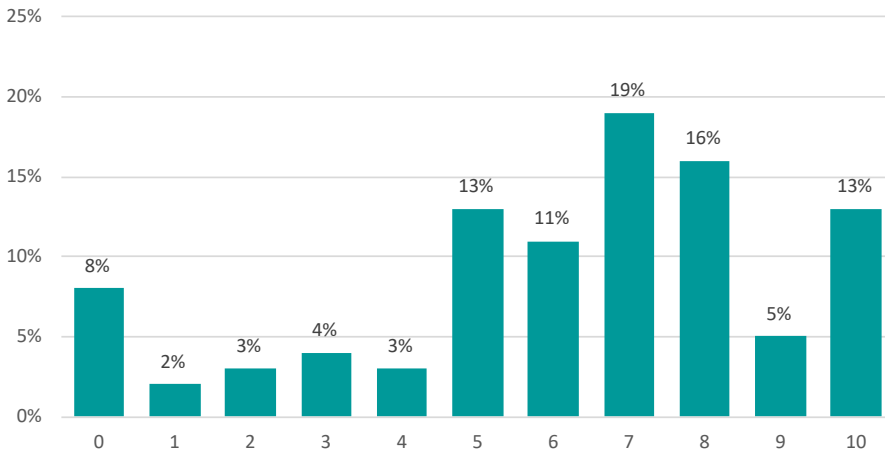
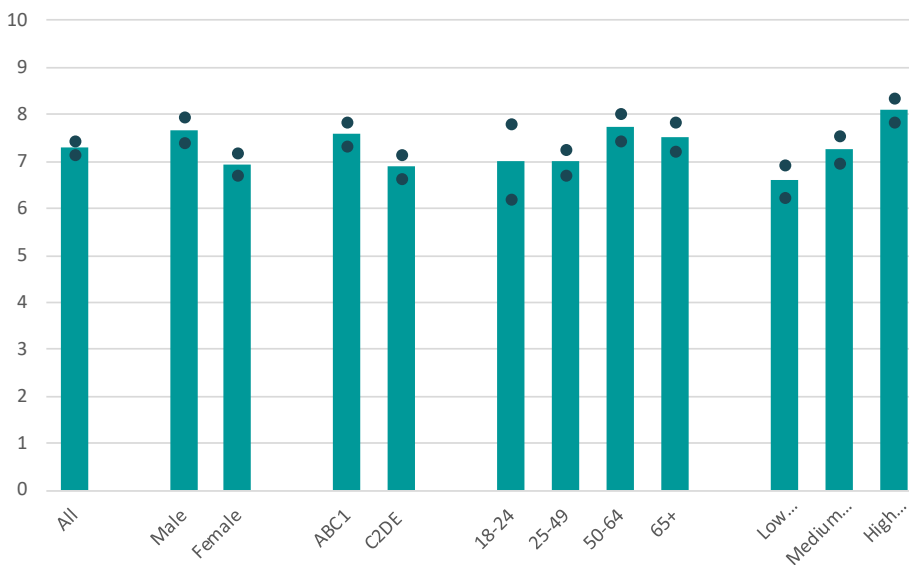


Figure 4 below shows the means/averages (on the 1-10 scale) for different subgroups of the UK population. While the average for the whole UK population is 7.3, the figure shows substantial differences between demographic groups. Similarly, regression analysis (Appendix 8) shows that all these differences are statistically significant; that is, people are more interested in economic issues when they are male, older, higher educated, and of higher social grade.

Figure 4. Interest in economic issues (1-10). Means by gender, social class, age, education level
 “On a scale of 0-10, where 0 means not interested at all and 10 means extremely interested, what is your level of interest in economic issues?” (N=1,665), 95% confidence intervals



Focus group participants were also asked about their general interest in the economy, and to what extent they thought about the economy on a daily or regular basis. Focus group participants were screened on the 1-10 scale. Those between 0-2 were excluded, but apart from this, the focus group sample is distributed similarly on the 1-10 scale as the UK population. During the discussions, only a handful of focus group participants said they did not think much about the general economy, usually because they felt they could not affect it and there was no reason to spend unnecessary time thinking about it:

'We can't really change it, so it's best not to think about it really.'

Male participant, Birmingham.

'I don't feel I've got any control of it anyway. So sometimes I just block it off.'

Female participant, Birmingham.

Similarly, others said they found it difficult to understand how the economy was doing, which affected their interest in economic issues:

- 'It's hard to understand as to what actually is going on with the economy, because my personal opinion is, everything you're told half the time is a lie, or it's just a guess or an estimate of what it could be. No one really actually knows from my point of view anyway.'

- 'I agree, you don't really know, do you? You could get told one thing, something else happens, that happens, this happens. At the end of the day, as long as you get your wages in our bank.'

Dialogue between male participants, Manchester.

Finally, a couple of participants spoke about how they encountered updates about the economy on news programmes, but often found it gloomy and quickly looked for something else to do:

'I suppose when it comes up on the news, I mean I don't say I think about it day to day, talking about other bits and pieces in your life, but when it comes up on the news and you're sitting with your husband or your partner or something you go what's this, what's that. That's when it is, about 6 o'clock at night, it depresses you and then you look for something good to watch.'

Female participant, Birmingham.

Despite this, focus group participants generally expressed interest in the economy at some level. During conversations, participants explained in what way they were interested in economic issues and, in some instances, how they paid attention to specific economic indicators. Generally, participants made clear they were predominately interested in their own personal economy rather than the economy in general:

'[The economy] is not something I think about at all. I just think about getting my wages, buying stuff, how much I've got left, what I've got to pay out, and then my credit cards, I pay all the interest rates.'

Male participant, Manchester.

For instance, people said they thought about the economy when it had big personal financial implications such as when getting a mortgage or starting a business. For instance, this was a typical comment:

'I suppose it comes up when you're trying to do something, so if you're trying to buy a house or sell a house, or start a company, or your company's in trouble. I suppose that's when people really think about the economy, otherwise it's like the lady said, it's on the news.'

Female participant, Birmingham.

Another example of how people focused on their 'personal economy' was that people noticed how much prices had gone up by in their weekly shopping, though one participant argued that she didn't necessarily notice these price changes on a day-to-day basis, but that it was something that happened gradually, and she realised the changes at certain points rather than on a daily or weekly basis. In contrast, other participants reported shopping around for the cheapest options, and their attention to price levels were constant and pervading everything they did, and in this sense, some argued that they indirectly, similarly to the weather, thought about the economy all the time:

'You have a moan, don't you, that prices are expensive, but then when you actually think about it, it's affecting every little thing you do. I don't want to think of it like that, because you would end up getting depressed, and it takes over. It does feed into everything.'

Female participant, Birmingham.

'I think my mum called me a couple of weeks ago to go and fill the car up because the petrol prices are about to go up and these little things that there seems to be so much more consideration. You're going on holiday, perhaps shop around a bit more for your exchange rate and it seeps, for me, it seeps in every day. I perhaps don't realise it's economics because it's the day to day things.'

Female participant, Birmingham.

On a larger scale, some participants had noticed how the upswings and downswings in the economy had affected their everyday life, their job prospects and their finances. As described earlier, this was mostly expressed in negative terms in the sense that the economy was seen as sometimes restricting opportunities rather than enabling them:

'I've lived through recessions... I've been made redundant three times in the past. Already I've noticed that, I work for solicitors, the housing market has slowed down.'

Once the house market starts slowing down, it's not long until it starts impacting on us all. And before we know it, there's no house sales going on, estate agents are suddenly not phoning anymore, something will happen. And you just, I'm only going by experience, because I'm fed up of being made redundant. I'm prepared this time.'

Female participant, Birmingham.

'What happens in the economy restricts our opportunities and our ability to progress. Some digress because the choices and options are not there.'

Female participant, London.

Another way that participants noticed the economy was when the state of the economy was seen to affect the surroundings around them, for instance on the number of closed shops on the high street, or in the number of homeless people on the streets. These two comments were typical of these respondents:

'You can see the effects of the economy even right down to street level. When an economy's active and vibrant and there's lots of financial transactions flying around, it makes people feel more confident. Businesses start to trade more. And similarly, when an economy goes into recession, you see shops start to close down, unemployment goes up, inward investment stops and it does affect it, and the roads get more bumps and holes in them, because governments haven't got enough money to fix things. So, you see the effects of it.'

Male participant, Manchester.

'I'm seeing a lot, hearing a lot more about homelessness as well. So, I'm seeing a lot more people around that are homeless than ever before, tents everywhere. So, I think that's really massively increased over the last two years. I don't know why that is, is it because of people's state of mind and their activities that have got them into that situation, or is it unemployment? I don't know why this has happened, but I have noticed that, I would say that that would be the economy, because that's a factor.'

Female participant, Birmingham.

Sometimes, it was clear that the attention to certain economic issues had come with age due to changed personal circumstances such as the need to administer one's own finances or buy a house. Others also noted that a change in life circumstances had meant they had taken more notice, and encouraged them to start trying to understand the economy better:

'I'd say for me it was more when I moved out of my mum's house and actually started to realise gas, electric, food shopping and going out on weekends with friends... I've had to become aware of all these things and I've also been saving for a mortgage deposit.'

Female participant, Birmingham.

'I turned 31 this year and got married, so I feel as though I'm moving into a different

stage of my life where I need to pay attention. And three months ago, I had a baby, so I feel as though I need to be understanding what the future holds for her. Previously I would not really have taken much notice, but I think now I'm starting to try and understand it a bit more.'

Female participant, Birmingham.

Finally, it was a common theme that participants, especially older participants with children, expressed concern for young people, particularly their job prospects and the opportunity to get on the housing ladder, which were seen as more difficult than in the past:

'I worry for the future, for my kids, whether there's any jobs and what the wages will be like and pensions as well. That's a big worry, I think about that a lot.'

Female participant, Manchester.

'I really worry about my kids, because they're going to take the brunt of it.'

Male participant, London.

'I think the house prices are so out of control, and that makes me so angry, and what makes me even more angry is the fact that people just starting out in their 20s, they can't afford a house. They have to ask their parents to help them.'

Female participant, London.

Section 2.4: Economic performance: measures and indicators

Focus group participants were asked a number of different questions about the performance of the economy, including how they might judge whether the economy is doing well or badly via different measures or indicators. Throughout these conversations, a number of measures and indicators were mentioned by participants, namely: interest rates, the state of the labour market, the performance of the high street and businesses including specific industries; the cost of living including wages and price; and the quality of public services. These will be covered in turn below.

Throughout the focus groups, it was clear that interest rates were one of the economic concepts that participants engaged with the most due to being seen as having an important impact on personal finances, particularly mortgages. Similarly, some participants highlighted the level of interest rates as an indicator of the state of the broader economy:

'Our interest rates as well. Our interest rates give us a big clue of how we're doing.'

Female participant, London.

'If you look at the Bank of England, the interest rates, that will affect your mortgage.'

Male participant, Manchester.

Generally, participants seemed to agree that lower interest rates were seen as a good sign for economic performance, while higher interests were seen as a bad sign for economic performance:

'I agree with you on the interest rates, as we're in a lucky period now where they've been set at a fairly low rate, and we've had a steady existence for a few years now. But if that all started changing, that would be a point we'd start to think, hold on a minute, there's big changes now. I work in construction and build houses so at the moment there's a nice steady flow, and it has been for a few years, but that could easily change with interest rates changing.'

Male participant, Birmingham.

Another major theme during discussions around economic performance was labour markets and the availability of jobs. Generally, participants expressed that the economy is good when there are 'a lot of people employed, and the unemployment rate is low', suggesting that this is beneficial as it meant businesses were doing well, and more people paid taxes and brought money into public services:

'There's more jobs, so even if you're not as well off, you'll still benefit from the economy doing well because businesses are doing well, they'll recruit more people at all levels almost.'

Female participant, Birmingham.

'I've noticed, there seems to be a general vibe amongst people, people are employed, people feel secure, and I've noticed more recently that's not the case. I've had a lot of friends that are hunting for jobs, and it's more of a bun fight to try and get one at the moment.'

Male participant, London.

Participants also spoke in detail about the performance of the high street, suggesting thriving shops was an indicator of high household spending:

'You know how everyone's high street is dying, and the shuts are all shutting and there's loads of empty, or they're re-opening as charity shops or pound shops. That means you're going to be less people coming to the high street and spending less on other things. That might be an indicator of the economy.'

Female participant, London.

'I think an indicator is what we are actually spending, say on the high streets. I think Christmas will be a big indicator, I think a lot of people will cut back this Christmas and

people will be dropping what they're spending.'

Female participant, Manchester.

Participants also frequently noted a number of big businesses that had gone into administration as an indicator of poor economic performance, again highlighting it as a sign of reduced spending power amongst the population:

'I think a good indicator as well is the amount of big stores, big companies that are going to the wall... When you think about it, they've been around for 100 years some of them, so that's a tell-tale sign people are not spending as much money, because people haven't got as much spare cash.'

Male participant, Manchester.

'I think you can see from the major retailers, they all seem to be going under lately, and I think all these big names that we've known all our lives are just going. It's worrying, I think. They're like dominos, they're all losing everything that we need.'

Female participant, Manchester.

Other participants, however, often countered this view; suggesting the failings of high-street shops and traditional companies reflected changing consumer habits rather than a fall in spending among consumers or a downturn in the broader economy.

'When I look at those businesses, is that the result of the economy or a result of bad management within that company?'

Female participant, Birmingham.

'The high street is changing completely, and you definitely think about the economy then, because you walk around all these shops. But did you go into those shops? Probably not. The high street is going to change as a place. That might not be that the economy is devalued, because we're still spending money everywhere, just not in the same way. The high street will become something else.'

Female participant, Birmingham.

'The way we buy things has changed... A lot of business that has been going a long time is suddenly struggling, and they haven't moved with the times.'

Female participant, Birmingham.

Some participants who made this point also remarked that the media tended to highlight the failings of traditional businesses and closing of high streets, but focused less on the positive news about booming internet companies:

'People are losing jobs. But more people are going into jobs that are internet-based, because everybody's spending money on the internet. Sometimes the news will tell you

all the bad stuff, but actually they won't tell you about all the growth that's going on as a result of the change in how the consumers are interacting.'

Female participant, Birmingham.

'Jet2 are booming but that wouldn't be reported in the press because the press just grabs onto the negative story and puts a bit of fear in you, 'oh, we're doing terrible' when actually all those online businesses are soaring.'

Female participant, Birmingham.

More generally, participants spoke about the performance of businesses and certain industries as an indicator of strong or weak economic performance, and sometimes acknowledged that there existed a feedback loop, in which thriving businesses led to higher employment, which in turn led to higher income and more spending power, and so on. For instance, this participant made this point, though she noted that it constantly seemed to work in a negative direction, with less jobs and less spending:

'The businesses are doing well. People are in work. With a surplus income, [they] can afford to buy more things, and it feeds back in, and you get an upward spiral. However, it seems to be constantly on a downward spiral.'

Female participant, Birmingham.

In addition, some participants spoke about the perceived struggles of certain industries, such as the automotive, coal and manufacturing industries, which according to some participants had created 'question marks' and 'major uncertainty' about future job prospects and the direction of the economy.

While job prospects were seen as an important indicator, some participants also argued that the quality of jobs available in the economy was an important indicator of economic performance. These participants gave examples of how low quality jobs reflected that the economy was doing poorly, such as the rise in low-paid, temporary and insecure jobs. The overriding theme in these responses was to describe economic performance by how much money people had 'in their pocket at the end of the month'. In economic terms this is known as 'disposable income', though this term was only used directly by one participant. When participants spoke about their wages and total income, they often argued that real wage growth was a deciding factor for economic performance. Again, participants very rarely used the term 'real wage growth', but spoke about the relation between price and wage growth as an indicator for how well the economy was doing:

- 'From my point of view... two big indicators for, what you might call the average working people, I think, are wage growth and inflation... Those two, in particular, sort of influence a lot of our financial decisions, the day to day living. If wage growth is fairly stagnant, and yet inflation's going up...'

- 'They're more prominent in our lives, aren't they?'

- *'On a daily basis.'*

- *'Exactly that, that's from the man in the street's point of view, that is the biggest driving factor. If you get 2% inflation, you get 1% pay rise, you've just taken a pay cut. That's the effect on us.'*

Dialogue between male participants, Manchester.

Other participants had similar observations, but only spoke about how rising prices tended to erode the standard of living, while not specifically mentioning the relation between wages and prices:

'A basic barometer for me and my wife is when we do our weekly shop, or weekly shops, how much that's costing. For me, that's the barometer, the measure of how well the economy's doing with regards to buying or selling. I think that's my simple thoughts on it.'

Male participant, Manchester.

'The cost of petrol, alcohol, cigarettes, all the other things, whether it goes up. The duty they put on it every six months, on the budget. I think that's a good indicator.'

Male participant, London.

Participants also saw the quality and availability of public services as an indicator of whether the economy was doing well or badly. Some participants spoke about the closures and cuts to public services during the period of austerity, as well as how the high cost of childcare and social care was a negative reflection of the state of the economy. Another smaller theme was that some participants spoke about trade as a measure of economic performance. These participants argued that the struggles of sectors such as manufacturing had meant the UK had become a net importer, which was perceived to be a negative. These thoughts will be discussed in much more detail in the chapter on the balance of trade, in which people were asked specific questions about this topic.

Section 2.5: The performance of the UK economy

Focus group participants were also asked how they would describe the current performance of the UK economy, whether it's something they pay attention to, and whether it's something they consider when making personal decisions. Overall, the most common theme in these discussions was that participants found it hard to judge whether the economy was doing well. They highlighted that it was a complicated issue that was hard to assess, and they felt they constantly received conflicting, and often biased, information through the media by politicians and experts. Many participants therefore felt it was impossible for a non-expert such as themselves to determine who to believe, and therefore found it hard to answer whether the economy was performing well or bad:

- *'I think this is going back to the old thing that I said before, you never know who to believe.'*
- *'One sector will tell you yes, the economy is doing fantastic, the other will say no it's not.'*

Dialogue between male participants, London.

- *'We're not given enough information, and then are you just given information one-sided like you said of what you want to know.'*
- *'You are being scaremongered into panic.'*

Dialogue between female participants, Manchester.

These feelings were exacerbated by the uncertainty around Brexit at the time of the fieldwork, and how the UK leaving the EU would subsequently affect the British economy. Typical comments were:

'I really don't know at the minute because it's all about Brexit and all anybody talks about is what is going to happen. We seem to be stuck where nobody's making a decision. I think all you hear talked about is if Brexit happens, if Brexit doesn't happen, there's so much uncertainty that at the moment people are not willing to take a risk. There's a lot of things on hold. Is it scaremongering or not, nobody seems to know, everybody says they don't understand it all?'

Female participant, Manchester.

'A lot of it is maybe been hidden in terms of where we are standing, because they're scared to make any input at the moment or divulge anything to us given the uncertainty of Brexit, and because they're so unsure how it is going to go, even big companies are looking at different ideas... I think no matter what we read now, we're reading it all with rose-tinted glasses, because we're not seeing the full picture to what is out there.'

Female participant, Manchester.

Another prominent theme in these discussions were the distinction between 'my economy' and 'their economy', or as we described earlier, the difference between people's 'personal economy' and the 'country's economy'. Some suspected that experts such as politicians or economists would look at different indicators than the average British person:

'I think a good economy to us is about what impacts us directly. So yes, house prices do, employment rates do. So, we look at that. I think if you're not into finance or politics, you look at it more on the surface. So, what are those first level things, rather than the intricacies that the government deal with.'

Female participant, Birmingham.

'I think if somebody says to me the economy's doing well, the first thing I think about is that's obviously coming from somebody like the Bank of England governor or a politician'

because what they're basically saying is that interest rates are very low, borrowing is kept under a certain measure so it's for them, it's statistically what's on a piece a paper. Obviously for my next door neighbour, for the people around this table, it means nothing. I can read it and I know what they mean but that's just what's written on a piece of paper for me.'

Female participant, London.

Similarly, a common theme was a perceived disconnect between the performance of their personal economy (which was often seen as performing poorly) and the country's economic performance:

'I never feel like I've got any more money if the economy's doing well.'

Female participant, Birmingham.

'My wages aren't going up, but everything else is going up. So, actually whether they're doing well or not, it doesn't really make a big difference.'

Female participant, Birmingham.

'The economy doing well is those at the top, they're doing well, and then the economy doing badly is us here trying to work and live day to day and make sure we've got everything paid and the price of living, your wage stays the same, but food's gone up, petrol's gone up... The rest of us it's like we're feeling the pinch here, we're shopping around for things and finding the balance of everything.'

Female participant, Manchester.

This also led to some comments about inequality, with some participants questioning why it could be said the economy is doing well amidst reports of rising food bank usage, homelessness and poverty. This led participants to question whether traditional economic statistics used the right indicators to measure the performance of the economy.

When asked directly about the current performance of the UK economy, people tended to say it was performing badly, referencing aspects such as the closure of businesses and the quality of services:

'Everything's shutting down, services are shutting down, so we're in a really bad situation at the moment. There's nothing that indicates that we're doing well.'

Female participant, London.

In contrast, one participant questioned whether it was as bad as some people said, arguing that most people, on the whole, still enjoyed a high standard of living:

'You see I want to know but I don't understand why the economy can be so bad because people are still eating, they're still going out, they're still putting money in.'

Female participant, Manchester.

Finally, one participant described how the economy seemed to go through cycles, in which the economy was doing fine (which was described as the current state), but then it was always followed by a negative shock:

'It's like we're always doing good and then something happens, and then we're back at the bottom of the ladder again.'

Female participant, Birmingham.



Chapter 3: Inflation

Overview and summary of key findings

This section presents our findings on people's perceptions of 'inflation' and price changes. The focus group and the survey covered 1) people's understanding of inflation and what causes prices to change; as well as how much attention people pay to inflation; 2) their views and understanding of different inflation levels and the consequences of these; and 3) their perceptions of how accurate current official data on inflation is.

The key findings were:

- Our survey showed that around two thirds of the British public were able to define inflation. Similarly, focus group participants were generally confident in discussing and defining inflation, frequently relating it to price growth. Most of those who defined inflation incorrectly still knew broadly that inflation had something to do with prices, but tended to focus on current price levels or the cost of living, rather than the movement of prices over time.
- Focus group participants often brought up the perception that wage growth hadn't kept up with price growth in recent years. As such, many participants clearly understood the importance of 'real term' wage increases, though they rarely used or had had about this economic term. At the same time, other participants had never heard about real or nominal price and wage growth, and had never thought about the relationship between wage and price growth. For some, it prompted a reflection on their own salary development. Other people said they had heard about 'real terms' before, but had dismissed it as 'wordplay', and sometimes used in public debate to support a certain narrative.
- While the majority of participants did not talk explicitly in terms of 'high' or 'low' inflation, they often stated they pay attention to price changes, especially shopping costs, including fuel, food, tobacco and alcohol. However, people had rarely considered the reasons why prices rise over time. When asked, a number of different aspects were at the forefront of people's minds, including oil and petrol price changes, improvements in technology, interaction between demand and supply with specific focus on hits to supply due to natural disasters, profit maximising by companies, and changing consumer habits such as shopping in discount supermarkets.
- Focus group participants generally spoke in broad terms about different levels of inflation, such as 'low inflation', 'steady price growth' and 'prices staying the same'. The survey showed mixed views about the perceived best levels of inflation, and the focus groups showed this was not necessarily something people had thought about before. For the economy as a whole as well as for businesses, the typical response was that it was best when prices stay the same or rise slightly. For individuals and their families, respondents tended to say that prices should fall or stay the same. The most prominent theme in the

focus groups was to argue that the best level of inflation would be determined in relation to salary increases including to the minimum wage, ensuring that living standards were not eroded.

- When asked specifically, focus group participants suggested that 'really high inflation' would be bad for the economy, creating 'panic' and a 'vicious circle'. Some participants described the process in which consumers would no longer be able to afford certain products, putting some companies out of business, which would in turn cause unemployment. Some older participants had a strong historical memory of hyperinflation or high inflation, especially the UK in the 1970s and 1980s causing shops to close and people to lose their homes. Some participants also mentioned Venezuela, Zimbabwe and Germany following the Second World War. When asked about the impact of falling prices, the main response was that prices did not tend to go down, with the only exception of occasional falls in house prices. The term 'deflation' was rarely used. When later given information about this, focus group participants tended to reinforce their earlier arguments that deflation never happened.
- When provided with official data showing average price growth in the UK during the past year (1.5% at the time of the research), our research shows there were mixed views about its perceived accuracy. Focus group participants argued strongly that this seemed low. Most people felt average prices had risen by more than official figures suggested. Based on their personal experiences, focus group participants often made an implicit argument that there was a difference between 'my inflation' and 'their inflation', and many assumed that whatever items were used to calculate inflation were not relevant for their own personal consumption habits. In particular, participants argued that 'luxury items' such as TVs, video games, fridges, flights and computers were not relevant for their personal inflation, compared to everyday expenditures such as spending on fuel, food and bills. Similarly, people questioned whether all important items were included in the calculation, such as council tax, housing costs, fuel and alcohol, and some argued that items were changed from year to year which was seen to make the figures unreliable and exposed to manipulation.
- People also commonly focused on the phenomenon of shrinkflation, in which products are made smaller but maintain the same price, and therefore effectively becomes more expensive. Focus group participants assumed that shrinkflation would not be considered when measuring inflation, and therefore saw it as one of the potential explanations why the official inflation rate was lower than anticipated. Similarly, people argued that sales, deals and reduced items in shops could mislead inflation measurement.
- Generally, participants showed limited knowledge about how inflation was calculated. It was a common assumption that the inflation measurement was based on a basket of everyday goods, such as bread, milk and alcohol, or alternatively a basket with a large range of items that were unweighted and excluded important items. While a few

participants seemed to have picked up the terminology commonly used for inflation measurement, such as ‘shopping basket’ and ‘basket of goods’, this did not always improve their understanding. In fact, sometimes it seemed to confuse participants, as it made some people think that inflation was only measured by looking at price changes for items sold in supermarkets.

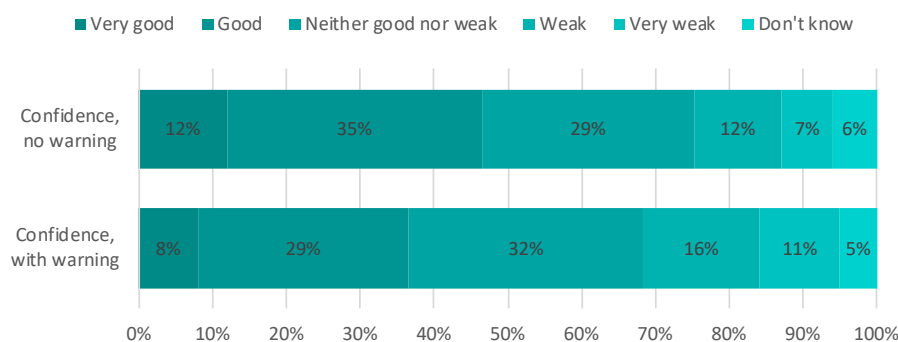
Section 3.1: Definition of inflation

Both the focus groups and nationally representative survey explored people’s knowledge about how inflation is defined. The survey included two direct questions about people’s knowledge of inflation: a self-reported question about people’s understanding of inflation and a close-ended quiz question asking respondents to identify the correct definition of inflation.

Figure 5. Self-reported understanding of inflation

Understanding, no warning: “How would you describe your understanding of the following economic terms?” (N=789)

Understanding, with warning: “Given you will be tested on these later in the survey, how would you describe your understanding of the following economic terms?” (N=876). ‘Very weak’ includes those who ‘have never heard of it’.



47% of all respondents reported a good understanding (either “very good” or “good”) of inflation, while 20% reported a weak understanding (either “very weak”, “weak” or “never heard of it”). 29% answer the neutral option (“neither good nor weak”), while 5% answered “don’t know”. For half of the sample, we introduced a warning that participants would be tested on the economic concept later in the survey, in order to test the confidence with which participants reported their understanding. This resulted in lower reported understanding, with 37% reporting a good understanding (down from 47%) and 28% reporting a weak understanding (up from 20%).

The quiz question (Figure 6 below) showed that a majority of all respondents (63%) could correctly identify the meaning of inflation, while a total of 22% of respondents answered incorrectly, and 15% answered “don’t know”.

Figure 6. Defining inflation

“What option, if any, do you think explains what it means when the inflation rate is 1.5%?” (N=1,665)

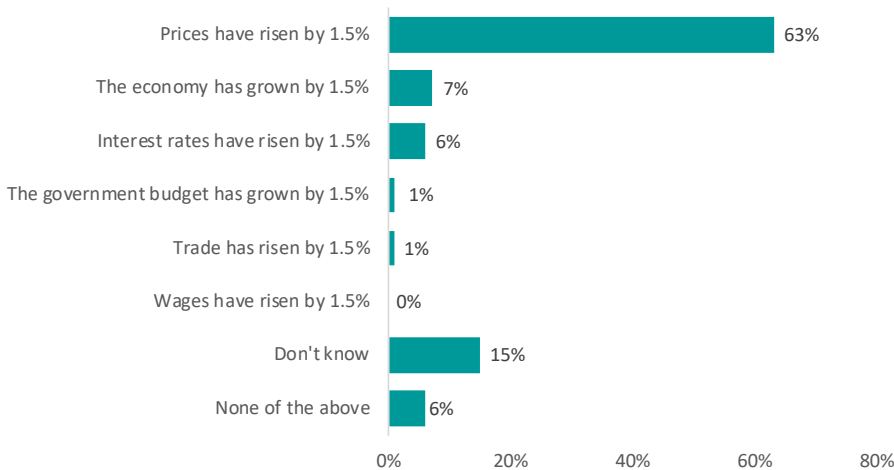
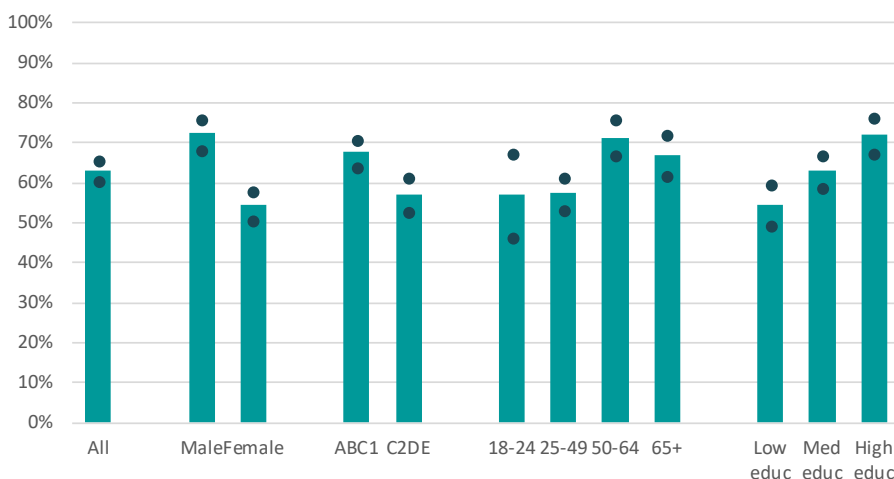


Figure 7 shows the proportion of respondents who defined inflation correctly, by different subgroups of the UK population. This shows substantial differences by demographics. Similarly, a probit regression (Appendix 8) shows statistically significant differences by all groups, that is, people are more likely to correctly define inflation, if they are older, male, have higher education, and belong to a higher social grade.

Figure 7. Proportion who defined inflation correctly, by demographics

“What option, if any, do you think explains what it means when the inflation rate is 1.5%?” (N=1,665)



During the focus groups, the interviewer asked participants an open-ended question to define inflation and describe what it is. Participants generally had an idea that it was related to price growth, but sometimes expressed this vaguely, or in terms of other developments in the economy.

Some participants, however, defined inflation fairly accurately. For instance:

'It's the price of something going up and... If you went to buy a basket of items, ten years later, if you were to buy that exact same basket of items, it will cost more money.'

Male participant, London.

'How much stuff's gone up over a period of time. What it was this year [compared] to maybe what it cost us last year, a percentage of that against what it was last year, next year, or whatever.'

Male participant, Manchester.

'Basically, the same, when I think how much stuff costs, everything seems to soar, everything seems to be going up.'

Male participant, Manchester.

Some provided correct definitions by giving examples of specific products. The most popular of these was by far Freddos chocolate bars, reflecting the fact that this has informally been used as an indicator for inflation and rising cost of living in the UK.¹ Other items that were used as specific examples were pints of milk, loafs of bread, pints of beer, and petrol.

Many participants knew inflation had something to do with prices, but provided explanations mostly focused on current price levels, the 'value of money', the 'cost of living' and 'how much things costs'.

Some participants expressed a lack of confidence about their knowledge of inflation. These participants often provided vague definitions, 'something to do with supply and demand, or something like that' or saying it depended on 'how much money the Bank of England had, gold reserves and that type of thing', but at other times, participants defined inflation fairly accurately despite their insecurity:

'Oh God, I don't know, it's a result of the banks and the market and how the economy is, inflation I don't know how to put that in... It's how the prices of products increase.'

Female participant, Birmingham.

'I don't have a great understanding of it really. I think I just see it as costs, everything goes up. It's not great. I'm probably quite ignorant in that sense, but that's what I personally think.'

Female participant, Birmingham.

One participant associated inflation with episodes of hyperinflation in the past, to the extent that she thought inflation wasn't a general phenomenon, but only referred to events

¹ <https://fullfact.org/online/freddos-vs-inflation/>

in which the currency dramatically weakened:

'I thought inflation was a thing from the 70s. I thought it had to do with your currency being... a bit worthless, so you pay more... I agree that there's a problem with the living wage, but I don't know if that's inflation?... I thought inflation was to do with the currency being inflated and it's becoming worthless, like you pay for something that's 80 cents and it's £1,000. That's inflation, that's what I thought.'

Female participant, London.

There were also few clear-cut misunderstandings of the term inflation. These included participants focusing on exchange rates or interest rates:

'When I first went abroad a dollar cost me £1, for my £1 I got \$1.50, now I only get \$1.20. It's either going down or up.'

Male participant, Manchester.

'Is that when things go up or down, like mortgage or interest rates and stuff.'

Male participant, Manchester.

'Is it linked obviously to exports and imports, the GDP figures? So, obviously the more that we export, the better interest rates would be'

Female participant, Birmingham.

One of the most common themes was that participants defined inflation in terms of wage growth and wage levels. Sometimes, this seemed to be people's actual understanding of the term, in the sense that they defined inflation as the 'difference between price and wage growth'. In these answers, participants often noted that their own wages had not kept up with the rise in prices:

'I think your shopping basket goes up, doesn't it, and your wage doesn't necessarily go up, that's what inflation is, isn't it?'

Female participant, Manchester.

However, more commonly, most participants defined inflation correctly as price growth, but then immediately brought up the relative paths of wages and prices. This relationship, and especially the perception that wage growth hadn't kept up with price growth, was clearly very salient among some participants. There were countless examples of such comments:

'Our salary stays the same and the rate of inflation goes up, and that's why we end up with less money at the end of the month.'

Female participant, Birmingham.

'Cost of living goes up, but you don't get any more money.'

Female participant, Birmingham.

'Prices do seem to keep going up, although wages and pay doesn't seem to match the increase these days.'

Male participant, Manchester.

'I think probably you think about [inflation] if you're a wage earner and your wages weren't going up, but everything else is going up. I think that's the one thing that preys on people's minds.'

Male participant, London.

'You see it on a daily basis. I see my rent go up and my wage is down, every day you see it, oh it's costing more this year, again, yeah. It's like where am I going to get the extra money from.'

Female participant, London.

These conversations generally showed that a fair number of participants understood the meaning of 'real term' wage changes, even if they rarely used this term. In particular, they argued that a nominal wage rise didn't necessarily give you extra money in your pocket, and that someone on a fixed income effectively becomes poorer due to inflation:

'It's like at work we have a rise every year... I think it works out about £7 a week, it costs you more than that to fill up the car that week because of inflation, but that nowhere meets it. It's still nice of them to do it, but it doesn't touch it.'

Female participant, Birmingham.

'Inflation always hit the ones who are on fixed income, like the people who are retired on pensions and things like that, because they never get the same inflation rate on the pensions as you do standard inflation. They end up spending all the savings, so they end up cutting the cloth and not having anything. That's why the food banks are rallying up.'

Male participant, Manchester.

'If your salary's been stagnant for 10 years, and you've not had a pay rise at any percentage, and I know people who are in that position, your salary isn't worth what it was worth, due to the cost of inflation with the price of everything going up and that's across the board. They put X amount of tax on, X amount extra will go on the price of a glass of wine or at the pumps or bread and milk.'

Male participant, Birmingham.

'I think a lot of employers dupe you, don't they, saying you're getting a pay rise, but in fact you're getting a pay cut, because you haven't got that physical money. We have got

the money in our hand, but everything increased, so you haven't really got anything.'
Female participant, Manchester.

Among some older participants, there was a perception that wages didn't keep up with inflation as well today as in the past. These were typical comments:

'It's changed dramatically in the last 15, 20 years... I grew up knowing I could buy a home, I could work, I could have a social life. People doing the same thing now aren't going to be able to buy a home. My daughters, I've got three grown-up daughters, they're never going to be able to buy a home. The rate of inflation and the earnings and things just don't go together anymore.'

Female participant, London.

'The overall expense of your life is going [up], but what you can earn is going [down]. Before, when I was younger, I would say it was pretty much on par, now I think the cost of living is going up greater than anybody's salary.'

Female participant, Birmingham.

Towards the end of the discussions about inflation, participants read an explainer about inflation which included a short section explaining the term 'real term' wages. The participants had many different reactions to the information given in the explainer about real terms. One reaction was that it had confirmed the participants' initial observations about the importance of the relationship between inflation and wages:

'I think that's just reinforced my view that I'm getting a pay cut every year by not getting any rise.'

Female participant, Birmingham.

Often, people added that they now knew the economic terminology for this. Others said they had been insecure about the use of 'real' and 'nominal terms' in the public debate, and that it made more sense after reading the explainer. However, it was equally common among participants to say that they had 'never heard of it before', and that they had never thought about this relationship, and for some, it prompted a reflection on their own salary, such as these participants:

'I've had a pay cut then, haven't I really, at work, rather than a rise?... Yeah, I've just realised I've had a pay cut.'

Female participant, Birmingham.

'I didn't know it before, I didn't realise it, you are getting a pay rise, but you're not really because things are going on and money's less really. It stays the same. That was interesting, I didn't know that.'

Female participant, Manchester.

Others said they had heard about 'real terms' before, but had dismissed it as 'wordplay'. It was clear that 'real terms' was seen by some participants as a term that was sometimes used in the public debate to twist facts, which made them distrustful of the term in general:

'I've heard politicians espouse it, but I didn't pay much attention to it. I just thought it was just another bit of juggling with words to baffle the grey matters.'

Male participant, Manchester.

'I've heard about this 'real terms' thing... [I] keep hearing it on the news and things like that. But I think it's just word play, a little bit, I don't really buy into it.'

Male participant, Birmingham.

Section 3.2: Interest in inflation

The groups were then asked to what extent they thought about inflation on a day-to-day basis. In their responses, people said they paid attention to price changes, and in particular that their shopping costs increased, including food and fuel costs:

'Yeah, definitely, before I used to have a tenner and I could go and buy X, Y, Z of items, and now it just gets less and less.'

Male participant, London.

'It's in the shops and you notice the four pints of milk is not 99p anymore, it's £1.09, or £1.19, that's when you notice it.'

Male participant, London.

'It's things like petrol, I always notice that and then you hear that all the rates have gone up..., and it all makes sense.'

Female participant, Manchester.

Some participants noted that while they didn't think about this in terms of 'higher inflation' or 'lower inflation', their considerations about price changes were essentially about inflation, but using 'less fancy' terminology:

'You could think this is starting to get a little bit more expensive, you would probably think a bit like that, but you probably don't think, 'oh the inflation rate's gone up', but my shopping bill's just cost a tenner more.'

Female participant, Birmingham.

'I think you do it without realising that you're thinking about it... When it's something personable to you that you're looking at at that time, you actually are thinking about it. Without realising you're thinking about it.'

Female participant, Birmingham.

When questioning the extent to which participants paid attention to inflation, a number of responses focused on how people noticed price changes or price levels for certain items, especially petrol, food, tobacco and alcohol. Typical comments were:

'Whenever there was a budget though, there were things that used to stand out, weren't there, the cost of fags has gone up this much, alcohol has gone up by this, they were the main ones that people used to talk about.'

Male participant, Manchester.

'I guess they're the biggest sellers, that's what the majority of, well I'm not going to say working class people, in the economy would spend their money on is fuel, cigarettes, bread or whatever it might be.'

Male participant, Manchester.

'The economic news always used to be cigarettes, alcohol and petrol.'

Male participant, Birmingham.

Section 3.3: Why do prices change?

While participants showed a fairly good level of knowledge in terms of defining inflation, and acknowledged how they paid attention to price changes, people found it much harder when asked whether they knew what caused prices to change. Some participants acknowledged that they didn't have an in-depth knowledge, and while they knew that prices generally increased over time, they had never thought about why. For instance:

'I think that inflation is something that I don't understand. I don't think it's communicated. I understand the impacts of it, but they don't really explain to us why that happens.'

Female participant, Birmingham.

'In the past, I've heard people, older cousins, be like 'oh, that was like £2 when I used to go out'. And I'm like it's a fiver, how does that actually happen?'

Male participant, Manchester.

Despite being generally unaware, participants offered many potential reasons why prices would change, and particularly why they would increase; most of which were mostly focused on factors that determine the price level of goods and services. Only in a few cases

did participants move beyond this to explicitly argue why average prices would increase over time.

First, some participants immediately said, 'supply and demand', though often without offering any more detail even when prompted. Other participants expanded a little bit more, by explaining the basics of supply and demand, with increased demand or alternatively reductions in supply leading to higher prices, and vice versa:

'Is it supply and demand? Is it more people want it, so they can put it up, because they know you're going to buy it?'

Female participant, Manchester.

'It's back to that supply and demand... The less of it, the more the price goes up, which causes inflation, and there's lots of things that affect that environment. If it goes down, there's a shortage that increases costs, the demand increases, so it pushes the costs up.'

Female participant, Birmingham.

Other similar responses focused specifically on the lack of supply, with focus on the impact of natural disasters such as flooding and droughts. An example was:

'What there is available as well, like if the crops have a bad year in certain places, and they've got less, I imagine the prices will go up because of that.'

Female participant, Manchester.

Second, it was common to focus on the price of oil and petrol. Generally, throughout the discussions on inflation, participants seemed to associate inflation explicitly to rises in oil and petrol prices. This seemed partly to stem from the fact that it was one of the price rises people noticed most in their own consumption, as well as a view that increases would filter into the cost of many other things in the economy, particularly through increased transportation costs:

- 'They always say the barrel of oil's gone up and that causes inflation.'

- 'Then it goes onto everything then, doesn't it, the transportation.'

Dialogue between female participants, Birmingham.

'The price of oil goes up, everything goes up, because the truck driver who brings the goods, they pay more, and everything goes up.'

Female participant, London.

'The goods would go up, because you've got to transport them. If petrol goes up, they've got to make their money, haven't they?'

Male participant, Manchester.

No participants mentioned explicitly why oil prices would gradually rise over time. The only comment, which touched on why oil prices would increase at all, mentioned events or external shocks in oil-producing countries:

- 'And the fuel, there was something in Saudi Arabia, my dad said the other day, oh the petrol prices, there was a bomb there the other day, so now all the prices go up...'
- 'Yeah, but they buy the petrol in advance. That's what makes me laugh. They buy it in advance anyway, but as soon as something happens, it goes up immediately on us.'

Dialogue between female participants, Birmingham.

In line with this, some participants suggested the oil price was often seen as the justification for other price rises in the economy, as businesses 'blamed' the rising cost of oil for price rises on their products. For instance:

'The oil prices, that's their favourite, the oil prices are high so they can just change everything in one hit.'

Male participant, Birmingham.

Third, participants focused on import costs and delivery charges on purchases as another reason why prices would change. Other respondents noted that an appreciation or depreciation in the value of the pound would lead to changes in prices of imported goods, with focus on the recent weakening of the pound:

'The value of the pound dropping, and therefore things being more expensive to buy from another country.'

Male participant, London.

Fourth, some participants spoke about the improvements in technologies. The perceived impacts on prices were mixed. Some argued that the quality of products become gradually better, which leads to 'inevitable increases' in prices for higher quality products, while others noted that specific products would become cheaper over time:

'I think it's inevitable that things are always going to go up in price. As the years go on, things get better, technology gets better, so it's inevitable that things are going to go up in price.'

Female participant, London.

'I also think that with new technology it's a smaller field so there's going to be less experts in less fields. Less experts means more pay, and those costs will increase.'

Female participant, London.

'I think you get a lot of value for your money now because computers and things are quite cheap compared to what they used to be.'

Male participant, London.

Similarly, some participants focused on the cost of production, including the cost of raw materials. Similar to the view that technology improvements led to higher prices, some participants also implied that production costs on basic items had gone up, such as in this example:

'The price of a Freddo is determined by the cost of what it makes to produce one. And as the cost of production goes up, so the prices have to rise.'

Male participant, Manchester.

Fifth, some participants focused on profit maximising and overheads by companies. Again, this seemed to focus on high price levels rather than explaining why prices keep rising. A typical comment was:

'People get greedy. Not individuals but companies, and especially the bigger companies.'

Male participant, London.

Finally, one of the most common themes was that participants discussed the impact of changing consumer habits on price growth, especially the tendency to shop in discount supermarkets such as Lidl and Aldi. Some people thought prices should have gone down as a result of this, illustrated by this participant:

'It's weird that more people are shopping there, so you think the prices would go down, but they're going up, even though they're busier. It doesn't make sense.'

Female participant, Manchester.

However, other participants noted that the move to cheaper supermarkets would only give a one-time reduction in price levels, as eventually prices would start increasing within discount supermarkets:

- 'We've started to shop at the more budget places, so I think you are getting value for money by going to those sorts of places rather than...'

- 'But you can only do that for so long, can't you?'

- 'Yeah, because that'll start going up as well.'

Dialogue between male participants, Manchester.

Generally, it was clear that most participants focused on price determination in their answers. They highlighted factors which determine the prices of goods, such as supply and demand, the cost of oil, and factors influencing production costs such as the cost of raw materials. One participant, however, mentioned that price rises happened 'as the economy

grows'. In addition, one conversation in response to the question about the causes of price rises mentioned how the government and banks could influence inflation through interest rates, though this was quite vague:

- *'I think, don't they have to manage [inflation], so... the Chancellor of Exchequer, he sets the budget, he has to manage it, so that it doesn't go beyond control, I don't know.*
- *'That's why the banks brought the interest rates right down, isn't it?'*
- *'Otherwise, we'd all be homeless. We wouldn't be able to afford the payments, like you say, they correct, don't they, to try and help us out.'*

Dialogue between female participants, Birmingham.

While the connection between price growth and setting of interest rates were clearly not salient in thinking about price levels and price growth, it should be said that the section on interest rates shows that some participants, though still not many, knew about this relationship.

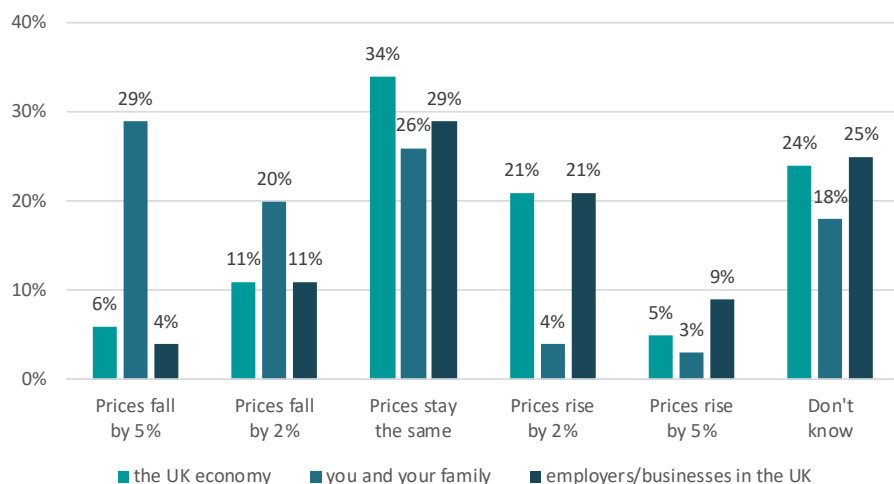
Section 3.4: Different levels of inflation

Both the survey and focus groups explored people's perceptions of different levels of inflation, including what levels of inflation was considered ideal or normal, and what current levels were. First, the survey asked respondents about which levels of inflation would be best for different actors in the economy. When respondents were asked broadly about the best inflation rate for 'the UK economy' (most economist would probably answer that 'prices rise by 2%'), the most common response was that it would be best if 'prices stay the same' (34%), followed by 'don't know' (24%) and then that 'prices rise by 2%' (21%).

The responses for employers and businesses in the UK were very similar to those of the economy as a whole. In contrast, people's responses for 'you and your family' were markedly different with almost half of the sample saying it was best if prices fall (either by 5% or 2%). As Figure 6 illustrates, there were slightly less 'don't knows' on this question, and almost no one thought it was best for themselves and their family if prices rose.

Figure 8. Perceptions of best levels of inflation

“What inflation rate do you think will be best for... [the UK economy; you and your family; employers/businesses in the UK]? (N=1,665)



Focus groups participants were also asked what a good level of inflation might be, and particularly whether they thought it is best that prices fall, rise or stay the same. In contrast to survey respondents, this question was initially asked open-ended, and therefore the interviewer let the participants themselves decide which groups they answered with reference to. Participants provided a mix of responses, mostly in relation to their personal circumstances. The most prominent theme was to argue that the ideal level of inflation would be determined in relation to salary increases:

‘I don’t mind inflation as long as our salaries are compatible with inflation.’

Female participant, London.

‘They can rise if people’s wages and things go up.’

Female participant, Birmingham.

Some participants saw price setting as intrinsic to wages, and argued that price changes should be made in the context of recent minimum wage rises:

‘If people are earning a bit, they can charge a bit more. But if the people aren’t earning as much, it should go down, in accordance with how everyone’s living.’

Female participant, London.

‘I was just thinking, stay the same until the National Living Wage goes up, and if that goes up, fair enough, put it up a little bit, but I think it’s unfair to do it when nothing else is going up, apart from everything that we have to buy.’

Female participant, Manchester.

Generally, the annual National Living Wage upratings and the wage rises in the public sector were prominent in these discussions. Some participants also noted that the relationship between wages and prices was an 'eternal struggle', in which wages always seemed to be a step behind and chasing the higher prices:

'Everything else is going to go up at the same time [as the National Living Wage] anyway. So as much as they add, they add everything else up as well, so you're just constantly always having that battle just to stay level.'

Female participant, Birmingham.

'I think it's funny though when it comes to the government, when they put the prices up, it's straight away. They just announced the new minimum wage hike, and it's coming in like 2022. Like I was saying, they give with one hand and then take it back.'

Male participant, London.

Some participants discussed what inflation level might be considered optimal. Firstly, some participants said their understanding was that 'low inflation' or 'fairly low inflation' was the best level of inflation:

'They're purposely trying to manage to keep these things down. I mean that's my general understanding, anyway.'

Male participant, Manchester.

'Low inflation. It keeps the costs down on items and stuff like that. If inflation goes too high, then you end up like Zimbabwe where the rates are so high that a week's wage go to buy a loaf of bread. It's about keeping inflation as low as possible... I think there's always some form of inflation but as low as it could possibly be. You could have zero, but I don't think I can remember when it was zero, but I guess it can be.'

Male participant, London.

'Anything that's a 1% increase, you're going to be quite warmed by it, aren't you? If it goes up by one point something percent, that's manageable. It's not going to have a great influence on your spending.'

Male participant, Manchester.

Second, in similar fashion, some participants said it was best if prices rose 'steadily', rather than prices going up and down, or experiencing large fluctuations, which was said to potentially cause panic.

Third, other participants said that it was ideal when prices 'stayed the same' or inflation was zero. Fourth, some participants said it was best when prices fell, focusing on the implication for consumers:

'They're always going to rise, but it's nice when they have a bit of a drop, and we can save a little.'

Male participant, London.

'They need to reduce things to be able to give the younger generations a chance, 100% for me.'

Female participant, London.

Similarly, some said that they didn't want prices to increase, with reference to the higher costs for consumers:

'You don't want things to cost more, do you? You don't want your car insurance to cost more, you don't.'

Male participant, London.

Fifth, in one group, a couple of participants noted that the ideal level of inflation depended on one's personal circumstances, for instance whether you were buying or selling a house. Almost no participants spoke about the optimal level of inflation in percentage terms, but spoke about this in general terms, such as 'low levels of inflation', 'prices rising steadily' and so on. At this point, one participant noted that they didn't know what was considered a normal level of inflation in percentage terms:

'I would not know what was good or bad either, if you tell me this figure now.'

Female participant, Birmingham.

Focus group participants were asked what happens if there is really high inflation, and in particular whether this could be considered 'good' or 'bad'. Participants largely agreed that this would be bad. Rationales included consumers being unable to afford certain products which would put some companies and shops out of business, which would in turn cause unemployment. Some described this process as a 'vicious circle', and said high inflation would cause 'panic'. Some older participants also mentioned historical instances of hyperinflation. This included the UK in the 1970s and 1980s when it was noted that inflation rocketed to 15%, causing shops to close and people to lose their houses and becoming homeless. It should be noted that participants mainly recalled hyperinflation to have happened in the 1980s, though the main episodes of hyperinflation occurred during the 1970s while it had a lower peak and tailed off during the 1980s. Other examples included Venezuela where people 'have got armfuls of money and can't even buy bread with it'; Zimbabwe where 'a week's wage buys a loaf of bread', and Germany following the Second World War where it took 'a barrelful of Deutschmarks to buy a loaf of bread.'

Similar to the previous question, focus group participants were also asked what happens if prices fall, and in particular whether this is a good or a bad thing, or not necessarily either. Some participants noted that prices did not tend to go down, other than

occasionally house prices. Later in the focus group, participants read an explainer on inflation which included a short explanation that 'deflation' is when prices fall, i.e. when the inflation rate falls below zero, but it didn't explain further what the consequences were. In people's reactions to the explainer, one of the most common responses was for participants to say that they had never come across the term 'deflation' before, and then that they were sure that deflation never happened:

'The word deflation, that's never happened in my lifetime. Deflation is what happens in my car now and again.'

Male participant, Manchester.

'I don't think we've ever, well not in my life, that's the first time I've come across that information.'

Female participant, London.

A few participants said they had heard about it in the UK: one suggesting it happened 'a few years ago' and another suggesting that UK went through six months of deflation during the 2008/2009 recession. In one group, some participants discussed whether this was a good or a bad thing:

'It's a strange thing right, because in theory you want things to be cheaper. But if things, if it deflates, then it's a bad thing for the economy as a whole.'

Male participant, Manchester.

'The government had to take active measures, because I think if it carries on, your money's getting more valuable, people stop spending, you hold on to it. Say, you want to buy a washing machine for £200, instead of buying it today, you could buy it next week, next month, and the price will go down, or your money's worth more, so people stop buying, and that has a knock on effect on the economy.'

Male participant, Manchester.

Section 3.5: Current level of inflation

Survey respondents were also asked about the perceived accuracy of the current inflation statistic, which at the time of the survey was 1.5%. The sample was randomly allocated into three different treatments, according to the source of the information. The first treatment group was a 'control group' with no source; the second used ONS as the source; and the third used the UK government as the source.

As we will explain later in this section, the focus group findings showed that one of the main themes was that focus group participants tended to express a lack of confidence in the accuracy of the 1.5% figure and a lack of trust in official inflation figures in general.

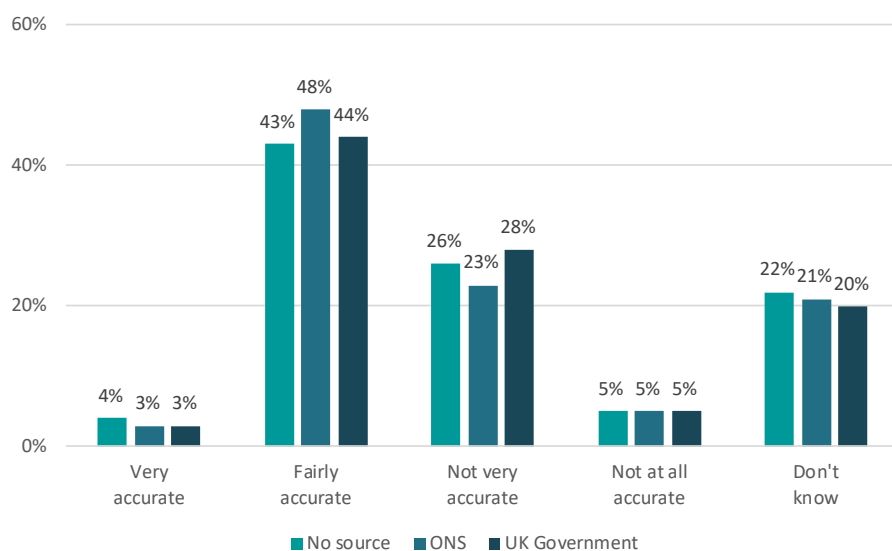
However, the results from the nationally representative survey show a slightly different and more mixed picture. In broad terms half of the sample (regardless of treatment condition) say that the 1.5% figure accurately reflects how prices have changed during the past year; slightly more than a quarter says it is not very accurate; and around a quarter answered 'don't know'.

In addition, Figure 9 below shows that the perceived accuracy of inflation statistics didn't depend substantively on how it was presented in terms of sources. This finding is not discussed in detail in this section, as focus group participants did not speak much about the sources or messengers of the inflation statistics (which may itself explain why the source/messenger didn't matter for the survey results). However, in the chapter about unemployment statistics, the sources and messengers are discussed extensively, and the chapter will offer some interpretation of this finding, which may or may not be applicable to inflation.

Figure 9. Perceived accuracy of inflation statistics

Question: "How accurately, if at all, do you think this reflects how prices have changed during the year?" (N=1,665)

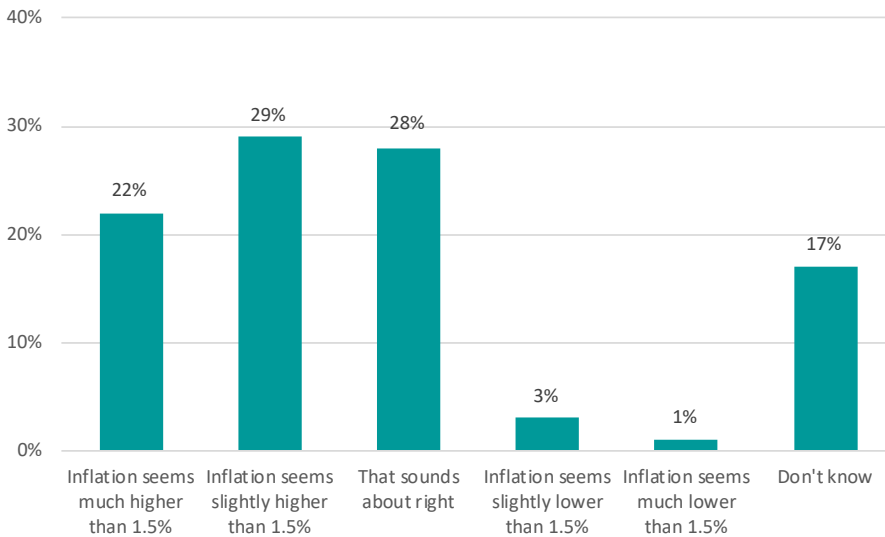
Treatments before question: No source: "The current annual UK inflation rate is 1.5%. (N=551). ONS: "According to figures from the Office of National Statistics (ONS), the current annual UK inflation rate is 1.5%." (N=527). UK government: "According to a statement by the UK Government, the current annual UK inflation rate is 1.5%." (N=587).



Subsequently, survey respondents were asked a similar question about what comes closest to their view about price changes during the past year. In this question, respondents were asked whether inflation seemed higher or lower in their own view. This showed that about half of respondents feels that inflation had been higher or much higher than 1.5% during the past year.

Figure 10. Inflation perceptions

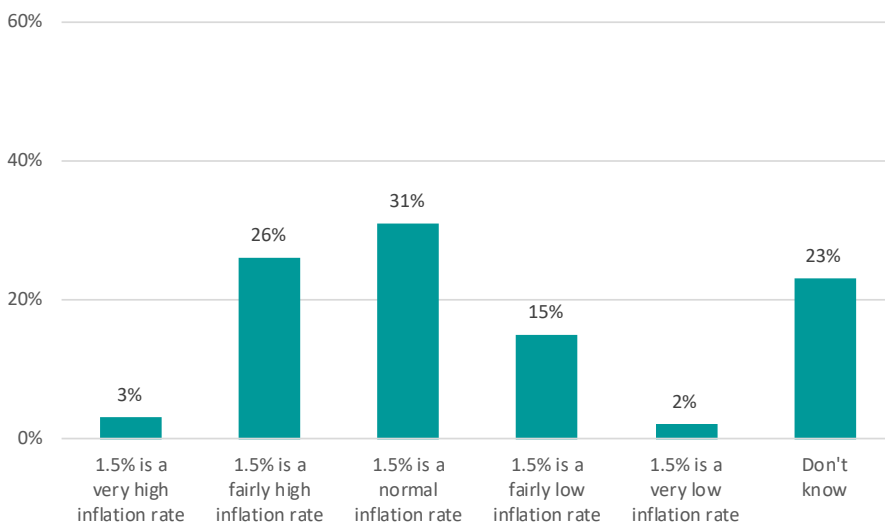
“Having read this information, which of the following comes closest to your view about price changes (inflation) during the last year?” (N=1,665)



The survey also asked respondents whether they thought the current 1.5% inflation rate was generally considered low, high or normal for the UK. Around a third of respondents said it was a ‘normal inflation rate’ and another quarter said it was a ‘fairly low inflation rate’, which would probably be the standard economist responses. However, there were also around a quarter of respondents who answered ‘don’t know’, and around 15% of respondents who said it was a ‘fairly high’ inflation rate.

Figure 11. Perception of whether 1.5% inflation rate is considered low, high or normal

“The current annual inflation rate in the UK is 1.5%. Do you think this is generally considered to be low, high, or normal for the UK?” (N=1,665)



The focus group participants were given the same information as the ONS survey treatment group in the survey question about the accuracy of the current inflation statistic. The interviewer told them that average prices increased by 1.7%¹ during the past year according to the official data from the Office for National Statistics (ONS). Participants were then prompted to give their initial reactions. A few participants said they believed this was accurate, citing their confidence in the methodology and source.

'I'm quite confident in that number, because the shopping basket they use is pretty wide. So, I'd say it's fairly accurate, of course it's higher in some areas.'

Male participant, Manchester.

'I'm guessing these people are very well educated and very clever people who will do it in a very fair and honest and balanced way, so it'll be all sort of, it'll work within a parameter if you like. So, I'm guessing it's very accurate, and they'll do it as fair as they can possibly do it. But it doesn't feel like 1.7% to me.'

Male participant, Manchester.

'That's probably accurate, but [inflation] feels higher, based on probably what we buy round the table, what we purchase.'

Male participant, Birmingham.

Many other participants, however, suggested that inflation felt higher and that prices had increased by more than 1.7% during the past year. Participants said the figure seemed 'low', 'not high enough' and 'unrealistic':

- *'It sounds like nothing, but it feels a lot more, yeah.'*

- *'It feels a lot more.'*

- *'Yeah, I definitely notice prices going up more than one point something, that doesn't sound a lot.'*

Dialogue between female participants, Manchester.

Some backed up their initial perception by referencing the price growth for specific goods. This type of observation was typical:

'The price of a pint in your local pub, I mean about a year ago was £4.80 for a pint, now I'm looking at paying £5.50, £6 even in some places.'

Male participant, Manchester.

There was a tendency amongst participants to cite how one specific spending item had increased by substantially more than 1.7%, and then to conclude that the inflation figure must be higher, seemingly without taking into consideration that this item was only a small part of overall spending:

¹ The inflation data was slightly different at the time of the focus group fieldwork (October 2019) than the survey fieldwork (February 2020).

'Most of my money goes on the water rates, or gas or electric. That's gone up 10% or 15%, so it's rubbish.'

Male participant, London.

The perception that the inflation rate of 1.7% seemed too low were articulated even more strongly when people were provided with an example in monetary amounts in the explainer rather than the percentage terms:

- *'I know nothing, but I know that's not right.'*
- *'I know my shopping costs me more than £1.70 a week more.'*
- *'If you bought the same goods, there's no way.'*
- *'If you bought the same things every week it's always 1p or 2p difference.'*
- *'You're talking £10 or £15.'*

Dialogue between female participants, Birmingham.

Some participants typically followed these observations by commenting that they wished 'they' would tell people the truth, though it was rarely specified whether 'they' referred to the government or statistics authorities or other bodies. Examples of these comments were:

- *'I can't understand why they can't tell it as it is. Why do they have to...?'*
- *'They couldn't tell us how it is.'*
- *'No, they can't, can they.'*
- *'It would be terrible.'*

Dialogue between female participants, Birmingham.

'Why can't they just tell us the truth?'

Female participant, Birmingham.

'If that's the correct figure, I think that's low, I think they're lying to us.'

Female participant, Manchester.

Section 3.6: Measuring inflation

After being provided with information from ONS that average prices in the UK had increased by 1.7% during the past year, the most prominent points of discussions were participants questioning how the inflation rate was measured. The argument that there is a difference between 'our inflation' and 'their inflation' was frequently made. For example, participants often argued that the items that they thought were included in the measurement of inflation were not relevant for their own personal consumption habits. In particular, everyday items such as fuel, food and bills were more relevant for 'their inflation':

'Aren't there like video games going into working out the inflation figure? Okay, it may be great, if you're a kid who goes out and buys those things, but I don't buy them. To me, it feels like it's higher than that, and I'm going on fuel prices, every week you go past the fuel and it's gone up a penny. Going to the supermarket and you notice there's a penny on this... I just think sometimes some of the things they use to gauge may be relevant to other people, and to me they're not.'

Male participant, London.

'If it was just food, I think we'd see [the inflation rate] as a higher, but when they take into account TVs and fridges and machines. Those are the things you don't have to buy that often, and when they take all those goods into account, it lowers the figure. I don't think it reflects food [prices].'

Female participant, Birmingham.

'They tell you it's only risen by 2% or 3%. It's a load of rubbish, because it's only based on certain items within the economy.'

Male participant, Manchester.

Participants did not speak about 'weightings' of individual items which are crucial for economists when calculating inflation statistics. In fact, participants sometimes seemed to assume that items such as TVs, video games, fridges and computers were given equal importance compared to items they bought more frequently and on a day-to-day basis. As the prices of these luxury items were seen to have fallen substantively in recent years, it was assumed that this would result in inflation figures being lower than they should be, and therefore this could be part of the explanation why the official rate was lower than they expected:

- 'I think when they've put things like TVs in, you look at the price of TVs, they're so cheap, aren't they? You can get a huge TV for a few hundred pounds, whereas years ago it would have been thousands.'

- 'Yeah, and that's probably brought that stat down.'

- 'It brings it right down, doesn't it?'

Dialogue between female participants, Birmingham.

'I don't know, it's probably not a lie, it's just a massage of figures. It's just adding everything in which brings it down. It's like you said, why won't they tell us, because I feel like there's be real massive civil unrest if we actually knew the true figures.'

Female participant, Birmingham.

In contrast, participants argued that the price of everyday expenditures such as food and bills tended to consistently increase over time:

'Things like your car insurance, your utilities, your council tax, those things never come

down and [1.7%] just seems so low.'

Female participant, Manchester.

Only one participant mentioned, in response to some of these statements, that the measurement included 'weightings of how important that commodity is', so for example food items such as eggs, butter and bread were given more weight than luxury commodities or items that were brought less frequently.

The comments above demonstrate how some participants thought the shopping basket included a too broad variety of items, and the implicit argument that these should be weighted. However, other comments, notably sometimes from the same participants, also focused on the items that participants assumed had been missed out in the measurement. Sometimes, it was argued that these important items accounted for a large part of their spending and were seen as driving rises to inflation. This meant that, by excluding these items, the official inflation rate would be lower than it should be. For instance, participants assumed that increases to items such as council tax, fuel and alcohol were excluded from the calculation of inflation:

'I don't trust it, it sounds good, but I don't trust it. Like I said, there's certain items that they leave out.'

Male participant, Manchester.

'The thing they do leave out of that as well of course is your council tax, and that is a big increase. I come under Wigan, and I think ours went up 4% or something like that, so that 1% thing is great, until we start putting different items in it.'

Male participant, Manchester.

'They do massage the figures... they conveniently, whoever does it, the civil servants, they're taking certain items out of that Retail Price Index, so it doesn't go rocket high. I used to work in the tobacco industry, they took tobacco out of it, because every year cigarette prices went up, probably 20% a time, and that would have affected the Retail Price Index. Petrol, alcohol was taken out at one time as well.'

Male participant, Birmingham.

Sometimes, participants commented that items were changed from year to year, and that this ability enabled 'them' (again, usually participants didn't specify who 'they' were) to change the figures, for instance:

'I always thought it was the cost of a loaf of bread. They can pick and choose what that item is, and that's how they could fudge the figures.'

Male participant, Manchester.

A couple of participants noted these changes in a more positive manner, by explaining that

the changes to items in the basket were due to changed consumer habits over time.

A few participants brought up that there were two different inflation measures, called the Consumer Price Index and the Retail Price Index. A couple of those participants seemed to know that one of these measures were regarded as flawed, and they argued that the government sometimes used these to 'inflation shop':

'It's two different indexes that they pick and choose from depending on what they want to tell you. The Retail Price Index, the Consumer Price Index.'

Male participant, Manchester.

Another major theme was that many participants focused on the phenomenon of shrinkflation, in which products are made smaller but maintains the same price, and therefore effectively becomes more expensive. This was a common observation among participants:

'I remember a Mars bar when it was that big. Now it's that big. It's gone up [in price], but they're saying 1.6%. In actual fact, if you add that little bit, they're taking that bit away, so it's gone up about 4% or 5%, not 1.6%.'

Male participant, Manchester.

'The typical one is the Toblerone, you're paying 50p for a Toblerone bar that size, and all of a sudden it's shrunk down to half the size, and you're paying the same money.'

Male participant, Birmingham.

'It's 200g, and now it's 190g for a jar of coffee isn't it, whereas you see the same size jar.'

Female participant, Birmingham.

Participants seemed to assume that shrinkflation wouldn't be considered when measuring inflation, and therefore saw it as one of the potential explanations for why the official inflation rate was not as high as expected. In one instance, this was expressed directly when one participant said that 'you've got to compare eggs with eggs.'

Another similar theme, though much less prominent, was that some participants argued that sales, deals and reduced items in shops could mislead how inflation was calculated. They argued that inflation statistics should consider the normal price of products rather than the discounted price:

'If that's the correct figure, I think that sounds low. I think they're lying to us, but then I think it's just to do with all like, they put things on sale in supermarket to try and hide. I think they're tricking us.'

Female participant, Manchester.

Some participants also noted the price differences between different areas of the country, with particular focus on the different housing and rent costs. However, this was not a prominent theme, and maybe somewhat surprisingly, participants never directly argued that their local inflation rate might be higher or lower than the UK average, though such an argument would have been consistent with the focus on 'our inflation' compared to 'their inflation'.

During the conversations, participants themselves sometimes referred to the 'basket of goods' or the 'shopping basket'. This happened before we provided participants with the explainer about inflation, suggesting that participants have picked up this terminology in media stories or other places. However, at times, this terminology seemed to make participants think that inflation was only measured by looking at price changes for items in the supermarket. For instance:

'I'm not going around with baskets buying things in the shops all day. If that's the only measure they have, that's a silly measure. They should measure it against everything you can possibly buy, like water, gas, electricity.'

Male participant, London.

'What does that inflation rate take, does it take everything into account? Rents and petrol and everything? It's got to do everything. You can't just take stuff in shops.'

Male participant, London.

'They have a basket, don't they? Piece of bread, some milk.'

Male participant, Manchester.

Participants also sometimes asked the interviewer and other participants how inflation was actually measured. Typically, this started by people making the argument that prices had risen by more than official figures suggested, and then they started wondering how inflation was actually measured, and particularly which goods were included. The latter quote, in particular, also reflects our broader finding that while people often acknowledge their limited in-depth understanding of economic issues, they are very interested in finding out more:

'I kind of know the effects of it, but I've never known how they calculate it, I don't know.'

Female participant, London.

'I was curious, is it just like consumer products, does it include house prices, does it include special products which have their own individual tax on like alcohol, like petrol and things like that? I'm not too sure what it actually does include. Because those things that I've just mentioned probably will have a high inflation.'

Male participant, Manchester.

Towards the end of the conversations about inflation, most groups were asked whether they knew how inflation was calculated exactly. Generally, apart from some broad references to the 'shopping basket' or 'basket of goods', including some comments that assumed it was a very simple basket, typically only containing a couple of basic items such as bread or milk, most participants did not have detailed knowledge about how inflation was measured.

Section 3.7: Controlling and affecting inflation

Finally, participants were asked whether they thought that the government or any other organisations could do anything to affect inflation. Only a few participants mentioned using interest rates to affect inflation. These participants clearly had a sense that there was some connection between the two economic variables, even if they couldn't necessarily explain this very clearly, or with much confidence:

'It's tied to interest rates... I know that there are committees that control interest rates, and they do that to balance inflation.'

Male participant, London.

'They'll change [interest rates] to control the inflation rate, so that it doesn't go up too much. But also, so it isn't too low, so that it's classed as going into recession, because we're not growing.'

Male participant, Manchester.

Other responses were mixed. One participant mentioned that the government could control inflation through money printing, and recalled that this happened during the recession where 'the government increased the supply of money, and then the inflation rises with that.' Other participants mentioned that the government could affect inflation through legislation, one noting that farming subsidies for domestic farmers could reduce prices for dairy products, and another said housing legislation could help reducing rent costs. Other suggestions included using taxation, cramping down on tax avoidance, and saving big companies from going into administration.

Business

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ADRS, GDRS AND FOREIGN-TRADED S
SHARES PER ADR

Help Ec



Chapter 4: Unemployment

Overview and summary of key findings

This section presents our findings on people's perceptions of unemployment. The focus groups and the survey covered 1) people's perceptions of the accuracy of official data on unemployment; 2) their views and understanding of different unemployment levels; and 3) their understanding of how unemployment is calculated, including the classification of different types of people.

The key findings were:

- Our survey showed that the UK public are divided about whether current unemployment figures are accurate. A large part of survey respondents felt that unemployment seems higher than official figures suggest, and our focus group research showed this view to be held strongly by some participants, often based on personal and local experiences, including those of friends, family and colleagues.
- This led to distrust in unemployment statistics, which were said to be 'massaged', 'fudged' or 'manipulated' by governments to reflect well on government performance. Some older participants backed this up with shared memories of changes to unemployment statistics in the 1980s, which formed the basis of their suspicion that the unemployment rate was still changed through 'creative accounting', 'reategorising people' and by 'moving the goalposts', and through putting benefit recipients on 'government schemes', 'work-related schemes' and 'training schemes'. Our study did not explore in detail people's awareness or perceptions of the sources of economic statistics. Focus group participants, however, rarely mentioned the ONS (even when the ONS were explicitly acknowledged by interviewers as the source of the statistics), and seemed to perceive the government as the source of all official statistics, especially those relating to unemployment.
- A major part of the distrust in unemployment statistics was related to how different types of employed workers and unemployed people were categorised in official data, and whether people believed these classifications to be justifiable. It was prominent that focus group participants criticised these classifications, highlighting that 'job quality' and 'suitability' mattered to how people perceived labour market performance. As such, it was commonly argued that 'low-quality jobs', often perceived in terms of hours, pay and job conditions, should not be counted fully towards official employment statistics. Examples of low quality jobs included involuntary zero-hours contracts, part-time jobs, fixed-term, short-hour jobs, and so on. Participants therefore regularly suggested that different subcategories within employment statistics would be useful, in order to give a better picture of the actual labour market conditions.
- Our research provides detailed data on how people themselves would classify different categories of people in unemployment statistics, and how they think they are currently

recorded in official data. On both measures, our research shows that people have a wide variety of views on who are and should be considered unemployed. In particular, our survey findings shows that many respondents lacked knowledge about how different types of people are classified in official statistics, for instance with fairly large proportion of respondents identifying 'stay-at-home parents' and 'disabled people assessed as not fit to work' as unemployed. Some key themes were identified when focus group participants discussed these classifications. Many participants focused simply on whether people had an employer relationship, and whether they contributed to the system through taxes and national insurance, rather than the reasons why a person was unemployed or outside the labour market. Often, these participants recognised that there was a certain stigma attached to the unemployment label, and expressed strongly that they didn't intend to make a value judgement on their contribution to society. Other participants focused on the reasons for a person's employment status, especially whether it was voluntary, whether people were looking for work, as well as whether their current employment could sustain an acceptable standard of living.

- While our research suggests that the British public have a fairly good understanding of unemployment as a concept and are able to engage in detailed discussions about unemployment, considerable nuances exist especially in relation to public understanding of its measurement. Our survey research suggests that the British public overwhelmingly lack knowledge about how the rate of unemployment is measured. In fact, our findings suggest that most people assume that the unemployment rate is calculated as a proportion of all working-age adults without a job (similar to the employment rate) rather than only those who are classified as economically active. This would imply an actual UK unemployment rate closer to 24%, which may explain some people's cynicism about standard unemployment figures. Focus group participants expressed surprise about the term 'economically inactive', and typically said they had 'never heard of it.' Focus group participants reacted in different ways to this information, with some people acknowledging that the low official unemployment rate now 'made more sense'. The more typical response, however, was more cynical, describing the term 'economically inactive' as a 'smoke screen' and as a 'loophole'. Furthermore, most participants said they would divide the 'economically inactive' group into different groups, usually feeling uncomfortable about having 'deserved' people outside the labour force, such as retired, students and disabled people, in the same category as those who simply don't want to work.

Section 4.1: Current level of unemployment

Both the survey and focus groups started by exploring to what extent people thought the current unemployment rate was accurate. As such, the first survey question on unemployment asked respondents about the perceived accuracy of the current unemployment headline statistic, which at the time of the survey was 3.8%. The sample was randomly allocated into three different treatments, according to the source of the

information. The first treatment group was a control group with no source; the second used ONS as the source; and the third used the UK government as the source. Figure 12 and Figure 13 below shows the responses to this question.

Figure 12. Perceived accuracy of unemployment statistic

“How accurately, if at all, do you think this reflects the UK unemployment level today?” (N=1,665)

Treatments before question (allocated to same treatment group as the equivalent question about inflation):

No source: “The current UK unemployment rate is 3.8%.” (N=551)

ONS: “According to the figures from the Office for National Statistics (ONS), the current UK unemployment rate is 3.8%.” (N=527)

UK government: “According to a statement by the UK Government, the current UK unemployment rate is 3.8%.” (N=587).

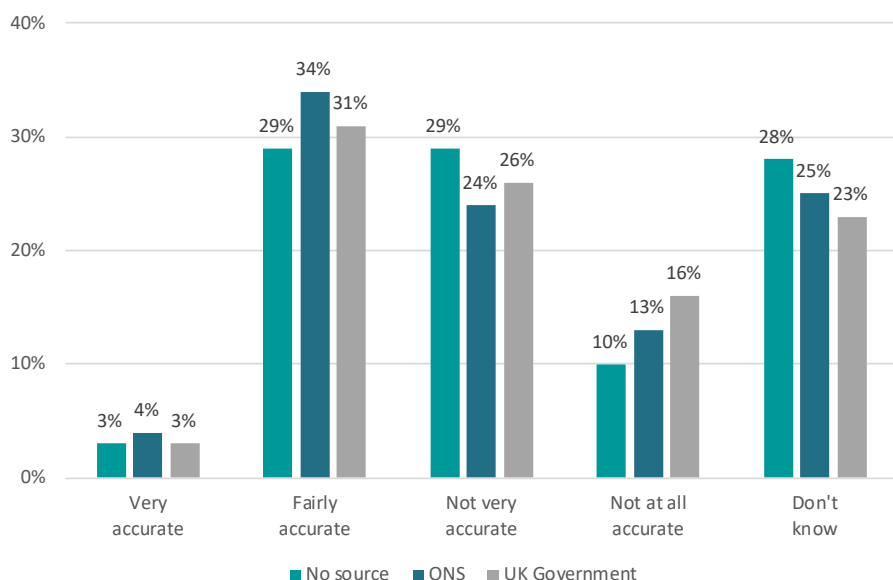
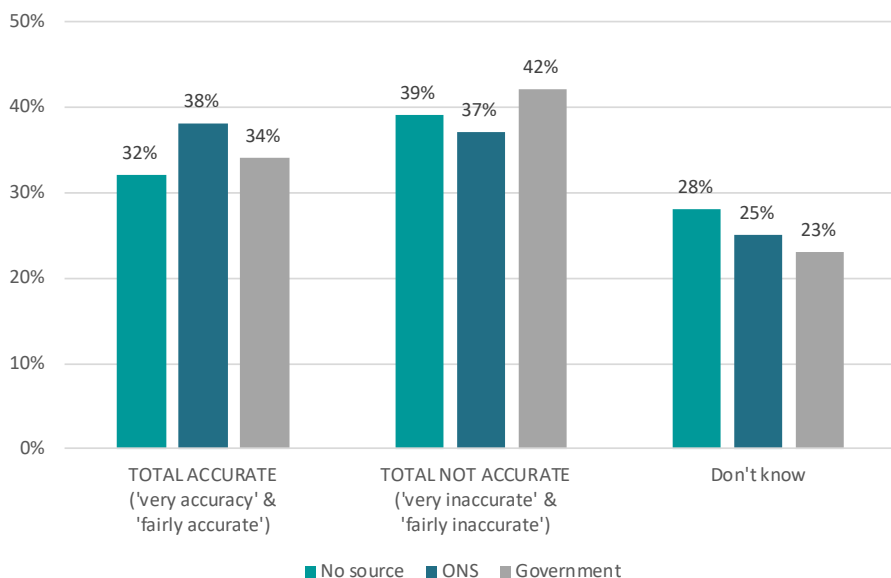


Figure 13. Perceived accuracy of unemployment statistic

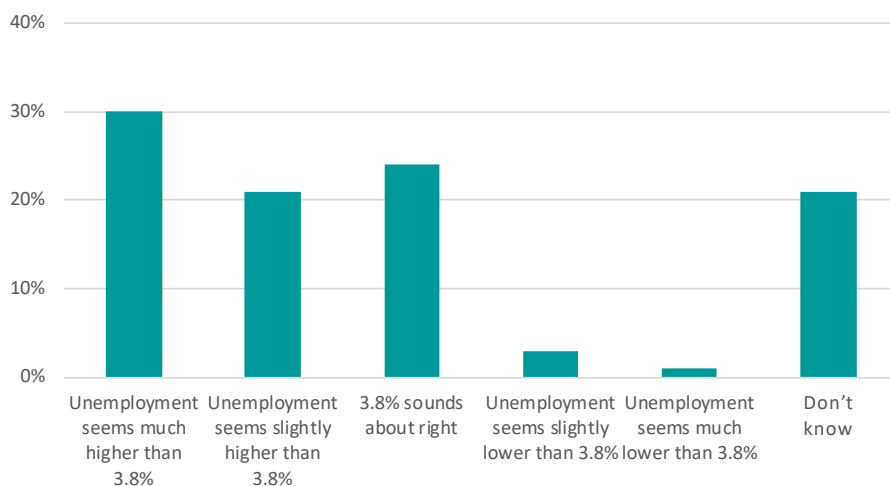
“How accurately, if at all, do you think this reflects the UK unemployment level today?” (N=1,665)



Similar to the inflation questions, survey respondents were asked what came closest to their view about current UK unemployment, focusing particularly on whether unemployment seemed higher or lower than 3.8%. Similar to inflation, around half of the sample thought unemployment seemed 'slightly' or 'much higher' than 3.8%, while almost a quarter thought it 'sounded about right' and around a fifth said 'don't know'. Only 4% of the sample said it seemed lower or much lower than 3.8%.

Figure 14. Perceived unemployment rate

“Having read this information, which of the following comes closest to your view about current UK unemployment?” (N=1,665)



The survey also asked respondents whether they thought the 3.8% unemployment rate was considered low, high or normal in the UK. Despite many people's personal view that unemployment seems higher than 3.8%, almost half of respondents recognised that current unemployment figures are considered low (either 'fairly low' or 'very low'). Almost a quarter said they didn't know, and around a fifth thought it was normal.

Figure 15. Perceptions of whether 3.8% unemployment rate is considered low, high or normal
 "The current UK unemployment rate is 3.8%. Do you think this is generally considered to be low, high or normal for the UK?" (N=1,665)

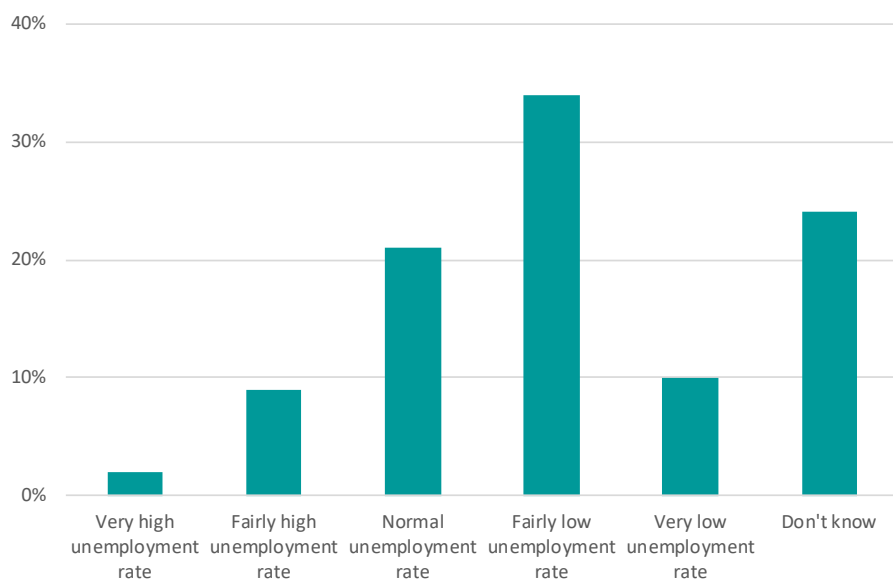
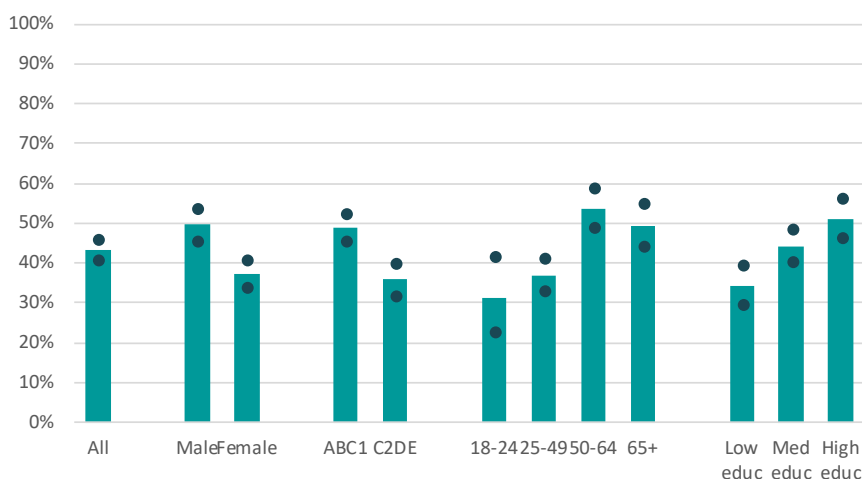


Figure 16 shows the proportion of respondents, by demographics, who thought the current UK unemployment rate is considered low. This shows substantial variations by demographics, including age, social grade, age and education. Similarly, probit regression analysis (Appendix 8) shows that all these are statistically significant, that is, people were more likely to think that the UK unemployment was low, if they were male, older, and had higher education and social grade.

Figure 16. Proportion who thought unemployment rate is considered low.

Low = 'very low' and 'fairly low' (N=1,665)



The focus groups were also asked about the perceived accuracy of unemployment statistics after the interviewer told participants that the official data from the Office for National Statistics (ONS) showed that the unemployment rate, at the time of the focus group, was 3.8%. An overarching theme during these discussions was that participants felt the UK unemployment rate was currently higher than 3.8%. The figure was described as 'too low', 'way too low' and as 'nonsense' and 'false', with participants suggesting the actual unemployment figure was 'a lot higher'. This perception was often based on personal experiences, especially what people saw around them and heard from friends and family. For instance, these two respondents gave examples from their everyday life and professional life, respectively:

'I thought it was higher than that. I thought there was a lot more unemployed. As everybody said, you look around, your neighbours and people that don't work, and compare it to that.'

Female participant, Manchester.

'I work in the industry. I help the unemployed get back into work. I see them every day coming through my door. That figure's nonsense, absolute nonsense.'

Male participant, Manchester.

Though, in one instance, a participant used his personal observations to acknowledge that unemployment had been falling in recent years, and that 3.8% was probably an accurate reflection:

'I think 3.8% is probably a fair number. I've been to the job centre on and off for a good few years, and I remember ten years ago it was like a community centre, you knew everyone in there. Now, you go and there's no one in there anymore.'

Male participant, London.

Participants sometimes stated directly that they trusted their own observations more than what any statistic would tell them. For instance, this participant described her scepticism about statistics:

'I'm really sceptical of any figures. I think you feel it more in your community and in your pocket rather than a statistic sounding.'

Female participant, Birmingham.

One of the observations participants often made, which was based on personal and local experiences, was to focus specifically on the lack of opportunities for recent graduates and young people, and people often gave examples where young friends and family members had struggled to find a job:

'I don't know, it feels higher than that. It feels like people are struggling to get opportunities. The amount of people coming out of universities with degrees, and there isn't a job for them. They've invested all this money and have a student loan. I'd say it feels a lot higher than that.'

Male participant, London.

'I've got friends that have just graduated, and I've got friends who graduated a few years ago, and they did Law and Dentistry and Medicine, but they didn't get anything. Most of them went into retail.'

Male participant, London.

'My daughter graduated last year, she did Human Biology, she wanted to get into town planning, nothing. She was looking for a job for a good year.'

Male participant, London.

Some participants made the counterargument that while these graduates were overqualified for low-skilled jobs in sectors such as retail, they were still employed, and therefore shouldn't count in the unemployment statistics, even if these workers hadn't found a job that matched their skillset. For instance, this participant argued:

'I don't think it's hard for people to get a job. But I do agree... in terms of, you've done a degree, and then come out and get a job doing something that they don't need to have got a degree for. I know a lot of that, but I think in terms of unemployment is low, it's very easy to find a job being paid to do something.'

Male participant, London.

Generally, it was clear that a common theme among participants was that the 'job quality' and 'suitability' mattered to how people perceived unemployment and employment statistics. Participants often argued that some jobs, which they assumed would count towards official employment statistics, were not always 'high quality jobs', such as fixed-term contracts, part-time roles, zero-hours contracts, short-hour jobs and so on. One of the main themes of discussion was that low-quality jobs, whether that was in terms of hours or pay or job security, would not necessarily enable an average person in the UK to sustain themselves or their family. As such, participants sometimes suggested that 'subcategories' within the employment statistic would give a better picture of actual labour market conditions:

'I think there's almost an underemployed category that's hidden within [the employed category]. And I think that's not really talked about, and they probably can't sustain themselves, but are employed.'

Male participant, Birmingham.

'If you're earning a very low wage..., you've got some benefits coming in for the whole or major part of the year, should you be counted as employed at all? Perhaps we should break that down into a few further categories. It does mean a bit more complexity, of course. I know we're looking for a simple figure, but perhaps we have to go away from a too simpler figure.'

Male participant, London.

Most prominently, participants used zero-hours contracts as an example that not all jobs should be included in employment statistics. As such, it was common for participants to react to the 3.8% figure by immediately questioning whether this number was calculated based on counting people on zero-hours contracts as employed, rather than unemployed:

'How many have zero hours contracts?'

Male participant, London.

'The people who have got the jobs have got zero-hours contracts... 12 o'clock the night before, you'll get a thing through saying you've been picked for that. If you turn around and say "I can't do that job", you get kicked off their books, because you've not been professional.'

Male participant, London.

'It sounds good, but the only thing I don't like about that figure is that people are classed [as employed] if they've got those horrible zero hour employments, which I think are dreadful.'

Female participant, Birmingham.

In addition to comments about what type of jobs and hours should count as employment,

it was also a common theme in all groups that 'government schemes', 'work-related schemes' and 'training schemes' were sometimes included in the employment figures. People typically saw this as 'bogus employment', suggesting that these people should be counted as unemployed, if they still received benefits:

'There's all sorts of government schemes that people are put on, which they don't take into account [in the unemployment statistics]. These people are still unemployed.'

Female participant, London

'My friend works for a Jobcentre, and what they do to legally con, the government tells them when they had long-term unemployed people, what they do is they give them their P45, so they're not on the Jobcentre, you are now on a course. They still get their benefits, but it's to show that the unemployment has dropped.'

Female participant, London.

'I think the figures are quite false, because I've been unemployed, and if you're put on a course, you're taken off the unemployment list.'

Female participant, Birmingham.

Some participants also suspected those working cash-in-hand were wrongly recorded in the unemployment figures.

'You've got things like people that work cash in hand, but don't sign on. They're just completely off the grid. Then you've got people that do sign on that do actually work as well. So you've got so many different factors to take into consideration that you can't really get statistics on that, because you're off the books, you're off the radar, it's impossible.'

Male participant, Manchester.

Participants rarely discussed local and regional differences in unemployment. Of the few who did, it was suggested that the average national unemployment figure of 3.8% was misleading as it did not consider their local labour market conditions:

'If you go to some areas, unemployment's really high, so actually that figure probably doesn't count if you went to Ladywood or perhaps Erdington, certain areas. So even though that's a really low number, it isn't a good picture of what's really going in our city.'

Female participant, Birmingham.

Generally, it was a common theme that participants said unemployment statistics were 'massaged', 'fudged', 'manipulated', or 'spun' by governments. Many of these comments seemed to focus in particular on how the statistics were disseminated by government and politicians to reflect well on government performance:

'It's manipulated to fit what the government want you to believe, isn't it? They want you to think we're doing really well, especially with Brexit on the horizon, but I don't think it's that low, it's much higher.'

Female participant, Manchester.

'It might be like an easy figure. It sounds good, but equally they'll say what's the best way we can spin this. If they actually said how many people were working not part-time, or how many people earn below this amount of money, and how much people are earning as well. It's just that whatever the figure is, they'll try and spin it the best way.'

Female participant, Birmingham.

Participants also spoke about how the design or collection of the statistics were changed over time through 'creative accounting', 'recategorising people', and 'moving the goalposts'. As part of this, older participants recollected changes to the unemployment statistics in the 1980s, which still seemed to form the basis of their suspicion.

'It's hidden with disabled people. Politicians are constantly moving goalposts of what qualifies for this, qualifies for that. There's a lot of people with no jobs.'

Male participant, Manchester.

'I think governments have become quite adept at being able to change the criteria of what they actually report. As Peter said, there is a lot of massaging of figures. I think there's certain sectors of the population who are not included and possibly they should be.'

Male participant, London.

- 'They've made us believe it's declining, and we've come out of the recession and it's getting better... It depends what you class as employment. And I think they're just headlines again, to try and make everyone think that [unemployment] is reducing.'

- 'Yeah, they're just like accountants, they put it where they want...'

Dialogue between female participants, Birmingham.

Often, it was clear that distrust of employment statistics was reflective of a broader distrust in government and politicians themselves:

'I think those statistics are for MPs [to say] they've reduced employment by this much.'

Female participant, Birmingham.

- 'Do you think they ever put a percent in, and say less in a year's time to make themselves look like there's improvement? Or do you think that's not...? We know they can lie, so say 5% and then six months down the line, it's at 3.5%, and they can say it's improvement.'

- 'Of course, they do. They always do creative accounting.'

- *'They just recategorize people.'*

Dialogue between male participants, Manchester.

'I think with the unemployment, they tell you what they want you to hear. I don't agree with figures that they've come up with.'

Female participant, Birmingham.

'No, I don't trust any figures they come out with, without all of the details, which I just couldn't be bothered to go into. How have they come to that figure? Where have you pulled that from?'

Male participant, Manchester.

Throughout the groups, participants suggested that government and politicians were the source of unemployment statistics. While the interviewer specifically said that unemployment was 3.8%, 'according to official data from the Office for National Statistics (ONS)', participants very rarely mentioned the ONS in the subsequent discussions. Instead, they spoke about how statistics were spun and manipulated by the government, politicians and the media:

'Normally you get the coverage of the person who is selling it, so it would be like the Prime Minister or whatever. The papers are going to be more interested about what they've got to say than about some independent person.'

Male participant, London.

'When this is discussed in Parliament, like PMQs, the opposition leader will accuse the government of massaging the figures, not the institute of blah, blah, blah.'

Male participant, London.

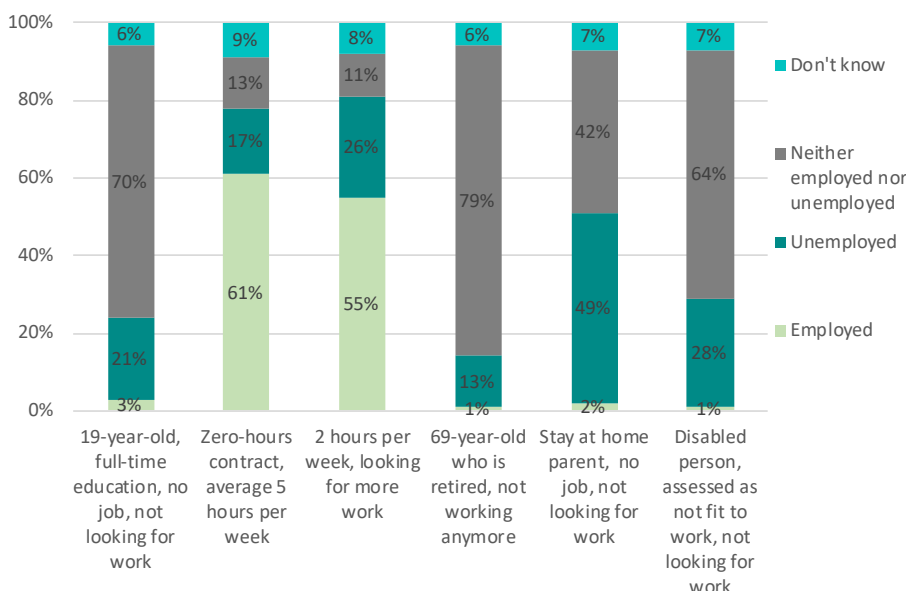
Section 4.2: Classification of employment and unemployment

It is clear from the preceding section that to fully understand how people perceive unemployment statistics, it is important to explore issues related to classification of different types of people, especially who are counted as 'employed' and 'unemployed' in official statistics. As such, survey respondents were asked how they thought different person types were classified in official statistics, according to three classifications: 'employed', 'unemployed', or 'neither employed nor unemployed'. Due to the focus group finding, which will be outlined in subsequent sections, that the term 'economically inactive' was not familiar to people, we chose to keep this category in a more accessible and familiar language as 'neither employed nor unemployed.' In interpreting these figures, it is important to note that we have asked survey respondents about how they think people are recorded in official statistics, rather than how people themselves think different types of people should be recorded.

The responses in Figure 17 show that people have a wide variety of views on this issue. On aggregate, the expected patterns emerge. Survey respondents were more likely to think that people on zero-hours contract (5 hours per week) and those who work two hours per week are classified as ‘employed’ in official statistics, while people were more likely to classify those outside the labour force (in this case full-time students, pensioners, stay at home parents and disabled people assessed as not fit to work) as ‘neither employed nor unemployed.’ However, within each category, a large proportion of respondents have answered differently or, if you will, incorrectly. Most notably, half of respondents classified stay at home parents as ‘unemployed’ and almost 30% of respondents classified disabled people assessed as not fit to work as ‘unemployed’.

Figure 17. Employment classification of different person types

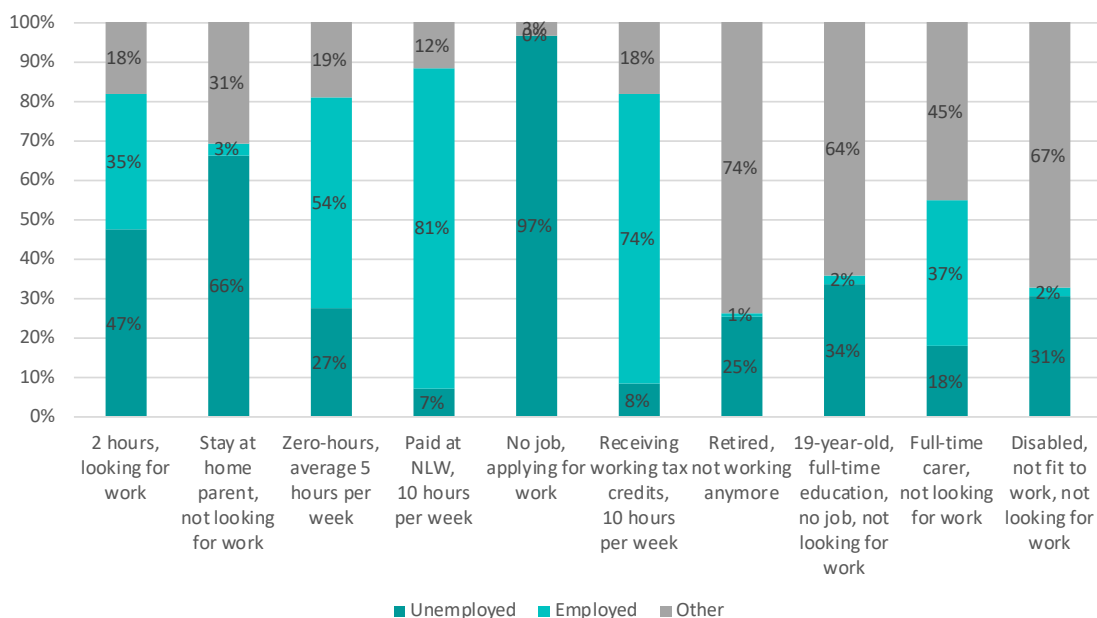
“For each of these individuals, please tick whether you think they are recorded as ‘employed’, ‘unemployed’, or ‘neither employed nor unemployed’, in the official statistics.” (N=1,665)



Focus group participants were given a questionnaire with a similar question to prompt discussions about these classifications. Importantly, however, focus group participants were asked how they themselves would characterise the people, compared to survey respondents who were asked how they thought official statistics classified them. It should also be noted that the focus group questionnaire used an “other” category, described as “not fitting into either category”, rather than “neither employed nor unemployed”.

Figure 18. Own perception of how different types of people should be classified (focus group)

“Would you characterise the following people as unemployed, employed or ‘other’ (not fitting into either category)?” (N=130)



Subsequently, the interviewer asked focus group participants about their answers, especially about their reasons for those answers, and the groups discussed more broadly about the classification of different person types.

Person working 2 hours, and looking for work

The person who was described as working ‘2 hours, looking for work’ was one of the most divisive categories among focus group participants. While the official categorisation would be ‘employed’ (the threshold is two hours per week), focus group participants were divided almost evenly between classifying this person as ‘unemployed’ on the one hand, and a mix of ‘employed’ and ‘other’ on the other hand. The focus group participants who answered ‘employed’ typically said that while it is not many hours, this person is still working in a job and ‘doing something’. Several participants used the term ‘technically employed’. It was also common for participants to highlight the wage relationship with an employer, and the fact that the hours would be declared for tax purposes. Typical comments were:

‘A job’s a job.’

Male participant, London.

‘If you’re getting paid by an employer, you’re employed, aren’t you?’

Female participant, Birmingham.

'You are technically employed.'

Male participant, London.

Some participants also focused on the fact that the person was actively looking for more work, and that they 'were trying', and as such should be 'rewarded' by being classified as employed. Other participants, however, made the exact opposite argument, and thought that the fact that a person was in a two-hour job that could not sustain a decent living, combined with the fact they were presumably dissatisfied with their working hours, meant they should be classified as unemployed.

During the broader discussions, participants discussed to what extent it mattered whether a person was "looking for work" or "not looking for work". Again, it was clear that participants found this an important distinction between employment and unemployment. Some participants thought that actively seeking additional work meant a person should be classified as 'unemployed' since they wanted more work. Others thought they did not deserve this label as they were already working and actively seeking more work. In any case, the main theme arising from these discussions was the strong perception that many benefit claimants played the system, and only applied for jobs to keep their benefit entitlement rather than genuinely trying to get a job:

- 'Somebody who is unemployed, but has no intention of ever getting a job, and just applies for them for the sake of it, is economically inactive?'

- 'No, they're applying for a job, then they're unemployed.'

- 'But somebody like me I see CVs coming in all the time. If you are just applying for this job, you've got to get your benefits, you've got no intention of even wanting a job.'

- 'They'd be unemployed, because they're playing the game.'

Dialogue between male participants, Birmingham.

One participant acknowledged that this distinction between those who genuinely tried to find work and those who didn't would be hard to incorporate into official statistics, as it was impossible to prove:

'You would never be able to prove it either though, would you? Because if someone goes to a Job Centre and has that interview and ticks a box, you couldn't accuse somebody. So it would be quite hard to manage that.'

Female participant, Birmingham.

During these discussions participants frequently requested more information about the person working two hours a week. They argued that it was hard to judge this person's employment status, suggesting that this person was likely to experience fluctuating working hours from week to week:

'We're looking at maybe freelancers, and you might work only a couple of hours that

week, and the following week you might work more hours.'

Male participant, London.

'I'm self-employed and sometimes I only do two hours, because that's what I've got. I'm fully employed, and I make a living, but there are sometimes when it's like, January, the first week of January.'

Female participant, London.

Furthermore, some people noted that they weren't provided with information about the person's salary, which could be crucial in understanding the person's employment classification. For instance, they would clearly classify it as employment if the person was paid £100 an hour. Finally, a couple of participants said they had answered 'employed', because they suspected the government would classify them as such, though they didn't necessarily agree with this definition.

The people who classified the person as 'unemployed' argued that two hours per week could not really be classified as proper employment. Usually, people simply stated that it was only two hours, and didn't provide more detailed arguments for why it should be classified as unemployment. At other times, people gave examples that was meant to illustrate how absurd it would be to classify this as employment. For instance:

'Half an hour a day and Fridays off. To me that means unemployed.'

Female participant, Birmingham.

'It's more like a hobby, isn't it, than a job, two hours a week. You probably work in a charity shop.'

Male participant, London.

Some participants emphasised the fact that this person would likely be on benefits, such as working tax credit or Universal Credit to supplement their pay. It was a theme throughout the discussions of employment that some participants saw the claiming of benefits as a key dividing line in distinguishing between 'unemployed' and 'employed'. Participants therefore often cited the 16-hours working tax credit threshold as a dividing line:

'I think to categorise someone who is working for two hours per week, that could be at the minimum wage, that's £16 or whatever. If someone's saying that person is employed.... If you [say] that person has got a job that can satisfy their requirements to survive, I don't think that... My criteria would be that, they cannot possibly live on two hours pay a week, so they're not employed to me.'

Male participant, Birmingham.

'You can't live on two hours a week.'

Male participant, London.

'You couldn't even pay your bus fare, so it doesn't make sense. I worry about [unemployment] being hidden.'

Female participant, Manchester.

Furthermore, some participants noted that the ability to sustain themselves through two hours per week employment clearly depended on personal circumstances. These participants highlighted that for some people, such as teenagers or semi-retired, two hours per week might be seen as sustainable, and therefore could be classified as employed.

Finally, a few participants classified this person as 'other – neither employed, nor unemployed'. This was in acknowledgement that these people technically had a job, but that it was 'not really employment', but it wasn't exactly unemployment either. As such, there was a reluctance to classify the person in either category. One participant noted that these ways of classifying employment and unemployment was outdated and 'redundant', due to developments such as the sharing economy.

Stay at home parent, and not looking for work

The person who was described as 'a stay at home parent, not looking for work' was classified as 'unemployed' by a majority of focus group participants. These participants emphasised the fact that the person 'did not technically have a job' and was not receiving pay from an employer. Others pointed out that the person was not looking for work, and that it was a deliberate choice to be unemployed. Typical comments were:

'[Employment] is something that you actually receive a wage for.'

Female participant, Birmingham.

- *'You're not looking for a job, not working.'*

- *'And you're not receiving any money.'*

Dialogue between female participants, London.

'Because they're not PAYE. I know they're working as parents, but they're not on the payroll, they're not physically working for an employer.'

Male participant, London.

'It's someone who is able to work and has decided not to for whatever reason.'

Female participant, London.

Similar to other categories, some participants focused on whether the person was in receipt of benefits, which they saw that as one of the key indicators for whether a person was unemployed. Similarly, participants spoke about benefit claimants by arguing that those who signed up to the Jobcentre should be classified as unemployed:

'The stay at home parent, they will be getting child benefit at least. So, they're not

economically active, but they are in receipt of benefits, so they're unemployed.'

Male participant, Manchester.

'They've got no national contributions and no income tax, so they're not working. If they're not contributing to the system, they're feeding off of it. They're unemployed, sorry to be blunt.'

Female participant, London.

'It's them people who are going to the Job Centre, who got to go and sign on every two weeks. That should be the only category that comes into unemployed.'

Female participant, Birmingham.

Similarly, some participants classified stay at home parents as unemployed because the government wasn't getting any 'tax of national insurance of their pound of flesh'.

The strongest theme in these discussions was that participants, both male and female, who classified the stay at home parent as unemployed were often uncomfortable in making this classification, and were reluctant to make value judgement of a stay-at-home parent's contribution to society:

'[Being a stay at home parent] is the hardest job that I've ever done. But for me, I don't mean it in a derogatory way when I'm saying unemployed... It is the hardest job in the world, and I'd much rather go back to work, that would be a break going to work.'

Female participant, Birmingham.

'They don't have a job, there's nothing wrong with it, they're choosing to do it, but they are technically unemployed.'

Male participant, London.

'I'm not saying being a full time parent is not a full time job, I can't imagine, and I have friends that are full time parents and stay at home and think it's fantastic, but they're not being paid to do that. In my eyes, you're not employed. It's not taking anything away from them at all, because I don't think I could do it, I'd rather go to work, it's easier.'

Female participant, Birmingham.

These types of comments prompted broader discussions about the association of the terms 'unemployment' and 'unemployed'. Broadly, participants tended to agree that the term 'unemployed' had negative connotations and associated stigma:

'I think this one was like that word 'unemployed', it almost sounds like you should be employed... I'm guess it's just a societal attitude to that word. Unemployment equals bad.'

Female participant, Birmingham.

Some participants also argued that there had been a change in the mindset over the years, and that the general public had become 'more understanding' of people who were unemployed or outside the labour market, especially if that person had a genuine reason to be out of work, or were actively and genuinely applying for jobs, rather than playing the system.

In relation to the theme that people did not wish to put a value judgement on the contribution of a stay at home parent when they classified them as unemployed, another theme was that people emphasised how hard it was to be a full-time stay at home parent, and that the work effort was substantial, often exceeding the effort required in a normal job. Parenting was invariably described as the 'hardest job in the world' and often harder than a traditional job. As we have already seen, some participants who classified stay at home parents as 'unemployed' made these observations to emphasise that they did not intend to make any negative value judgement, but simply classified unemployment according to whether you worked for an employer and got a salary. Similarly, other participants referred to the fact that it essentially was a full-time job in terms of hours and effort to argue that they didn't feel comfortable classifying it as unemployment, but had instead classified it as 'other':

'It is a full time job, but you don't get paid, you don't get a reward, you don't get a wage slip at the end of it.'

Female participant, Manchester.

'No one will consider it employed. I'm not saying... that you're employed, because no, you're not being paid... But it should be categorised as something, because cleaning a house, that's work, you can get paid to do that. It is work, raising children is work, it should be respected.'

Female participant, Birmingham.

Similarly, the small part of participants who classified stay at home parents as 'employed' made these exact points. They argued that in terms of work effort it effectively amounted to a full-time job, though you didn't get paid for it. In contrast, one participant said he didn't understand the option to answer 'other', and he argued that it was essentially the same as unemployment but made 'people feel a bit better about not wanting to say unemployed.'

Another common theme was for people to focus on whether the person was 'looking for work'. Some participants argued that it should be 'other' when people weren't looking actively for work (of course, this is in fact the case, as people are considered to be outside the labour force, if they are not actively looking for work):

'You're not actually going to the Job Centre signing on looking for a job, because you don't want to because you're at home looking after the children.'

Female participant, Birmingham.

'I've said 'other' because she's not looking for work and I've gone through this and classified unemployed as people who want to work more and can't find it. I've said 'other' because she's obviously happy. She's not looking for work. I wouldn't class them as unemployed.'

Female participant, Birmingham.

'It clearly says 'not looking for work', so for me that person, I'm looking at this from the way a government statistic will look at it, as opposed to my own, that person's not looking for work, so they're not unemployed and they're not employed, so to me it was 'other.'

Female participant, London.

'If you are unemployed, you're trying to get something, some employment. If you're a mother staying at home, you're a parent, but you're not looking for a job, you've chosen, you come into the 'other' category.'

Male participant, London.

Some focus group participants also argued that stay at home parents themselves would rarely describe themselves as 'unemployed' but as stay at home parents. They would not consider themselves as unemployed but instead belonging to a separate category. These participants assumed this was in contrast to official statistics which they assumed classified stay at home parents as unemployed. One of those participants said:

'They don't say unemployed, they just say a 'stay at home mum'. It's the way they categorise themselves as opposed to statistics, that's what I think.'

Male participant, Birmingham.

Some participants also brought up that it depended on the personal circumstances, for instance the number of children, the age of those children, and to what extent the stay at home parent was supported by the partner. For instance:

'If it's a stay at home parent, but your kid's seven years old, I mean in theory you could be going out actively looking for work in between the hours your kid's at school. If you've got five kids all under the age of seven, for example, it's kind of impossible to find part-time work. So, it's really difficult whether you regard that person as unemployed, because they can't be employed really, it's impossible. Whereas I think it is plausible for someone to be able to find work, if they've got a kid who's actually at school trying to find some part time work in that time.'

Male participant, Manchester.

'If someone was a stay at home mum, because they've got two little ones to the age of three, she wouldn't go up to people and go 'hi, I'm unemployed.' She'd go 'I'm a full time mum'. So why should, if that's what you are, why would it be different in statistics?'

Male participant, Manchester.

Disabled person, assessed as not fit to work, and not looking for work

Around 30% of focus group participants classified the 'disabled person, assessed as not fit to work, and not looking for work' as unemployed, while around 70% of participants answered 'other'. As such, the majority of participants were in line with the official definition which would be 'economically inactive.' The participants who had responded 'unemployed' typically argued that they had simply classified people in terms of whether they had a job or not, and had not taken into consideration why the person was not employed. As such, this person would clearly be 'unemployed', but similarly to the stay at home parent, participants often emphasised that this classification was not meant to imply any negative value judgements. A typical comment was:

'Well, they don't have a job, so they're unemployed. But I don't think we should take the word unemployed as a negative term.'

Female participant, London.

The vast majority of participants classified this person as 'other.' Participants argued that this person was not able to work, and therefore it would be unfair, and in one case described as 'discriminatory', to classify them as unemployed. Some participants focused on the fact that their employment status was entirely involuntary, as they were physically or mentally unable to work, and that this was 'not their fault'. These participants therefore felt this person should be classified in another category than the binary distinction between unemployed and employed.

It was common for participants to emphasise that the 'other' classification was only correct, if that person was genuinely unable to work, and weren't 'playing the system':

'That statement could go either way, 'assessed as not fit to work and not looking for work' could be 'assessed as not fit and not looking and can't be bothered.'

Female participant, Manchester.

'That's the boat I'm in, if you're genuinely unwell or you've got a physical disability and you cannot work, you're not going to look for work, you're not able to and that's absolutely fine but those that just say I can't be bothered, it's easier not to work.'

Female participant, Manchester.

'A genuine disabled person who cannot work, has got my full sympathy absolutely but somebody who's milking the system is other isn't. They're not unemployed they're just leeches, really, sorry, I'm sorry to say.'

Female participant, Birmingham.

Person who is retired, and not working anymore

Similar to the disabled person discussed above, responses to the 'person who is retired, and not working anymore' divided between the majority of participants (around 75%) who responded 'other', and a smaller but still substantial proportion of participants (25%) who answered 'unemployed'.

Participants who classified the retired person as 'unemployed' tended to focus on the difficulty of finding work later in life during discussions, often giving examples of relatives or themselves. In the questionnaire, the age of the 'retired person' wasn't specified. However, those who responded 'unemployed' seemed in the subsequent discussions to focus on people who were close to retirement age or were semi-retired. As such, their answers may have been different if the retired person had been described as a '80 year old person who is retired, and not working anymore.'

The participants who said 'other' typically said that the person had reached retirement age, and given they had probably worked their whole life and therefore earned the right to step out of the labour market, they shouldn't be classified as unemployed.

'My dad has worked his whole life and doesn't work now... He wouldn't want me to call him 'unemployed', because he'd say I've worked my whole life. I put 'other'.'

Female participant, Birmingham.

Later in the focus group, participants were given an explainer with information about the three categories (unemployed, employed, and economically inactive), as well as how the headline unemployment statistic is calculated. Focus group participants regularly expressed confusion about how unemployment is calculated in terms of age, and how it was impacted by rises in the state pension age, and to what extent it was influenced by people receiving state or private pension.

Other person types

The focus groups didn't go into as much detail on the other examples (such as student, person on zero-hours contract, person receiving tax credits, and full-time carer). Most of these are covered fairly extensively in the section on the accuracy of unemployment statistics. It is, however, notable that, despite the strong objections to counting people in zero-hours contracts on par with people in full-time permanent employment, a fairly large proportion (around half of respondents) still classified this person as employed. Another theme was that people questioned why unemployment figures were counted from the age of 16 when the participation age had been raised to 19. There was strong suspicion

amongst some participants that raising the participation age had contributed to the reduction in unemployment, by taking previously unemployed younger workers out of the unemployment figures.

- *'I mean look at kids. They got to stay in school now till they're 18. It's just a way of bringing the unemployment figures down and a clever one, that's all it is.'*
 - *'That's very cynical, you don't think it's to help kids get along, no?'*
 - *'That's a happy by-product in my opinion. But I don't think that's the reason... If they can give them education and keep them off those [unemployment] figures, it looks better.'*
- Dialogue between male participants, Birmingham.**

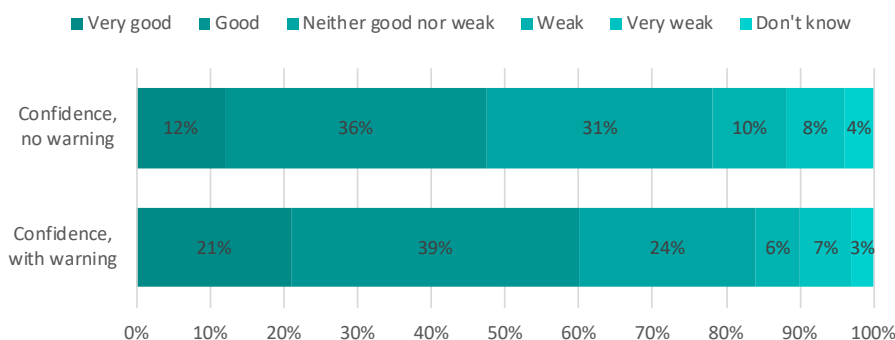
Section 4.3: Measuring the unemployment rate

During the discussions and exercises about unemployment classification and current unemployment figures, not one participant provided any detailed information about how unemployment was measured. No one referred to the fact that unemployment was calculated as proportion of the 'labour force', excluding 'economically inactive'. No such terms were mentioned throughout these discussions, and participants didn't make such statements in non-economic terms either. As such, it was clear that while people typically had strong views on the accuracy of current unemployment statistics, and they could articulate reasonably clear views about what types of people should be counted as employed, unemployed or neither (even when they sometimes hadn't thought about these classifications beforehand), this did not prompt any further discussions or comments about how exactly unemployment was calculated. Interestingly, this is in the context that survey respondents were generally fairly confidence about their understanding of unemployment (Figure 20 below), and indeed focus group participants were confident and engaged when discussing unemployment.

Figure 19. Self-reported understanding of unemployment

Confidence, no warning: "How would you describe your understanding of the following economic terms?" (N=789)

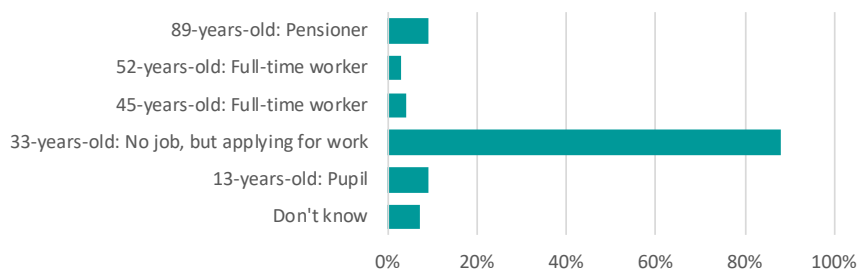
Confidence, with warning: "Given you will be tested on these later in the survey, how would you describe your understanding of the following economic terms?" (N=876). 'Very weak' includes those who 'have never heard of it'.



Based on the indicative focus group finding that people were unaware of how unemployment is measured, the survey asked two questions, using a hypothetical population of 5 people. The respondents were first asked who of the five people would be classified as unemployed. The categories were chosen to provide clear-cut examples, so as many survey respondents as possible got the answer correct. In total, 88% of respondents identified the unemployed person. Overall, 79% of respondents answered this question completely correctly. This means that they identified the unemployed person correctly, and did not identify any other people as unemployed. Only these respondents (N=1,319) are analysed in the followed question.

Figure 20. Identification of unemployed people in hypothetical population

“Who of the following people, if any at all, would you classify as unemployed? (Please select all that apply)” (N=1,665)

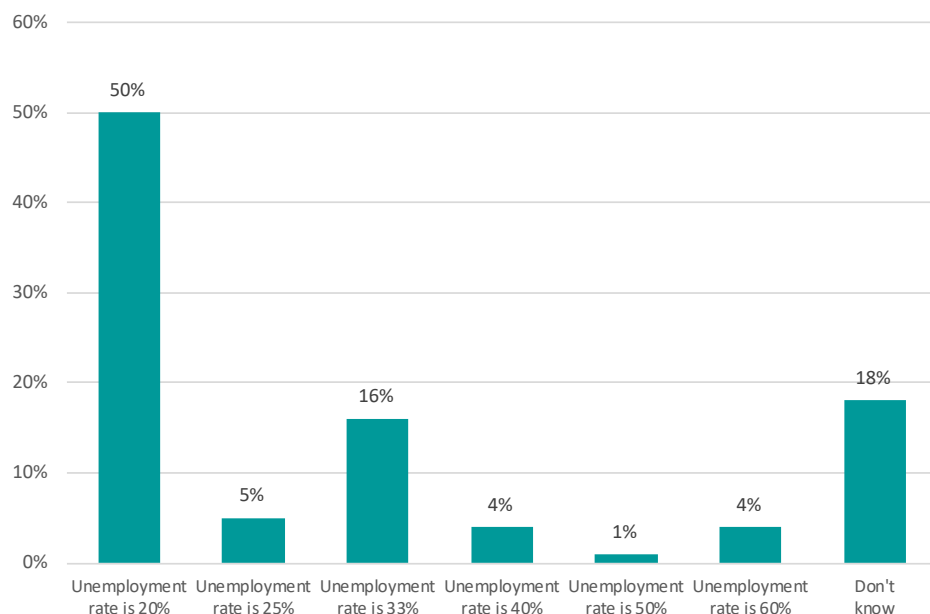


The following question prompted survey respondents with a photo of the population below, and then asked how they thought the unemployment rate for that population would be, according to the official definition by the ONS. The correct answer would be 33% since the unemployment rate is calculated as the proportion of unemployed people in the ‘economically active population’. As such, in this case, it is only the 33-year old, 45-year-old and the 52-year old who constitute the labour force, and only 1 out of those 3 are unemployed, meaning that the unemployment rate is 33%. However, as Figure 21 shows, despite the fact that all respondents used in this analysis correctly identified who was unemployed, only 17% answered this question correctly. Meanwhile, 60% of respondents answered that the unemployment rate would be 20%, and therefore seem to have calculated the unemployment rate as a proportion of the whole population, including the young pupil and old pensioner. This suggests that people’s perception of the unemployment rate is closer to how the employment rate is calculated, in the sense that it is calculated as a proportion of the whole population rather than the economically active population. Of course, even the employment rate is only calculated with reference to the working-age population for those aged 16-64.



Figure 21. Calculating the unemployment rate for population of 5 people

“Imagine this population of 5 people. According to the official definition by the Office for National Statistics (ONS), what do you think the unemployment rate would be?” (N=1,319)



This survey finding fits with our focus group findings, which found that people were unaware that unemployment was calculated as proportion of the labour force, excluding the economically inactive, and in fact, a strong finding in the focus group was that people had never heard the term ‘economically inactive’. These findings came towards the end of the discussions on unemployment, when focus group participants were provided with an explainer that described who is included in the three different categories (employed, unemployed, and economically inactive), and how unemployment is calculated as a proportion of the labour force, excluding the economically inactive.

Focus group participants expressed surprise about the term ‘economically inactive’, and commonly said they didn’t know what it was prior to reading the explainer, and that they had ‘never heard of it’. Often, participants said they were surprised, and in a few instances ‘shocked’, about the large size of the group of economically inactive people (which were showed through a diagram in the explainer). For instance, participants focused on the fact that they had never heard this term in the news:

‘When we hear the news stories, no one ever reads out [that] the figures for economically inactive are currently X number of million.’

Male participant, Birmingham.

'It's 20 million people in a group that don't seem to be counted in any news featured stories.'

Male participant, Birmingham.

For some participants, this information meant that the 3.8% figure 'made more sense'. For instance, one participant added up the percentages of the unemployed and economically inactive population, and she felt this matched her initial estimate of unemployment better:

'I would have said about 25%, and with them two added together, it's about 23, isn't it?'

Female participant, Manchester.

A larger number of participants reacted more cynically, arguing that the exclusion of economically inactive was designed deliberately to make the unemployment figures 'look good' and 'look visually good' and to 'bring the figures down'. The term 'economically inactive' was described as a 'smoke screen' and as a 'loophole', which was designed to split up part of the unemployed population into several groups, and in this way reducing the reported unemployment figures.

'It's one way to make up a statistic, isn't it? Take them away, "oh, look unemployment looks great", because you took away half of them things. That's quite a lot in the sense of how many people are down in [the economically inactive] group. And you can see where they have made up that statistic, to go "oh, it's quite low actually, 3.8%." Actually, it's not.'

Female participant, Birmingham.

'So economically inactive, is that like a loophole to not be counted? Like, let's not count them?'

- 'That's exactly what it is.'

- 'It's a very good way of getting rid of everybody who's claiming benefits, but isn't looking for work, out of that picture, so you're only concentrating on your labour force.'

- 'Juggling the numbers as usual.'

Dialogue between male participants, Manchester.

'These people are economically inactive, maybe claiming some sort of benefit. To me, it sounds a bit deceptive and this is government figures.'

Female participant, London.

'I just think it's a bit of a loophole... The 8.6 million, again, are they working or are they not? That's how I would see employed and unemployed, are you working or are you not working?'

Male participant, Manchester.

However, some participants also understood the rationale for having a category of economically inactive workers, but often commented that they thought it was strange to

combine some of these groups together into one large category. For instance, participants felt uncomfortable that those who didn't want to work were grouped together with the retired and students. Typical comments were:

'There's a lot of different people in that one category, because if you're a student or you're retired and worked all your life, but you're in the same category as someone who can't be bothered to go and get a job.'

Female participant, Manchester.

'I would like to drill down on that number... Within the economically inactive, how many of them are students? How many of them are too ill to work etc.? So we have an understanding of the reasons why that is.'

Female participant, London.

'I'm just surprised it was in the same group as retired and student because retired have done their work and the student is technically in full time education.'

Female participant, Birmingham.

'I think retirement should have its own category... They've worked hard all their lives.'

Female participant, Birmingham.

In summary, the participants essentially split into a number of groups in terms of how they saw the unemployment classification. Firstly, some participants thought that it should basically be a binary split between those who were working and those who weren't working. This is essentially similar to how employment statistics are measured, though the participants didn't seem to be aware of this. These participants typically argued that excluding the economically inactive was a deliberate way to make the figures look better for the government. Second, some participants implicitly accepted that there were many different groups of non-working people, and that it made sense to classify some in another category than unemployed. However, they typically argued that the economically inactive could be split into more subgroups.

Chapter 5: GDP

Overview and summary of key findings

This section presents our findings on people's perceptions of GDP and GDP growth. The focus groups covered 1) people's understanding of GDP and GDP growth, 2) their perception of what is considered to be normal or high/low GDP growth rates, and what the current GDP growth rates are, and 3) to what extent people pay attention to GDP or economic growth in the news, or think about it in their daily lives. The survey included two questions directly related to GDP which asked about participants' confidence in defining the term, and subsequently tested people's understanding of the definition.

The key findings were:

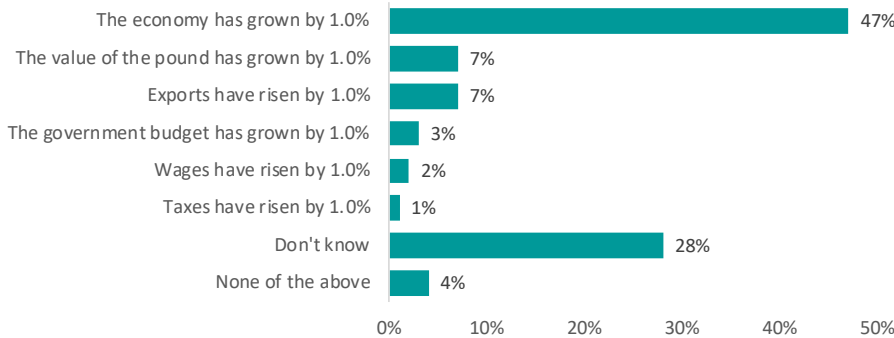
- Our survey found that less than half of the British public are able to correctly identify the definition of GDP from a list of options, and the vast majority of focus group participants demonstrated little to no understanding of GDP. This included little knowledge of the size of GDP growth rates, and which growth rates would be considered normal or good/bad.
- Participants sometimes confused GDP with the value of exports. Some also expressed an assumption that goods or services produced within the UK must be sold to other countries to be counted towards GDP. GDP was also sometimes confused with GBP (abbreviation for UK currency Great Britain Pound), which meant that people defined it as the exchange rate or the value of the pound. Furthermore, participants generally did not understand what it means when economic indicators are reported as proportion of GDP.
- Generally, focus group participants expressed how abbreviations such as GDP contributed to the feeling that economics was generally disseminated by using a lot of jargon, consolidating feelings that economics was largely confusing and inaccessible to them. Even for participants who were familiar with the term, and after participants were provided with information about GDP, it was common that participants were not especially interested in GDP compared to other economic indicators. While some participants suggested GDP would affect their lives 'somewhere down the line', others questioned whether GDP would have any effect on their own living standards or wages.

Section 5.1 Knowledge of GDP

The nationally representative survey included two direct questions about people's knowledge of GDP: a close-ended quiz question about the correct definition of GDP and a self-reported question about people's understanding of GDP. The quiz question (Figure 22) showed that just under half of the sample (47%) gave the correct response (i.e. 'the economy has grown by 1%'). 28% of all respondents answered 'don't know'.

Figure 22. Defining GDP

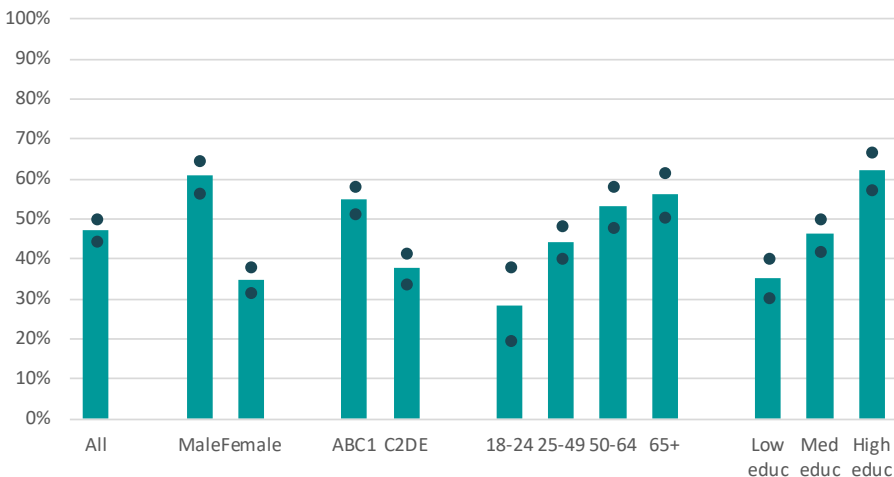
“Which of the following statements, if any, do you think best explains what it means when GDP has increased by 1.0%?” (N=1,665)



These overall numbers, however, vary substantively by demographics. The figure below shows the proportion of correct answers (and the 95% confidence intervals around this) when participants were asked to define GDP. It shows the now familiar pattern: people who are male, older, have higher education and of higher social class, are more likely to define GDP correctly. These differences are statistically significant in probit regression analysis (see Appendix 8).

Figure 23. Proportion of correct GDP definitions, by demographics

N=1,665. 95% confidence intervals.



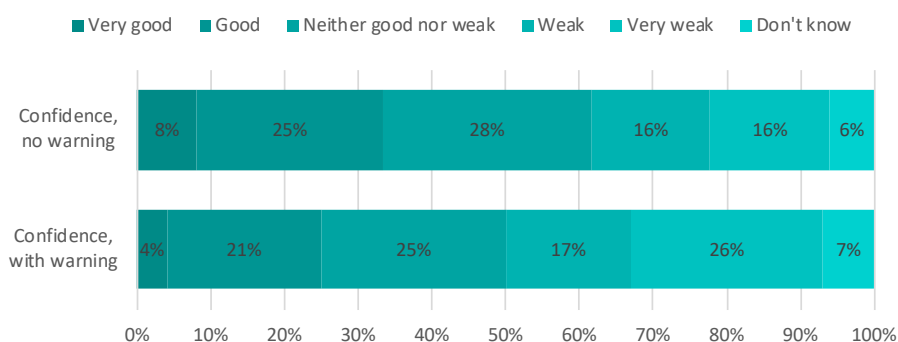
On the self-reported question, the sample was divided into those who was and wasn't given a warning that they would be tested on their economic knowledge later in the survey. For the group that didn't receive a warning, 33% of respondents reported a good understanding (either "very good" or "good") of GDP, while 32% reported a weak understanding (either "very weak", "weak" or "had never heard of it"). 28% answered the neutral option ("neither good nor weak"), while 7% answered "don't know". For the other half of the sample, who received a warning that they would be tested later in the survey,

respondents reported slightly lower confidence, with 25% reporting a good understanding (down from 33%) and 43% reporting a weak understanding (up from 32%).

Figure 24. Self-reported understanding of GDP

Understanding, no warning: "How would you describe your understanding of the following economic terms?" (N=789)

Understanding, with warning: "Given you will be tested on these later in the survey, how would you describe your understanding of the following economic terms?" (N=876). 'Very weak' includes those who 'have never heard of it'.



GDP was, by far, seen by focus group participants as the most inaccessible concept discussed during the groups. When asked to define GDP, many participants expressed they did not know what GDP was.

'I don't know, I've read about it a lot, but I obviously haven't digested what it means.'
Female participant, Birmingham.

Some knew that GDP stood for Gross Domestic Product, but often could not explain what it meant. Common suggestions included it being something to do with the 'whole country' or the 'whole economy', for instance that it was 'what's in the basket for the whole country' or 'the money we've got within the country.' Some participants described encountering the term in news stories where UK GDP was compared to that of other countries. Other participants had seen it as comparisons to demonstrate how much something was worth. For instance, one recalled having read that somebody had won £200m in the lottery which was 'more than the GDP of a certain country.'

Some participants confused GDP with other abbreviations. This included general data protected regulation (GDPR) and the Great Britain Pound (GBP). The latter misunderstanding might be behind the finding that 7% of survey respondents defined GDP as the growth in the value of the pound. Similarly, a number of focus participants confused GDP with exchange rates, suggesting GDP was 'the value of the pound' or 'what the pound is worth' or 'something to do with the pound'.

The focus groups also provided a possible explanation for why 7% of the survey sample defined GDP as the growth in exports. Some focus group participants gave answers about

different aspects of trade and especially exports, suggesting GDP was the amount that was produced domestically and then exported to other countries. Even after reading the explainer later in the focus group about GDP (see Appendix 6), participants' descriptions focused on exports, with the implicit assumption that products had to be sold to other countries, and not just domestically, to achieve value.

Finally, in most groups, at least one participant gave a definition which was broadly correct. These included definitions such as 'the total value of everything that's produced within the country' and 'the output of the country', and correspondingly GDP growth was defined as the 'growth of the country' and 'economic growth'.

Section 5.2: GDP growth

After the groups were provided with the basic definition of GDP,¹ they were asked a number of questions about GDP growth rates. Overall, focus group participants demonstrated very little knowledge about current GDP growth figures, or what normal growth figures would be. Guess-estimations varied between 1.5% to 10%. When told GDP growth had been 1.3%, participants had three common reactions. The most common was silence and indifference. One participant said:

'It means absolutely nothing to me.'

Male participant, Manchester.

The second most common was that 1.3% sounded like 'very low growth' and that the UK should perform better. Thirdly, participants wanted to hear the GDP growth rates of other similar countries:

'I think what I'd do is look at how other European countries are doing and gauge it against them.'

Male participant, London.

In two groups, participants mentioned recessions, and were then prompted by the interviewer to define what a recession was. In defining a recession, participants described all the negative aspects associated with recessions. It was clear that participants knew there had been a recession around 2008, and that it was a negative economic event, with adverse impact on their lives. Answers focused on perceived negative economic impacts, often with reference to their experiences during 2008 and 2009, such as higher prices ('you're paying more for your goods', 'things are more expensive'), reduced incomes ('you're not making enough'), higher debt payments ('you're borrowing more to pay off debt and things like that. That's how I see a recession') and austerity ('recession is a cutback on

¹ The focus group leader said: 'GDP is the total value of goods and services produced in the UK. So, essentially, it is the size of the economy. GDP growth is then the growth rate of the economy, how much the economy has grown over a certain period of time' (see Appendix 4).

public services'). For an economist it is notable that no participants provided a technical definition, such as defining it as 'negative GDP growth' or 'negative economic growth', or as a 'downturn in the economy', or something similar, but instead focused on the negative impacts.

Groups were given an explainer about GDP and GDP growth (see Appendix 9). This made the concept clearer to many participants, though it was still apparent that many still did not engage with GDP when compared to the other economic concepts. Sometimes, participants also expressed directly that GDP was still unclear to them:

'No. I could have read that over and over again and still wouldn't have a clue, at least I'm honest.'

Female participant, London.

Section 5.3: The limitations of GDP

In addition to providing a definition of GDP, the explainer included two additional sections: one highlighted aspects of the economy that is not necessarily measured by GDP,¹ and the other described how GDP is often reported per person and as growth over time. Given participants' limited knowledge about GDP, people's reactions centred on a few points from the explainer. In particular, many participants expressed that it was problematic that GDP did not include environmental aspects, people's wellbeing or accurately captured improvements in digital technologies. This information played into their distrust of economic statistics and how they can be misleading:

- 'It's the recurring theme again, isn't it? Because even if the GDP looks positive, if they're not taking into account the other things like wellbeing...'

- 'They're massaging it again.'

- 'Yeah, they're sweeteners. If your wellbeing's rubbish or the air we're breathing, you can't put a value on that. What really is the cost per person?'

Dialogue between female participants, Birmingham.

Participants also discussed to what extent GDP impacted upon the incomes and living standards of normal people:

- 'It's not tangible for us, we can't touch or feel it, so it doesn't mean much to us.'

- 'You're sort of in your own bubble, aren't you? Just worrying about what you've got.'

- 'Your own economy'

- 'Exactly, yeah, your own economy.'

Dialogue between male participants, Birmingham.

¹ This included people's wellbeing, environmental aspects such as pollution, unpaid work such as housework and childcare, and improvements in digital technology

Some participants also argued that while GDP was often used by experts or economists as a measure for the country's economic performance, this did not necessarily reflect how it worked for 'normal' people:

'The things that it ignores, it ignores for example wellbeing. As it says environmental impact, all that sort of stuff, but if you want to speak to someone who, suit and tie and come in and defend the economy and the way it works for people in this room, they've got well GDP's well. But it ignores all those points.'

Male participant, Manchester.

One of the clear findings from this research is that economists should not take for granted that the public knows what GDP or GDP growth is. During the focus groups during conversations about other economic concepts, participants sometimes expressed confusion about the use of the term GDP, and described it as 'economic jargon'. This was the case, for instance, when participants read the explainer about the government budget deficit where figures were given as a proportion of GDP, and in the exercise about economic performance where GDP was also introduced, deliberately without any explanation (see Appendix 7). The following dialogue during the economic performance exercise shows that public understanding of GDP should not be taken for granted:

- *'Can I ask a question? What's GDP growth?'*
- *'Thank God for that, I was like, what does that mean?'*

Dialogue between female participants, Manchester.

Chapter 6: Interest Rates

Overview and summary of key findings

This section presents our findings on people's perceptions of interest rates. The focus groups and survey covered 1) people's understanding of interest rates, including impacts on savings and borrowings, 2) perceptions of different interest rate levels, and 3) understanding of whether anyone controls the interest rates, and if so, with what purpose.

The key findings were:

- Focus group participants had a more in-depth knowledge of interest rates compared to most other economic concepts. Participants were usually able to define interest rates fairly accurately, usually by describing what the interest rate meant for their savings or borrowings. Similarly, the survey showed that a large proportion of British people were able to identify that current interest rates were considered low, and three-thirds understood the implications of low and high interest rates for borrowings and savings, in particular that higher interest rates benefited their savings and lower interest rates benefited their borrowings.
- Focus group participants often described how their understanding of interest rates was based on personal experiences. Interest rates were considered highly relevant to people's personal lives and finances. In contrast to most other economic indicators, participants described often monitoring and comparing interest rates, and how they were an important factor in financial decisions, especially in relation to mortgages.
- Participants described how their personal circumstances, such as age, amount of savings and owner-occupier status, affected how much they knew about interest rates, and to what extent they paid attention to it. For instance, it was common for participants to acknowledge that their attention to interest rates had increased once they got older, particularly when they had to buy a house and get a mortgage.
- Most focus group participants agree that interest rates could be controlled, but offered four different responses as to who controlled them: banks, the government, the Chancellor of the Exchequer, and the Bank of England. The participants who knew the role of the Bank of England fairly quickly convinced other participants that it was, in fact, the Bank of England who set the interest rates. Similar to discussions about the ONS, some respondents correctly distinguished between the Bank of England and the government, while others perceived the institutions as one entity. These few participants showed detailed knowledge about the independence of the Bank of England, and their role to set interest rates independently.
- The focus groups showed that people had a mixed understanding about the rationale behind the setting of interest rates. For example, while it was common for participants to suggest that low interest rates could be implemented to encourage spending and 'boost

the economy', they often struggled to rationalise rises in interest rates. The answers rarely touched on interest rates' impact on inflation or the Bank of England's inflation target, and when people were given information about this relationship, people often said they hadn't heard about it before or hadn't understood it.

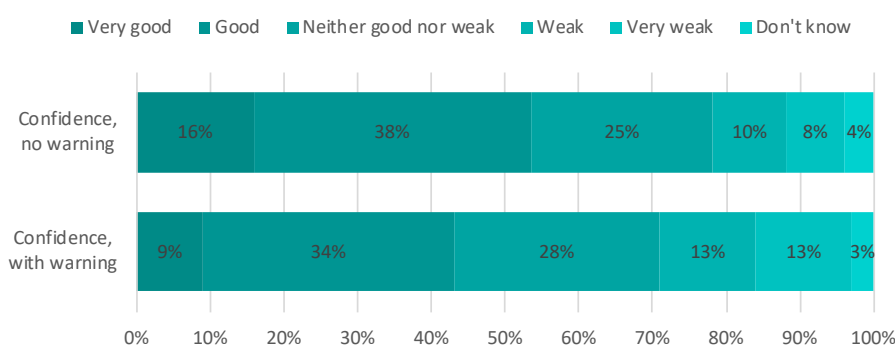
Section 6.1: Knowledge of interest rates

As we will see, interest rates were perhaps the economic concept most easily accessible to focus group participants. This was also reflected in the nationally representative survey when respondents were asked to self-report their understanding of interest rates. 54% of respondents reported a good understanding ('very good' or 'good') of interest rates; 18% reported a weak understanding ("weak", "very weak", "have never heard of it"); and 25% said their understanding was "neither good nor weak". Half of the sample was asked the same question, but warned that they would be tested on their knowledge of interest rates later in the survey. As Figure 25 below shows, this reduced the level of confidence among participants, but there were still more people who reported a good understanding (43%) than a weak understanding (26%).

Figure 25. Self-reported understanding of interest rates

Confidence, no warning: "How would you describe your understanding of the following economic terms?" (N=789)

Confidence, with warning: "Given you will be tested on these later in the survey, how would you describe your understanding of the following economic terms?" (N=876). 'Very weak' includes those who had 'never heard of it'.



Another question asked about people's perceptions of current interest rates, especially whether people thought they were considered high, low or normal. Notably, people hadn't been informed about the current rates. 57% thought they were considered low (either 'very low' or 'fairly low'); 13% said they were considered normal; and 12% said they were considered high (either 'very high' or 'fairly high'). 17% of respondents answered 'don't know'.

Figure 26. Perceptions of whether current interest rates are high, low or normal

“Do you think current interest rates in the UK are generally considered to be high, low or normal?”

(N=1,665)

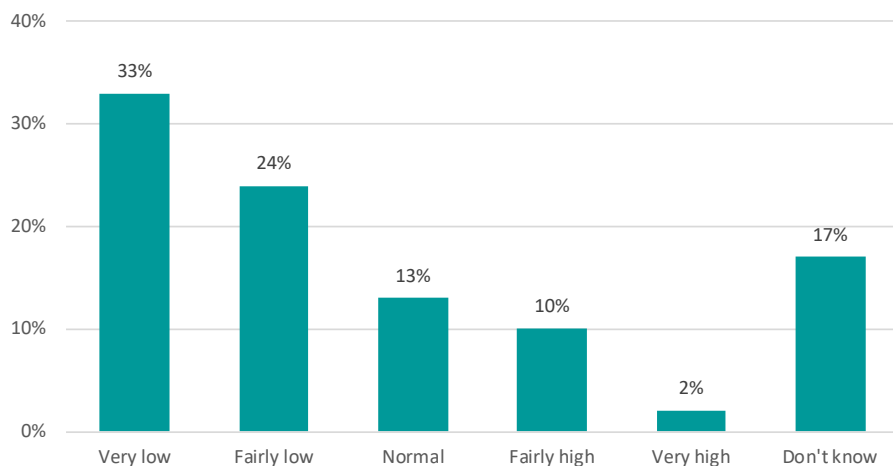
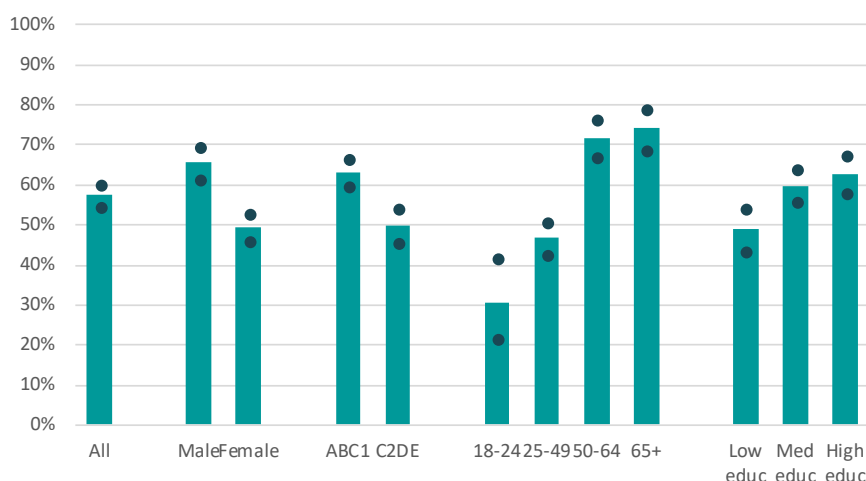


Figure 27 shows the proportion of respondents who thought current UK interest rates were considered low (either ‘very low’ or ‘fairly low’). Since the base rate of the Bank of England at the time of fieldwork was 0.75, the standard economist response would be low. Figure 27 shows the proportions vary substantially by different subgroups of the UK population, with the now familiar patterns.

Figure 27. Proportion of respondents who thought current interest rates are considered to be low

Low = all respondents who answered ‘very low’ and ‘fairly low’ (N=1,665)



Focus group participants also demonstrated a high level of knowledge about the current level of interest rates. When the groups were asked if they knew whether the current levels of interest rates were considered low, normal or high in a historical perspective, the answers were largely consistent. Participants knew that interest rates were currently low (described as ‘very low’, ‘quite low’, ‘so low’, ‘historically low’, ‘too low for too long’ and so

on). This was also demonstrated by participants frequently referring to low interest rates during the focus groups, sometimes on other topics and in subsequent conversations about their borrowings and savings:

'I think it's been quite low for some time now, hasn't it, where in the past it's been a couple of more per cent, hasn't it.'

Female participant, Manchester

Some remarked that they expected interest rates would go up:

'Since the 2008 crash, it's been quite low, historically it's low anyway, but it's going up now, right?'

Male participant, London.

'You'd think when they print the plastic 20s off, I think it's going to go up then, isn't it, probably.'

Female participant, Birmingham.

Some participants, who said the current rates felt normal, argued that the levels of interest rates had been quite consistent over a long period. Some of these were younger participants for whom low interest rates under 1% would indeed seem like the norm, given their point of reference would be the past decade. As we will discuss in subsequent sections, some older participants often mentioned the higher interest rates during the 1980s and referenced interest rates between 7% and 16%, showing that personal experiences and especially age can be quite important when judging how normal certain levels of interest rates are considered to be. For instance, this older focus group participant was in no doubt that interest rates are currently low:

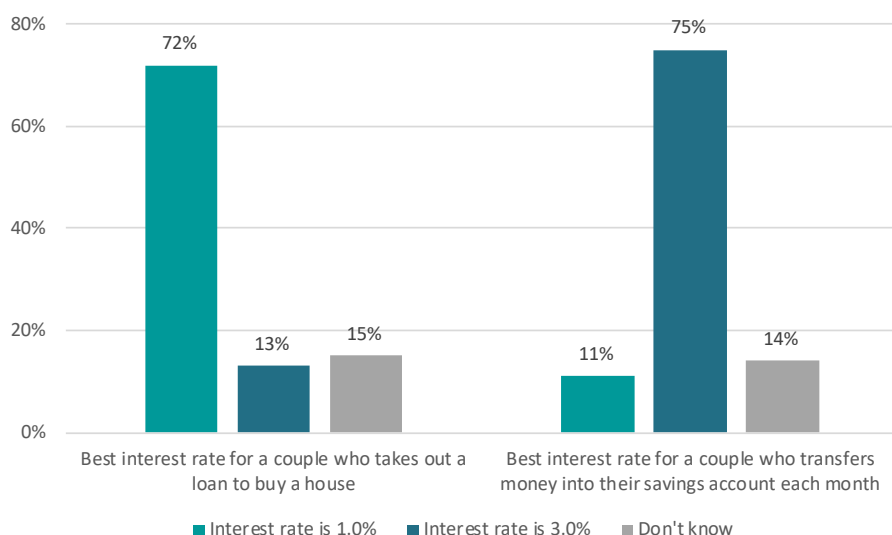
'Oh god yeah, it's low, try 13 point something... That was in the 80s, it was horrendous.'

Female participant, Birmingham.

Survey respondents were also asked a couple of questions that explored their understanding of the levels of interest rates, and particularly the implications of high and low interest rates on savings and borrowings. As Figure 28 below shows, around three quarters of people have a good understanding of the implications of high and low interest rates, while the remaining survey respondents either didn't know or answered incorrectly.

Figure 28. Perception of best interest rates

“Which interest rate do you think would be best for a couple who: [takes out a loan to buy a house/ transfers money into their savings account each month]?” (N=1,665)



Focus group participants were also asked what level, if any, they would consider to be a good level of interest rate. Most answered this question from their own personal perspective rather than from the perspective of other actors such as the government, businesses or the economy as a whole. Participants' own perspective was predominately as consumers of mortgages and car finance rather than savers (see next section). Most therefore said it was best if it was low. Some recognised different preferences depended upon circumstances. As already discussed, many also knew that it had been unusually low for some time, and some participants argued that it would be better to return to 'normal' interest rate levels.

While focus group participants typically understood the implications of a rise or fall in the interest rate on their personal lives such as for savings and borrowings, and often understood that the Bank of England was responsible for setting the level of the interest rate, it was more mixed to what extent people understood the rationale behind the setting of interest rates, and in particular why it might be set high or low:

'I know they have a committee, but what is the criteria that they use to either keep them as they are, the interest rates, or raise them?'

Male participant, London.

Prominently, participants reasoned that setting low interest rates was to 'boost the economy' or to 'get the economy going'. Some participants also suggested it was to encouraging spending, and to put money into mortgages, investments and borrowing. The most common responses described encouraging a rise in spending in order to '[regenerate] the housing market', particularly allowing 'young people to get on the

property ladder.'

In contrast, when focus group participants were asked why interest rates would be set high or would be increased, participant responses were more ambiguous, and often framed as guesses:

'I don't know, there's something about, yeah, it keeps the stuff calm and like they're trying to avoid the financial crash and those kinds of things. I don't really understand how they do it, but they do it.'

Male participant, London.

'Probably to stop people overspending as well... Quite a lot of people are buying on plastic now rather than having savings.'

Female participant, Manchester.

'Yeah, to stop people panicking and stopping getting stuff that they've got to pay interest on.'

Male participant, Manchester.

Some participants were more certain in their answers, such as these who focused on how higher interest rates could prevent the economy from overheating or stopping an emerging housing bubble:

'When it causes property prices to spiral because if the interest rate, if the mortgage interest rate is low then investment companies or private individuals can buy lots of houses to let and rent out. Then the rest of the property spirals up...'

Female participant, Manchester.

'It's to do with the economy overheating, they always talk about the economy overheating... People borrowing too much and therefore you're trying to rein it in by whatever.'

Female participant, London.

The only theme that seemed to emerge from these were that the government would increase interest rates to help pay off the government debt or reduce the budget deficit:

'Because they want more money to cover the deficit.'

Female participant, Manchester.

'For the government it needs to be higher, doesn't it, so they can pay off the debts to some degree.'

Female participant, Manchester.

A few times, participants described how interest rates had been very high in the 1980s, and reflected on why that had been the case in order to attempt answering the question. While people remembered the high interest rates very clearly and the personal impacts it had had on their mortgages, people were less clear about why the interest rates had actually been this high, and they didn't come to an answer through this reasoning. One noted the irony that she clearly remembered the high interest rates, but never seemed to have thought about why they were high.

Generally, answers and subsequent discussions rarely referred to the link with inflation and the Bank of England's inflation target. Subsequently, the explainer on interest rates explained the connection with inflation and the Bank of England's target, including through an infographic (see Appendix 6). This information gave food for thought among participants, who often said they hadn't heard about this relationship before:

'It really explains why, so if they were to put it up, because it is all about trying to keep inflation steady. And I don't think I ever realised that low inflation is bad either before, or that [interest rates] and inflation are linked.'

Female participant, Birmingham.

'It makes you understand the Bank of England's decisions a little bit more, rather than them just deciding to put their rate up, and then you think about, well, why have they done that?'

Female participant, Birmingham.

Some said they had heard about the inflation target in the news, and the 'need to control inflation'. One of the main reactions from several participants was that it sounded like a 'fine balancing act' to keep inflation at around 2%.

Section 6.2: The relevance of interest rates

Participants generally demonstrated a high level of knowledge about the impact interest rates had on borrowings and savings. This knowledge seemed to have stemmed from the perceived importance and relevance to everyday lives, with participants often speaking about how the level of interest rates affected them personally:

'We live by the interest rate. If the interest rate goes up, then your life quality goes down.'

Male participant, London.

Participants often said they monitored and compared interest rates, and that it ultimately was an important factor in financial decisions:

'It's one of the most vital things you've got to keep your eye on.'

Male participant, Manchester.

'It's a big decision-making factor, isn't it? For example, whether it be a house or be a car or whatever, a new three piece suite or whatever. If you're going to be borrowing the money, at what interest rate and over what period is that, and how does that affect your disposable income rather than putting yourself in a position where you can't make the payments, so it's really important.'

Male participant, Manchester.

People spoke about the importance of interest rates in relation to a number of things, including mortgages, credit cards, borrowing, overdrafts, car financing and savings. Most prominently, people mentioned their mortgages, and explained how the interest rates had affected their decisions and outcomes. Some with fixed-term mortgages, however, said they only looked at the level of interest rates close to the time of renewal:

'Interest rates for myself is down to mortgages, and obviously you're renewing every three years on your mortgage. So, that is something I do like to keep my eye on. However, I don't look at it until the time comes.'

Female participant, Birmingham.

- 'Again, I think I'm the same, I fix my mortgage, and I've got another two years. So, you don't think about it too much while you're in that.'

- 'I've just done mine. That's the only time you think about it.'

Dialogue between female participants, Birmingham.

As an example of how participants made financial decisions based on interest rates, one participant told how she had recently renewed her mortgage as a fixed-term mortgage, taking into consideration the uncertainty in the economy and possible fluctuations in the interest rate:

'I've just renewed my mortgage so yes, I had to. But I did, I just fixed it for five years just to wait and see what happens in this country.'

Female participant, Manchester.

In contrast, people who didn't have a mortgage typically said they didn't know what the level of the interest rates was:

'I don't have a mortgage, so interest rates don't bother me, so I don't have a great interest.'

Male participant, Manchester.

'I've only really, probably the last few years when we bought our house probably looked

into it more with interest rates and things.'

Female participant, Manchester.

It was a general theme in the conversations about interest rates that knowledge and attention depended on personal circumstances, such as age, amount of savings, and whether they were a renter or owner:

'Well I don't think about savings because I've never got any money to save, so it doesn't really matter to me.'

Female participant, Birmingham.

The following comment from one participant showed clearly how his personal circumstances affected his knowledge of interest rates. While he was well aware of the personal impact on his savings of lower and higher interest rates, he expressed doubt about what implications higher interest rates had for other aspects of the economy:

'I can only relate to savings. Obviously, when the interest rate goes up, then it's worth saving, but if it's zero or whatever, what's the point. The higher they are, they will obviously encourage people to save, but I'm sure there's a lot of downside to it somewhere along the line.'

Male participant, London.

Very young participants were noticeably less part of the conversation on interest rates than on other topics, and older participants also mentioned that their attention to interest rates had only come when they had become older, as they had needed to borrow money:

'It starts off at age because when you're young, some people borrow money to buy a car, but it certainly hits home when you buy a house.'

Male participant, Manchester.

Furthermore, it was evident that older participants shared a collective memory of the 1980s when there were much higher interest rates:

'I'm fortunately not affected too much, but in my younger days when it was high interest rates 15% mortgage and all that, yeah definitely. We weathered the storm.'

Male participant, Manchester.

'I'm like this fellow here, you're getting it at 2 or 3%, and all of a sudden it goes up to 15%, your bloody eyes are wide open then.'

Male participant, Manchester.

- 'I don't give it a thought to be honest, but years ago when I had a mortgage that was different. There was on time in the 90s, maybe 80s, it was 16%.'

- 'It was crippling.'

Dialogue between female participants, London.

For many older participants, this was described as a formative experience, which had sparked an interest in the economy, based on an acknowledgement that it had the potential to affect their lives. A typical comment was:

'I think for me, I never really thought about the economy until the recession in '87 when my mortgage repayments more than doubled and interest rate were horrendous. It was like 16.8%, and we were really struggling, and that recession went on for what seemed like absolutely forever. From that point on I think I took more of an interest in what's going on.'

Female participant, London.

Some participants also feared a scenario with high interest rates in the future. Most often, participant made this in reference to the high interest rates in the 1980s, though some also connected this possibility to the impacts of Brexit:

'Especially now, the property prices are so high, so if I was to re-mortgage the thought of actually going back to those days when it was 16, it would just destroy us.'

Female participant, London

'One of the bad news stories that's going to happen if we do leave the EU, if and when. I'll be retired when we do, probably, but interest rates are going to go high.'

Male participant, Manchester.

In terms of borrowing, apart from mortgages, comments were made around general borrowing, credit cards and particularly car financing. Some participants discussed payday loans with very high interest rates. There was some uncertainty among participants whether there had already been legislation to cap payday loans, and to what extent this has addressed the problem:

- *'The law has changed now. You can't pay more than the original amount. It used to be: borrow £1,000 and you'd end up paying £3,000, they have changed it, so you can't pay more than the original amount you paid in interest.'*

- *'Have they? I'm not so sure, because you can get rates being charged at about 37%... I mean, I'm surprised there isn't a cap on interest rates being charged.'*

- *'I'm sure I read the government had done that because they were concerned about, was it Wonga Loans.'*

- *'Yeah, they cracked down on Wonga.'*

- *'They have, but I'm not sure to what extent.'*

- *'The rates are still quite high.'*

- *'They are, very high.'*

Dialogue between male participants, London.

It was also clear that participants understood that the levels of interest rates affected their savings:

'I think most people in this room won't be doing it for the savings side of it, so if it is does drop we're going to make a saving on the mortgage whereas I haven't got thousands and thousands of pounds to put in a savings account and worry about what interest I'm going to get back, so at this moment in time it doesn't bother me.'

Female participant, Manchester.

People seemed to understand clearly that the current low interest rates were not good for savers, and indeed most of the references to savings were made in this context:

'It's quite disappointing on the savings, because we all know that the interest rates are very, very low, so savings are crap.'

Male participant, Manchester.

'You might have money in the bank if you're lucky, but that's earning you nothing.'

Male participant, Manchester.

Some participants also remarked that interest payments on savings were only really valuable for people with larger savings, especially given the current low levels of interest rates:

'You've got to be talking big money to really appreciate that percentage.'

Female participant, Birmingham.

Overall, the conversations in the focus groups demonstrated that people have a good level of understanding of interest rates, including the impacts on their personal finances such as their savings and borrowings. The essence of the conversations was well summarised by one participant who explained, with a specific focus on mortgages and savings which

were typical for the participants, what the current low interest rates meant for his personal finances:

'My mortgage is cheap but I'm not getting anything on my savings.'
Male participant, London.

Section 6.3: Setting the interest rate: Bank of England

Focus groups were asked whether interest rates can be controlled, and if so, by who. Most participants agreed that interest rates can be controlled. People offered four different responses to who controlled them: banks, the government, the Chancellor of the Exchequer and the Bank of England. As these were open-ended discussions, the focus group participants who knew the role of the Bank of England fairly quickly convinced other participants that it was, in fact, the Bank of England that controlled the interest rates. Some participants also showed fairly detailed knowledge of the process, including mentioning 'monthly meetings' led by the Bank of England governor, and sometimes also referred to these as MPC meetings or committee meetings.

Similar to discussions about the ONS, some respondents distinguished between the Bank of England and the government, while others seemed to see the institutions as one entity. Few participants had detailed knowledge about the independence of the Bank of England:

'I think it's part of, I can't remember it was about 10 years ago that they changed it, so it was the Bank of England that decides and not the government.'
Female participant, London.

'When it came out of the hands of the politicians and went into the Bank of England to set interest rates. When we were kids, that conversation took place all the time. Oh, will interest rates go up, will it be changing [that it's] in the hands of politicians, and now it's this almost detached body.'
Male participant, Birmingham.

'Well we don't even talk about it. It used to be a massive conversation about what interest rates will do and now it's a private job that fixes it.'
Male participant, Birmingham.

A couple of participants expressed scepticism about this independence, for instance:

- *'Being sceptical I'm never sure whether the Bank of England are truly independent when it comes to interest rates. Whether they are pushed into a certain...'*
- *'[They are] influenced I reckon.'*
Dialogue between male participants, London.

While not a prominent theme, a couple of participants recognised that the Bank of England sets the base rate, but it was then up to high street banks to set rates for consumers. This mostly came up when participants raised questions about why there were many different interest rates, and why their mortgage rates would be different to their savings rates.

'It's whether the companies absorb that or pass it on to you, isn't it? If the Bank of England say it's going up by 0.2% or something like 3 percentage points, they like to use that language these days, it's whether... Nationwide want to absorb that or they pass it onto you. It's their decision, isn't it, and that's how it affects you ultimately.'

Male participant, Manchester.

Sometimes, this prompted discussions about why the Bank of England wasn't accessible to the public as a money lender, and why high street banks had to act as middlemen:

'My question is what's the interest rate on the government borrowing and the Bank of England? I know it's less than the interest you pay on the mortgage so why can't we borrow money from the Bank of England like the government? Why do we have to go to a middle man, to the banks, why? That's my question.'

Male participant, Manchester.

During the discussions about interest rates, and also during other parts of the focus groups, the Bank of England as an institution was sometimes mentioned ad hoc by participants. One of the prominent themes was references to 'how much money the Bank of England holds' and its gold reserves which were at times used in definitions of GDP and inflation. There were also some discussions about the Bank of England's ability to print money. This was partly prompted by the explainer on government debt (see Appendix 9):

'Who do they borrow from, the Bank of England? When they say they print their own money, they don't owe that back to anyone do they or do they owe that back to the Bank of England? I'm confused to who finances the debt, who gives them that overdraft facility?'

Female participant, Birmingham.



Chapter 7: Trade

Overview and summary of key findings

This section presents our findings on people's perceptions of trade. The focus groups and the survey covered 1) people's understanding of the basic of trade, including the meaning of imports, exports, and the trade balance including the terms 'trade deficit' and 'trade surplus', 2) their understanding of why countries trade with each other, 3) people's knowledge and perceptions of the country's trade balance, and 4) people's understanding of what a trade deal is.

The key findings were:

- Focus group participants demonstrated a good intuitive understanding of trade, i.e. what trade is, and what exports and imports are. The survey found that a majority of the British public thought (correctly) that the UK ran a trade deficit. Similarly, focus group participants were generally very certain that the UK had a trade deficit. This confidence often had its roots in historical knowledge of the decline of certain industries such as manufacturing, and that the UK had developed into a service economy.
- Focus group participants tended to view a trade deficit as a negative and a trade surplus as a positive. Many simply felt this was logical and natural, and felt that an exporting economy was inherently better and more profitable. Others focused on the missed employment opportunities for domestic workers; the increased reliance on foreign products which reduced the incentives for domestic entrepreneurs to develop new ideas and technologies, and exposed the UK to abuse by other countries such as charging higher prices. A few participants also said a trade deficit may be okay, particularly if the deficit was 'manageable' and 'not too big'. However, some participants also acknowledged a number of reasons for why the UK had a trade deficit, such as being unable to compete against countries with lower production costs, and a couple of participants recognised that the UK probably had a trade surplus in services.
- Participants gave many reasons for the benefits and disadvantages of international trade. Among the benefits, participants typically focused on the fact that the UK could import goods it cannot produce themselves, such as certain fruits and vegetables, or that some goods could be produced cheaper or of higher quality overseas. Among the disadvantages, participants typically said that trade undercut prices in the UK economy, leading to the decline of certain domestic industries and job cuts. It was also suggested that trade sometimes stifled innovation in the domestic economy, and some participants questioned whether the UK really tried to produce certain products domestically or whether it was just seen as easier to rely on trade. It was also common to connect trade with globalisation, and participants often recognised that trading had substantially changed with the invention of new technologies that had reduced physical transportation costs and blurred the line between borders due to the internet.

- Despite the fairly accurate knowledge about the UK's trading position, and despite the intense public debate about trade negotiations in recent years, focus group participants demonstrated less knowledge about trade deals. During these discussions participants often spoke broadly about a 'contract' or an 'agreement' between countries, but rarely provided more detail. Participants rarely mentioned tariffs, but sometimes demonstrated knowledge that trade deals involved countries agreeing to fix 'some type of rates.' In some rare instances, participants said that trade deals also involved setting common standards on goods and services. Focus group participants commonly said that the provided explainer made the concept of trade agreements 'a lot clearer'. In particular, participants highlighted how it gave them an understanding of tariffs and how it impacted prices in the economy, and how it could be used as a device to protect domestic jobs.

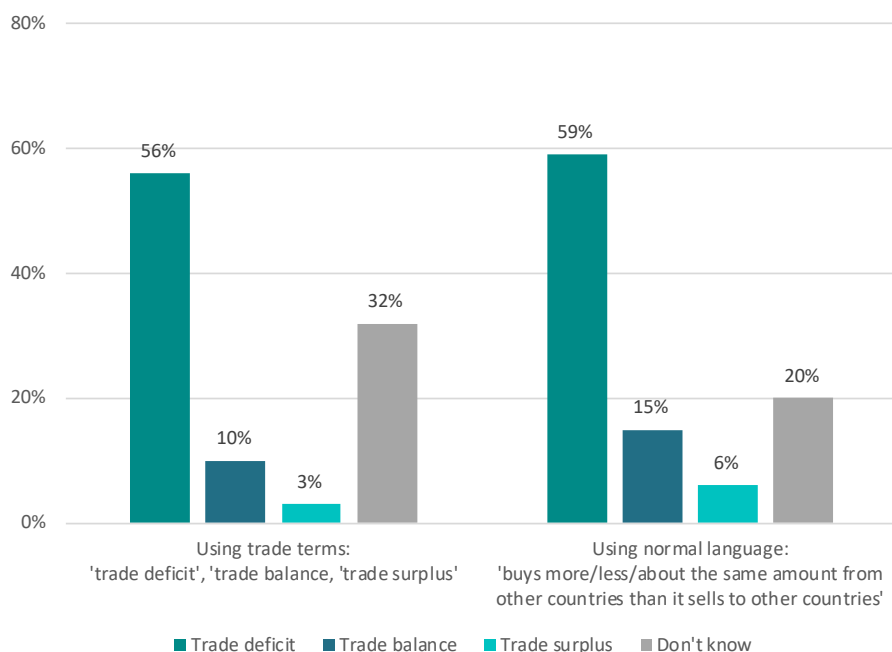
Section 7.1: Trade balance: Trade deficit and trade surplus

The nationally representative survey asked whether people thought the UK had a trade deficit, trade balance, or trade surplus. The sample was divided randomly into two groups. One group was given the answer options using trade terms (i.e. trade deficit, trade balance and trade surplus) and another group was given answer options using more everyday language (i.e. buy more/less/about the same from other countries than/as it sells to other countries). Overall, across both conditions, it is clear that around 55-60% of the UK population know that the country is operating a trade deficit.

Figure 29. Perceptions of trade balance

Question: "Which of the following statements about UK exports and imports do you think is true?"
Treatment using trade terms, randomly shown to half of sample: "The UK has a [trade deficit/trade balance/trade surplus]" (N=827)

Treatment using normal language, randomly shown to half of sample: "The UK [buys more/less/about the same amount] from other countries than it sells to other countries" (N=838)



Focus group participants demonstrated good understanding of basic trade concepts, such as the meaning of imports and exports. It was not explored to which extent people had heard the terms 'balance of trade', 'trade deficit' and 'trade surplus' beforehand, but people quickly figured out the meaning of these terms by applying logic.

When we asked focus group participants whether they thought it was normal for the UK to be in a trade surplus or trade deficit in a historical perspective, participants predominately thought the UK were in a trade deficit, and quite often participants were very certain of this. This confidence often had its roots in historical knowledge of the decline of certain industries:

'I think we're in a deficit. I think there's no doubt about that. Like you said, we used to be producers, especially up north with the cotton mills.'

Male participant, Manchester.

'We mainly assemble in this country, we don't manufacture much anymore.'

Male participant, Birmingham.

There was also often an understanding that the UK had developed into being a service economy:

- 'In terms of services, we operate a trade surplus. In terms of products, we have a massive deficit.'

- 'Totally agree. We used to be a producing nation, now we're a service nation. We don't make nothing anymore. And everything we do make, it's usually foreign countries bringing their Nissan car plants to plonk them in Britain.'

Dialogue between male participants, Manchester.

Focus group participants were also asked whether it was preferable for the UK to be in a trade surplus, deficit or not necessarily either. Most participants saw a trade surplus as the best outcome, and this opinion was often expressed quite strongly. A number of reasons were given for why a trade surplus would be preferable. First, some participants simply felt this was logical and natural, and didn't feel it was necessary to provide concrete reasons. The comment from this participant was typical:

'[A deficit] is bad for the country, for our country it's bad, it's got to be.'

Male participant, Birmingham.

Second, some participants focused on the missed employment opportunities for domestic workers, if products were produced and imported from overseas:

'Somebody in the foreign countries are making something that we could produce here. So we're buying it, but not giving our workers the opportunity to make it here.'

Male participant, Birmingham.

'The more we sell, the more employment we'll have. And if we go in deficit, more unemployment.'

Male participant, Manchester.

Third, a few participants said that outsourcing production to other countries, which was generally seen as one of the main drivers behind the trade deficit, created a reliance on foreign products which eventually reduced the incentives for domestic entrepreneurs to develop new ideas and technologies. In this way, the trade deficit was said to have 'stifled innovation' in the UK:

'It means we're not empowering the people in this country to maybe develop the ideas or technologies they might have, and other countries may want. But if we're not sourcing or being able to empower people, somebody else will have that idea somewhere else, and we'll run after that. We're backing that horse, but we're not backing the horses that we have.'

Female participant, London.

Similarly, there were some discussions about how a trade deficit may put the UK at a disadvantaged when compared to other producing countries due to an imbalance of

power. For instance, one participant explained this by comparison to the dependence of a drug addict:

'Well, the balance of independence goes. It's like a drug dealer, he might come and give you his freebies which I think global companies do and get you hooked on to an easy line of buying from abroad. And then ultimately, at any point in the future, if they decide that they're going to change the game, and we no longer produce anything, and you're just a buyer and not a producer, then you don't run the game, do you?'

Male participant, Birmingham.

Related to this was the belief that having a trade deficit would lead to higher prices in the economy. This was sometimes related to the potential impacts of Brexit, and that some participants felt the EU could charge higher prices under a new trading relationship.

Fourth, some participants felt that an exporting economy was inherently better and more profitable. This view seemed closely related to some of the discussions on GDP, in which participants felt that products are more valuable once they were sold to other countries, rather than being traded and consumed within the domestic economy:

'It's better to sell than to buy. If you're selling, you're profiting [at the expense of the] country you're selling to.'

Female participant, London.

'Well, you'd ideally want to sell more than you spend, wouldn't you? I don't know, but in theory.'

Male participant, Manchester.

Fifth, some participants recognised that the UK economy had developed into an import-driven economy with a relatively large trade deficit. Participants often recognised that this would be hard to change, and particularly that it would be hard to get some of the old industries back:

'We're so geared up to it being that way that. I can't see how it would change.'

Male participant, Birmingham.

'I just think the risk as well, if the companies are going to do that, it takes a lot of risk to maybe invest in something and maybe it won't work. So then that company will completely lose out. It's just an easy way of doing it, because it's always the way.'

Male participant, Birmingham.

'A lot of [the industries] have gone now. And I think this is why we have to keep these trade relationships all over Europe, because that's the way we're going to have to go. We're not going to get these trades back again, we're not going to be able to sell the things that we used to sell.'

Male participant, Manchester.

A few participants thought that a trade deficit may be okay, particularly as long as the deficit was 'manageable' and 'not too big'. Sometimes, as the conversation went on, participants started to acknowledge some of the reasons why the UK had a trade deficit, such as British people no longer wanting to work in certain professions, and especially that the UK was no longer seen as being competitive against countries with lower production costs due to lower wages:

'We can't produce it for the same cost that they can and that's where the problems are because our minimum wage is so much [higher] at £8.21, but theirs is £3. You just can't do it, can you?'

Male participant, Birmingham.

Participants, however, often framed this as undesirable, and spoke with regret about not being able to buy British-made goods due to cost constraints:

'There are some things that we can't produce that we have to get from other countries, but it's pretty bad when there are things that we can produce but we still get it because it's cheaper to get from other countries instead.'

Male participant, Manchester.

- 'Don't we still like to see British made, see that Union Jack on it. I've no doubt we're not alone and every country would want to do that, made and sold in the UK.'

- 'I think a lot of people do, but there's people out there who'll see something made in China that's half the price and be like, well I can't afford to buy it from being made here, it's expensive.'

Dialogue between male participants, Manchester.

China was regularly mentioned as the low-cost production country. Some participants noted that China had a large trade surplus, but despite the perceived economic positives, several participants quickly acknowledged that they would not want to live and work there, due to poor working conditions and the environmental damage caused by manufacturing.

Later in the focus groups, participants were given an explainer which included information about the size of the UK trade deficit which was £31b at the time. In one group, there was general agreement that the size of the trade deficit seemed very large, which prompted concerns about future trade negotiations with the EU and other countries:

'They can charge any rate they want and that's scary.'

Female participant, London.

'And the levies that Europe is going to put on us to get medicine etc.'

Female participant, London.

- 'I didn't know the trade deficit was so huge.'

- 'I know.'

- 'I'm just shocked.'

- 'I'm not.'

- 'I think this is what people are scared of with Brexit.'

Dialogue between female participants, Birmingham.

However, another group agreed it was hard to judge whether a trade deficit of £31b was a lot. Participants largely agreed the figure sounded high, but some participants said it might not be a lot for the country as a whole. They didn't mention the other figure that was provided where the trade deficit was expressed as a proportion of GDP. Participants also agreed that it would be useful to see it in comparison to other similar countries such as France or Germany. This is similar to findings in other chapters where people find comparisons to other countries useful in order to interpret the UK statistic.

Finally, one participant mentioned that he would have liked the explainer to break down the trade figure in terms of goods and services, because he felt the figure would cover up significant differences, in particular that he expected the UK to have a large trade deficit for goods but a large trade surplus for services.

Section 7.2: The benefits and disadvantages of trade

The focus group participants were also asked about the benefits and disadvantages of trade between countries. Participants often argued that trade made it possible for the UK to import goods that cannot physically be produced within the UK itself. There was an emphasis on certain foods, particularly fruits and vegetables:

'We get fruit imported because we can't grow fruit, it's going to cost more to do it ourselves.'

Male participant, Birmingham.

'We can't always produce everything we need in the country, can we? It's like electricity for example, a lot of electricity comes from France because we can't physically produce enough of it here.'

Male participant, Birmingham.

'Because some countries can't produce things or get things themselves, they can't make

stuff grow, like plants and stuff.'

Female participant, Manchester.

Second, people said that international trade made it possible for the UK to import certain products that were cheaper or of higher quality than domestically produced ones. For instance:

'A certain country may produce a certain product better than other countries. So, for example, just off my head, like wine or cars.'

Male participant, Manchester.

'It's the speciality, isn't it? There might be things that other countries produce cheaper than they can produce here, so you'll import that, like coal, back in the '80s.'

Male participant, Birmingham.

'It could just be cheaper to buy something from somewhere else than making it ourselves. So, if you buy oranges cheaper from Spain, and it can cost more because we don't grow them as well, then you buy them cheaper from Spain.'

Male participant, Manchester.

No participants in any of the focus groups directly mentioned the term 'comparative advantage', which would probably be a standard response for many economists. This participant came closest in his description of the benefits of trading:

'I suppose you can focus more on your country as a whole, what it's good at, instead of wasting time trying to produce things that someone else does better and they can do cheaper, and you spending more and wasting resources... It's cheaper to get [fruit] from over there, and then in return we can send something out like technology and services.'

Male participant, Manchester.

A couple of participants argued that international trade led to stronger relationships between countries. One participant argued that strong trade relationships helped preventing terrorist attacks, while another participant said it made countries less likely to go to war against each other.

Participants also mentioned a number of disadvantages. In particular, participants argued it undercut prices, leading to the decline of certain domestic industries and causing unemployment in the UK:

'If we're buying everything... from different countries, then we're not producing in this country, and we're not having jobs, using people in the UK to produce those goods and services.'

Male participant, Manchester.

'The disadvantages are that some people are being left behind by the system... 100 years ago Britain used to make a lot of products themselves, but they now outsource it, and that does mean that some trades have gone from this country.'

Female participant, London.

'I think sometimes they can undercut us so things that we're producing here they can do for next to nothing because they've got the work force.'

Female participant, Manchester.

Some participants noted that this undercutting was not only due to lower wage costs in other countries, but also sometimes due to exploitation of foreign workers:

'It's good for big business as well, like Nike, instead of having a shop here, they have a sweat shop in Thailand and pay some 12 year old kid 10p a month or something to make trainers and then sell them back here for £100. Where if you have a factory here, you've got to pay someone minimum wage, pension and all these things.'

Male participant, Manchester.

- 'A lot of what we are buying... is because it's dirt cheap, because they exploit their workers. And if we took a stand, but people don't examine labels...'

- 'I believe these things are happening to us blindly, that we're not aware, I've been a customer for a mail order catalogue for years... the whole phone call was so confusing and I said where are you based, and they were like Cape Town in South Africa, and I was flabbergasted. I'd been a customer of this company for over 30 years and I just felt cheated? You think you're buying British but you're not.'

- 'I felt that too, I think I spoke to somebody in India through one of our biggest telecom networks because it's cheaper to employ them and they get the 24 hour service, but we get it and not realising we're getting it internationally because it's cheaper for them. When they're going to bed our ones take over so they're saving all their money and stuff like that, so it does seem like there's a lot of extortion.'

Dialogue between female participants, London.

Another perceived disadvantage was tax evasion by global, and particularly technology, companies:

- 'There's also the tax part of it, where the big companies pay their tax. We must have missed out on a load of tax money in our country.'

- 'They don't pay half of them, they've got ways round it.'

- 'Well, Cadbury's just got away with a load, haven't they?'

Dialogue between male participants, Birmingham.

Finally, participants expressed the view that trade stifled innovation, and that trade reduced incentives among domestic entrepreneurs and businesses to create new ideas

and technologies. For instance, when one participant argued that the UK imported a lot of electricity from France, because the UK couldn't physically produce enough domestically, one participant remarked: 'Do we try?'

During the discussions about trade, participants sometimes discussed that trade had almost always existed (such as the first comment below), while others mentioned how trading had substantially changed with the invention of new technologies that reduced physical transportation costs but also with the blurring of borders due to the internet (such as the second comment below):

- *'We've always traded. People go on about trade, but it's been going on for ages.'*
- *'Built the country, didn't it?'*

Dialogue between male participants, Manchester.

'We live in a shipping container world now. The choice of economics has changed massively, because of transport, because of shipping containers, because of companies like Amazon and global companies. We can press a button on our phone now and something will turn up in two hours' time on our door. That was never available 10, 15, 50, 100 years ago, that's changed the world, the way things can be shipped around the world.'

Male participant, Birmingham.

Section 7.3: Trade deals and tariffs

Participants were asked whether they could describe what a trade deal was. While participants demonstrated fairly detailed knowledge about the UK's trading position, the majority of respondents' answers about trade deals were fairly mixed and quite often imprecise. Most answers did not mention tariffs, but often spoke broadly about a 'contract' or 'agreement' between countries, without always providing more detail about what this contract entailed:

'I would imagine it would be like an agreement to, a contract for a certain period of time. It would involve everything to do with what the trade deal is or what the subject matter is but yeah, it would be a negotiated contract.'

Female participant, London.

'Where two countries make a deal, they want to know what we've got and then vice versa.'

Female participant, Manchester.

'It's generally about, it's about trying to get the best deal with the countries.'

Male participant, Manchester.

Sometimes, this agreement was seen as including certain products:

'It's continuous trading offer, for the same product, like every month or something.'

Female participant, Manchester.

'Would there be trade between the two countries on a certain product?'

Male participant, Birmingham.

Some participants mentioned that trade deals involved the countries to agree to fix prices, interest rates or shipping costs. An interpretation of this could be that participants knew that some type of rates was fixed or agreed in a trade deal, but there weren't fully aware that it was taxes on imports (tariffs), or at least they were not readily able to explain this properly:

'Over a certain period of time, you've locked into a deal that you've set up rates. Like, over a three year period, there would be a similar price.'

Male participant, Birmingham.

'Set prices?'

Male participant, Birmingham.

'You make a deal that you can't, once you've set that interest rate or whatever you can't go, you can't change if the interest goes up or down. You've made that deal and that's it?'

Female participant, Manchester.

Another participant defined it in terms of the benefit of reducing costs:

'Benefits for them and us, it won't cost us as much if we have a deal.'

Female participant, Manchester.

However, there were also some participants who had a better understanding of trade deals, and described it in terms of tariffs and import taxes, for instance:

'Set import taxes and stuff?'

Male participant, Birmingham.

'I'm assuming that when we trade with other countries there's a tax that they're going to have to pay on top... That is basically [what] the trade agreement is, how much of a tariff or tax that they would actually pay.'

Male participant, Manchester.

Some groups discussed the potential impact of Brexit that the UK would start importing chlorinated American chickens. This seemed to have struck a chord with participants who

were concerned about this prospect. However, before participants read the explainer about trade, only one participant explicitly brought up that trade deals also involved agreement on common standards on goods and services:

'It's an agreement on standards as well. We agree the standard of the goods and services that you're going to provide to each other, and then you'll agree what the level of tariff if anything would be put onto it as it passes some of the borders.'

Male participant, Manchester.

The focus groups were then given an explainer on trade (see Appendix 9). Among the explainers provided to participants during the focus groups, the one on trade was maybe the one that engaged participants the most, and seemed to give a lot of food for thought for some participants. It was common to say that the explainer made the concept of trade agreements 'a lot clearer' and 'everything makes a lot more sense.' In particular, some participants highlighted that it had given them an understanding of what tariffs were:

'I didn't understand how tariffs really worked to that extent so that was quite interesting really.'

Male participant, Birmingham.

Other participants noted that they didn't realise that trade agreements affected prices in the UK:

- 'It's what we pay for it at the end of the day, that affect what we pay for that end product, isn't it?'

- 'Is that something you had thought about before reading this?'

- 'No.'

Dialogue between male participant and interviewer, Birmingham

Some also said that, prior to reading the explainer, they only knew of the negative consequences of tariffs such as higher consumer prices, but they had never thought of tariffs as a protective device for domestic producers:

'What I didn't realise with the tariffs is it also protects our domestic stuff as well, so obviously the tariffs can't get lowered so much that they undercut what we're producing in our country. So yeah, it's made it a lot more clearer reading this.'

Male participant, Manchester.

'[Tariffs] are seen as a bad thing in general, because upping the price of everything. But then it's also a good thing I suppose, like as it said UK dairy farmers, they're not having as much competition from international companies, which means that they can still produce.'

Male participant, Manchester.

Chapter 8: Deficit and debt

Overview and summary of key findings

This section presents our findings on people's perceptions of the government budget balance and debt. The focus groups covered 1) participants' understanding of government spending and income, and the government budget including the meaning of 'budget deficit' and 'budget surplus', 2) participants knowledge and perceptions of the UK's budget balance, and 3) participants understanding of how the state finances budget deficits, including whether they understand the difference between deficit and debt.

The key findings were:

- Focus group participants seemed to have a fairly good understanding of the government budget, including that government income mainly existed of taxes, National Insurance and VAT, and on the spending side, participants tended to highlight expenditures on pensions, welfare and public services especially the NHS. However, some participants seemed to place a particular importance on specific, smaller spending items such as EU contributions, MPs' pay and expenses, earning and expenses of Vice Chancellors at universities, and foreign aid.
- Participants demonstrated a good intuitive understanding that the government budget can be in a deficit or surplus, though largely acknowledging not knowing the exact terms. Throughout the discussions, it was clear that people tended to conflate debt and deficit, and use the terms interchangeably.
- Focus group participants overwhelmingly agreed that it was the norm for the UK to run a budget deficit historically, with most expressing a high level of confidence that the UK currently ran a deficit; emphasising that the deficit was large and that it had been for a long time, and that they simply had never heard of the term 'budget surplus'. The survey findings, however, suggest that people's apparent knowledge about the budget balance may partly be due to their familiarity with the term 'budget deficit'. While two thirds of people were able to identify that the UK government ran a budget deficit, less than 40% were able to do so, when this was expressed in more everyday language as the difference between government spending and income.
- In some groups, focus participants argued that they could not imagine a UK government running a budget surplus, and that it would be difficult to govern with a surplus in a democracy. They made the argument that there would always be pressures to spend any surplus money to improve public services or welfare. With the same rationale, some participants argued that governments may demonstrate a budget deficit in order to reduce pressures to increase spending and potentially to justify cuts to spending. When the groups were given information that the UK had run a budget deficit for 60 years and a budget surplus for 13 years during the past 73 years, the typical reaction was surprise that there had been that many surplus years, and many people were interested in when the UK last

ran a budget surplus.

- Focus group participants instinctively thought that it was bad to run a budget deficit. They often could not give a detailed rationale for this view, other than the fact that it seemed logical and that deficits were inherently a bad thing. Others focused on the need to borrow money and the subsequent interest payments on those loans which could have been used to improve public services. Some also emphasised that deficits led to debt, which in turn led governments to adopt austerity measures, which again damaged the quality of public services. However, the initial reaction that budget deficits were a bad thing was sometimes changed during the discussions, once participants reflected that it was usual for personal households and businesses to hold debt most of their lifetime. Finally, there were some participants who argued that governments should invest and run budget deficits to boost the economy, as the interest payments would currently be low.

Section 8.1: The definition of budget deficit and surplus

Focus group participants were asked what they understood by the terms 'government budget surplus' and 'deficit'. While many participants had clearly not heard these exact terms before, they often understood or figured out what they meant. For instance:

'How I understand it, this is just a guess, this is what I think from work, if we're running at a deficit, it's where our budget as a country is, our expenses exceed the money we're generating. We're at a deficit. If the cost of the NHS is £20bn, but we've only got the funds £18bn, our government pot of money is running at a deficit.'

Female participant, Birmingham.

'If you're in a deficit, it means you're negative, aren't you, you're not making a profit. In simple terms the government, we're borrowing more than what we're making, so we're running in a deficit which is not good.'

Male participant, Manchester.

'Well, if they're in deficit, they're spending more, aren't they? So, they're spending more than they've physically got, so they're borrowing that.'

Male participant, Birmingham.

At times, participants offered answers based on an intuitive view that 'deficit' is something negative and surplus is something positive about the government's economic performance:

'One's higher, one's lower, isn't it? So, a deficit, they're not doing very well. They've spent too much.'

Female participant, Birmingham.

'Too much going in and not enough coming in.'

Female participant, Birmingham.

'They haven't got enough money to run the country.'

Male participant, Manchester.

One participant guessed the budget deficit meant 'there's some sort of deflation', and a couple of participants seemed to confuse the budget deficit with the trade balance, for instance:

'[The surplus] is what they have sold more than what they've bought in, and a deficit is the opposite of that.'

Male participant, Manchester.

There were also a few participants who said they 'had no idea', but generally the government budget balance was a topic that participants saw as particularly relevant.

Some comments revealed how people speak about the deficit and debt interchangeably, which was a common theme throughout the discussions about the budget deficit and government debt:

'To me deficit is debt, so we're going to cut it down, or what not. There's this thing, I don't know, I guess it will be a debt, so we're going to try and get rid of it. But they've not done it, we're going to extend it again.'

Female participant, Manchester.

'Deficit's debt and surplus, that's if we've got a bit of savings, but I'm not really that sure to be honest.'

Female participant, Manchester.

'A surplus, I suppose would be in credit, and deficit would be we're not in surplus, in terms of like money that maybe we owe to other people, or the money coming into the country.'

Male participant, London.

Focus groups were also asked what was typically meant by government spending and income. It was fairly clear that people generally understood that the main income items were taxes, National Insurance and VAT. The discussions about government income were less detailed than the ones about expenditure, though people did mention that the government lost out on potential income due to tax-evading global companies. On the expenditure side, people tended to highlight pensions, welfare and public services such as the NHS as the main spending items. However, people also tended to identify much smaller, but seemingly at least as salient, spending items such as EU contributions, MP's

pay and expenses, earnings and expenses of Vice Chancellors at universities, and foreign aid.

Section 8.2: The level of the budget balance

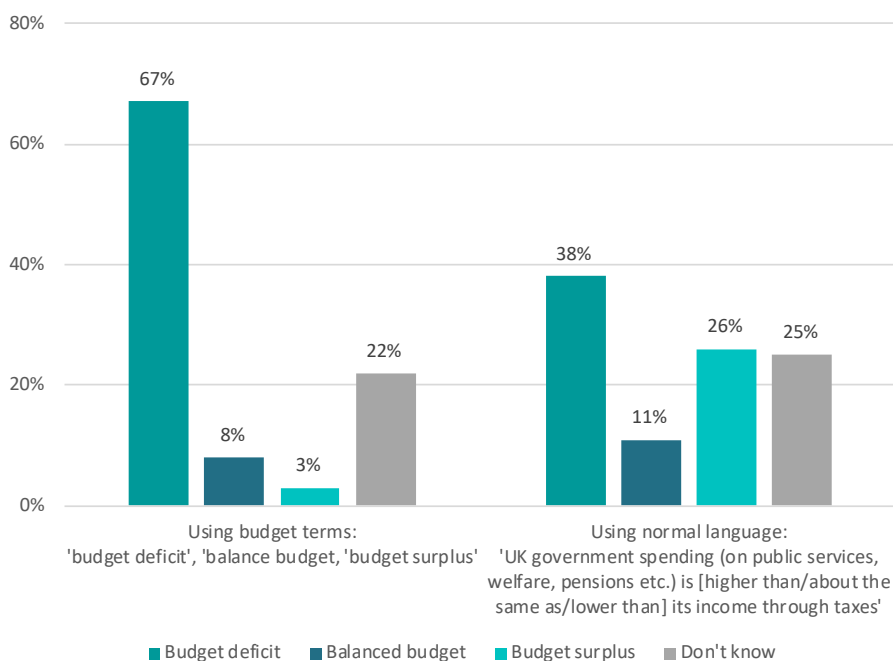
Without any prior questions about the government budget deficit or surplus, survey respondents were asked about their perceptions of whether the UK currently had a 'budget deficit', 'balanced budget' or a 'budget surplus'. The sample was divided randomly into two groups. One group was given the answer options using economic terms (i.e. budget deficit, balanced budget and budget surplus) and another group was given answer options using more everyday language (i.e. UK government spending is higher than/about the same as/lower than its income). In contrast to the similar analysis of the trade balance, these findings reveal large differences between the two treatments. In particular, people are much more likely to believe that the UK has a budget deficit when they are prompted with this economic term, than when they are prompted with the more explanatory language of the difference between government spending and income. Similarly, people are much more likely to believe that the UK has a budget surplus when they are prompted with the more everyday language, than when they hear it described in terms of a budget surplus.

One interpretation, which is supported by how people spoke about the 'budget deficit' during focus groups, is that people have frequently heard the term 'budget deficit' in the public debate especially regarding the 'bloated budget deficit' and the efforts to 'cut the budget deficit'. Conversely, as the focus group findings show, people had simply never heard the term 'budget surplus'. As such, the familiarity with these words meant that many respondents answered that the UK had a budget deficit, but in actual fact when they are presented with an actual description of these terms, they are not necessarily aware of the government's budget balance.

Figure 30. Perceptions of the budget balance

Question: "Which of the following statements about UK exports and imports do you think is true?"
Treatment using budget terms, randomly shown to half of sample: "The UK has a [budget deficit/
balanced budget/budget surplus]" (N=839)

Treatment using normal language, randomly shown to half of sample: "The UK government spending
(on public services, welfare, pensions etc.) is [higher than/about the same as/lower than] its income
through taxes" (N=826)



During the focus groups, after the interviewer had confirmed the meaning of the terms 'budget deficit' and 'budget surplus', participants were also asked whether they thought the UK government was currently running a budget deficit or surplus, and what they thought was normal historically. Overwhelmingly, participants agreed that the UK ran a budget deficit, and that this was the norm. This was also mentioned fairly regularly, without prompt, by participants during other conversations, including when they were initially asked to define the terms government budget deficit and surplus. In many cases, participants expressed a high level of confidence that the UK ran a deficit, both by emphasising that the deficit was large ('we have a massive budget deficit') and that it had been for a long time ('they've been doing that for donkey's years', 'for the last 5,000 years', 'since World War II'), and that they simply had never heard of the term 'budget surplus':

'We've not been in a surplus for a long time.'
Male participant, Manchester.

'I think [a budget deficit] is normal, I've never heard it be a surplus, ever.'
Female participant, Manchester.

- *'Well we've cut the deficit. It's only what you hear about it, you only hear about the deficit you don't hear about the surplus, I haven't heard it anyway.'*
- *'I don't think I've ever heard of the term used at all.'*

Dialogue between male participants, Manchester.

Only a few people (incorrectly) guessed that the UK currently had a budget surplus. These participants reasoned that the substantial austerity measures during the past decade may have turned the budget deficit into a budget surplus. For instance, this participant argued:

'I think it might be a surplus because of the austerity that we had under the previous government.'

Female participant, Birmingham.

Other participants also referenced the efforts to cut the deficit in recent years, but knew that it had not eradicated the deficit completely. This was a typical comment:

'I think it's a deficit. They haven't really chopped into it like they said they were going to.'

Female participant, London.

A couple of participants backed up their responses with historical perspectives, such as referring to the debt payments caused by the Second World War. These participants were often talking about debt and debt payments rather than the yearly budget deficit. As already discussed, it was common throughout the focus groups to talk about these interchangeably:

'After the Second World War we ended up having to pay the American's back until about 1969, didn't we?'

Male participant, London.

'Even if you went back to the 18th century and stuff like that some of the big banking corporations in the UK lent them the money to the British government so they can fight wars, so on that basis it's probably been, over the last 200 years, probably not that often that they've had money in the bank.'

Male participant, London.

'I think since World War II, and it really hit home in '60s and '70s, it's been in a deficit. I'm not sure about the '80s, I'm a bit uncertain, but then I think we had a dip in the 90s.'

Female participant, London.

In some groups, participants argued that it would be difficult to govern with a surplus in a democracy. Some made the argument that there would always be pressures to spend any surplus money to improve public services or welfare. This exchange was typical:

- *'Everybody would be trying to spend that surplus...'*
- *'Like councils that come April start digging up all the pavements and doing repairs and spend it before the budget.'*

Dialogue between male participants, Birmingham.

Another participant argued that 'they'd have to spend the money' if there was a surplus. And, in fact, some participants expressed this exact sentiment when asked whether they thought the government had a budget surplus or deficit:

'If they have a surplus, they should be putting more money into the NHS.'

Female participant, Birmingham.

However, with the same rationale, some participants expressed a more cynical view, by arguing it was in the government's interest to show a deficit to reduce pressures to increase spending:

'They would never show a surplus, they would never show it, because it would be difficult to govern if you showed a surplus.'

Male participant, Birmingham.

In a less cynical way, some participants expressed confusion about how government finances work, and in particular how they could always find some extra money.¹ For instance:

'But then when a disaster happens, and they've got all this money and it's like where the hell has that money come from.'

Female participant, London.

'They have reserves always, they dig into the hole more.'

Female participant, London.

Some also made the argument that deficits might be used to justify cost-cutting policies:

'It's a way of pushing things like austerity: we're all going to pitch in together guys, and I know you can't afford your shopping this week, but we're all in this deficit, so we've all got to pitch in.'

Female participant, Birmingham.

'I don't believe a bloody word of the government when they talk about the deficit, it's all down to political issues, trying to sway our votes.'

Male participant, Manchester.

¹ This finding would likely be even more prevalent if the research had been done during a crisis, such as during 2008/09 when banks were bailed out, or during the current coronavirus crisis where the UK government has taken substantial economic measures.

'At the moment we've been running in deficit and if you've got that then it's a cop out for them to use austerity.'

Male participant, London.

Some argued that the state of the finances would typically fluctuate, with high deficits followed by periods of austerity, and then replaced by larger spending periods which would create higher deficits, and so on. This was similar to how participants sometimes talked about the inevitable boom and bust periods of economic growth. They had a perception that there existed an inevitable cycle of upswings and downturns, both in terms of economic growth and government spending.

At a later stage, participants were told by the interviewer that the UK had run a budget deficit for 60 years and a budget surplus for 13 years during the 73 years since the Second World War. The typical reaction among participants was surprise that there had been that many surplus years, prompting questions about how long ago the last surplus year had been. Though it was a less common reaction, there were also participants who simply didn't believe this information:

'We're in deficit all the time, those 13 years was garbage.'

Male participant, Manchester.

One participant also reacted by arguing that government had not done their job properly:

'If you're in a deficit, after 60 years you should understand what changes you can make to [get in] surplus. So, if over 60 years, you've not been able to either reduce it, so it's more surplus than deficit, then they're not looking at it close enough. They're literally just spending every year, and then telling us at the end if it was a deficit.'

Female participant, Birmingham.

Other participants doubted that it could really be true that there was a deficit all the time:

'I don't think they're in a deficit, I think they're putting some bits in to make them look like they're in a deficit. Because if they're a deficit all the time, we wouldn't be a good place to live, would we? I know there's [poverty], but there's also a lot of people who do well, and obviously a lot of people who want to come here and work, so it must be a good place.'

Female participant, Birmingham.

Section 8.3: Understanding the budget deficit

The groups were asked an open-ended question about whether they thought it was

good or bad to run a budget deficit or surplus, or not necessarily either. Almost all initial reactions to this question was that it was bad to run a budget deficit:

'It's got to be a bad thing, surely?'

Male participant, Manchester.

'Surely if you're spending more than you're making it's not a good thing.'

Male participant, Manchester.

Like the comments above, often the initial reactions were fairly unspecific. Participants felt that it surely would be a bad thing to run a deficit, but they didn't always have a clear idea why. One participant expressed this sentiment which was shared by other participants:

'Deficit just sounds like a bad word.'

Female participant, Manchester.

This was also reflected in the fact that participants, in other sections of the focus groups, sometimes spoke of deficits as an inherently bad thing, again typically without providing any explanation. However, some participants provided more detailed reasons to back up their assertion. For instance, some focused on the lack of spare capacity in the economy, and the need to borrow money:

'It's a bad thing, because obviously then they're having to borrow money. So, deficit is a bad thing.'

Female participant, Birmingham.

'As an economy we're not really good then are we, because we've never got any money spare.'

Female participant, Birmingham.

It was a common theme that participants focused on the impact on public services, for instance by arguing that deficits led to debt, and the interest payments on debt could have been used to improve public services:

'There's no way having a deficit is a good thing, because you end up borrowing money because you're at a deficit, and you end up paying the interest rates on what you're borrowing. From a country's point of view, before you can put any money into the NHS, you've got to pay off whatever the interest was from the last years.'

Male participant, Birmingham.

'It's definitely bad to have a budget deficit, because it means you're being poorly governed, and therefore you have to borrow to meet the commitments, and therefore tax isn't being used efficiently, because it's being used to pay off interest on loans.'

Male participant, Manchester.

Similarly, some participants argued that budget deficits were bad because they led to austerity, which damaged the quality of public services:

- '[They] have to cut services in the next year to make up that deficit.'

- 'That's why there's been austerity for the last 7 years, to bring back the deficit.'

Dialogue between male participants, Manchester.

'For me that deficit had severely affected the country and our quality and standard of life, by putting down on that one particular thing and that's the number of police available. That's my thought on poor government decisions, as I said right at the beginning.'

Male participant, Manchester.

'And then we notice it when you're waiting 24 weeks for an operation at hospital because there's no funding. The schools can't cope, and it trickles down to all our public services, libraries, any public service you require, the police or a fireman, that's where it gets impacted.'

Male participant, Birmingham.

Generally, it seemed that some participants linked the budget deficit with subsequent decisions to cuts to public services, and conversations about the deficit sometimes focused on some of those cuts. For instance, it was a common theme to question whether small cuts have any real impact on reducing the government deficit, such as cuts to bus passes and TV licenses. Some participants said that the cuts, however, amounted to a large deterioration in living standards for the people affected and job loss:

'For us to achieve [reducing the deficit] by taking small amounts off people that haven't got much, does that make us a good country? These people might have worked all their lives and paid in, and [they] are just getting less and less, and she thinks that, she stood up and said that makes us a great country because we're cutting our deficit, but we're actually harming the people who have made this country what it is.'

Female participant, Manchester.

'I wonder how much, so Thomas Cook needed £200m, I wonder how much they've got to pay out now for those people who are unemployed, who've got to go on benefits. Is that more than £200m, or less than the £200m?'

Female participant, Manchester.

Participants also sometimes advised that cutting relatively small items of expenditure could substantially benefit state finances, such as reducing the pay of MPs. Most prominently in relation to eradicating the budget deficit, some participants mentioned foreign aid, and argued that public spending should be prioritised in the UK, arguing that 'charity begins at home', 'they've got to look after us first before they start handing out to other countries' and 'I just think it would help our economy if we weren't helping everybody else's'.

Overall, it was clear that many participants saw the budget deficit as a bad thing. However, this initial reaction sometimes changed during the discussions, both as people got a chance to reflect more on the matter, and as other participants made different arguments. In particular, across groups it was common for someone to compare government debt to how debt worked for personal households, and particularly some participants reminded the others that it was not unusual for personal households to be in debt most of their lifetime, particularly through mortgages, and that this was not necessarily a bad thing:

'Well, is it bad? I mean who isn't in deficit, really? If you've got a mortgage, you're in deficit yourself, you owe thousands of pounds.'

Female participant, Birmingham.

'As long as you're not getting massive fees, you might spend your whole life overdrawn and you might still have holidays and things.'

Female participant, Birmingham.

'Those debts are with someone and you've got to pay them off. It's a bad thing to be overdrawn, but it's not the end of the world.'

Female participant, Manchester.

Another participant used the same type of analogy with company finances, to explain that borrowing was normal and in fact often required for any company and country that wanted to expand:

'Without getting into politics, the best thing the Conservatives ever did was to convince people that [the deficit] was a bad thing. If Tesco want to expand, what do they do? They don't delve into their own reserve, they borrow it. And every business borrows to grow.'

Male participant, Manchester.

While some participants accepted these arguments, or at least clearly reflected more on whether budget deficits were necessarily bad, for others these analogies only seemed to reinforce their initial opinion, as they also saw household and company deficits and debt as an inherently bad thing:

- 'Just break it down to how it would be for a perfect person. At the end of the day if I'm spending more money than I've earned, then I've fucked up.'

- 'If it was an individual person who had a deficit you'd be classed as insolvent, you would probably have to go for bankruptcy.'

Dialogue between male participants, Manchester.

'Any company in the world wants to make money, so we're not doing it right as a country.'

Male participant, Manchester.

Furthermore, some participants also made the point that interest rates are very low at the moment, and that it was actually in the interest of government to run budget deficits and boost the economy, as the interest payments would be low. For instance:

'At the moment interest rates are so low... I was reading the other week that they're saying you should run a massive deficit, because you can do so much more. It turns it upside down like I said, the media for years has been saying, oh you're spending too much, you're not making enough money, you've got to have cutbacks... I think we ought to start exploring new ways. You can borrow money for diddly squat now, do it, spend the money to make more money. You've got to spend to make something in life.'

Male participant, London.

Similarly, some also made the broader argument that the answer about whether a budget deficit was good or bad depended on the level of interest rates, such as this participant:

'It all depends what the rates are if you're going to borrow it, it depends what the borrowing rates are. If the borrowing rates are low, then you can survive on quite a high deficit. If the borrowing rates are high, then you'll find it much more difficult.'

Male participant, London.

Some participants argued that the problem was not so much the one-off yearly deficit, which could usually be managed, and may be a good way of boosting the economy, but if the government ran deficits year after year, it may become unmanageable:

'When the government wants to reactivate the economy, then of course the big infrastructure projects, which then drives activity. People start working, paying taxes. That's fine to borrow for that sort of thing. It's well understood that governments will often borrow themselves out of economic stagnation. But if the year-to-year budget is not... meeting the obligations, then they have to change something.'

Male participant, Manchester.

'There's a limit to how much you want to be, or any of us want to be in debt because it's unmanageable.'

Male participant, Birmingham.

Other participants also put it into perspective, particularly in relation to the information they had been given earlier in the focus group that the UK had run a budget deficit in 60 out of the last 73 years. Some participants reflected that it couldn't be as bad as they initially thought, and that a country could obviously function with a consistent budget deficit. For instance:

- 'I don't think it's great, but...'

- 'But seeing as the world's run, we've run like that for so many years, it's obviously...'

- 'A necessarily evil.'

Dialogue between female participants, London.

'It's got to be proportionate, hasn't it?... We've managed for 73 years with 60 years of deficit, so it can't be too bad, as long as it's kept at a certain level.'

Female participant, Birmingham.

Section 8.4: Debt

As already mentioned, participants often used the terms 'debt' and 'deficit' interchangeably in conversations, as indeed is arguably often the case in the public debate. The interviewer didn't mention debt directly, but after the discussions about the regularity of the budget deficit, the interviewer asked about debt indirectly, by asking participants how it could be possible to run a budget deficit year after year, and how the state finances this (see Appendix 6). Most answers focused on making up for the deficit the following year, by raising taxes or cutting expenditure (e.g. running a budget surplus). Fewer participants actually addressed the real question, though some mentioned 'gilts' and 'government loans' without clarifying further, and others mentioned that banks could lend money to the government or print money. In most of these cases, participants didn't specify if they were talking about the Bank of England, though two participants mentioned Rothschilds and the Federal Reserve. During these conversations, one participant mentioned a specific method of presenting the size of the debt:

'I don't know what the bill is per moment per person to the country. Each person has a debt assigned to that person for the country, and I can't remember what it is per head at the moment. It is quite a lot.'

Male participant, Birmingham.

Later in the focus group, participants read an explainer which included a description of the difference between 'deficit' and 'debt.'. The interviewer asked afterwards whether the explanation had been helpful, and how participants felt about this distinction. Most people said they still found this confusing:

- 'It's really confusing when there's two sorts of debt that they're thinking of. They're

*speaking about the deficit and debt. Did you get what the difference was?
- 'I'm still a bit confused about it to be honest and the borrowing as well that's... I don't understand it.'*

Dialogue between male participants, Manchester.

'I didn't understand what the national debt was in relation to the deficit.'

Female participant, London.

'This is what I thought it was, but I wasn't entirely sure. I feel like they're conflated quite a lot which is why I wasn't 100% sure. I think it's just an easy thing to say... deficit or the national debt, it doesn't matter, it's just money. Most people don't really understand it. I only had a vague idea.'

Female participant, Birmingham.

'I didn't know [the difference] and when they speak on the news about it, which one are they talking about?'

Female participant, Birmingham.

Some other reactions to the explainer were focused on more general issues related to debt. For instance, some participants didn't understand who the government owed money to, and exactly how debt worked for the state compared to a household or a business. Another common theme was that people were surprised about the large size of the debt. The explainer said it was '£1.8 trillion, or 83% of annual GDP'. Mostly, people commented on the absolute figure, which seemed like an unreal number to many participants:

'We're in 1.8 trillion pounds worth of debt. That's terrifying and that's us, the tax payers.'

Male participant, Manchester.

'If I had heard that on the TV... that's just bad news man. I'd rather not know to tell you the truth. That to me is a frightening figure.'

Male participant, Manchester.

While the absolute figure was the most salient to participants, some also referred to the percentage amount given as proportion of GDP, and still felt this seemed high ('It seems very high, 87% of GDP, very, very high'). However, the GDP figure was mostly used by participants when they commented on the explainer's comparison of the UK debt to that of other countries. These participants said it was helpful to see the debt-to-GDP figures of other countries which they felt made it easier to assess the size of the UK debt, particularly the conclusion that the UK's debt was fairly high in comparative perspective but by no means unusual. However, sometimes it was clear that participants used these comparisons because they didn't understand the concept itself, and they then went on to make slightly random arguments based on the comparison. For instance:

'If you look at France who have a higher deficit than Germany, and I know that the French are well looked after, six weeks holiday, that's the way to live. Give me deficit, please.'

Female participant, London.

The explainer also included a small comment in the last sentence that 'there is a debate among economists about whether there is a level of debt that is too high.' Those who commented on this said it surprised them that economists weren't sure, and for some this seemed puzzling, and even created some cynicism that economists did not have an answer or a benchmark for how much debt was deemed bad:

'I think it's quite interesting that they're debating what the level of debt is. So really it makes the facts redundant, because what they're saying is, 'oh, these are the facts', but there isn't too much debt, because we don't have a measure for that. So, although they're quite decent facts, it's not making us worry, or they don't want us to worry, or they're not benchmarking it and saying this is a bad thing or this is a good thing. So, it's a bit wishy washy, willy nilly and wishy washy.'

Female participant, Birmingham.

'How can you be £1.8 trillion in debt and not be a bad thing though, I don't understand? I understand that other countries, like Ireland, are in a lot more debt, but surely being £1.8 trillion of debt is a bad thing.'

Male participant, Manchester.

Another part of the explainer which prompted a fair amount of discussion was the brief reference to the ability of the Bank of England's ability to print money (see Appendix 9). For instance, that was the case for this participant for whom it raised more questions than answers:

'Who do they borrow from the Bank of England? When they say they print their own money, they don't owe that back to anyone, do they? Or do they owe that back to the Bank of England? I'm confused to who finances the debt, who gives them that overdraft facility?'

Female participant, Birmingham.

Generally, it was clear that participants thought this was a strange concept, and many made jokes about it during the rest of the focus group. In particular, many immediately asked how anyone could be in debt if they are able to print their own money:

'My question is if they can print their own money, why are they in debt with anyone?'

Female participant, London.

In almost all groups, however, there were some participants who explained to other group

members that it would cause inflation and devalue the currency. For instance:

'Doesn't that cause inflation as well? Isn't that how they've tried to get out of it, they print loads of money and that decreases the value of it or something?'

Female participant, Birmingham.

In some cases, participants referred to international examples, one explaining that her native Argentina had had high inflation rates due to money printing, and some participants in two of the groups knew Zimbabwe had had problems with hyperinflation:

'Didn't Zimbabwe do that a long time ago and... [they had to] walk around with suitcases of cash just to buy bread.'

Male participant, Manchester.

Some still questioned why it was still not worthwhile. This conversation was typical:

- 'So, what would happen if they did print that £1.8 trillion off and just paid the loan off, what would happen then?'

- 'We'd be screwed, we'd be like Zimbabwe and be walking round with suitcases just to buy meat.'

- 'But you've got rid of your debt, haven't you? The money's not in our country, it's gone to the country we owe hasn't it, so why would it affect us?'

- 'Yeah, I know what you mean but I don't know.'

- 'There must be a reason why we don't do it.'

Dialogue between male participants, Manchester.

The conversation above is another illustration of one of the general findings that focus group participants sometimes had acquired impressive knowledge about an economic concept or process, in this case the risk of hyperinflation associated with printing money, but the knowledge could be described as 'surface' knowledge, in the sense that the participants didn't understand the underlying processes and couldn't answer questions such as those posed above by other participants.

Finally, one participant referred to the Bank of England's ability to print money as 'quantitative easing', and described it as a 'posh name' for 'fiddling with the books'. This was the only time during all 12 focus groups that quantitative easing was mentioned. While this is probably not surprising, since the economic concepts or materials didn't cover this term, it is still worth noting for central banks that the concept is not prominent in people's minds.

Conclusion

Through focus group and survey research, this report explored how the UK public understand economics and economic statistics. We focused on people's understanding of the economy and economic concepts, such as unemployment, inflation and GDP, as well as how people view and judge the size of economic indicators and how they evaluate economic performance. Overall, our findings paint a complex and nuanced picture. The public are fairly well-informed in some areas, often driven by perceived relevance to their everyday lives and personal finances. But at the same time, the public's understanding of economics was relatively limited, especially on matters related to the 'national economy' rather than their 'personal economy'. In particular, we identified a lack of knowledge of how economic statistics are collected and calculated as well as misperceptions about the source of economic statistics, which sometimes played into people's subsequent distrust and cynicism about statistics such as unemployment and inflation. Finally, we found consistent and substantial differences in economic knowledge and interest across different groups of the population.

Follow-up report: Stakeholder engagement

The purpose of this report is to inform how to improve the communication of economics and economic statistics. Therefore, this report will form the basis of a stakeholder engagement exercise, in which the report authors will engage with a range of relevant individuals and organisations who are involved or interested in the communication of economics and economic statistics to the public, such as journalists, researchers, public bodies and departments, policymakers, politicians, private and third-sector organisations, and so on. The stakeholder exercise will include roundtables, individual conversations, and an online survey.¹ The aim is to discuss the findings of this report with as many relevant stakeholders as possible, and to draw out any implications and recommendations for how to improve the future communication of economic statistics to the public. The findings of the stakeholder engagement exercise will be summarised in a follow-up report, to inform future research and practice on the communication of economics. The project team will use a number of ways to invite stakeholders, including through personal email invites, social media calls for participants, snowballing and so on. Importantly, if you are interested in being part of this engagement exercise or simply want to discuss the findings, especially how they could be taken forward to improve the communication of economics and economic statistics, please contact Johnny Runge (j.runge@niesr.ac.uk). We are both interested in stakeholders based in the UK and abroad, and with as many different backgrounds as possible.

Future research studies

In recent years, especially following the financial crisis and in the context of the Brexit

¹ Due to Covid-19, at least in the first phase, the interviews and roundtables will primarily be arranged virtually or as phone calls.

referendum, economists have been criticised for communicating economic evidence ineffectively to the public. At the same time, economics arguably suffer from a 'twin deficit', in the sense that the public lack trust in the profession and lack detailed knowledge of economics (Haldane, 2018). Given the importance of economics to people's financial decisions and their role in the democratic process, we think the field of economics should be inspired by the 'public understanding of science' movement, in the UK often attributed to the publication of the 1985 Bodmer report. Similarly, the economics profession should focus considerable efforts in exploring how people understand economics, and how to improve communication of economic information to non-experts. To provide the foundations for this, we recommend there should be more future research studies about public understanding and communication of economics. Below we have provided a (non-exhaustive) list of areas, which we have identified for future research.

Testing how economics can be presented more effectively to the public

Based on the insight of studies like this one, it is possible to design many potential studies that test how economics and different economic concepts are presented effectively to the public. For instance, this could be done through randomised controlled survey designs, in which survey participants are divided into control and treatment groups, and presented with different information treatments. For instance, participants could be presented with different ways of presenting recent unemployment statistics, and then be asked questions that elicit their understanding, trust and interpretation of the statistic. A causal effect can then be detected if some treatment groups show statistically significantly better outcomes than others. These studies could be supplemented by qualitative research such as focus groups and interviews, to explore in more depth and in people's own words how the public react to different types of information.

Testing the impact of explainers and factchecks

During the focus groups we used explainers and factchecks, designed by Full Fact, mainly to aid people's discussions about the economic concepts. We also gathered some initial data on how people react to explainers and factchecks. Future survey and focus group studies could be designed explicitly to test the effect of explainers and factchecks on people's economic understanding and views, and how to most effectively design these.

Testing messenger and trust effects

Based on our focus group findings, it is clear that messenger and trust effects matter. It seems mainly driven by a lack of trust in politicians and the media, who are seen as

the primary messengers of economics statistics. It is important that future studies test messenger and trust effects. Our focus group findings suggest that more data is needed on who the public see as the source of different economic statistics, and how this perception is affected by the messenger and the way the economic statistic is presented. It would be useful to explore, through randomised controlled survey designs and focus groups/ interviews, whether and how people perceive economic statistics differently depending on the messenger or source, and how they react to further information about the role of independent producers of economic statistics such as ONS.

Communicating how and why statistics are calculated and collected

Our findings showed that survey and focus group participants had a very limited knowledge and sometimes misperceptions about how economic statistics are calculated and collected, and indeed why they are collected. It would be important to explore in further research how to effectively communicate issues around economic measurement, and whether an improvement in this understanding can change public perceptions, including on perceived accuracy and trust. This would also include studies on the public's understanding of data uncertainty, which is an emerging area.

Exploring public understanding of data uncertainty

Related to the finding that the public have limited knowledge and sometimes misperceptions about how economic statistics are calculated and collected, it is worth noting that there is an emerging literature on public perceptions of data uncertainty, and how to communicate it effectively. It is important that this research continues, in order to understand how people interpret point estimates of economic indicators, whether they understand that there is uncertainty around them, whether this affects their trust in economic statistics, and so on. It also goes wider than uncertainty itself caused by revisions, but it is also important to explore public reactions and perceptions when given information that is transparent about limitations and caveats, which our research suggests do not always succeed in its aims, but sometimes may breed cynicism and distrust.

Exploring public understanding of everyday economics

As we described in the overview of the literature, this study, together with almost all existing studies, explores public understanding of traditional economic indicators such as unemployment, inflation and GDP. One of the strong findings of this study, alongside other survey and polling studies, is that economic knowledge varies consistently by subgroups of the population, especially by gender, age, education and socioeconomic class. However,

this may be partly due to our 'elitist' definition of what is considered important. There is scope for future studies to be more open-ended about what is perceived to be important economic indicators and concepts. For instance, public knowledge and demographic variations may look differently when exploring public understanding of minimum wage levels, benefits, pay day loans, and so on.

Exploring public perceptions of economic measures/impacts of Covid-19

One of the findings of our research is that formative experiences, such as witnessing and living through economic crises, seem to affect how much attention individuals pay to certain economic indicators and how they understand them. The economic measures and the large economic impacts, caused by the current Covid-19 pandemic and the lockdown, are likely to affect many individuals' understanding of economic issues for decades to come, including on concepts such as debt, deficit, unemployment, inflation and so on. Therefore, it is important that studies explore public understanding of the economic measures and impacts both during and after the pandemic, to inform future studies and ways of communicating economic statistics.

Exploring economists' understanding of public perceptions

Existing surveys and qualitative research, including this study, focus solely on the understanding of the public/non-economists. However, as this study has suggested, it would be helpful to frame this area (and other similar areas in public opinion research) as consisting of two different and parallel ways of understanding an issue, namely 'public understanding' and 'expert understanding'. If you take these two perspectives equally seriously, rather than seeing one as the 'correct' version of knowledge and the other simply as a result of biases and ignorance, this opens up new areas of important research. Not only do researchers need to explore how the public understand 'expert economics', but you also need to explore how experts understand 'lay economics', and how this impacts their dissemination of economic information. When experts such as economists fail to effectively communicate their subject to the public, this may be because they simply lack knowledge about how non-experts perceive their subject area. The first step will be taken following the publication of this report, comprising a stakeholder exercise which presents the findings to a range of stakeholders. However, potential future research in this area should also treat economists themselves as research subjects, and involve economists in the research itself, for instance by doing focus groups or workshops with members of the public and economists as participants, exploring how and to what extent the two groups can find common ground, and how both groups react to each other's insights.

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Appendix 1: Detailed description of the methodology

The report is based on a mixed-methods study, involving:

- a literature review;
- a series of 12 focus groups (N=130) in different parts of the country;
- a YouGov survey of a nationally representative sample of GB adults (N=1,665).

The three components are described in more detail below:

Part 1: Literature review

During the scoping phase, we reviewed existing evidence on public understanding of economics, both in the UK and abroad. This literature covers a wide range of disciplines, including economics, psychology, sociology, social sciences, behavioural science, and political science. The review sought to summarise what is already known, as well as inform the design of the focus group and survey research.

Part 2: Focus groups

We did 12 focus groups with 130 participants. The focus groups were equally split between central locations in Birmingham, Manchester and London. The groups were all conducted in October 2019.

Design: The groups were designed to explore people's understanding of the economy and different economic concepts in their own words. Each focus group explored one economic concept at a time. Participants were first asked open-ended questions about their understanding of the economic concept, and later they were presented with an explainer about the economic concept to aid the discussions. The following topics were covered during the groups: the economy (10 groups), unemployment (10 groups), inflation (10 groups), GDP (8 groups), deficit and debt (8 groups), interest rates (8 groups), trade (6 groups). Two groups had a different design. To make participants' reflections on the economy more similar to a real-life exposure to economic news, participants were given news stories or claims made by politicians that contained the use of an economic statistic, and they were then asked to discuss how they understood the statements, and whether they trusted them. These participants were subsequently given factchecks, designed by Full Fact, on each of the news stories, and asked to discuss further. Finally, while all groups discussed the UK's economic performance during their discussions on 'the economy', these two groups had more detailed discussions about this. Appendix 3 contains all relevant information about the design of the focus groups, including the discussion guide, explainers, stories, factchecks and exercises.

Recruitment and sampling: The focus group participants were recruited by an external

market research company (Accent). The groups were divided equally by gender. The participants were sampled so all focus groups included a relevant mix of participants by age, educational qualifications, and by referendum vote. Participants who self-reported their interest in economic issues as 0, 1 or 2, on a scale from 0-10 (ranging from 'not interested at all' to 'extremely interested') were excluded from our sample, as these participants would likely not be able to, or interested in, contributing to the focus group discussions (Rolfe et al., 2018). Similarly, we excluded participants who have previously or currently studied economics as part of a university course or at A-level or an equivalent qualification, as we primarily wanted to capture the views of those who had never studied economics, and those with previous economics education could have substantially impacted the dynamics in the group. Appendix 4 contains more detailed information about the characteristics of the sample. The aim was to secure as varied sample as possible, in order to explore the breadth and nuances of views within the UK population. As such, our focus group findings are not necessarily generalisable to the wider UK population, but they provide insights as to how different people think about economics and economic concepts. Focus group findings also identify possible explanations to interpret the findings of the nationally representative survey. Throughout the report we indicate whether certain views or ways of understanding economic concepts are particularly prominent among focus group participants. This should, however, only be taken as indicative, as this tendency would not necessarily be the same across the whole UK population.

Analysis: The focus groups were facilitated by two experienced qualitative researchers (the two authors of this report) who acted as focus group interviewers. The discussions were semi-structured, allowing for interviewers to follow up on interesting points or asking clarifying questions. The recordings from the focus groups were transcribed, and we analysed the transcripts in the qualitative research software NVivo using a framework approach, identifying common themes and findings related to public understanding of economics and economic concepts. One of the aims of this research is to understand in more depth how the public speak about economics in their own words, and therefore, the reporting contains more quotes than usual to draw out the voices of our participants. Each chapter starts with a briefer summary of key findings.

Part 3: Online survey

We ran a nationally representative, online survey with 1,665 participants, administered by YouGov. The survey contains 20 questions, exploring people's knowledge and perceptions about specific economic indicators, including inflation, unemployment, interest rates, GDP, the budget balance and the trade balance.¹ The detailed survey questionnaire can be found in Appendix 5. The survey was run on 26-27 February 2020,² using the YouGov GB panel of

¹ The survey also asks two questions about a fake economic concept 'TLG'.

² The survey was conducted after the Brexit Withdrawal Agreement came into effect on 31 January 2020 (compared to the focus groups which took place in October 2019 before a deadline on 31 October), and before the Covid-19 pandemic started dominating UK media coverage and led to closures and restrictions in the UK.

185,000+ individuals who have agreed to take part in online surveys. An email was sent to panellists selected at random from the base sample according to the sample definition (GB aged 18+, nationally representative).¹ The survey had a completion rate of 90%, as it was started by 1,849 people and completed by 1,665 people. The figures were then statistically weighted to the national profile of all GB adults aged 18+. The data is weighted by age, gender, social class, region, level of education, political interest, referendum vote and general election vote. More information about the online survey sample can be found in Appendix 3. The survey results tables can be found on YouGov's website [here](#).

¹ See more about YouGov's panel methodology and their Active Sampling approach here: <https://yougov.co.uk/about/panel-methodology/>

Appendix 2: Literature review

Overview and summary of key findings

This appendix presents an overview of the main literature on the public understanding of economics and economic concepts, drawing on evidence from the UK and abroad. The key points in the literature were:

- The public lack a basic understanding of economic concepts, including about the size of current economic indicators. Knowledge varies by demographics such as age, gender, social class and education. People who are older, male, those with higher education level and of higher social class tend to demonstrate a higher level of understanding. It has also been found that these groups feel more confident in engaging with economics. These findings are based on surveys, mainly using two approaches: quiz questions about the definition and size of economic indicators and self-reported confidence questions, both giving similar findings in terms of knowledge and demographic variations.
- This literature is based on a ‘top-down approach’, in which studies explore whether the public understand economic concepts in the same way as they are defined by economists. In contrast, another part of the literature is based on a ‘bottom-up approach’, in which studies ask open-ended questions, and as much as possible try to allow people to articulate their views and understanding of the economy and economic concepts in their own words. The basic point is that economics matter to everyone, economist and non-economists alike, and economic terms are used extensively by both. As such, it has been argued there exist at least two parallel understandings of the economy: the one guided by economic theory that economists are well-rehearsed in, and another held by the public with ‘its own logic and definitions’. The latter is arguably not well-understood by economists, and this is likely to limit economists’ ability to communicate their own subject to the public.
- The few studies that have taken up the call for ‘bottom-up approaches’ have tended to find that people’s views are nuanced, complex and varied. Individuals understand the economy in many different ways, and even the views of individuals themselves are sometimes internally contradictory, and sometimes fleeting and unstable. In some instances, these studies show that individuals, who on the surface seem ignorant about economics, actually have a rich understanding. Other studies find that people’s economic thinking often can be described as ‘thin’, in the sense that it provides a very simplistic way of understanding the economy, yet at the same time it can be described as ‘powerful’, in the sense that it provides a clear structure to people’s thinking, including through using shortcuts, and through ‘anchoring’ the economy to familiar non-economic concepts.
- Studies have found that people often see the economy as a broad, all-encompassing concept which basically means everything around them, or as an indicator of how well the country or society is performing. The economy is sometimes simply another way of talking about money and prices. For many, the economy is often perceived as a national pot, with people contributing to the pot and draining from the pot. From this perspective,

the economy is often seen as an fixed amount of resources in the country, which needs to be managed and distributed, and which constrains what we can do as a society. Often, the concept of a fixed amount of resources (“fixed pie”) is combined with the perception that one person or country’s gain is another’s loss (“zero sum”), leading non-economists to have substantially different views than economists.

- The literature highlights how the public integrates social and moral beliefs into their evaluations and views of the economy, compared to economists and economic theory’s reliance on efficiency considerations. This leads the public to adopt a ‘conspiratorial style of economics’ in which people focus on individual motivations, controllable actions, and responsibility, rather than the result of invisible interactions and aggregate effects. This means that the public often judge economic policies or actions on perceived fairness. In contrast to the focus on controllable actions, another theme in the literature is that the economy is sometimes seen as inherently volatile and unpredictable, reflected in the tendency to use metaphors of natural disasters, and to see the economy as a cycle of inevitable ups and downs.
- While much of the literature focuses on the economy in general, there is also evidence on public understanding of specific economic concepts, including inflation and unemployment. While the public recognise the importance of unemployment and inflation to their lives, surveys have generally shown that people struggle to define inflation, and people struggle to estimate current unemployment and inflation rates. In particular, people tend to overestimate levels of unemployment and inflation. Studies have also found that people tend to prefer low inflation and dislike increase in inflation, mainly because they believe that inflation erodes living standards. Some studies find that people tend to see economic concepts in isolation, and any connections are seen in only the simplest terms. For instance, price changes are not seen as being connected to broader aspects of the economy such as trade, unemployment, central banks and savings.
- This report is primarily focused on how people understand economics, but it is worth bearing in mind some of the reasons why the public misunderstands economic concepts and think about economic concepts in different ways than economists. Some explanations in the literature focus on how the public lack information about economics; and how their lack of economics training makes it hard to understand unintuitive economic principles such as equilibrium, comparative advantage, sunk costs, and aggregate effects; and how the public lack the statistical and numeracy skills required to interpret economic statistical information. Another possible explanation is that economists and the public get their information from different sources, or that they trust different sources and messengers. In particular, the public may rely more, or sometimes exclusively, on personal and local experiences.
- In contrast, the literature strongly suggests that the lack of understanding is not a result of disinterest. In fact, the public care passionately about economic issues, and people

recognise economics' relevance to their everyday lives, and they want to improve their understanding of economics. However, economic news is seen to be communicated in an inaccessible way, using language dominated by economic jargon. Some studies suggest that economics could learn from the 'public understanding of science' movement, to improve the communication of economics, including by making a virtue of simplifying and explaining complex technical issues in accessible language.

A2.1: Overview of the literature

A large proportion of the British public lack a basic understanding of economic concepts, according to a number of surveys (YouGov/Post-Crash Economics Society, 2015; Haldane & McMahon, 2018; Galvao et al., 2019; OECD, 2017; Economy, 2017, YouGov 2020). These types of studies also show that people lack knowledge about the size and direction of current economic indicators such as inflation, interest rates and the growth rate (e.g. Bank of England/TNS, 2017; European Commission, 2015). While people's ability to correctly define economic concepts vary depending on the type of question and answer options, it generally seems that GDP and real/nominal terms are among the least understood concepts among the public, while people are more familiar with concepts such as interest rates and inflation (YouGov, 2020; OECD, 2017).

One of the strongest findings in the literature is that knowledge varies by demographics such as age, gender, socioeconomic class and education (e.g. YouGov/Post-Crash Economics Society, 2015; Haldane & McMahon 2018; Economy 2017; Williamson & Wearing, 1996; Walstad & Rebeck, 2001; Lusardi & Mitchell, 2014; Vicente & Lopez, 2017). As such, younger, female, less educated and people from a lower social class are shown to be less knowledgeable (e.g. Haldane & McMahon, 2018; YouGov/Post-Crash Economic Society, 2015; Lusardi & Mitchell, 2014; OECD, 2017). In addition, Economy (2017) found that people from disadvantaged backgrounds and those with lower incomes felt least able to engage in conversations about economics, and they were more likely to state that economics don't affect their day-to-day lives, and that the information in the media about economics is unreliable and untrustworthy.

The gender knowledge gap is particularly striking in the literature. In addition to identifying that men are more knowledgeable, men also seem to have more confidence in their knowledge than women (Williamson & Wearing, 1986; Walstad & Rebeck, 2001; YouGov, 2020). The other key demographic is younger people who have been found to be less knowledgeable (Williamson & Wearing, 1996; Haldane & McMahon, 2018; Walstad & Rebeck, 2001), and they also tend to be less interested and knowledgeable about specific areas such as savings and interest rates, presumably due to their lack of experience with getting a mortgage or saving money (Williamson & Wearing, 1996).

Many of these studies are based on surveys that essentially test people's economic

knowledge through asking multiple-choice quiz-type questions, typically asking survey respondents to define an economic term such as inflation, GDP or interest rates. Participants are given a number of possible definitions, and researchers then conclude to what extent people have economic knowledge, by looking at whether they are able to identify the correct economic definition. Other survey studies use self-reported measures, in which respondents are asked to self-report their own perceived economic understanding. These studies come to much the same conclusions about people's lack of knowledge, and it shows broadly the same variations by demographics such as the gender, age and education gaps (ING-Economics Network, 2017, 2019). Though, as Bholat et al. (2018) pointed out, it should be said that previous studies found that people frequently overestimate their understanding of economics, and that actual and self-reported understanding may be poorly correlated.

While the survey literature is not as substantial as you would expect, it still paints a relatively clear picture that the average British person lacks knowledge of the economic and economic concepts. However, a fundamental criticism of the literature outlined above is that it is based on a 'top-down approach' rather than a 'bottom-up approach' (Killick, 2017, 2018). In other words, these studies explore how the public understands economic concepts, as they are defined by economists. Essentially, the meaning of economic terms is defined at 'the top' by economists, and then the public are tested whether they have the same understanding of economics as economists have, or to what extent their knowledge diverges from that of economists. As such, traditional survey studies essentially use a 'narrow definition' of economic understanding, exploring to what extent knowledge conforms with normative economic theory (Boyer & Petersen, 2018).

This arguably offers a 'restricted and often distorted window of the non-economist world' (Haldane, 2017). These studies provide evidence about the lack of knowledge and 'how human cognition fails to work according to some norm of rationality'. The basic assumption is that public misperceptions are an outcome of biases, fallacies or ignorance, because they have failed to obtain the same understanding as the experts in the field. However, arguably it provides little insights about what people actually know, and how they think about economics and economic concepts (ibid). While there is definitely an important place for the 'top-down approach' in the literature, it is also important that its limitations are acknowledged, and other studies complement these limitations.

Importantly, people's understanding of economics should also be explored through a 'bottom-up approach', in which the research instruments are designed as much as possible without presuming anything (Killick, 2017, 2018). In the 'bottom-up approach', people are asked open-ended questions, to explore how people themselves articulate their views and understanding of economic concepts in their own words. In the literature, this is known through various terms such as 'lay understanding', 'folk economics' and 'public understanding' (Williamson & Wearing, 1996; Boyer & Petersen, 2018; Furnham, 1988; Darriet & Bourgeois-Gironde, 2015). The latter is the term used in this report, as it is the

least judgemental term. Essentially, the 'bottom-up literature' aims to explore how non-economists (e.g. people who have no specialised or expert knowledge, and are not trained in economics or economic theories and principles) understand economics.

One of the potential problems about the 'top-down approach' is that it fails to recognise that people have an in-depth understanding of some economic issues, which may not be considered relevant by survey questions designed by economists, and therefore this knowledge stays hidden, as it is never revealed through the survey design. For instance, it can be argued that survey studies tend to find that people have limited 'below surface knowledge' of economics (i.e. knowledge about laws and principles of economic theory that is visible to those who have learned economics), but a recent qualitative study in the UK found that people have a rich 'above surface knowledge' of economics (i.e. what is visible to anyone else) (Killick, 2017, 2018). This should not be surprising because, unlike some scientific concepts from natural sciences, economic terms have 'common meanings', and is used extensively by average citizens in their everyday lives (Darriet & Bourgeois-Gironde, 2015). When average citizens use words such as 'consumption', 'unemployment' or 'economic crisis' in their day-to-day lives, it may acquire a different and parallel meaning, which may or may not differ from how economists understand it (Darriet & Bourgeois-Gironde, 2015). It is therefore argued that there are two (or more) parallel understandings of the economy, as the public at large have defined a "new economic reality with its own logic and definition of the economy" (Darriet & Bourgeois-Gironde, 2015).

Another potential problem with the 'top-down approach' is that it implicitly chooses what factual knowledge is most important, for instance by focusing on certain economic concepts such as inflation, unemployment, deficits, and so on, and furthermore by choosing which aspects of these concepts are especially important (Killick, 2017, 2018). For instance, while studies ask questions about concepts such as inflation, GDP and even quantitative easing, there are rarely questions on welfare benefits, pay day loans or minimum wages as part of these studies (though see Blinder & Krueger, 2014). As such, the literature has been criticised for being elitist and favouring educated and high-income respondents who may have greater familiarity with the concepts chosen by economists, which sometimes have little bearing on the experiences of average citizens (Killick 2017, 2018). This may also partly explain some of the demographic variations in economic knowledge found in the literature. It may be that the economic knowledge that is being explored in most existing studies are seen as more important by male, highly educated and high-income respondents. If researchers had made different judgements on what aspects of the economy was deemed important, it may be that other groups such as female, lower educated and low-income respondents had fared better.

To summarise, some researchers highlight that there needs to be a move away from solely assessing public understanding by exploring deviations from normative economic theory, to also examining how people understand economic concepts in their own words. This means asking questions that are "as open and unpolluted as possible by experts' priors

and prejudices” (Haldane, 2017; Boyer & Petersen, 2018; Killick, 2017, 2018). The few studies that have taken up this call, have tended to find that people’s views are nuanced, complex and varied (Williamson & Wearing, 1996; Killick, 2017; NEF, 2018; Economy, 2017). In some instances, these studies show that individuals, who on the surface seem ignorant about economic concepts, especially because they fail to define them with confidence, actually have a rich understanding of the issue (Williamson & Wearing, 1996). However, importantly, these studies also tend to demonstrate that people have very ‘thin’ knowledge of economic concepts, and how they often reveal ‘contradictory, fleeting and unstable views’ (Williamson & Wearing, 1996; Boyer & Petersen, 2018; NEF, 2018).

The following sections will review the existing studies in the ‘bottom-up literature’, together with some of the most important evidence in the traditional ‘top-down literature.’

A2.2: How people understand ‘the economy’ and economics

There is little evidence that it is possible to create a one-size-fits-all theory about how the public perceive the economy (e.g. Boyer & Petersen, 2018). In fact, some studies in this area clearly suggest the opposite. People tend to view ‘the economy’ in many different and sometimes contradictory ways. The economy is seen both from an individual perspective (e.g. an individual’s personal economy) and as a complex system (e.g. a country’s economy), and often the former is seen as stronger in people’s perceptions than the latter (Roland-Levy et al., 2016; Leiser et al., 2010). Based on 95 interviews, Williamson and Wearing (1996) said they found 95 different cognitive models of the economy. Indeed, the variation in understanding is not only observed between individuals, but within individuals themselves, as people’s perceptions of the economy sometimes are ‘internally contradictory’, and sometimes ‘fleeting’ or ‘unstable’ (Boyer & Petersen, 2018; Williamson & Wearing, 1996).

In broader public opinion research, a strong case has been made that people do not build and store stable organised beliefs that is readily-available when surveyed by pollsters or when asked in interviews or focus groups. As such, people do not have ‘file-drawers’ to choose from when asked about the economy (Wilson & Hodges, 1992; Zaller, 1992). Instead, they make up their beliefs ‘on the spot’ (Caplan, 2008). This is likely to be true for the public’s understanding of the economy, and it is likely to contrast with other topics in which people tend to have invested more time in discussing and evaluating their own beliefs and perceptions. For instance, on topics such as immigration, many people will already have strongly held beliefs, often based on deeply-held personal experiences or facts, and these beliefs are unlikely to change from conversation to conversation (Rolfe et al., 2018).

Nevertheless, studies with a substantial number of participants will still capture the breadth of views and perceptions about the economy. Two recent qualitative and survey studies in the UK have explored some of these views about the broader economy, namely

studies by the organisation The Economy (2017) and the New Economics Foundation (NEF) (2018). These are used extensively below, but many other studies, including from other countries than the UK, are also reviewed below.

One of the main findings in this literature is that people's discussions about 'the economy' often evolve around money, often understood through the metaphor of circulation, for instance that money is circulating through the economy (NEF, 2018; Economy 2017). For some, 'the economy' simply is another way of talking about money, such as 'the price of things' and 'how much things cost' (Economy, 2017). Alternatively, people often see the economy as a broad, all-encompassing concept which basically means 'everything' in the world around them (Economy, 2017). In this sense, the economy is also spoken about in terms of how well the country or society is performing, and it is often described through the metaphor of health and well-being, as having a state of health, for instance the economy being weak, strong, fragile or resilient (Economy, 2017). While the economy is often described to be all-encompassing, there is sometimes a recognition that there are many different subcomponents, such as health, education, jobs etc. (Economy, 2017).

The economy is often perceived as functioning like a national pot or a container, with people putting into the pot (contributing) and taking out of the pot (draining) (NEF, 2018; Economy, 2017). From this perspective, people see the economy as an amount of resources, for instance the amount of money in the country (ibid). With the same perspective, people see the government budget as a national pot that works like a personal or a household budget, in which the government has a fixed amount of resources or money which need to be distributed. As such, it is seen as a constraint on what we are able to do as individuals and as a society (NEF, 2018; Economy, 2017). When viewing the economy as a container or as a 'fixed pie', the key indicator of the state of the economy is often the budget, and how much is owed in debt and how much is available to spend. As such, it has been found that people sometimes say that economists should just 'tell us how much there is' instead of overcomplicating, with the implicit assumption that the state budget works like a household budget (Economy, 2017).

The concept of a fixed amount of resources in the economy ("fixed pie") combined with the perception that one person or country's gain is another's loss ("zero sum") lead people to have substantially different views than economists. For instance, Caplan (2008) describes the 'anti-market bias', in which people will tend to reject the economist viewpoint that a lack of intervention in the market will lead to the growth of the pie and that this growth will trickle down. In this sense, it has been argued that the public will not tend to see markets as a mutually beneficial encounter between buyers and sellers, but as a place of struggle between unequal actors, often leading to unequal and unfair outcomes, partly driven by the profit motive among private companies and individuals (Boyer & Petersen, 2018). Rather than focusing on mutually beneficial processes, the public will be more likely to focus on distribution and notions of fairness when looking at economic transactions, for instance focusing on and demonising groups who are draining the pot (NEF, 2018).

As an example, the existing qualitative literature on immigration attitudes in the UK shows that people distinguish between those migrants who directly contribute to the UK economy through taxes and filling labour market shortages, and those who take out by using public services and claiming benefits (Rolfe et al., 2018; Rutter & Carter, 2018), rather than focusing on knock-on effects such as the fact that more workers also results in more consumers, which tend to create more jobs.

This line of thinking also leads to the idea that people go 'in and out' of the economy at different stages of their lives, depending on whether they are currently contributing through taxes, or taking out through using public services and benefits (Economy, 2017). This leads older people to feel 'out of the economy' and younger people to feel like they are 'not yet in the economy' if they have not started to work (Economy, 2017). People also use the model of a container to talk about the balance between imports and exports, and about national self-reliance (NEF, 2018). Caplan (2008) describes an 'anti-foreign bias', in which non-economists are unaware of the (rather unintuitive) theory of comparative advantage. Instead, people tend to see the exchange of workers and goods between countries as a zero-sum game in which some countries will be better off and others inevitably worse off. This leads people to believe that a country should ideally export more than it imports (i.e. run a trade surplus), and that international trade will have negative effects on some countries (Boyer & Petersen, 2018; Worstall, 2014). This includes the perception that international trade will have a negative impact on domestic unemployment as foreigners abroad, rather than natives at home, are making the things the country needs, and which the country often could have produced themselves (Wood, 2002; Baron & Kemp, 2004; Mansfield et al., 2016, cited in Boyer & Petersen, 2018). Similarly, the same line of 'zero-sum' and 'fixed pie' thinking lead people to argue that immigrants take domestic jobs, with the assumption that there is a fixed number of jobs in the economy (Portes, 2018).

Another strand of the literature has analysed more broadly, and often based on a psychological perspective, how people think about the economy as a concept and how they process information about the economy. One of the key findings is that the public often evaluates and views the economy through a 'lens that include psychological, social and moral variables', which is in stark contrast to economists and economic theory who tend to make economic judgements based on efficiency considerations (Haferkamp et al., 2009; Jacob et al., 2011; Furnham, 1988; Williamson & Wearing, 1996). This means that people integrate economic, political and moral beliefs into their views of the economy (Furnham, 1988). One of the examples of this is that people tend to explain economic phenomena or developments by focusing on individual motivations, particularly by focusing on controllable actions of individuals and institutions, and by looking for people responsible for the state of affairs (e.g. Leiser & Krill, 2017; Leiser et al., 2017; NEF, 2018; Leiser & Shemesh, 2018; Williamson & Wearing, 1996). In the literature, this is referred to as a 'conspiratorial style of economics' (Leiser & Krill, 2017; Leiser et al., 2017). It is argued that it comes much more natural for people to think about outcomes and processes as a

result of intentional actions, rather than the result of abstract and invisible interactions, also described as “interlocking systems of causal links”, that underlie economic processes such as supply and demand (ibid.). As an example, rather than attributing a change in price to the interaction of supply and demand, people often believe that prices go up because companies manipulate the prices to increase their profits (Blendon et al., 1997; Williamson & Wearing, 1996). Alternatively, they see the system as rigged, consistently manipulated by elites in government, business and the media to ensure the economy is stacked in their favour (NEF, 2018; Killick, 2017). Another example is that the public tend to see a financial crisis as an outcome of economic actors’ stupidity, negligence and greed, rather than a systemic malfunction (Leiser et al., 2016; Leiser et al., 2010).

The tendency among the public to integrate moral beliefs into their thinking about the economy means that the public often tend to judge economic policies or actions on their perceived fairness or in terms of social justice, compared to the tendency among experts and economists to base evaluations on efficiency (Haferkamp et al., 2009; Gangl et al., 2012). For instance, some would consider it unacceptable to exploit shifts in demand to raise prices or cut wages to raise profits even further, but fair if the profits or the business itself is threatened. Often, a central part of this view is the acknowledgement that greed is part of human nature, and that all people are seen as having a desire to enrich themselves (NEF, 2018). For some, this means that inequality will persist because human nature will not change, and some will always succeed in making themselves rich at the expense of others (ibid.).

In contrast to the ‘conspiratorial style of economics’ that focuses on controllable actions and actors’ deliberate decisions, the economy is also sometimes seen as inherently volatile and unpredictable. Fundamentally, some people think about the economy as something self-governing rather than something that is actively shaped by humans (NEF, 2018; Leiser & Shemesh, 2018; Killick 2017). Often, this is reflected in the tendency to use metaphors of natural and nautical disasters (weathering storms, buffeted by headwinds, waves, tides, aftershocks) or by referring to mysterious and largely impersonal market forces (NEF, 2018; Killick, 2017). The economy is also sometimes seen as a cycle of inevitable ups and down, almost with a clock counting down to the next inevitable recession (Leiser & Shemesh, 2018; Economy, 2017). This is probably reinforced by the use of language such as ‘boom’, ‘bust’ and ‘crash’, which suggests that the economy is acting of its own accord, largely independent of the actions of individuals and organisations (Patel et al., 2018). For people with negative attitudes towards the economy, this cycle often represents hopelessness and inevitable cycles of employment and unemployment (Economy, 2017).

It is also possible that different types of individuals are more likely to view the economy as self-governing compared to controllable. For instance, Leiser et al. (2010) suggest that different individuals have fundamentally different cognitive representations for what causes economic crisis. Some people focus on the failure of individual actions, while others emphasise the systemic failures of the economic system (Leiser et al., 2010). Similarly,

Killick (2017) suggests that people with higher incomes understand 'the economy' as a neutral term for largely impersonal forces, while people on lower incomes understood it to be rigged by elites.

However, it is also possible that one individual can simultaneously hold the views that the economy is self-governing and unpredictable alongside the view that the government is responsible for managing the economy as well as the 'conspirational style of economics' which focuses on the controllable actions of individuals and institutions that shape the economy (NEF, 2018). On the one hand, you can argue that these views can be held simultaneously. It is possible to argue that the economy is affected by the actions and decisions by individuals and the government, but that it is difficult to manage due to its volatility and underlying processes that are unpredictable. On the other hand, it is possible that people often held these views simultaneously in a contradictory manner without realising it.

Generally, the literature describes how people's views of the economy are not always internally consistent. A recent UK study argues that people's ways of thinking about the economy can be described as 'thin' in the sense that it provides a very simplistic and hollow, and sometimes mistaken, way of understanding the economy and the processes behind economic outcomes (NEF, 2018; Economy, 2017; Killick, 2017). However, it has also been described as 'powerful' in the sense that however misguided or simplistic it provides a clear structure to people's thinking about the economy, including by helping people to emphasise some aspects of the economy over others (NEF, 2018). For instance, because people have no meaningful ways of understanding how markets interact or why prices change, it leads them to emphasise the models that we have already discussed, such as viewing the economy as self-governing, or through a lens that focuses on individuals' actions and their motivations, which provides them with a clear framework for understanding the economy (NEF, 2018).

Another model in the literature, which highlights both people's lack of economic knowledge and their 'powerful but thin' ways of thinking about the economy is Leiser's assertion that people tend to use different shortcuts to make sense of the connection between economic variables. Leiser and Shemesh (2018) argue that, in contrast to many other sciences and academic disciplines, economics is not only a theoretical discipline, but something that matters to people's everyday lives, and which people are expected to understand and form opinions on. Therefore, "faced with the assumption that they can – and ought to – understand [economic] issues, they try to make sense of them the best they can" (Leiser & Shemesh, 2018).

One of the ways of doing this is through so-called heuristics which are basically shortcuts that allow people to make sense of complex relationships without knowing the details of how it works. For instance, the tendency to evaluate and judge the economy through fairness and social justice criteria can be seen as a shortcut, as they are generally much

more intuitive, and doesn't require any knowledge or cognitive effort compared to economists' way of evaluating economic phenomena (Jacob et al., 2011; Haidt, 2001; Haferkamp et al., 2009). Another example from the literature is that people use a 'good-beget-good' heuristic, in which people, without necessarily realising, divide economic concepts into positive and negative concepts, and then assume that increases in positive economic variables lead to increases in other positive variables and reductions in negative variables, and vice versa (Leiser & Aroch, 2009). As an example, inflation is widely considered 'bad' and unemployment 'bad', so the public think there is a positive relationship between the two. As such, survey studies show that the public tend to intuitively reject the Phillips Curve (e.g. Leiser & Aroch, 2009; Orland, 2013; Dixon et al, 2014; Drager et al, 2016; Rubin, 2001, cited in Leiser & Shemesh, 2018). Often, these shortcuts lead to various biases (Haferkamp et al., 2009), such as people's assumptions about the economy as a fixed-pie or zero-sum, anti-market bias, anti-foreign bias, omission bias, and the status quo bias (reviewed in Baron et al., 2006).

Generally, studies have explored to what extent people understand the relationship between economic variables, and whether this is consistent with traditional economic theories and modelling. These studies tend to find that the public focuses on economic concepts and phenomena in isolation rather than theories of the relationship between them (Bastounis et al., 2004; Darriet & Bourgeois, 2015; Leiser & Shemesh, 2018; Leiser & Aroch, 2009; Williamson & Wearing, 1996). As such, the testing of whether the public intuitively believe the negative relationship between inflation and unemployment inherent in the Philips Curve can be seen as an artificial construct. In real life, the public only rarely think about the connection between economic variables in this way. It has also been pointed out that people have even less understanding of indirect effects, though they find them interesting, as evidenced by the popularity of some popular economics books centred on pointing out those indirect effects (Leiser & Shemesh, 2018).

Similar to the 'powerful but thin' typology, another perspective from the psychology literature argues that people understand complex phenomenon such as the economy by 'anchoring' it to familiar concepts and experiences, referred to as 'social representation frameworks' (Moscovici, 1988). For instance, this is reflected in the tendency to use metaphors to describe the economy, and attaching economic phenomena to things like natural disasters, the weather, machines etc. (e.g. NEF, 2018; Economy, 2017; Leiser & Shemesh, 2018). The literature on metaphors to describe the economy was summarised by Leiser and Shemesh (2018) drawing on a number of studies in the field (e.g. Hu & Chin, 2015; Arrese & Vara-Miguel, 2016; Takahashi, 2010; Silaski & Durovic, 2010, cited in Leiser & Shemesh, 2018). They identified a number of common types of metaphors, including natural metaphors (e.g. fire, liquids, weather, events and disasters), biological metaphors (e.g. describing the state of the economy through health and disease, and as an organism), physical metaphors (e.g. machines and forces) and psychological and interpersonal metaphors (e.g. competition, war, goals and actions). Similar to the 'powerful but thin' models, the use of metaphors may lead people to simplify and misunderstand complex

topics, and even give them a false sense of confidence that they understand the topic, for instance by wrongly assuming that the economic phenomenon behaves similarly to the metaphor (Landau et al., 2014; cited in Leiser & Shemesh, 2018).

Existing studies tend to show that people see the state and businesses as the main actors in the economy. For instance, Verge et al. (1994, cited in Darriet & Bourgeois-Gironde, 2015) found that people see the “state” and the “firm” at the heart of economic action, and in particular expressed causal relationships related to the firm, in which firms produced and reinvested profits; and related to the state, in which the state taxed citizens and redistributed income; as well as buying and selling between countries. The recent UK-based study by NEF (2018) also found that people, despite their cynicism about elites and politicians, ultimately saw the government as a central actor as they are responsible for managing the economy.

A2.3: How people understand inflation

The existing evidence base on inflation is larger than some of the other concepts covered in this report. This is mainly because inflation is of particular interest to macroeconomists and central banks who have done a range of studies on inflation expectations and how it affects confidence and savings behaviour. However, there are much fewer studies focused explicitly on how the public understands the concept of inflation.

Survey studies generally show that people struggle to define inflation (Thompson, 2016; Bank of England/TNS, 2017), and that people don't know the current inflation levels, or what the likely path of inflation will be in the future (Bank of England/TNS, 2017; European Commission, 2015; Leiser & Shemesh, 2018). In particular, studies have found that people tend to overestimate levels of inflation, similar to how people overestimate rates of economic growth and unemployment (Vicente & Lopez, 2017; Papacostas, 2008; Blendon et al., 1997). This may be due to a psychological process where people hold pessimistic views to protect themselves from unexpected events, or alternatively people may not fully understand how inflation is calculated in official statistics (Vicente & Lopez, 2017). It has also been found that the less favourable views people have on the economy, the more likely they are to overestimate inflation and unemployment, and underestimate growth figures (Vicente & Lopez, 2017). Similar to other economic concepts and financial literacy, studies have found that men tend to know more than women about inflation and make smaller errors when estimating current inflation levels (Vicente & Lopez, 2017). Some papers have suggested that this may be related to men and women's different shopping experiences (Jonung, 1981; Bryan and Venkatu, 2001).

People often understand that inflation matters to them and affect their personal lives (e.g. Leiser & Shemesh, 2018; Wilmot et al., 2005). This may also be behind the finding that understanding of inflation is higher in countries with recent histories of high inflation,

especially countries that have experienced hyperinflation (Klapper et al., 2015). A number of studies find that people tend to prefer low inflation and dislike increases in inflation. Some argue that people widely believe in the 'inflation fallacy', described by Mankiw (1997) who stated that people dislike inflation because they think it makes them poorer (Shiller, 1997; Scheve, 2003). In his work on the psychology of inflation, based on large-scale interview research, Katona (1975) found that 80% complain about being hurt by inflation, and that it shouldn't need to happen, and that inflation should ideally be zero. The study found that the aversion to inflation was most common among poor people. The perception that inflation makes people poorer has also been confirmed in later interview-based studies (Scheve, 2003; Shiller, 1997).

While poorer living standards is the overriding concern, these studies have also found that people associate inflation with inconveniences such as making it harder to judge whether prices are advantageous and planning for the future, and some people argue that the uncertainty also provides economic actors the opportunity to take advantage of each other (Scheve, 2003; Shiller, 1997). These studies also found that some people thought inflation weakened the country's currency, and damaged the national prestige and increased political instability (Scheve, 2003; Shiller, 1997). The perception of inflation as something negative seems to be similar across countries, with different inflation experiences and for people with different ages (Mankiw, 1997; Leiser & Shemesh, 2018).

The dislike of inflation may also stem from a lack of understanding of how inflation and prices interact. At least, there are evidence that people often don't understand the implication of inflation on living standards. For instance, some studies show that people often believe that they are not able to maintain the same spending if both prices and income double (Leiser & Shemesh, 2018). This is called the 'money illusion' and it was tested in a survey in the Netherlands where only 22% of respondents answered a survey question about this correctly (van Rooji et al., 2011).

Another theme in the literature is that people's perception is that price changes are caused by economic actors who actively choose to manipulate prices rather than through the process of supply and demand (Blendon et al., 1997). In other words, someone is responsible for price rises or reductions, usually the seller who will be considered either fair, generous, or unfair and greedy (Kahneman et al., 1986; Leiser & Shemesh, 2018). Related to this is the perception that inflation allows some economic actors to take advantage of others (Shiller, 1997). For instance, Blendon et al. (1997) found in a US survey that 69% of the public believed price rises were mainly caused by companies' manipulation of prices to increase profits, while only 28% thought it was mainly due to the laws of supply and demand.

A study by Leiser and Drori (2005) found that inflation is seen as something that happens to money, e.g. money loses its value, and affects those things closely associated with this such as prices, interest payments and the cost of living. However, inflation and price

changes are not seen as being connected to broader aspects of the economy, such as potential relations with trade, unemployment, central banks and savings (ibid). The study notes that this is diametrically opposite the perception of economists which is famously described by Mankiw (1997): ‘When we economists hear the term “inflation”, we naturally start thinking about helicopters dropping money over the countryside. We imagine a continuing change in the unit of account that alters all nominal magnitudes proportionately.’ The same study found variation in perceptions of inflation across different groups. For price setters such as people who ran their own shops or businesses, inflation was seen as central to operating costs such as interest payments, prices and demand, while for teachers, inflation was seen as central to salaries and pay reviews (Leiser & Drori, 2005).

Generally, people have difficulties in explaining links between inflation and other economic variables. When people attempt this as part of research studies, their explanations have been described as either ‘superficial’ or ‘downright vacuous’ (Williamson & Wearing, 1996; Leiser & Drori, 2005). As described previously, some studies have detected that people, at least when prompted about their understanding of economic variables, seem to make sense of these relationships by using the simple ‘good begets good’ heuristic, in which inflation is seen as something bad, and thus an increase in inflation will affect other ‘bad variables’ positively and ‘good variables’ negatively. For instance, a number of studies have found a positive relationship between the two ‘bad economic variables’, inflation and unemployment, and as such, the public seem to intuitively reject the Phillips Curve (Leiser & Aroch, 2009; Leiser & Shemesh, 2018).

In the most recent NatCen survey on confidence in official statistics in the UK, 82% of respondents agreed that inflation figures reflected changes in the UK, and 58% agreed it was free from political interference (Morgan & Kent, 2019). These numbers were higher than the equivalent numbers for unemployment, and similar to those for GDP. A qualitative study on public confidence in official statistics in the UK found that participants sometimes distrusted how certain statistics were defined or classified, with the view that it could be manipulated by the government to demonstrate good economic performance or policy successes (Wilmot et al., 2005). For instance, the Retail Price Index (RPI) was occasionally mentioned as an example where some participants said the exclusion or inclusion of certain items could provide a ‘false picture’ (Wilmot et al., 2005).

A2.4: How people understand unemployment

In addition to inflation, unemployment is the other economic statistic where there is a reasonable amount of evidence on public understanding and perceptions. The existing literature demonstrates that unemployment is an economic statistic that matters to the public, especially compared to other key economic variables such as growth and GDP, as people recognise its importance to their lives (Drews & van den Bergh, 2016; Wilmot et al.,

2005).

A number of studies have looked at people's perceptions of why people become unemployed, and what causes unemployment. Based on representative samples with British adults, survey studies have found that public perceptions of the causes of unemployment can be categorised into three explanations (Furnham, 1982; Lewis & Furnham, 1986; Leiser & Shemesh, 2018). These were individualist factors (attributing unemployment to personal dispositions such as lack of will-power or ability, referred to as 'blaming the victim'); societal factors (attributing unemployment to government policies); and fatalistic factors (attributing unemployment to uncontrollable factors such as economic cycles, luck or chance). These findings have been confirmed in a recent comparative study which included the UK (Mylonas et al., 2016).

Another categorisation is between systemic and individual factors (Leiser & Shemesh, 2018). While economists arguably tend to look at systemic explanations, focusing on aggregate values and the workings of the system such as growth and job creation, non-economists tend to understand economic activity in terms of individual agency and personal dispositions such as those outlined above, e.g. lack of will-power or ability (e.g. van Bavel & Gaskell 2004; Leiser & Shemesh, 2018). The perceived causes, outlined above, relate to how people perceive the potential solutions (Murray & Miller, 1992, cited in Leiser & Shemesh, 2018). Those who believe in individualistic factors tend to support solutions that are punitive or focus on opportunity creation and resource management. Those who see unemployed people as victims of bad luck support government interventions or additional spending (ibid.).

Another study showed that people see unemployment simply as meaning that there are too few jobs in the economy, and solutions was to encourage the government and employers to create more jobs (Leiser & Shemesh, 2018). Of four possible options, survey respondents preferred measures that directly created jobs such as encouraging initiatives in industry and beginning infrastructure projects, rather than more indirect solutions such as encouraging people to buy more or increasing salaries of workers (ibid.). Similarly, survey respondents endorsed obvious direct links to how citizens could contribute to lowering unemployment, such as buying local products. This study noted this showed people's limited understanding of indirect relationships between economic variables and policies.

Generally, various studies show that people do not consider indirect effects, in terms of how unemployment is related to other economic variables. For instance, in a survey question on the impact of an increase in personal savings on unemployment levels, only a fifth of respondents picked the conventional response of economic theory (i.e. that an increase in savings lead to more unemployment), while a majority of respondents said that more personal savings reduces unemployment (Leiser & Shemesh, 2018). The authors point out that this is an example of people's limited consideration of indirect effects, e.g.

the causal chain between consumption, production and jobs (ibid). The authors also note it is an example of people's use of shortcuts to understand economic phenomena, in this case their use of the 'good begets good' heuristic: since 'higher personal savings' and 'lower unemployment' are both considered as positives, it is assumed that one leads to the other (ibid). Similarly, studies have found a positive relationship between the two 'bad economic variables', inflation and unemployment, and as such, the public seem to reject the Phillips Curve (Leiser & Aroch, 2009; Leiser & Shemesh, 2018).

Another theme in the literature is the perceived lack of trust in unemployment statistics. For instance, a recent qualitative study found that participants from all social background believed that unemployment statistics had been massaged for a long time (Killick, 2017). Another study found that people perceived the ONS data to be accurate, but some participants were sceptical about the changes in the definitions of unemployment which according to them had been implemented to show a reduction in unemployment that didn't exist (Wilmot et al., 2005). In this context, participants sometimes referred to definitional changes made in the 1980s (ibid). These observations are reflected in the most recent survey on trust in official UK statistics, which is done regularly by the National Centre for Social Research for the Office for National Statistics, where 71% said the unemployment figures accurately reflect recent changes in the UK, but only 50% believed it was free from political interference (Morgan & Cant, 2019). These numbers are both below equivalent trust figures for GDP and inflation.

A2.5: Knowledge gap between the public and economists

While this study is primarily focused on how people understand economics, it is worth bearing in mind some of the reasons why the public sometimes misunderstands economic concepts, or think about economic concepts in different ways than economists. The most obvious explanation is that it is due to ignorance among the public, caused by a lack of information or a failure to understand the information given to them. This creates an asymmetry in knowledge between the public and economists. However, while this explanation is certainly part of the picture, it cannot be the whole story, as it predicts that people's views will be non-normative and random, and we wouldn't be able to detect any patterns or themes in how people think about economics (Boyer & Petersen, 2018; Caplan, 2008).

Another explanation is that economic concepts and principles are complicated, or rather they are not intuitive for people who are not trained in economics. For instance, concepts such as equilibrium and comparative advantage (which is at the heart of most arguments for free trade) are not immediately intuitive or known to the public (Leiser & Krill, 2017; Leiser & Shemesh, 2018; Baron & Kemp, 2004). Similarly, people are well-equipped to think about decisions, motivations and actions of individual people, including other people than themselves, but they are ill-equipped to think about the aggregate effects of

a large group of people (Leiser & Krill, 2017; Williamson & Wearing, 1996). Studies have also found that people have been found to be overinfluenced by considerations of sunk costs (e.g. Magalhaes & White, 2016) or fail to consider opportunity costs (Hazlitt, 2010). In contrast, as we have seen, it has been argued that people sometimes use metaphors and social representations to make sense of the economy, though this may create a sense of familiarity with an otherwise complicated topic, which may lead to misunderstandings and inspire unjustified confidence when evaluating the economic concept (Leiser & Shemesh, 2018; Landau et al., 2014). Similarly, the use of different shortcuts or heuristics may create different types of biases about the economy and economic processes (Leiser & Shemesh, 2018; Haferkamp et al., 2009). Furthermore, it is not just economic concepts and principles that are hard to understand, the UK public sometimes don't have the statistical or numerical literacy required to understand and interpret economic statistical information and data, such as the most common economic indicators (BBC, 2016; OECD, 2017; Klapper et al., 2015).

Another possible explanation is that economists and the public get their information from different sources, or alternatively that they trust different sources in providing them accurate and non-biased information about the economy (Blendon et al., 1997). The most immediate problem is the lack of trust in economists themselves. Haldane (2017) argues that economics and economists suffer from a 'twin deficit', in which the public both lacks knowledge and trust in the discipline. Studies in the UK shows that economics as a profession ranks low on trust measures (YouGov, 2017; ING-Economics Network, 2017; Patel et al., 2018, YouGov/Post-Crash Economics Society, 2015), exacerbated by a decline in trust and legitimacy during and following the financial crisis, and recently during the Brexit referendum (Haldane & McMahon, 2018; ING-Economics Network, 2017, 2019). However, it should be said that the public understanding of the term 'economists' tend to vary widely, and some evidence suggest it tends to be focused more on forecasters and bankers than civil servants, researchers and so on (ING-Economics Network, 2019). It is also unclear from existing evidence to what extent the public sees organisations such as the ONS as one of the main messengers of economic statistics (as economists do), or whether they see the government, politicians and the media as the main messenger and source of the economic news that are presented to them.

Meanwhile, studies have explored the trust in some of the organisations and actors who are frequently seen as the source and messengers of economic statistics. In a regular survey on trust in official statistics by the National Centre for Social Research, it has been found that people generally trust the ONS and ONS statistics, including that it is free from political interference, however, a large proportion of respondents thought that the government and the media present official figures dishonestly (Morgan & Cant, 2019; Simpson et al., 2015; Simpson, 2016; Bailey et al., 2010). This may, tentatively, suggest that the distrust is mainly concentrated around the 'messengers' rather than the 'producers' of economic statistics, though this would not explain why these studies find less confidence in the accuracy of certain statistics (especially unemployment data) compared to other

statistics.

Studies in the UK show a notable distrust of the media who are thought to have an ideological agenda, which creates cynicism about the trustworthiness of economic news and claims made in public debate (NEF, 2018, YouGov/Economy, 2017). Generally, polling and qualitative studies show that people do not feel discussions and information they hear in the news about the economy are completely reliable or trustworthy (Economy, 2017; Morgan & Cant, 2019). This is sometimes exacerbated by the perception that there is conflicting information presented from different sources, which enable politicians to choose to statistics that best fit their political agenda (Wilmot et al., 2005).

Another explanation is that whether or not it is related to the distrust in the sources and messengers of economic statistics, people may simply get the information from different sources, and especially not pay attention to official economic statistics (Blendon et al., 1997; Blinder & Krueger, 2004). For instance, Kalogeropoulos et al. (2015) uses Mutz's (1992) framework to think about the sources of information, and how these influence economic perceptions. They outline three important sources of information: the interpersonally mediated information, the mass-mediated information, and personal experiences with the economy (Kalogeropoulos et al., 2015). Importantly, the public may rely more or sometimes exclusively on personal and local experiences, including those of family, friends and colleagues (Rolfe et al., 2018; Rutter & Carter, 2018). Even when individuals pay attention to official economic statistics and indicators, they may find different types of statistics more interesting due to their personal circumstances (Vicente & Lopez, 2017; Blendon et al., 1997; Blinder & Krueger, 2004). For instance, regional or sectoral unemployment figures may be more meaningful to the public than national ones (Cardoso et al., 2016).

It may also be that the traditional groups, such as the media, teachers and journalists who disseminate economic information and knowledge to the general public, have a different understanding of economics than economists themselves. In a small-scale experimental survey study, Jacob et al. (2011) found that teachers and journalists' support of trade and immigration policies lay in-between those of economists and the public, with teachers closer to the public and journalists closer to economists. However, they found that both teachers and journalists' judgement of policy proposals focused on perceived fairness (similarly to what has been found for the public), compared to economists' focus on economic efficiency (Jacob et al., 2011). As such, it is possible that their perceptions are transmitted through the influence of schools and media, and that the different mental models held by the public are not just based on everyday life experiences, but also from the impact of those groups (Jacob et al., 2011). Generally, the way the media report on economic news is likely to affect public knowledge and perceptions, especially if economic reporting by the media is biased in a certain direction, for instance by being focused predominately on negative news stories (Blendon et al., 1997).

The existing evidence suggest that the explanation is not that people don't care about the economy and economic issues. In fact, quite the opposite, economic issues are seen as one of the main issues among the public, and a large majority of the British public see economics as relevant to their everyday lives, even among those who rarely pay attention to economic news stories (ING-Economics Network, 2017, 2019; Economy, 2017). In a recent UK survey, large proportion of respondents expressed a desire to improve their understanding of economics (ING-Economics Network, 2017). The problem, however, is that economic news, regardless of whether it is intermediated by the media or politicians or others, are seen to be communicated in an inaccessible way, in a 'language that feels alien, abstract, and expert-dominated' (Economy, 2017; YouGov/Rethinking Economics, 2016; YouGov/Post-Crash Economics Society, 2015). The fact that people are passionate about economic issues, but find it inaccessible, suggest that an improvement in how economics is disseminated to the public could expand the audience and bring many more people into public debate (Economy, 2017). For instance, an UK-based study that engaged 190 citizens in deliberate workshops found that once economics was made less abstract, and instead related to people's everyday lives and presented to them in plain language, citizens from all backgrounds and education levels were able to engage in discussing fairly complex economic concepts (Patel et al., 2018).

It has been argued that one of the problems is that economics is disseminated in a way that seems to convey that the public are expected to understand economic jargon and terms, possibly because economics is part and parcel of everyday life (Leiser & Krill, 2017). However, in other sciences experts recognise the complexity of their own subject, and therefore make a virtue of simplifying and explaining complex technical issues in an accessible language without technical jargon (Leiser & Krill, 2017). Of course, the counterargument is the frequent observation in economics literature that it is irrational for individuals to acquire detailed knowledge about economics, or frequently update their information about the economy, as the perceived benefits for doing so may not exceed the costs of time and money required to obtain and process this information (see Blinder & Krueger, 2004; Vicente & Lopez, 2017).

Appendix 3: Survey sample

Table 1. Survey sample demographics

Characteristic / demographic		Number & proportion, % (weighted sample)	Number & proportion, % (unweighted sample)
Gender	Male	809 (49%)	743 (45%)
	Female	856 (51%)	922 (55%)
Age	18-24	181 (11%)	128 (8%)
	25-49	694 (42%)	721 (43%)
	50-64	401 (24%)	424 (25%)
	65+	388 (23%)	392 (24%)
Social grade	ABC1	949 (57%)	988 (59%)
	C2DE	716 (43%)	677 (41%)
Region lived	North East	79 (5%)	75 (5%)
	North West	174 (10%)	183 (11%)
	Yorkshire and the Humber	148 (9%)	148 (9%)
	East Midlands	135 (8%)	139 (8%)
	West Midlands	141 (8%)	147 (9%)
	East of England	148 (9%)	160 (10%)
	London	200 (12%)	162 (10%)
	South East	226 (14%)	247 (15%)
	South West	186 (11%)	174 (10%)
	Wales	85 (5%)	87 (5%)
	Scotland	143 (9%)	143 (9%)
Education level	Low	503 (30%)	456 (27%)
	Medium	677 (41%)	729 (44%)
	High	485 (29%)	480 (29%)
General election vote, 2019	Conservatives	564 (34%)	619 (37%)
	Labour	413 (25%)	432 (26%)
	Liberal Democrats	150 (9%)	155 (9%)
Referendum vote, 2016	Remain	618 (37%)	713 (43%)
	Leave	659 (40%)	699 (42%)
Total		1665 (100%)	1665 (100%)

Appendix 4: Focus group sample

This appendix provides detailed information about the focus group sample. In total, 130 participants took part in the focus groups. The table below shows the following information for each group by column: the sequence of focus groups, location, gender, the number of people attending the group, and the topics covered during the group.

Table 2. Overview of focus groups

#	Location	Gender	Size	Topics covered
3	Birmingham	Male	11	Economy, economic performance, stories, fact checks
4	Birmingham	Female	12	Economy, unemployment, inflation, GDP, deficit and debt
5	Birmingham	Male	11	Economy, unemployment, inflation, GDP, trade, deficit and debt, interest rates
6	Birmingham	Female	11	Economy, unemployment, inflation, GDP, deficit and debt, interest rates
9	Manchester	Male	11	Economy, economic performance, stories, fact checks
10	Manchester	Female	12	Economy, unemployment, inflation, GDP, deficit and debt, interest rates, trade,
11	Manchester	Female	12	Economy, unemployment, inflation, GDP, deficit and debt, interest rates, trade
12	Manchester	Male	11	Economy, unemployment, inflation, GDP, deficit and debt, trade
1	London	Male	9	Economy, unemployment, inflation, interest rates, stories and fact checks
2	London	Female	11	Economy, unemployment, inflation, deficit and debt, interest rates
7	London	Female	9	Economy, unemployment, inflation, GDP, trade, interest rates
8	London	Male	10	Economy, unemployment, inflation, GDP, deficit and debt, interest rates, trade

Qualification criteria: Interest in economic issues & previously studying economics

The sample excluded those who expressed very little interest in economic issues, defined as being 0, 1 or 2 on a scale from 0 (not interest at all) to 10 (extremely interested). The nationally representative survey shows this would have excluded around 13% of the population. The sample also excluded those who had ever studied, or was

currently studying, Economics as part of a University course or for A-level (or equivalent qualifications). Our nationally representative survey shows this would have excluded around 17% of the population. 8% had studied it at A-level or equivalent qualification, and 9% had studied it at University. In total, as most of the people who express little interest in economic issues have not studied economics, these criteria excludes around 28% of the population, according to the representative survey.

Table 3. Focus group sample

Characteristic / demographic		Number & proportion, %
Gender	Male	63 (48%)
	Female	67 (52%)
Age	18-24	27 (7%)
	25-34	32 (21%)
	35-44	30 (25%)
	45-54	19 (23%)
	55-64	13 (15%)
	65+	27 (10%)
Highest educational qualification	PhD	1 (1%)
	Masters	7 (5%)
	Bachelors	27 (21%)
	Post-secondary	8 (6%)
	A level	37 (28%)
	GCSE	22 (17%)
	CSE	4 (3%)
	Any other	4 (3%)
None	20 (15%)	
Employment status	Full-time	83 (64%)
	Part-time	13 (10%)
	Unemployed and not currently looking for work	2 (2%)
	Unemployed and currently looking for work	2 (2%)
	Self-employed	9 (7%)
	Student	5 (4%)
	Retired	15 (12%)
General election vote, 2019	Conservatives	36 (28%)
	Labour	44 (34%)
	Liberal Democrats	3 (2%)
	UKIP	5 (4%)
	Green Party	5 (4%)
	Other	4 (3%)
	NA	9 (7%)
Didn't vote	24 (18%)	
Referendum vote, 2016	Remain	52 (40%)
	Leave	63 (48%)
	Did not vote	15 (13%)
Total		130 (100%)

The focus groups were divided by gender, so they were 6 female and 6 male groups, split evenly by location. The decision to split by gender was based on existing evidence suggesting that men tend to know more about economic issues than women, and express more confidence in their knowledge and in discussing economic issues (see literature review in Chapter 2). In this light, we wanted to ensure that all participants had a chance to express their views, and to potentially detect any differences by gender. Data collected from participants prior to starting the focus groups show that men did express more confidence in understanding economic news (Figure 31) and more interest in economic issues (Figure 32) than women, but the differences were relatively small, and given the small sample sizes, these differences are not seen as important.

Figure 31. Self-reported difficulty in understanding economic news, by gender (%)

N=130

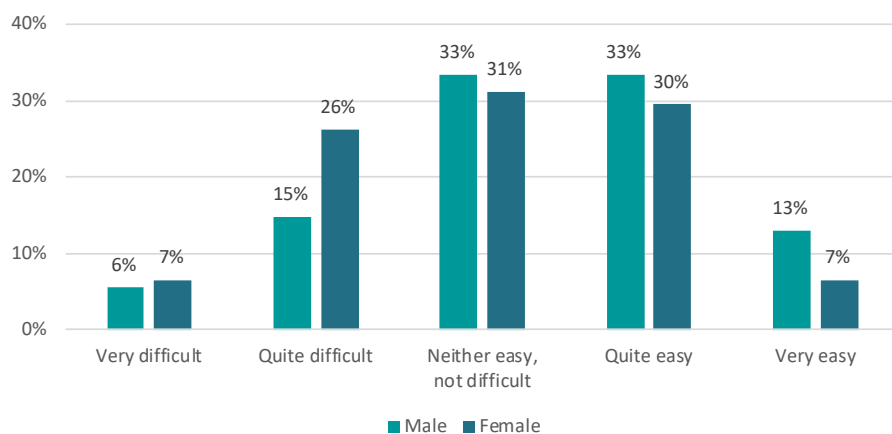
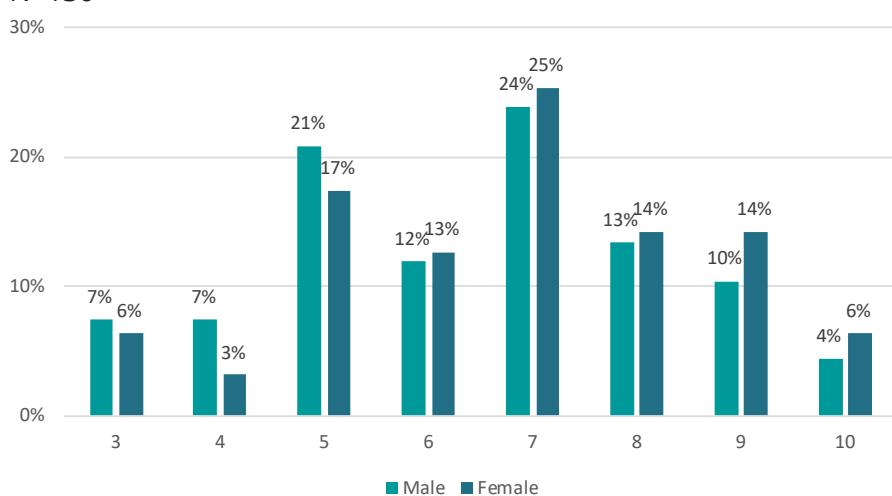


Figure 32. Self-reported interest in economic issues, by gender (%)

N=130



Appendix 5: Survey design

Q1. All respondents.

YouGov

On a scale of 0-10, where 0 means not interested at all and 10 means extremely interested, what is your level of interest in economic issues?

- 0 - not interested at all
- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10 - extremely interested
- Don't know



Q2. All respondents.

Have you ever studied, or are you currently studying, Economics as part of a University course or for A-level (or equivalent qualifications)?

- No
- Yes, at University
- Yes, at A-level (or equivalent)
- Yes, at A-level (or equivalent) and University



Q3. Respondents split. Half of respondents shown first part of question: "given you will be tested on these later in the survey". Random allocation.

Given you will be tested on these later in the survey, how would you describe your understanding of the following economic terms?

	Very good	Good	Neither good nor weak	Weak	Very weak	Don't know	Have never heard of it
Interest rates	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Unemployment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
GDP	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Inflation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
TLG	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Q4. All respondents

What option, if any, do you think explains what it means when the inflation rate is 15%?

- Interest rates have risen by 15%
- The economy has grown by 15%
- The government budget has grown by 15%
- Wages have risen by 15%
- Trade has risen by 15%
- Prices have risen by 15%
- None of the above
- Don't know



Shown to respondents depending on whether they answered Q4 correctly ("prices have risen by 1.5%") or incorrectly (all other answer options).

No, the correct answer is 'Prices have risen by 15%'. Inflation shows how much prices have changed over time. So, an annual inflation rate of 1.5% means that average prices have increased by 1.5% during the last year.



Yes, correct! Inflation shows how much prices have changed over time. So, an annual inflation rate of 15% means that average prices have increased by 15% during the last year.

Q5. Third of respondents in each treatment (no source, UK Government, ONS). Random allocation.

The current annual UK inflation rate is 1.5%. How accurately, if at all, do you think this reflects how prices have changed during the year?

- Very accurate
- Fairly accurate
- Not very accurate
- Not at all accurate
- Don't know

According to a statement by the UK Government, the current annual UK inflation rate is 1.5%. How accurately, if at all, do you think this reflects how prices have changed during the last year?

- Very accurate
- Fairly accurate
- Not very accurate
- Not at all accurate
- Don't know



According to figures from the Office of National Statistics (ONS), the current annual UK inflation rate is 1.5%. How accurately, if at all, do you think this reflects how prices have changed during the year?

- Very accurate
- Fairly accurate
- Not very accurate
- Not at all accurate
- Don't know

Q6. All respondents.

Having read this information, which of the following comes closest to your view about price changes (inflation) during the last year?

- Inflation seems much higher than 1.5%
- Inflation seems slightly higher than 1.5%
- That sounds about right
- Inflation seems slightly lower than 1.5%
- Inflation seems much lower than 1.5%
- Don't know



Q7. All respondents.

The current annual inflation rate in the UK is 1.5%. Do you think this is generally considered to be low, high, or normal for the UK?

- 1.5% is a very high inflation rate
- 1.5% is a fairly high inflation rate
- 1.5% is a normal inflation rate
- 1.5% is a fairly low inflation rate
- 1.5% is a very low inflation rate
- Don't know



Q8. All respondents.

Which inflation rate do you think will be best for...

	Prices rise by 5%	Prices rise by 2%	Prices stay the same	Prices fall by 2%	Prices fall by 5%	Don't know
...you and your family	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...the UK economy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...employers/businesses in the UK	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Q9. Third of respondents in each treatment (no source, UK Government, ONS). Respondents sampled into same treatment as Q5.

The current UK unemployment rate is 3.8%. How accurately, if at all, do you think this reflects the UK unemployment level today?

- Very accurate
- Fairly accurate
- Not very accurate
- Not at all accurate
- Don't know

According to a statement by the UK Government, the current UK unemployment rate is 3.8%. How accurately do you think this reflects the UK unemployment level today?

- Very accurate
- Fairly accurate
- Not very accurate
- Not at all accurate
- Don't know



According to the figures from the Office for National Statistics (ONS), the current UK unemployment rate is 3.8%. How accurately, if at all, do you think this reflects the UK unemployment level today?

- Very accurate
- Fairly accurate
- Not very accurate
- Not at all accurate
- Don't know

Q10. All respondents.

Having read this information, which of the following comes closest to your view about current UK unemployment?

- Unemployment seems much higher than 3.8%
- Unemployment seems slightly higher than 3.8%
- 3.8% sounds about right
- Unemployment seems slightly lower than 3.8%
- Unemployment seems much lower than 3.8%
- Don't know








Q11. All respondents.

Who of the following people, if any at all, would you classify as unemployed? (Please select all that apply)

- 52-years-old: Full-time worker
- 89-years-old: Pensioner
- 33-years-old: No job, but applying for work
- 45-years-old: Full-time worker
- 13-years-old: Pupil
- Don't know



Q12. All respondents.

				
13-year-old pupil	33-year-old No job, but applying for work	45-year-old full-time worker	52-year-old full-time worker	89-year-old pensioner

Imagine this population of 5 people. According to the official definition by the Office for National Statistics (ONS), what do you think the unemployment rate would be?

- The unemployment rate is 20%
- The unemployment rate is 25%
- The unemployment rate is 33%
- The unemployment rate is 40%
- The unemployment rate is 50%
- The unemployment rate is 60%
- Don't know



Q13. All respondents.

For each of these individuals, please tick whether you think they are recorded as 'employed', 'unemployed', or 'neither employed nor unemployed', in the official statistics.

	Employed	Unemployed	Neither employed nor unemployed	Don't know
69-years-old who is retired, and not working anymore	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Stay at home parent, with no job and not looking for work	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
19-years-old in full-time education, with no job and not looking for work	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Person working 2 hours per week, looking for more work	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Person on a zero-hours contract, working on average 5 hours per week	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Disabled person, assessed as not fit to work and not looking for work	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Q14. All respondents.

The current UK unemployment rate is 3.8%. Do you think this is generally considered to be low, high or normal for the UK?

- 3.8% is a very high unemployment rate
- 3.8% is a fairly high unemployment rate
- 3.8% is a normal unemployment rate
- 3.8% is a fairly low unemployment rate
- 3.8% is a very low unemployment rate
- Don't know



Q15. All respondents.

Which of the following statements, if any, do you think best explains what it means when GDP has increased by 1.0%?

- The economy has grown by 1.0%
- Exports have risen by 1.0%
- The government budget has grown by 1.0%
- Taxes have risen by 1.0%
- The value of the pound has grown by 1.0%
- Wages have risen by 1.0%
- None of the above
- Don't know



Q16. All respondents.

Do you think current interest rates in the UK are generally considered to be high, low or normal?

- Very high
- Fairly high
- Normal
- Fairly low
- Very low
- Don't know

Q17. All respondents.

Which interest rate do you think would be best for a couple who:

	Interest rate is 10%	Interest rate is 3.0%	Don't know
takes out a loan to buy a house?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
transfers money into their savings account each month?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q18. Half of respondents in each treatment (deficit language, more everyday language). Random allocation.

Which of the following statements about UK exports and imports do you think is true?

- The UK has a trade deficit
- The UK has a trade balance
- The UK has a trade surplus
- Don't know

Which of the following statements about UK exports and imports do you think is true?

- The UK buys more from other countries than it sells to other countries
- The UK buys and sells about the same amount to other countries
- The UK buys less from other countries than it sells other countries
- Don't know

Q19. Half of respondents in each treatment (deficit language, more everyday language). Random allocation.

Which of the following statements about the government budget do you think is true?

- The UK has a budget deficit
- The UK has a balanced budget
- The UK has a budget surplus
- Don't know

Which of the following statements about the government budget do you think is true?

- UK government spending (on public services, welfare, pensions etc.) is higher than its income through taxes
- UK government spending (on public services, welfare, pensions etc.) is about the same as its income through taxes
- UK government spending (on public services, welfare, pensions etc.) is lower than its income through taxes
- Don't know

Q20. All respondents.

The current TLG rate in the UK is 3.5%. Do you think this is generally considered to be low, high or normal for the UK?

- 3.5% is a very high TLG rate
- 3.5% is a fairly high TLG rate
- 3.5% is a normal TLG rate
- 3.5% is a fairly low TLG rate
- 3.5% is a very low TLG rate
- Don't know

Appendix 6: Focus Group Design: Discussion Guide

Normal version: economic concepts

Welcome

- Participants sign consent form and complete very short survey on their understanding of economic concepts and measurement.

Introduction to the focus group (5 mins)

- Welcome to the focus group. My name is [X] and this is my colleague [X] who will be running the group with me. We're researchers from an independent research institute called the National Institute of Economic and Social Research (NIESR).
- The focus group today is about the economy and how we all think about and understand economic performance and different economic concepts. What we're really interested in getting out of this focus group is learning about your views and your understanding of the economy and economic concepts.
- We think it's really important to stress that there are no right or wrong answers in this room. The economy means different things to different people, and people understand economic terms differently from each other, and differently from economists and experts, and that's what we're trying to better understand.
- [X] and I are not economists ourselves, we are Social Researchers. So, we are not here today to explain to you how the economy works from an economists' perspective or anything like that – we are here to listen to your perspectives.
- The project is funded by the Economic Statistics Centre for Excellence, which receives funding from the Office for National Statistics. The Office for National Statistics is the UK's largest independent producer of official statistics and is the recognised national statistical institute of the UK. On the back of these focus groups (we are doing 12 focus groups in total around the country) we're going to produce a report for the ONS, which will hopefully help them and other experts such as economists and journalists talk about the economy and economics in ways which are hopefully more meaningful to the public.
- As some of you may have noticed, we are doing both male-only, female-only and also some mixed focus groups, so that's the reason why it's not a very diverse group today.
- Everything you say in the focus group will be treated as confidential. In our report no-one will be identified and we will store your personal details securely and they won't be used for any other purpose than this project. As I'm sure you are all very much aware, we will be handing out some cash at the end of the group.
- Is everyone happy with that and OK for us to record the session? Any questions before we start?
- Fire alarm instructions.

Participants introduce themselves

- Please could we start by going around the table with each of you giving your name, and then briefly describe how you would describe what the economy is.

Topic 1: What is the economy? (10 mins)

- Is the economy something you think about much?
- How do we know if the economy is doing well or badly? [probe: what kinds of measures might be used]
- Who are the main players in the economy?

Topic 2: Inflation (20 mins)

- What is inflation? What do you understand by inflation?

Definition = A rise in prices

- Is inflation something you think about much? [probe: do you pay attention to current inflation figures?]
- Do you know what causes prices to change? Why do you think prices rise or fall?
- What might be a good level of inflation? Do you think it is best that prices fall, rise, or stay the same?
- Are there any benefits or disadvantages from rising prices? [probe: for the economy, the Government, employers, the public, you and your families]
- What happens if there is really high inflation, e.g. prices rise a lot? Is this a good or bad thing? Why? [probe: for the economy, the Government, employers, the public, you and your families]
- What happens if there is deflation, e.g. prices fall? Is this a good or bad thing? Why? [probe: for the economy, the Government, employers, the public, you and your families]
- According to official data from the Office for National Statistics, average prices increased by 1.7% during the last year. How much do you trust this figure? Do you think it is accurate? [probe for why/why not; do you think this is considered to be low, high or normal for the UK?]
- Do you think the Government or any other organisations can do anything to affect inflation, for instance make inflation higher or lower? [prompt: what can they do?]

Participants given Full Fact explainer (1min45sec). Full Fact are an independent fact checking organisation who check the accuracy of statements made by politicians and others in the media.

- What do you think about the explainer?
- What are the main messages?
- Did it tell you anything you didn't know? [probe for what?]
- Was it helpful to get this information? Would it have helped your discussions before? [probe for how you understand inflation, desired levels of inflation, trust in inflation statistics]

Topic 3: Unemployment (20 mins)

- According to official data from the Office for National Statistics, the unemployment rate is currently 3.8%. How much do you trust this figure? Do you think it is accurate? [probe for why; do you think this is considered to be low, high, normal for the UK?]
- Is the unemployment rate something you think about much? [probe: do you pay attention to current unemployment figures?]

- How do you think unemployment is defined? What type of people do you think are classified as unemployed according to the official figures?
- [short questionnaire, selecting different people into employed, unemployed, other. Group discussion afterwards, where interviewer asks about reasons].

Participants are given Full Fact explainer about unemployment (1min 45 sec)

- What do you think about the explainer?
- What are the main messages?
- Did it tell you anything you didn't know? [probe for what?]
- Was it helpful to get this information? Would it have helped your discussions before? [probe for how you understand unemployment statistics and classifications, trust in unemployment statistics]

Topic 4: GDP (20 mins)

(only in some focus groups)

- What is GDP? What does it measure? [What is GDP growth?]

Definition: GDP=the total value of goods and services produced (the size of the economy).

GDP growth=economic growth, growth rate of the economy

- Is the GDP growth rate / economic growth rate something you think about much?

[probe: do you pay attention to current GDP figures?]

- What happens when there is high GDP growth, e.g. the economy grows? What is the impact of this? [probe: the economy, the Government, employers, the public, you and your families]

- What happens if there is there is negative GDP growth, e.g. the economy gets smaller? [probe: the economy, the Government, employers, the public, you and your families]

- GDP growth is often used as a measure of how well the economy is doing. According to official data from the Office for National Statistics, GDP grew by 1.3% during the last year. How much do you trust this figure? Do you think it accurately reflects the UK's economic performance during the last year? [probe for why; do you think it is considered to be low, high or normal for the UK?]

- Can the Government or any other organisations do anything to affect GDP growth?

Participants are given Full Fact explainer about GDP (1 min, 15 sec)

- What do you think about the explainer?
- What are the main messages?
- Did it tell you anything you didn't know? [probe for what?]
- Was it helpful to get this information? Would it have helped your discussions before? [probe for how you understand GDP growth, what it measures and what it doesn't measure]

Topic 5: Interest rates (20 mins)

(only in some focus groups)

- What are interest rates? How would you explain what it is?

Definition: An interest rate is a percentage charged on the total amount you borrow or save. So, if you borrow £1,000, you will pay that percentage every year, for example.

- Are interest rates something you think about much? [probe: do you pay attention to current interest rates?]
- What impact does it have if there is a rise in interest rates, e.g. interest rates are higher? [probe: for personal borrowing, personal savings, UK economy, prices, Government, employers]
- What impact does it have if there is a reduction in interest rates, e.g. interest rates are lower? [probe: for personal borrowing, personal savings, UK economy, prices, Government, employers]
- To what extent are interest rates something that can be controlled or is it unpredictable? [probe: who can control it and how can it be controlled? / who sets the interest rates?]
- In fact, the Bank of England sets the most important interest rate in the UK, which influences all other interest rates in the economy such as those charged by your high street bank. Currently, it is 0.75%. Do you think this rate is considered to be low, high or normal for the UK in a historical perspective?
- Actually, this is considered quite low by economists and policymakers. Why do you think the Bank of England have set it low?

Participants are given Full Fact explainer about interest rates (3 mins)

- What do you think about the explainer?
- What are the main messages?
- Did it tell you anything you didn't know? [probe for what?]
- Was it helpful to get this information? Would it have helped your discussions before? [probe for how you understand interest rates, how interest rates are set, impact of reduction/rise in interest rates]

Topic 6: Trade

(only in some focus groups)

- What are exports and imports? Can you explain what it is?
- Why do countries trade with each other? What are the benefits and disadvantages for each country? [probe: prices, economic growth, jobs, innovation, sovereignty]
- How does trade impact different people and institutions? [probe for the Government, employers, you and your families]
- Do you think it is normal for the UK to be in a trade surplus or deficit? E.g. do we usually sell more to other countries than we buy from them, or vice versa? [probe whether this is a good or bad thing, or not necessarily important?]
- Do you know what a trade deal is? Can you explain what it practically means if a country has a trade deal with another country?

Participants are given Full Fact explainer about trade (2 min, 20 sec)

- What do you think about the explainer?
- What are the main messages?

- Did it tell you anything you didn't know? [probe for what?]
- Was it helpful to get this information? Would it have helped your discussions before? [probe for how you understand trade and trade balance, trade deals, tariffs]

Topic 7: Deficit and debt

(only in some focus groups)

- What does it mean if a country is running a budget surplus or budget deficit?
Definition: Budget balance = difference between government revenues (e.g. taxes) and spending (e.g. public services and benefits). Budget deficit = spending is higher than revenues. Budget surplus is when revenues are higher than spending.
- Do you think the UK currently has a budget surplus or deficit? Is the UK currently spending more on public services and benefits than we collect in revenues through taxes, or vice versa?
- Do you think it is normal for the UK to be in a budget surplus or deficit? E.g. do we usually spend more on public services and benefits than we collect in revenue through taxes, or vice versa? [probe: is a deficit or surplus a good thing, bad thing, or not necessarily important? And why?]
- In fact, in the 73 years since the Second World War, there have been 60 years of budget deficits (spending higher than income) and only 13 years of budget surpluses (income higher than spending). So, the norm is that the UK spends more money than it gets in. Are you surprised about this?
- How is this possible to do year after year? How does the state finance this?
- What are the impacts when the UK Government runs a budget deficit? What do you think are potential benefits and disadvantages? [probe for economy, you and your family, employers, Government, ...]
- What are the impacts when the UK Government runs a budget surplus? What do you think are potential benefits and disadvantages? [probe for economy, you and your family, employers, Government, ...]
- To what extent is the budget something that can be controlled or is it unpredictable? [probe: who can control it and how can it be controlled?]
- Is the government budget something you think about much? [probe: do you pay attention to current spending and taxes?]

Participants are given Full Fact explainer about deficit and debt (2 mins, 10 sec)

- What do you think about the explainer?
- What are the main messages?
- Did it tell you anything you didn't know? [probe for what?]
- Was it helpful to get this information? Would it have helped your discussions before? [probe for how you understand deficit, debt]

End focus group (2 mins)

Alternative version: economic performance exercises and stories and factchecks

Same welcome, interviewer introductions, and participant introductions.

Topic 1: Evaluating the country's economic performance (20 mins)

- Is the economy something you think about much?
- Who are the main players in the economy?
- How would you describe the current performance of the UK economy?
- Is the country's economic performance something you pay attention to? [probe for examples for what they use it for]
- How important is the state of the UK economy in terms of your own decision-making? [probe for examples]
- More generally, how should a country's economic performance be judged? How do we know if the economy is doing well or badly? [probe: what kinds of measures might be used]

Introduce information/statistics on economic performance for 'secret' year (2004), e.g. levels of unemployment, inflation, GDP, interest rates, deficit and debt, trade.

- Here are some of the indicators that economists use to measure economic performance. These are figures for the UK at a random time in the past. Based on these figures, would you say that the UK economy at the time was doing well or bad? Why?

Topic 2: Inflation (10 mins)

Participants see two statements by Conservative Party and Labour Party about public pay rises.

- What did you think about these two statements?
- What are the main messages of each statement? What is the disagreement?
- Which statement do you think is right? Have public sector workers received a pay rise or pay cut? [prompt on why]
- If you saw this disagreement in the news or in a debate, how would you generally decide who is right? [prompt: any sources of information; messenger?]

Participants are given a Full Fact factcheck on the story/exchange. Full Fact are an independent fact checking organisation who check the accuracy of statements made by politicians and others in the media. (2 min, 15 sec)

- What do you think about the factcheck?
- What does this factcheck say about the disagreement? What statement was correct?
- What is Labour's point about inflation? [prompt: what is inflation; can you explain what they mean; do you think this is correct; why/why not]
- Was this factcheck helpful? [prompt: did it make it easier to understand the two statements; did it tell you anything you hadn't considered; did you change your mind]
- If you came across this factcheck online, would you read it/find it helpful? [prompt: would you trust it? Why/why not?]

Topic 3: Unemployment (10 mins)

Participants see tweet by Matt Thomas about part-time workers who can't find full-time work.

- What did you think about this tweet?
- What is the main message?
- Do you think the statement is correct? [why/why not?]
- If you saw this statement on Twitter or Facebook or somewhere else, how would you generally decide whether it is correct? [prompt: any sources of information, messenger]

Participants are given a Full Fact factcheck (2 min, 15 sec)

- What do you think about the factcheck?
- What does this factcheck say about the statement? Is the statement correct?
- Was this factcheck helpful? [prompt: did it make it easier to understand the statement; did it tell you anything you hadn't considered; did you change your mind]
- If you came across this factcheck online, would you read it/find it helpful? [prompt: would you trust it? Why/why not?]

Topic 4: GDP (10 mins)

Participants read a statement about Northern Ireland's GDP growth rate compared to the UK.

- What did you think about this statement?
- What is the main message?
- Do you think the statement is correct? [why/why not?]
- If you saw this statement on the news or somewhere else, how would you generally decide whether it is correct? [prompt: any sources of information, messenger]

Participants are given a Full Fact factcheck on the story/exchange. (1 min, 30 sec)

- What do you think about the factcheck?
- What does this factcheck say about the statement? Is the statement correct?
- What does it mean that year-on-year growth was 0.7% in Northern Ireland? And the average UK growth rate was 1.5%? [prompt: what is GDP?]
- Was this factcheck helpful? [prompt: did it make it easier to understand the statement; did it tell you anything you hadn't considered; did you change your mind]
- If you came across this factcheck online, would you read it/find it helpful? [prompt: would you trust it? Why/why not?]

Topic 6: Trade (10 mins)

Participants see statement by Philip Davies MP about trade deficit with EU.

- What did you think about this statement?
- Do you think the statement is correct? [why/why not?]
- If you saw this statement on the news or somewhere else, how would you generally decide whether it is correct? [prompt: any sources of information, messenger]

Participants are given a Full Fact factcheck. (1 min, 30 sec)

- What do you think about the factcheck?
- What does this factcheck say about the statement? Is the statement correct?
- What does it mean that we have a trade deficit with the EU? [prompt: what is a trade deficit?]. In what ways do they need us more than we need them? And in what ways do we need them more than we need them?
- Was this factcheck helpful? [prompt: did it make it easier to understand the statement; did it tell you anything you hadn't considered; did you change your mind]
- If you came across this factcheck online, would you read it/find it helpful? [prompt: would you trust it? Why/why not?]

Topic 7: Debt and deficit (10 mins)

Participants read two statements by Theresa May and Jeremy Corbyn.

- What did you think about these two statements?
- What are the main messages of each statement? What is the disagreement?
- Which statement do you think is right? [prompt on why]
- If you saw this statement on the news or somewhere else, how would you generally decide whether it is correct? [prompt: any sources of information, messenger]

Participants are given a Full Fact factcheck on the story/exchange (1 min, 30 sec)

- What do you think about the factcheck?
- What does this factcheck say about the statement? Is the statement correct?
- What exactly does it mean that the deficit goes down?
- Was this factcheck helpful? [prompt: did it make it easier to understand the statement; did it tell you anything you hadn't considered; did you change your mind]
- If you came across this factcheck online, would you read it/find it helpful? [prompt: would you trust it? Why/why not?]

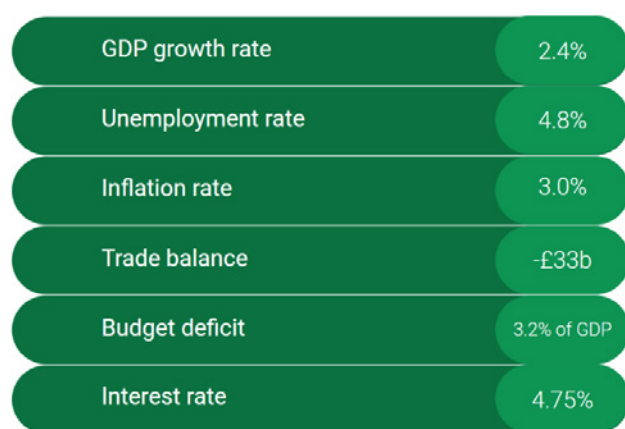
End focus group (2 mins)

Appendix 7: Focus group materials

This appendix includes the following focus group materials:

- 7.1: Economic performance exercise
- 7.2: Unemployment exercise
- 7.3: Survey of focus group participants
- 7.4: Stories

7.1: Economic performance exercise



7.2: Unemployment exercise

Would you characterise the following people as unemployed, employed or 'other' (not fitting into either category)?

	Unemployed	Employed	Other
Person working 2 hours per week, looking for more work	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Stay at home parent, with no job and not looking for work	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Person on a zero-hour contract working on average 5 hours per week	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Person paid £8.21 per hour (National Minimum Wage), working 10 hours per week	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
33-year-old with no job, but applying for work	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Person receiving working tax credits, working 10 hours per week	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
69-year-old who is retired and not working anymore	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19-year-old in full-time education, with no job and not looking for work	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Full-time carer, not looking for work	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Disabled person, assessed as not fit to work and not looking for work	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

7.3: Survey of focus group participants

Full Name

What is your age?

- Below 18
- 18-24
- 25-34
- 35-44
- 45-54
- 55-64
- 65 and above

What is your highest educational qualification?

- PhD or equivalent doctoral level qualification
- Masters or equivalent higher degree level qualification (MA, MSc, PGCE etc.)
- Bachelors or equivalent degree level qualification (BA, BSc etc.)
- Post-secondary below-degree level qualification
- A Level / NVQ Level 3
- GCSE / O Level / NVQ Level 1 / NVQ Level 2
- CSE
- Any other qualification
- None of the above

What's your current employment status?

- Employed full-time
- Employed part-time
- Unemployed and currently looking for work
- Unemployed and not currently looking for work
- Student
- Retired
- Self-employed
- Unable to work

What's your job title?

Which industry do you work in?

What did you vote in the 2016 EU referendum?

- Leave
- Remain
- Didn't Vote

What did you vote in the 2017 General Election?

- Conservatives
- Labour
- UKIP
- Liberal Democrats
- Green Party
- I didn't vote
- Other

On a scale of 0-10, where 0 means not interested at all and 10 means extremely interested, what is your level of interest in economic issues?

Not interested at all						Extremely interested				
0	1	2	3	4	5	6	7	8	9	10

How frequently, if at all, do you read, watch or listen to news stories related to economics or the economy? (e.g. newspapers, TV, radio, podcasts, online, social media etc.)

- Never
- Rarely
- Monthly
- Weekly
- Almost every day
- Every day
- Not sure

How easy or difficult do you find it to understand discussions about economics and the economy in newspapers, TV, radio and online?

- Very easy to understand
- Fairly easy to understand
- Neither easy, nor difficult to understand
- Fairly difficult to understand
- Very difficult to understand
- I don't read, watch or listen to discussions about economics in the media

How would you describe your understanding of the following economic terms?

	Very weak	Weak	Fair	Good	Very good	Don't know
Inflation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Unemployment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
GDP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interest rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

7.4 Stories

Story deficit

"I will be taking out to the country in this campaign a proud record of a Conservative government: ... an economy with the deficit nearly two thirds down."

Theresa May, 19 April 2017

"In 2010 they promised to eradicate the deficit by 2015. In 2015 they promised to eradicate the deficit by 2020."

Jeremy Corbyn, 19 April 2017

Story unemployment

 **Red Labour**
27 June at 20:02

Good point!



Matt Thomas
@Trickyjobs

UK Average number of Part Time Workers Who Can Not Find Full Time Work:

1997 to 2010: 682,122
2010 to 2018: 1,258,568
(Source: ONS)

The reason unemployment is relatively low is because there are more people doing part-time/seasonal/zero-hours work.

2:56 pm · 27 Jun 18

Story GDP

"Northern Ireland's economy was the slowest growing of any UK region in the first quarter of 2019, an initial estimate has suggested.

Figures from the Economic Statistics Centre of Excellence (ESCoE) put year-on-year growth at 0.7%. That compares with an average UK growth rate of 1.5%."

BBC News, 24 July 2018

Story inflation

Conservative government: Around one million public sector workers are set to benefit from the biggest pay rise in almost 10 years.

Labour party: Don't be fooled by the Tories' "pay rise" for public sector workers. Because of inflation it actually amounts to a pay cut.

Story trade deficit

“Because we have a trade deficit with the EU, they need us much more than we need them.”

Philip Davies MP

Appendix 8: Additional survey analysis

This appendix includes the survey regression table exploring demographic variations.

Table 4: How understanding of economic concepts is affected by demographic characteristics
(N=1,665)

	Inflation definition: correct answer	Unemployment considered low: correct answer	GDP definition: correct answer	Borrowings: interest rates implications: correct answer	Savings: interest rates implications: correct answer	Trade deficit: correct answer ¹	Budget deficit: correct answer ¹
<i>Variables:</i>	<i>ME at mean</i>	<i>ME at mean</i>	<i>ME at mean</i>	<i>ME at mean</i>	<i>ME at mean</i>	<i>ME at mean</i>	<i>ME at mean</i>
age	0.004***	0.005***	0.007***	0.004***	0.004***	0.003***	0.003***
male	0.184***	0.125***	0.277***	0.060**	0.054**	0.134***	0.055**
ABC1	0.082***	0.116***	0.155***	0.079***	0.088***	0.094***	0.043
medium education	0.087**	0.106***	0.116***	0.117***	0.138***	0.033	0.038
high education	0.193***	0.193***	0.314***	0.256***	0.239***	0.090**	0.076**

Notes: Estimates from probit regression model. Probit models =1 for the correct answer (i.e. correct definition of inflation and GDP; correct answer that current unemployment rate is considered 'low' or 'very low'; correct answer of implications on borrowings and savings of higher interest rates; and correct answer that the UK is currently running a budget deficit and trade deficit, respectively). The values show the marginal effects (ME) while every covariate is fixed at the mean. For example, the coefficients reported for male are the marginal effects of being a man compared to a woman, at the average age (48.65) and the rest of covariates treated at their means. Stars indicate statistical significance at the 1%, 5% and 10% level: *p<0.1; **p<0.05; ***p<0.01. ¹The sample sizes for trade deficit question (N=839) and budget deficit question (N=827) are smaller due to splitting of sample.

Appendix 9: Explainers and fact checks

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Full Fact

[Home](#) / [Economy](#) / [Employment and unemployment](#)

Employment and unemployment

In the UK, statistics on employment are calculated for people aged over 16 and everyone falls into one of three buckets:

- **Employed** – A person is counted as employed if they are doing any paid work. This includes people who work full-time, part-time, self-employed people and people on irregular contracts (e.g. zero-hours contracts or seasonal workers).
- **Unemployed** – A person counts as unemployed if they're not in work but are looking for work, and are available to start working in the next two weeks.
 - Both employed and unemployed people are called “**economically active**” and together make up what’s called the “**labour force**”.
- **Economically inactive** – A person counts as economically inactive if they're not employed or unemployed. You might be economically inactive for a number of reasons such as being retired, a student, too ill to work or simply that you don't want to work.

To look at how the number of people in work or out of work is changing, you can just look at the total figures. But more commonly, these numbers are expressed as a percentage, also called a rate.

The **employment rate** is the percentage of people aged 16-64 who are employed as a percentage of everyone aged 16-64 (regardless of whether they are employed, unemployed or economically inactive).

It tells you what proportion of working-age people are working.

The **unemployment rate** is the percentage of the labour force who are unemployed.

	16-64 year olds	65+ year olds
Employed	31.4 million 	1.3 million
Unemployed	1.3 million 	18,000
Economically inactive	8.6 million 	10.6 million

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Full Fact and international partners win Google AI Impact Challenge



Measures of the economy—GDP and GVA

GDP (or Gross Domestic Product) is the total value of everything that is produced within an economy - the goods and services made and the money earned.

It's the main way economists measure how well the economy is doing.

Usually GDP is used to measure national economies, while Gross Value Added (GVA) is used to measure regional economies. The two measures are essentially the same thing.

GDP and GVA are often used to measure the overall health of the economy, but there are some aspects of the economy that they don't necessarily measure. For example:

- They don't capture some aspects of people's [wellbeing](#) or everyone's [experience](#) of the economic situation.
- They don't reflect the environmental impacts of economic growth, such as [pollution](#).
- They exclude [unpaidwork](#), such as housework and childcare.
- They may not be accurately capturing improvements in digital [technology](#), or the value of digital services provided for [free](#).

Growth

GDP is usually expected to go up over time. When economists talk about economic growth, this is usually what they mean—the increase in GDP.

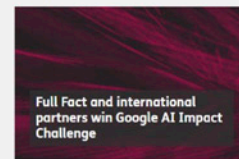
When comparing GDP growth over long periods of time, it's important to look at GDP per person.

For example, a country may have seen GDP go up over the past decade, but if this was outstripped by its population growth, then the GDP per person would have fallen.

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What is inflation?

Inflation

Inflation is **the change in how much things cost over time**. In general, the price of things tends to go up—for example, a [pint of milk](#) cost 13p in 1978, but costs 44p today.

This means that when you look at how much the government is spending, or how much people are paid, you need to take inflation into account—because what really matters is how much you can buy with a given amount of money.

There are a few [different ways of calculating inflation](#). For example, one method involves measuring what households are spending by tracking how the prices of a “basket” of typical goods and services changes over time.

The [main](#) inflation rate in the UK was 1.9% in May 2019, meaning that prices (on average) have gone up by that amount in a year. For example, a basket of typical goods may have cost £100 in May 2018. But by May 2019 those same goods may have cost £101.90—a 1.9% increase.

Deflation

Sometimes **prices fall instead of rising**—this is known as deflation.

If the rate of inflation falls from 2% to 1%, that isn't deflation, because prices are still going up—just more slowly. It's only deflation if the inflation rate falls below zero.

Real terms

If an amount of money is described in “real terms”, that means it **takes inflation into account**.

So if inflation is 2%, but your pay goes up by 3%, that's called a “real terms” pay rise. But if your pay only goes up by 1% while inflation is 2%, that's a real terms pay cut, because even though the figure you're paid has risen, you're able to buy less with it than before.

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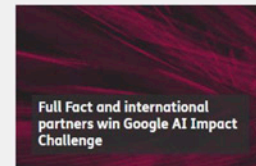


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Home / Economy / Economy introductions: interest rates

Economy introductions: interest rates

What is an interest rate?

Interest is what you pay if you borrow money from a bank, and what a bank pays you for saving money with them.

For example, if you save money with a bank with a 1% interest rate, the bank will pay you, every year, 1% of what you have saved.

On the other hand, if a bank lends you money at a 5% interest rate, you have to pay them 5% of the value of that loan per year until the loan is paid off.

But how are these numbers decided?

Well, of course banks themselves will set rates based on what they think will make people bank with them and what is profitable.

But their rates are largely determined by what the Bank of England sets its interest rate at.

What is the Bank of England?

Rather than explain what the Bank of England is, it's perhaps easier to explain what it tries to do.

The [Bank of England](#) tries to keep the country's economy, banking sector and currency stable and healthy. One of the ways it does this is by trying to keep inflation at a steady level.

Inflation is **the change in how much things cost over time**. In general, the price of things tends to go up—for example, a [pint of milk](#) cost 13p in 1978, but costs 44p today.

Generally speaking, [very high and very low inflation are not good](#). So the Bank of England tries to keep inflation at 2%. It does this by changing its base interest rate.

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What effects do interest rates have on the economy?

If the interest rate goes up, this means that it becomes better value to save money (you'll get more interest), while it increases the cost of loans (for example, the rates on variable rate mortgages go up). This means people keep more of their savings in the bank and people with loans have less money to spend.

So spending in shops falls, and this reduced demand for stuff in the shops means that sellers are more cautious about increasing prices, and may even cut prices to increase their sales. And so ultimately the prices of goods and services increase more slowly (which means inflation falls).

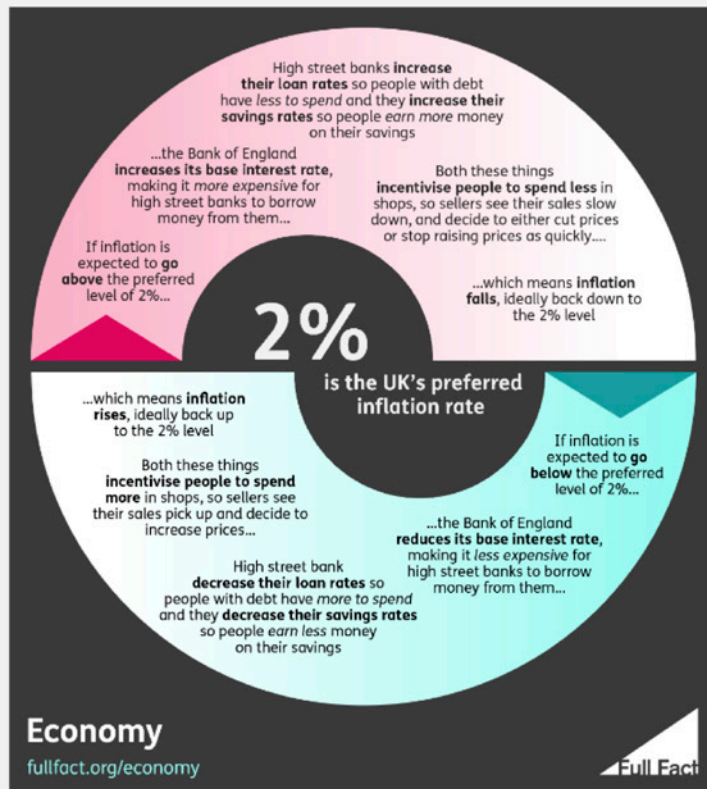
So, to make sure inflation is at the right level (currently judged to be 2%) the Bank of England can change its central rate, and the knock on effects, in theory, move inflation in the right direction.

What effects do interest rates have on the economy?

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So spending in shops falls, and this reduced demand for stuff in the shops means that sellers are more cautious about increasing prices, and may even cut prices to increase their sales. And so ultimately the prices of goods and services increase more slowly (which means inflation falls).

So, to make sure inflation is at the right level (currently judged to be 2%) the Bank of England can change its central rate, and the knock on effects, in theory, move inflation in the right direction.



3 of 3



Home / Economy / Economy introductions: trade

Economy introductions: trade

Imports and Exports

An **import** is a good or service bought from one country for use in another country. For example, businesses in the UK imported [£5 billion](#) worth of motor vehicles in May 2019 from other countries.

An **export** is the opposite of an import — what is sold from businesses in one country to buyers in other countries. For example the UK exported [£3 billion](#) worth of motor vehicles in May 2019 to other countries.

The difference between all of a country's exports and imports is called the **balance of trade**. Countries that sell more than they buy have a **trade surplus**. Countries that buy more than they sell have what's called a **trade deficit**.

In 2018 the UK imported more than we exported and our trade deficit was £31 billion.

As a percentage of the whole economy (GDP) this was about 1.5%.

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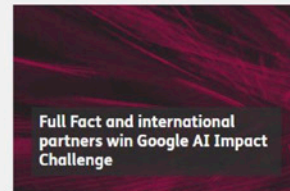


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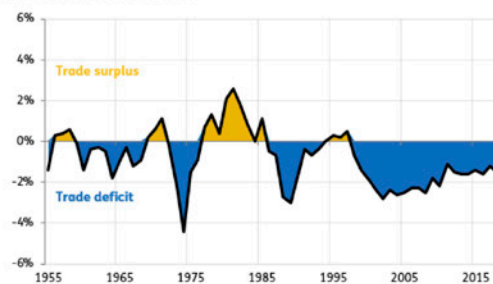
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The trade deficit

Balance of trade in goods and services between the UK and other countries as percentage of GDP



Source: Office for National Statistics, Balance of Payments: Trade in goods and services balance as % of GDP (D28L)

Tariffs

When businesses import or export goods and services from other countries they have to follow rules which are usually set out in various trade agreements between countries.

Often, part of these rules will be **tariffs**. Tariffs are essentially [taxes on imports](#).

For example, if you import cars from a country the UK don't have a trade agreement with, you'll have to pay on average about 10% of the value of the imported cars to HMRC.

Whether tariffs are a good or bad thing is open to debate.

Higher tariffs on imports means that things cost more in the shops.

But by raising the price of foreign imports, tariffs help protect domestic producers.

For example, imagine the situation for a dairy farmer. If they want to buy farm vehicles from abroad they'll have to pay more than if there wasn't a tariff.

But tariffs on imported agricultural goods raise the price of imported milk and cheese. Meaning our UK dairy farmer doesn't get undercut by cheap foreign imports when they sell their products to UK consumers.

So tariffs both increase the costs for a dairy farmer and increase how competitive their produce is.

Trade deal

Typically countries have to set the same tariffs on imports from all foreign countries. The exception is when there is a trade deal between countries. For example the UK is in the EU. That means there are no tariffs on trade between EU countries.

The EU also has trade deals with various other countries (e.g. Japan and Canada). This means, for example, tariffs on importing certain goods from Japan to the EU are reduced or removed compared to if we traded with Japan with no trade deal in place.



[Home](#) / [Economy](#) / Economy introductions: the government deficit

Economy introductions: the government deficit

The government spends money on all sorts of things. The [three biggest](#) areas of spending are social protection (things like pensions and welfare payments), health and education.

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The main way government raises money to pay for that spending is through taxes. The [three biggest](#) tax sources are income tax, national insurance contributions and VAT.

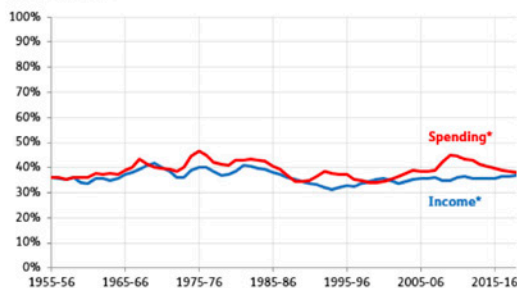
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The deficit is **how much more the government spends in a year than it takes in** through taxes and other income. It's usually talked about as a percentage of the whole economy (GDP).



The deficit

Government spending and income as a percentage of the overall economy (GDP)



* This includes government spending and income from capital projects (e.g. roads and buildings)

Source: Office for Budget Responsibility, "Public finances databank", June 2019



There are a couple of [different ways of measuring](#) the deficit (depending on whether or not you count spending and income from capital projects like roads and buildings). When you hear a politician talking about the deficit, it's important to know which kind they're talking about.

It's common for the government budget to have a deficit—in the 73 years since the Second World War, there have only been 13 years when the UK government budget *didn't* have a deficit.

The deficit usually goes up during a recession, because the government makes less from taxes, and public spending often goes up.

Borrowing

When the government spends more than it takes in, the difference is made up by borrowing.

This kind of borrowing isn't quite like when you take out a loan from a bank, for one thing, a government like the UK's can print its own money to pay the borrowing back (it's quite a bit more complicated than that, but that's the basic idea).

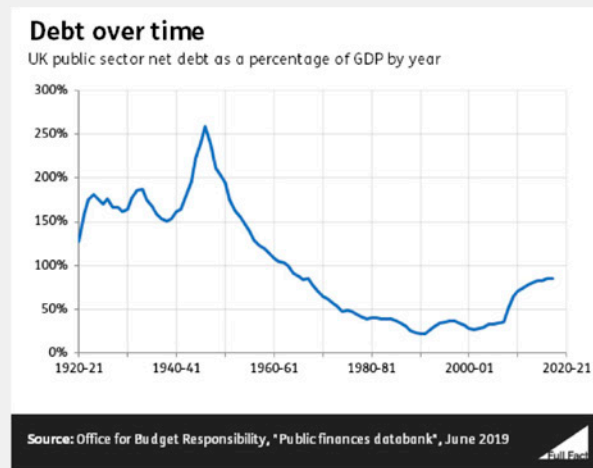
Debt

Government debt is the **total amount of money the government owes** from its borrowing over the years and interest payments on existing debt. It's not the same as the yearly deficit (the difference between government spending and income), and reducing the deficit isn't the same as reducing the national debt.

The most common way of talking about debt is looking at net debt, excluding public sector banks, as a percentage of the country's annual GDP. As of December 2018 the UK's debt is £1.8 trillion, or 83% of annual GDP.

Again, it's not necessarily a bad thing that a government has debt—[almost all countries do](#). EU data shows that in 2018 the UK's gross debt (so a slightly different measure to net debt mentioned above) was equivalent to [87% of GDP](#). That's slightly above the EU average of 80%, Germany's debt of 61% but below France's debt of 98%.

There is a debate among economists about whether there is a level of debt that is too high.





[Home](#) / [Economy](#) / Are more people unable to get full-time work?

Are more people unable to get full-time work?

In brief

Claim

The number of UK part-time workers unable to find full-time work increased from an average of 680,000 under the last Labour government to 1.3m under Conservative-led governments.

Conclusion

That's broadly correct, but the number of people overall who want more work is close to the lowest it has been in the last 25 years.

Published: 24th Sep 2019

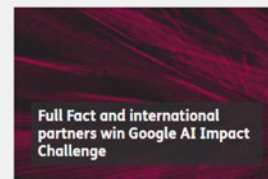


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“UK average number of part time workers who can not find full time work:

1997 to 2010: 682,122

2010 to 2018: 1,258,568 (Source: ONS)

The reason unemployment is relatively low is because there are more people doing part-time/seasonal/zero-hours work.”

Viral meme, [27 June 2018](#)

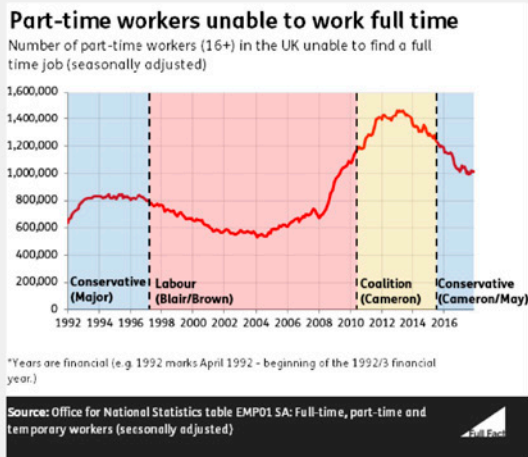
It's correct that the average number of UK part-time workers aged 16 or over unable to find full-time work doubled from under the last Labour government to under recent Conservative-led governments.

But to understand how many people want more hours you need to look beyond just part-time workers, who make up a minority of people in the labour force.

Overall the number of people who want more work but can't find it is close to the lowest it has been in the past 25 years mainly because unemployment has fallen.

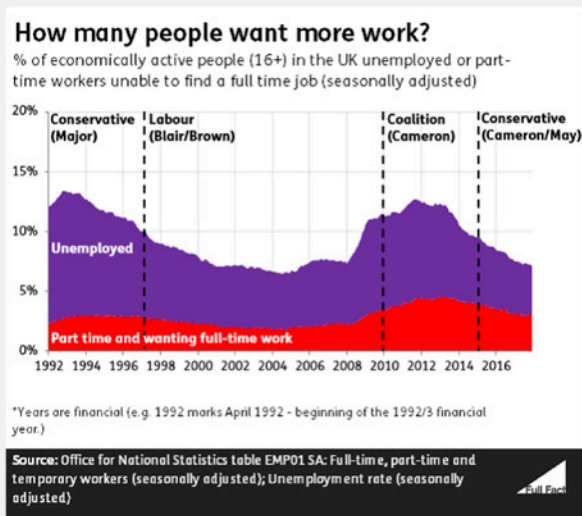
More part-time workers want more work, but fewer people are unemployed

From May 1997 to April 2010 the average number of part-time workers in the UK unable to find full-time work across the whole period was around [684,000](#), while in the time since May 2010 the average has been 1.3 million.



But focusing on the number of part-time workers who want more work doesn't really tell you how many people in total want more work. It's important to consider these people and unemployed people together.

Combining the [two figures](#) allows us to see the proportion of [economically active people](#) (unemployed plus employed people) who want more work but can't find it.



In the three months to April 2018, 7.2% of the economically active population wanted more work—the lowest rate since the three months to January 2006. The lowest rate since records began in 1992 was 6.5% in the last half of 2004.



[Home](#) / [Economy](#) / Is Northern Ireland's economy growing slower than the rest of the UK?

Is Northern Ireland's economy growing slower than the rest of the UK?

In brief

Claim

Northern Ireland's economy grew 0.7% in year to the first quarter of 2019, compared with an average UK growth rate of 1.5%.

Conclusion

Correct.

Published: 24th Sep 2019

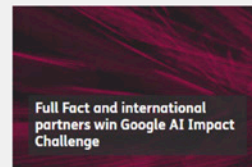


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“Northern Ireland's economy was the slowest growing of any UK region in the first quarter of 2019, an initial estimate has suggested.

Figures from the Economic Statistics Centre of Excellence (ESCoE) put year-on-year growth at 0.7%.

That compares with an average UK growth rate of 1.5%.”

BBC, [21 May 2019](#).

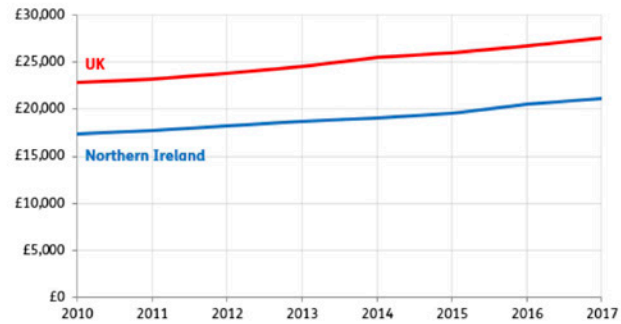
It's correct that Northern Ireland's economy grew by 0.7% from the first quarter of 2018 to the first quarter of 2019, compared to 1.5% across the UK over the same period.

The [figures](#) produced by the Economics Statistics Centre of Excellence looked at the change in the Gross Value Added (GVA) of each region in real terms compared to the GDP growth of the UK as a whole.

GVA and GDP are essentially the same concept, but GDP is used for national economies, while [GVA](#) is a measure of regional economies.

Regional economies

Nominal* GVA per person (£)



* GVA per head statistics are only available in nominal terms, not real terms

Source: Office for National Statistics; Nominal regional gross value added (balanced) per head and income components

Since 2010, the GVA [per person](#) in Northern Ireland has grown at roughly the same rate as the GVA per head across the UK, though the actual level of GVA per head in Northern Ireland is still well below that in the UK.



[Home](#) / [Economy](#) / Is the government's pay rise for public sector workers a real terms pay cut?

Is the government's pay rise for public sector workers a real terms pay cut?

In brief

Published: 24th Sep 2019

Claim

Around one million public sector workers are set to benefit from the biggest pay rise in almost 10 years.

Because of inflation, pay rises for public sector workers are actually pay cuts.

Conclusion

Technically correct, but some of these "pay rises" are pay cuts once you take rising prices into account.

This is effectively correct for some workers (in the police force and some doctors, dentists and teachers) and incorrect for others like those in the armed forces, prison officers, and other teachers, doctors and dentists.

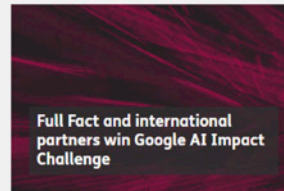


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“Around one million public sector workers are set to benefit from the biggest pay rise in almost 10 years.”

Conservative government, [24 July 2018](#).

“Don't be fooled by the Tories' “pay rise” for public sector workers. Because of inflation it actually amounts to a pay cut.”

Labour party, [24 July 2018](#).

The government's [recently announced pay rises](#) for some public sector workers are either above or ever so slightly below inflation. These cover one million of the [5.4 million public sector workers](#). Other public sector workers have been offered other pay deals previously.

Pay rises above inflation are called “real terms” pay rises, because yearly wages increase more than inflation (a measure of the change in the cost of living). When pay rises are below the level of inflation, they can be considered real terms cuts as prices are rising quicker than yearly wages.

What was the recent announcement?

The government announced a range of pay rises for around one million public sector workers.

[The Office for Budget Responsibility](#) expects inflation to average 2.1% over the next 12 months).

That means that pay rises above 2.1% are real terms pay increases and below 2.1% are real terms pay cuts.

For example, the police, dentists and teachers on the upper pay scale were given a 2% pay rise. As this is lower than inflation, these are pay cuts in real terms.

On the other hand, teachers on the main pay scale and specialty (SAS) doctors were given pay rises of 3.5% and 3% respectively. These amount to real terms pay rises.

We don't know when the pay rises will come into effect. The longer they take to come into effect, the longer these public sector workers will be effectively experiencing real terms pay cuts (as their wages will be stable while the cost of living increases because of inflation).



[Home](#) / [Economy](#) / The UK's trade deficit with the EU

The UK's trade deficit with the EU

In brief

Published: 24th Sep 2019

Claim

The UK has a trade deficit with the EU so they need us more than we need them.

Conclusion

The UK imported around £64 billion more goods and services from the rest of the EU than it exported there in 2018. But that doesn't necessarily mean they need us more than we need them. More of the UK economy is made up of exports to the EU than the amount of the EU economy is made up of exports to the UK.



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“Because we have a trade deficit with the EU, they need us much more than we need them.”

Philip Davies MP, [1 March 2016](#)

It's [correct](#) that the EU sells more to us than we sell to it.

The value of the trade deficit was about [£64 billion](#) in 2018. The UK imported £353 billion worth of goods and services from the EU, and exported £289 billion worth, according to the Office for National Statistics. (Figures from the EU statistics agency [are different](#) but still show a deficit.)

That deficit is because of goods; we actually have a [trade surplus with the rest of the EU in services](#).

But that doesn't necessarily mean that “they need us more than we need them”. There are other ways to look at this beyond just looking at the balance of trade.

For example, UK exports to those other EU countries are worth around 14% of the value of our economy. But EU exports to the UK are worth around 3% of the value of the EU economy.

So, as an export market, you could argue the UK needs the EU more than the EU needs the UK.



[Home](#) / [Economy](#) / Is the deficit down by two thirds?

Is the deficit down by two thirds?

In brief

Claim

The deficit is down by nearly two thirds.

In 2010 the Conservatives promised to eradicate the deficit by 2015. In 2015 they promised to eradicate the deficit by 2020.

Conclusion

This is correct, looking at the deficit as a proportion of GDP. Between 2009/10 and 2015/16 public sector net borrowing decreased from 9.9% of GDP to 3.8%, or by around two thirds.

The underlying point is correct. The government set deficit targets in 2010 (which it didn't meet) and in 2015 it set new targets for a different measure of the deficit (which it abandoned following the result of the EU referendum).

Published: 20th Sep 2019

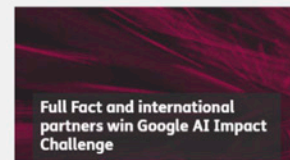


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“I will be taking out to the country in this campaign a proud record of a Conservative government: ... an economy with the deficit nearly two thirds down.”

Theresa May, [19 April 2017](#)

“In 2010 they promised to eradicate the deficit by 2015. In 2015 they promised to eradicate the deficit by 2020.”

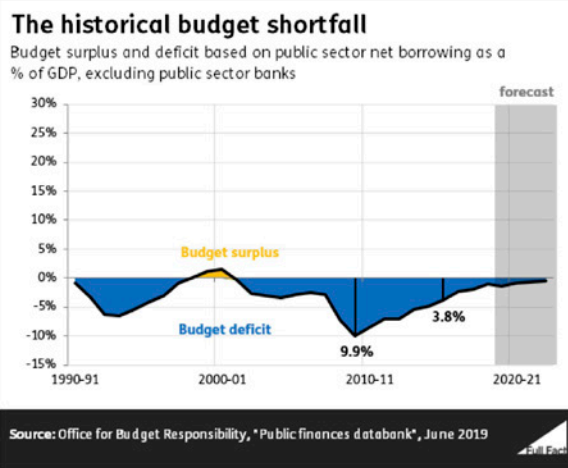
Jeremy Corbyn, [19 April 2017](#)

It's correct that the deficit, as a proportion of GDP, has fallen by around two thirds since 2010.

Public sector net borrowing [went from](#) 9.9% of UK GDP to 3.8% between 2009/10 and 2015/16. That's a decrease of just under two thirds.

'Public sector net borrowing' is the [headline](#) measure of the government's budget deficit. It's the difference between the government's income (mainly taxes) and everything it spends on public services, investment, and debt interest.

Since Mrs May and Mr Corbyn made these comments, the deficit has continued to fall and is now [1.1% of GDP](#).



Borrowing as a proportion of GDP [decreased](#) because the amount the government borrowed over this time fell from £166 billion to £72 billion (in 2015/16 prices). At the same time the UK's GDP also increased.

But the deficit didn't fall as far as planned, as Mr Corbyn [pointed out](#).

Mr Corbyn's underlying point is correct: in [2010](#) the government set a target to eliminate the deficit (excluding borrowing for investment in capital projects like roads and buildings) which it [didn't meet](#).

In [2015](#) it set a target to eliminate a different measure of the deficit (including borrowing for investment in capital projects) which it [abandoned](#) following the result of the 2016 EU referendum.

The deficit isn't the same as the level of debt. The debt is the total amount of money the government owes lenders from its borrowing over the years. The deficit is how much the government needs to borrow each year.

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