Make the debate fruitful

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By Maitreesh Ghatak

The recent controversy over GDP growth rates seems to suggest that statistics is — to paraphrase the Prussian general and military theorist Carl von Clausewitz's famous quip about war — the continuation of politics by other means.

With only months left before the general elections, NITI Aayog has, in a highly unusual move, released revised GDP figures attributed to the Central Statistics Office (CSO). These are being called a 'back-series', another very Indian English term on the lines of 'prepone'.

They seem to suggest that the average growth rate was higher under the NDA-2 government compared to that of the UPA era. This is the opposite of both what is suggested by the original CSO figures, as well as a different 'back-series' put out by a sub-committee of the National Statistical Commission (NSC) just a few months ago.

Blast From the Past

There is no compelling argument as to why this back-series is better than the previous NSC one. It is not clear why we do not have a 'front-series', whereby the GDP figures in the post-2014 years could be deflated by the 2004-05 prices as base. That was the base year that was used until 2013-14.

In 2014, CSO changed the base to 2011-12 prices, which made comparing GDP growth rates in real terms before and after 2011-12 difficult. By all accounts, growth had slowed down during the last few years of the UPA-2 government, compared to the early years of UPA-2 and UPA-1 overall. Thus, picking one of these years, when nominal GDP was below trend, as a base year will naturally make subsequent growth rates look higher.

To be fair, it is not uncommon for debates about national income statistics to be subject to major political controversy. Diane Coyle, in her book, GDP: A Brief But Affectionate History, mentions several fascinating accounts. Consider this: Andreas Georgiou, Greece's former statistics chief, has been fighting criminal charges since 2011 as a result of trying to produce accurate statistics on the Greek economy after decades of figures being massaged at the behest of politicians, even though his numbers and methodology are accepted by Europe's statistical agency.

The reason for such acrimony? Bailout funds for the troubled Greek economy depend on tough targets for budget deficit-to-GDP ratio, and so, there were plenty of incentives to inflate the estimate of the GDP. In fact, in 2006, Greece's GDP was announced to be 25% higher than what was previously thought by including informal sector activities!

Leaving the obvious political slant aside, if we look at India's nominal GDP growth rates, they present a very similar picture under the old method and the new one, as several commentators have already noted. Therefore, the difference in the real GDP figures is largely due to the different price indices used to deflate the nominal series. This reflects inflation, and also the fact that the weight on various goods and services in the price indices changes over time. All countries have to periodically revise their methods of calculating real GDP. Economic development means a gradual switch from lower to higher value goods and services, say, from rice to computers. This makes comparing GDP in real terms across different periods difficult.

Computing, Without a Comp

For example, before computers were available, neither their price nor their presence in the basket of goods and services produced is relevant. This makes adjusting pre-computer GDP upwards with a post-computer price index, or adjusting a post-computer GDP downwards with a pre-computer price index, both problematic. As a result, there is nothing sacrosanct about the growth rates implied by either exercise. Highlighting one gives the unmistakable impression of political bias.

It is tempting to give up and say that it is all arbitrary and, hence, subjective. After all, isn't there an old saying that there are three kinds of lies: lies, damned lies and statistics? But as much as we do not give up on language since we can use words to speak the truth or lie, we should not abandon numbers. It is important not to succumb to the temptation of taking a nihilistic position, especially in the so-called post-truth era, that there is no objective way to measure real GDP or its growth.

Two obvious steps suggest themselves. First, it is fine to make available the GDP figures before 2011-12 with 2011-12 as a base as CSO has done. But we should then also have the series that deflates the GDP for the years 2014-15 to 2017-18 using 2004-05 as a base year.

Second, GDP growth rates are the result of many underlying economic factors such as investment, employment and productivity growth. An obvious check of which numbers are more sensible is to look at the growth rates of these variables. A quick look at the data does not suggest higher growth rates of these variables in the post-2014 period compared to the earlier decade.

Transparency and double-checks are what would allow separating facts from opinions, thereby generating more light than heat in the discussion about the growth process of the Indian economy in the recent past.

The writer is professor of economics, London School of Economics, UK

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By Manish Sabharwal & Rishi Agrawal

In 1954, Jawaharlal Nehru launched the Bhakra Nangal Dam with the words, “When we undertake big work, we have to do so with a large heart and alarge mind. Small minds or smallminded nations cannot undertake big works.” Massive job creation by India’s micro, small and medium enterprises (MSMEs) is a big work made up of much small work.

Small-minded regulation — India’s ‘regulatory cholesterol universe’ of 60,000-plus compliances and 3,300-plus filings for employers — may be a thorn in the flesh of big employers, but it’s a dagger in the heart of MSMEs.

Big companies not only know how to handle such regulatory cholesterol, but often welcome it, since it reduces competition. The overdue explosion of MSME job creation won’t happen without a massive rationalisation of India’s regulations in this sector.

Vito Tanzi’s book, Termites of the State: Why Complexity Leads to Inequality, suggests that the growing complexity of regulations, laws and taxation by governments leads to higher inequality.

India’s stack of enterprises has a missing middle — our companies tend to be large or small — because of a complex cocktail of factors that include weak urbanisation, industrialisation, financialisation, formalisation and human capital. One more reason is the irrational and