GDP DEBATE [UPSC Notes GS III]

Background

- In January 2015, the government moved to a new base year of **2011-12** from the earlier base year of 2004-05 for national accounts. The base year of national accounts had been revised earlier in January 2010.
- In the new series, the Central Statistics Office (CSO) did away with Gross Domestic Product (GDP) at factor cost and adopted the international practice of valuing industry-wise estimates as gross value added (GVA) at basic prices.
- With the move to the new base year, the growth rate of the economy for 2013-14 was estimated at 6.9%; it was 4.7% on the 2004-05 base. Similarly, the growth rate for 2012-13 was revised upwards to 5.1% from4.5%.

Methods of estimation

Back series can be generated in three ways, the Committee on Real Sector Statistics said

- one, based on the new GDP methodology by using the base data wherever available;
- two, based on a production shift approach;
- three, by projecting the old series using the base year 2004-05 forward and then adjusting it to the 2011- 12 base by comparing with the new series. The third approach is yet to be tried, the Committee said.

Rebasing the GDP

- This is done by the government often to ensure that the GDP represents the true picture of the economy in terms of structural changes, the importance of the various sectors contribution of agriculture sectoretc.
- The Present rebasing has been done by CSO taking into consideration the recommendations given the SNA (System of National Accounts) published by the UN in 2008.

Old vs New

- In the older system, IIP was used to measure manufacturing and trading activity. This accounted for the volume changes but not value changes. In the newer methodology, we use the concept of GVA - Gross Value Added, which measures the value addition done to the economy.
- In the older system, GDP was first estimated by using the IIP data and then updated using the ASI data (Annual Survey of Industries). ASI accounted only for those firms which were registered under the Factories Act. In the newer system, data from MCA21 is used (MCA 21 is an e-governance initiative of Ministry of Corporate Affairs, launched in 2006, it allows the firms/companies to electronically file their financial results. Under this data from more than 5,00,000 firms is collected)
- In the older system, farm produce was taken as a proxy for the calculation of agricultural income. The new methodology has widened the scope for calculating value addition in the agricultural sector.
- In the older system, very few mutual funds and NBFCs were considered for considering the financial activity. In the new methodology, the coverage has been expanded by including stockbrokers, asset management funds, pension funds, stock exchanges etc
- In the older system, the trading income data was used from the NSSO's 1999 establishment survey against this new series uses the 2011-12 survey.

Issues / concerns with the new methodology

- The revised data does not reflect the other macroeconomic parameters - tax revenues, credit growth, trade performance, corporate sales, profits, more importantly, the level of investment in the economy etc.
- The MCA21 data was collected only from 2008, then how can it be used to compare the earlier growth/ production.

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- The Bank Credit Growth has averaged 20.3% between FY07 to FY12 and 12.3% between FY13 to FY18, during the same tenure the GDP growth rates have averaged 6.7% and 6.9% respectively (against the older growth rates of 8% and 6.9% respectively).
- There has been inconsistency even in case of the Investment Growth. Between FY07 to FY12, the growth rate of investment was 10.7% and 5.3% between FY13 to FY18.
- Tax collections between FY07 to FY12 has grown by 16.5% and then post that by 13.8%. There is a close relation between GDP growth and the tax collections growth. With higher growth, tax collections increase.
- The inflation rate averaged 9.6% between FY07 to FY12 and 6.4% thereafter. If the growth was driven by higher demand then, there should have been a higher inflation rate in the second part.
- The gross investment to GDP ratio was peaking at 38% (FY08 to FY11) during the UPA government against the 30.3% (FY15 to FY18) in the present government (as per the economic theory, higher investments, the higher and the growth in the GDP). So how can the GDP growth during the present government be higher than the previous government This could happen in cases where the production become very efficient leading to lower ICOR (Incremental Capital Output Ratio). But during the present government the twin shocks - Demonetisation and GST - have ensured that this is not the case.
- The exports during the UPA government boomed at an average growth rate of over 20% against the zero growth rates in the last four years.
- This kind of discussion damages the reputation of non-political institutions such as CSO.
- The data has been prepared from 2004-05 to 2010-11 and this coincides the period of UPA govt. Whether intended or not, this looks like political opportunism.

Arguments in favour of the new methodology.

- The decline in the bank credit growth can be explained by Increased capital efficiency . Bank facilitating credit to the corporates through instruments such as commercial papers, bonds etc
- Inconsistency in investment, increased economic efficiency, Decreased ICOR (Incremental Capital Output Ratio - measures higher/incremental amount of capital needed to increase the production by a unit). There is no uniform relationship between growth and investment. The cycle is revived through consumption and then investment kicks in.
- The tax collections could also have been varied because of various other factors such as higher compliance, changes in tax rates etc.

Way forward

- Allow the CSO to independently calculate, seek feedback and publish new data. The data/results should be realistic and reflective of the ground reality. In the case of India, it seems like the results are dependent on the government at the helm rather than the data that is collected. In such scenarios this will dent the image of India at the international level.
- If the CSO wants to make it more transparent, it can seek the opinion/involvement of experts. This wasn't done in the present context and the involvement of NITI Aayog in the announcement of data only made it worse.
- GDP is just a statistical tool. There should be more focus on inclusive growth rather than just the growth. Inclusive growth entails not just the growth but also the benefits derived by the growth in the form of development. It doesn't make any sense to have farmer suicides in Maharashtra which is one of the wealthiest states in India. This dichotomy can be seen where India is ranked 6th globally in terms of nominal GDP, top in terms of growth rates but 130th in case of HDI and 108th in WEF's Gender Gap Index!
- As per Credit Suisse, the wealth of the top 1 per cent has increased from 40% to 60% (between 2010 to 2016) and the top 10% owns 90% of the wealth. As per a report prepared by Azim Premji University, the growth for India has averaged 7% and the employment growth has been at 1%. Within this also the ones who are getting the formal jobs were receiving a decreasing share of total output.
- Though this would be very difficult but India could look into Chain Linking methodology or index. Wherein the developed economies keep updating their GDP calculation methodology very often.

- Moreover, the government has already announced that the base year is going to be changed likely to 2018-19 if it's done then these numbers will be revised all over again