GDP Calculation

What is the issue?

- In January 2015, India's Central Statistics Office (CSO) introduced a new series of National Account Statistics.
- The resultant changes in the calculation of GDP have led to a series of controversies. Here is a look at them.

What were the changes made?

- The new series made several changes; in particular, it revised the base year from 2004-05 to 2011-12.
- It also employed a new methodology to estimate India's gross domestic product (GDP) and used new data sets to arrive at the GDP.

What was the resultant contention?

- The CSO's changes were in line with international norms of national income accounting.
- However, doubts were raised about the new GDP estimates.
- Revising base years, improving methodologies and opting for better databases are part of normal practice in national income accounting.
- But the debate intensified when, in 2018, the statistical establishment released two back-series GDP data that contradicted each other.
- Back series GDP data recalibrated the GDP 'data for past years' based on the 'new methodology'.

How different were the two back series GDP data?

- The first back-series was presented by the National Statistical Commission (NSC) in July 2018.
- It found that the average economic growth between 2005-06 and 2011-12 was 8.6% instead of the 8.3% according to the old series.
- The second back-series was calculated by CSO and published in November 2018.
- It found the average economic growth between 2005-06 and 2011-12 to be

just 7%.
- The statistical debate quickly acquired a political colour because of the years concerned.

What was Arvind Subramanian's observation?

- Arvind Subramanian was India's Chief Economic Adviser between 2014 and 2018.
- Earlier in 2019, he argued that the new series overestimated GDP growth by as much as 2.5 percentage points. (Click here to know more)
- In other words, if last year's GDP growth was 7%, then according to Subramanian, the actual GDP growth would be only about 4.5%.
- It was argued that India's GDP growth rate between 2011 and 2016 appears out of sync with the trend of key macroeconomic indicators including investment, exports and credit, etc.
- This is starkly in contrast to how things were for a decade before the new series with 2011-12 as the base year.
- The disconnect between the indicators post-2011 becomes even clearer when India's data are compared to the average of six emerging economies.
- India's GDP declined far less than the 6-country average despite its macro-indicators being worse hit.
- Subramanian argued that higher GDP growth between 2011 and 2016 was not backed by -
    i. movement in key macro-indicators
    ii. a surge in productivity (otherwise corporate profits would not have declined in this period)
    iii. a surge in consumption (otherwise consumer confidence and industrial capacity utilisation would not have dipped sharply)

- He finally argued that the GDP Deflator (level of inflation) was considerably less than the retail inflation (as measured by Consumer Price Index) in the 2011-16 period.
    - [GDP Deflator is used to subtract from nominal GDP growth in order to arrive at the "real" GDP growth rate.]
- This essentially resulted in an overestimation of "real" GDP growth rate.

What are the counter claims to this?

- Arvind Subramanian has shown that the nominal GDP growth rate, which is the only observable variable, has not changed under the old and new series.
- Secondly, there was no consolidated Consumer Price Index (CPI) before 2011.
- So, arguing that the gap between CPI and GDP deflator was low between

2002 and 2011, and wide between 2011 and 2016, is unfounded.

Source: Indian Express