

## **The Latest GDP Estimates\***

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Perhaps no other public policy debate in post-independence India has seen as much of an “inversion of reason” on the part of the government as the demonetization debate. When critics were pointing, on the basis of government statistics themselves, to the palpable failure of the demonetization measure to achieve its purported objective, which was to cripple the black economy, the government kept harping, in its justification, on the extraordinary “boldness” of the move. Its position in effect amounted to saying that any move, no matter how irrational, is justified if it involves “courage”, i.e. invokes “shock and awe”, which was a sheer “inversion of reason”.

This “inversion of reason” is carried much further now by the use the government is making of the latest GDP estimates. One just has to step out of one’s home to the grocery shop round the corner to acquaint oneself of the drop in business which the grocer has suffered owing to demonetization. The shopkeeper from whom I buy my grocery had told me that he had experienced a 50-60 percent drop in his business in the immediate aftermath of demonetization; he says that even now he is still facing a 20 percent drop in business compared to its pre-demonetization level. What he says about the drop in his business is echoed by countless other shopkeepers all over the country; and numerous journalists, academics and observers who have talked to shopkeepers across the country have testified to this fact. The recessionary effect of demonetization on the economy in short is an indisputable and established fact; if the GDP statistics of a government organization do not bear this out, then that should be an occasion not for asserting that there has been no recessionary effect, but for asking why they do not bear this out, i.e. what is wrong with the estimates.

And yet this is not what the government is doing. On the contrary it is asserting that there has been no shortfall in demand and mocking its critics on this score, with the Prime Minister even targeting a person of Professor Amartya Sen’s eminence through some fatuous and meaningless remarks about Harvard and “Hard Work”. This constitutes an “inversion of reason”. It is like the naked emperor strutting around in his nakedness and ridiculing all those who had called him naked with the words: “See how wrong and stupid you were. My courtiers have shown I am fully clothed!”

Arthur Bowley the renowned British statistician who had taught for years at the London School of Economics used to say: “The most significant facts of social life cannot be exactly quantified, but they can be directly observed”. In India today we are being asked to disbelieve what we directly observed in consequence of demonetization, on the basis of some totally spurious quantification. And that constitutes an “inversion of reason”.

The issue that arises because of the latest GDP estimates provided by the Central Statistical Organization, therefore, is not whether demonetization has had a recessionary impact (which it indubitably has had), but why these estimates do not capture it. And three reasons have been adduced in the writings of some distinguished quantitative economists who are either working or have worked within the government.

The first reason is a downward revision of the third quarter GDP estimate for 2015-16, which provides the base for calculating the growth rate in the third quarter of 2016-17. (Growth rates for any period are usually calculated over the corresponding period of the previous year). The GDP figure for the third quarter of 2016-17 (October-December) when the impact of the demonetization of November 8 is supposed to have been felt, is estimated to be Rs. 30, 27, 893 crores. How much of a growth it represents over the previous third quarter GDP depends upon what the latter is estimated to be. And here we come to the crux of the matter. The third quarter GDP estimate for 2015-16 announced on February 9, 2016, was Rs.28, 52, 339 crores, on the basis of which the growth rate for 2016-17 third quarter comes to 6.2 percent. On May 31, 2016, this figure was slightly revised downwards to Rs.28, 51, 682 crores, which still implies a 6.2 percent growth-rate for 2016-17. Since, with these estimates for 2015-16, the third quarter growth rate for that year, i.e. for 2015-16, comes respectively to 7.3 percent and 7.2 percent, there has clearly been a deceleration of growth in 2016-17, as the critics of demonetization have been predicting, by at least one percentage point.

But the CSO on February 28, 2017, suddenly reduced the estimate of GDP for the third quarter of 2015-16 to Rs. 28, 30, 760 crores, which gives a third quarter growth rate of 7 percent for 2016-17. There is in other words a jump in the growth rate from 6.2 to 7 percent simply by revising downwards the base upon which this growth-rate is calculated, a point that has been made by Soumya Kanti Ghosh who is the Chief Economic Advisor of the State Bank of India. Why there should have been such a downward revision by the CSO remains a mystery. The obvious explanation that comes to mind is a “doctoring of statistics” on the part of the CSO at the behest of the government.

The second reason why the GDP estimates do not capture the impact of demonetization, has simply to do with the fact that of late the GDP is being estimated not on the basis of value added figures taken from the producing units, but from company balance sheet data. This obviously means a lower coverage for informal sector producers who are not listed as companies and who are the ones that have faced the brunt of the impact of demonetization. The very method of estimating GDP that is adopted of late by the CSO therefore is simply tailor-made to underestimate the impact of demonetization.

The third reason, put forward by Pronab Sen who had been until recently the Chief Statistician of the Government of India, is as follows. The GDP estimates at market prices, which are the centre of attention at present, are arrived at by adding to the gross value added the net indirect taxes. Because of demonetization the trade channels to which producers sell their goods and which make payments for these goods over a certain period of time, paid promptly to the producers through currency notes that had been demonetized, and the producers in turn made larger tax payments than usual to the government in the form of such demonetized currency. The net indirect tax collections therefore were far larger than usual, which, when added to the gross value added, boosted GDP figures significantly, and hence the growth rate too. The increase in growth rate that the CSO shows, far from showing the absence of any impact of demonetization, is attributable partly at least to a bizarre consequence of it.

These three reasons are additive. The fact that there is a suspicious downward revision in the 2015-16 third quarter GDP estimate, the fact that the informal sector is

inadequately represented in the GDP estimates, and the fact that demonetization brought in larger net indirect taxes than usual, conjointly contribute to an exaggeration of the growth rate figure for the third quarter of 2016-17. The 7 percent growth rate for the third quarter of 2016-17 claimed by the government which would come down to 6.2 percent if the base figure is not adjusted, would come down further if the under-representation of the informal sector in GDP estimates is taken note of, and would come down still further if the effect of arbitrarily large net indirect tax collections is additionally taken note of. Compared to the 7.2 percent growth rate in the third quarter of 2015-16 (over the previous year's third quarter), if the unrevised figures are taken, the drop in growth rate in the third quarter of 2016-17, in the wake of demonetization, therefore could well be about 2 percent which is what many of the critics of demonetization had been anticipating.

The Narendra Modi regime for many has been reminiscent of the Emergency of the mid-seventies, though even the Emergency, while witnessing the use of State power against opponents, had not seen the use of vigilante groups, consisting of hooligans, to stifle the freedom of thought and expression as we see today. But the CSO had been used by the ruling government of that time to doctor statistics in the run up to the Emergency, exactly as it is being used today. The only saving grace at that time in this shameful use of a government organization for propaganda purposes had been the fact that the doctored statistics had not flown in the face of direct observation; such alas is not the case today.

**\* This article was originally published in the People's Democracy, Vol. XLI No. 11, March 12, 2017.**