

Peering Back to Look Forward: Measurement to Prognosis

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Economic Outlook

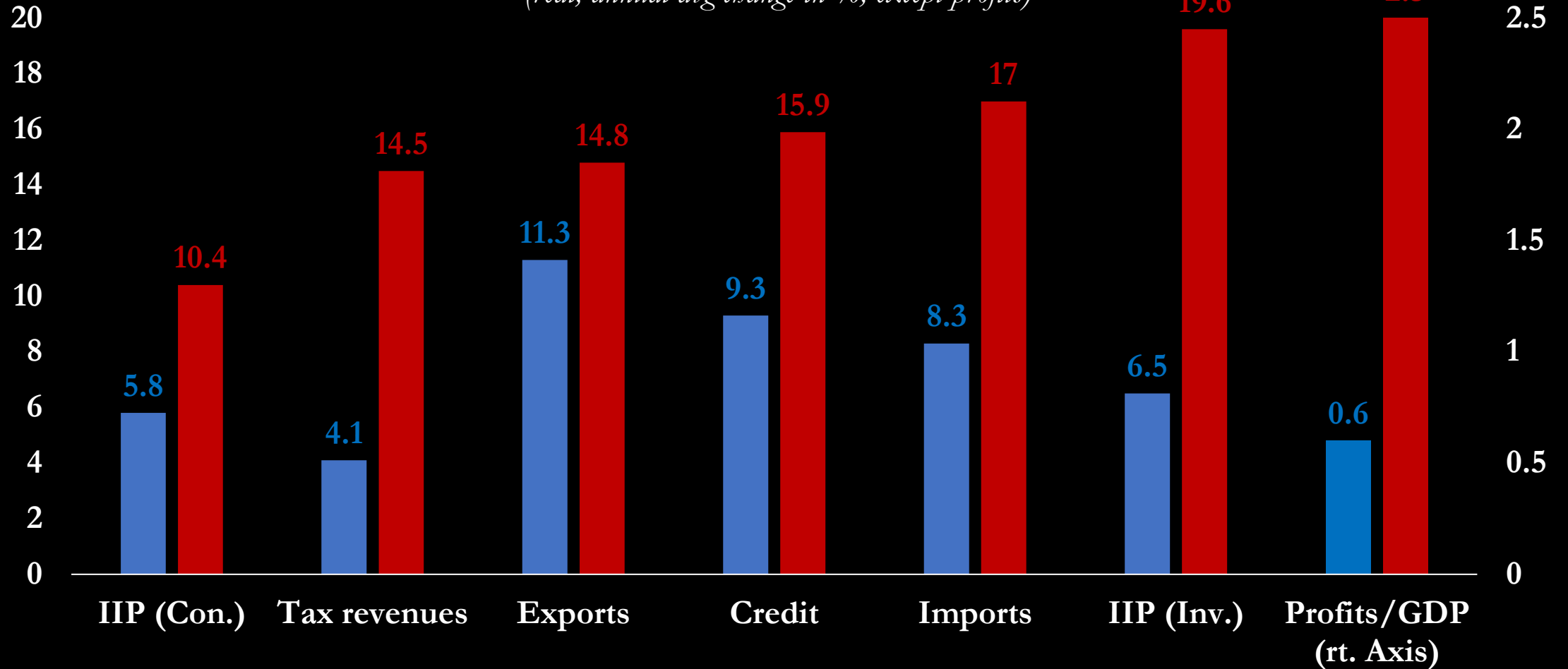
- Issues of the day
 - Is India back?
 - What is likely potential growth?
- Optimism reigns
 - Few see serious scars from pandemic
 - Most believe growth will go back to normal
- **But what is “normal”?**

Assessing Normal Growth

- Three distinct periods, pre-Covid
 - Early 2000s to Global Financial Crisis (GFC)
 - GFC to the 2018-19
 - The 2019-20 slowdown
- Start with the boom/bust

The Great Acceleration

Growth in Macro-Indicators
(real; annual avg change in %, except profits)

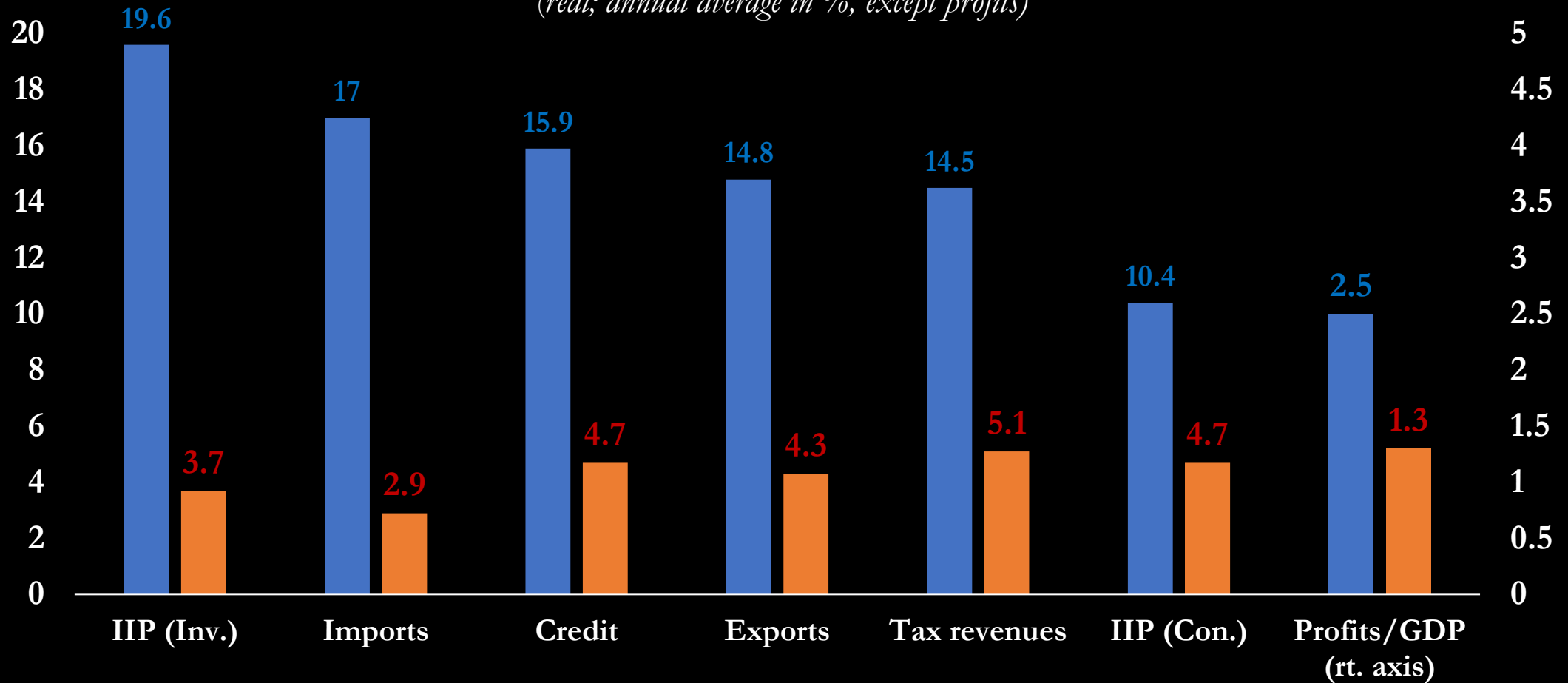


IIP=Index of industrial production; tax revenues exclude excise, deflated by CPI; profits are from CMIE

■ 1996-2002 ■ 2003-2010

The Great Deceleration

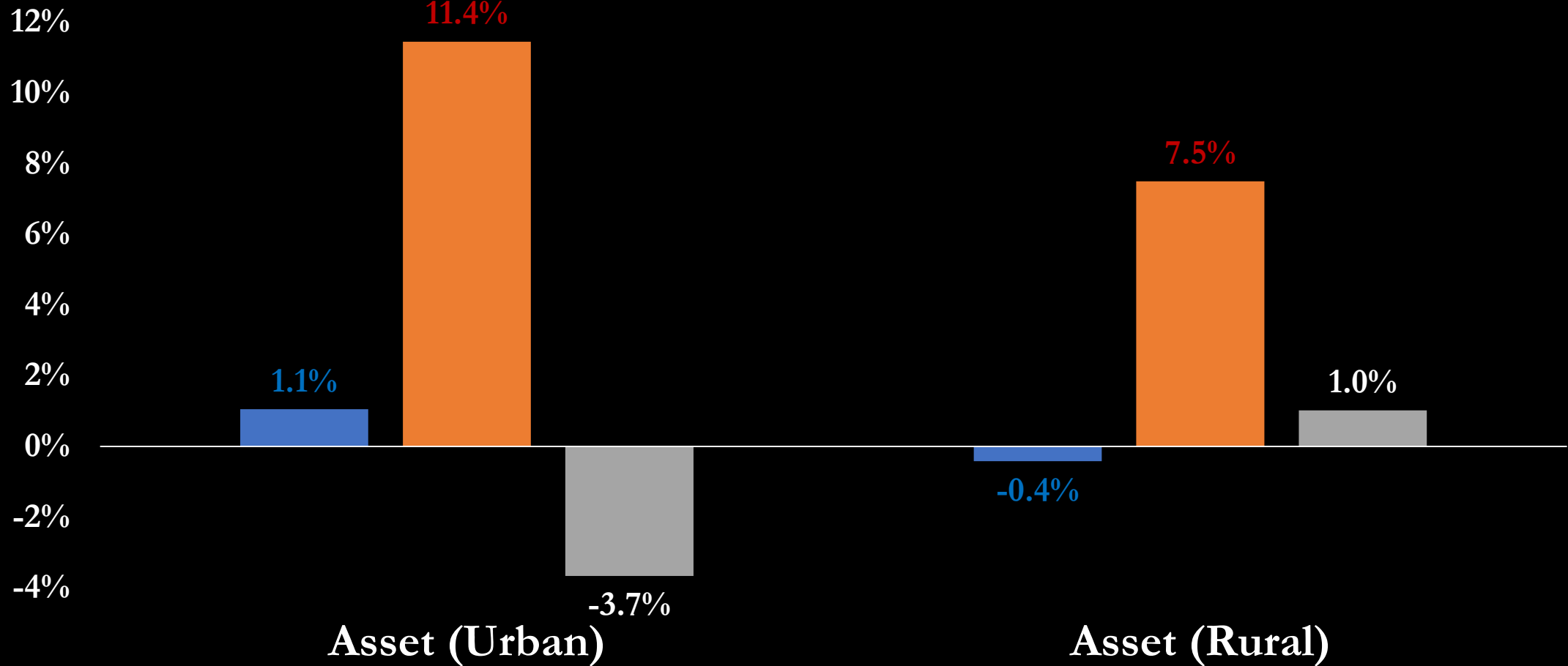
Growth in Macro-Indicators
(real; annual average in %, except profits)



2003-10 2013-18

Assets: Boom and Bust

Asset Growth
(real; annual average in %)



Nominal values deflated by CPI

■ 1991-2002 ■ 2002-2011 ■ 2011-2018

Story so far...

- India has gone through a pronounced boom and bust
- Boom from early 2000s to Global Financial Crisis (GFC)
- Bust from GFC to pandemic
- Creating lingering balance sheet problems

The “Solow Puzzle”

- US, 1987
 - Robert Solow: “You can see the computer age everywhere but in the productivity statistics”
- India, 2021
 - Can you see the boom/bust in the National Income Account statistics?
 - Answer depends on which statistics you use!

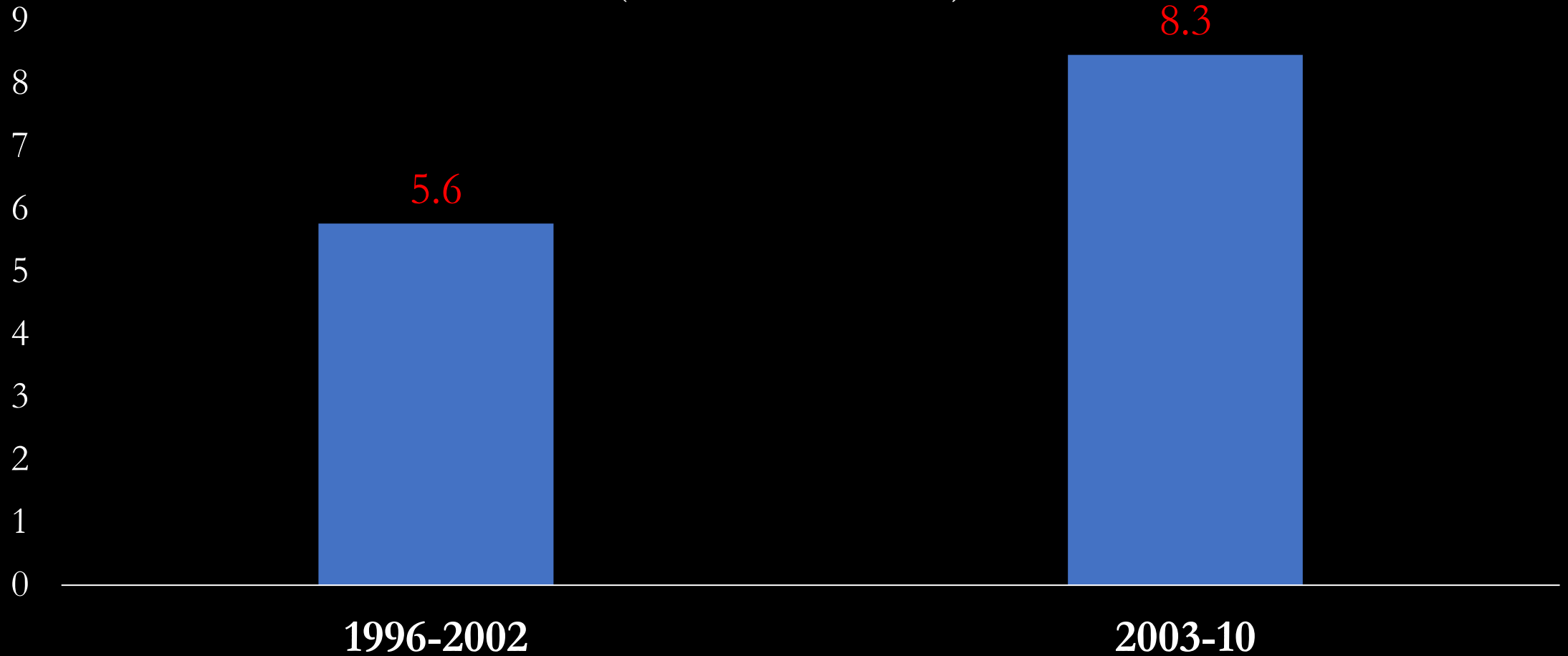
- Where's the boom?

National Income Accounts

- Old Series (contemporaneous)
- National Statistical Commission (Mundle Report, 2018)
- New Series (backcasting)
- Excellent research on GDP/methodological issues (Mahendra Dev, R. Nagraj, R. Sengupta, B. Goldar, N.R. Bhanumurthy, T.N. Srinivasan, R. Dholakia, S. Morris, M. Pandya, A. Sapre, and G.C. Manna)

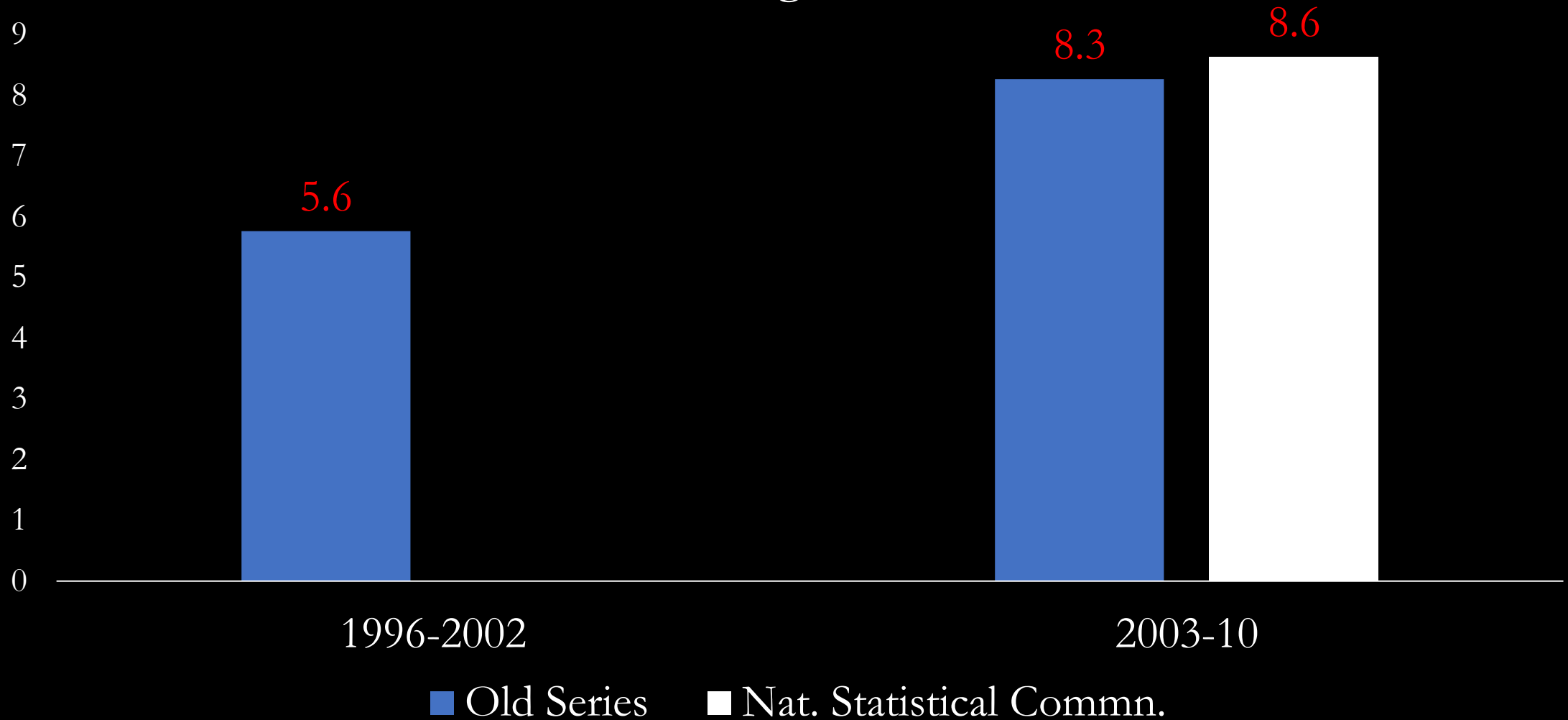
Old Series

GDP Growth
(Old Series, 2004-05 base)

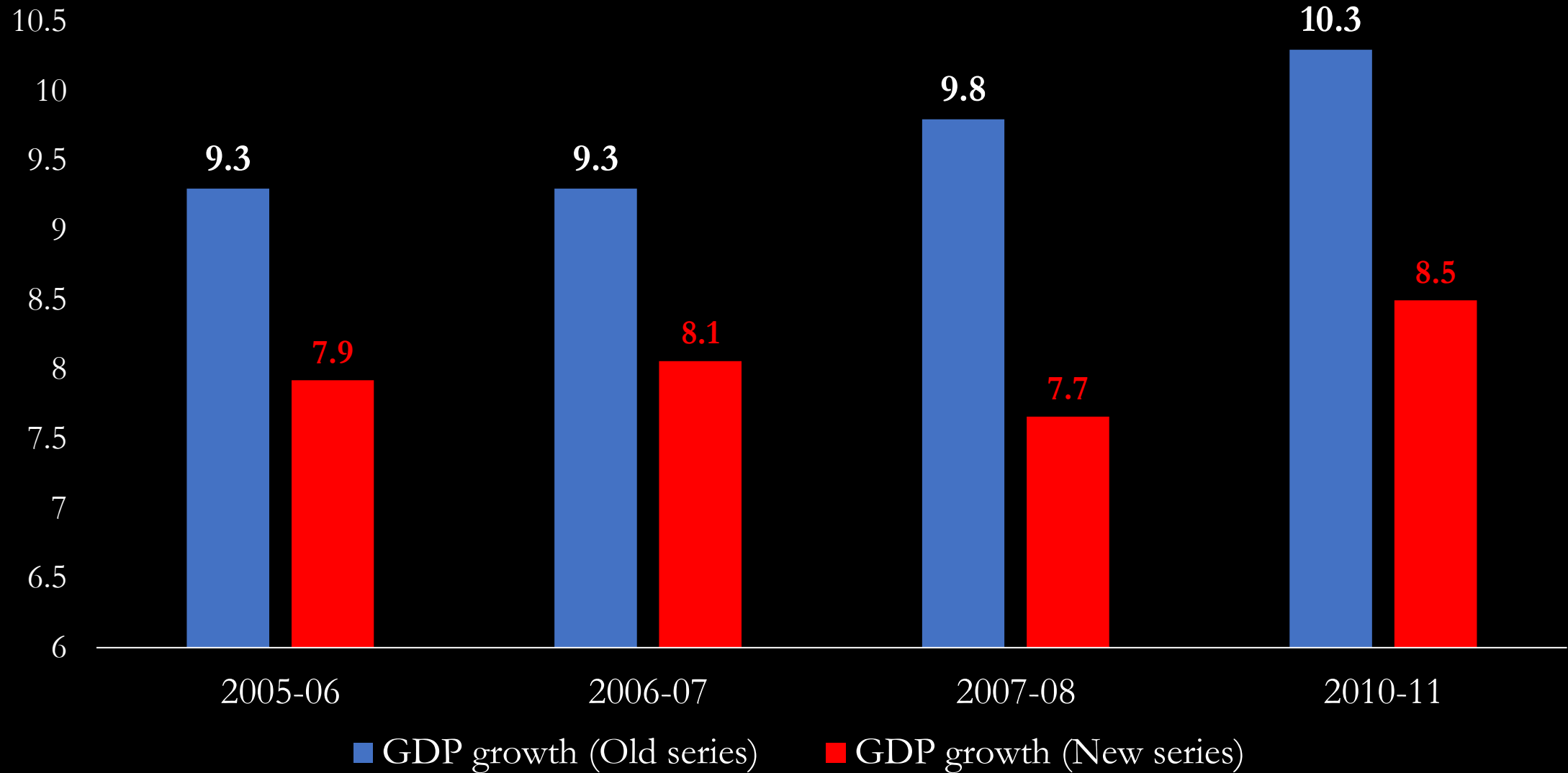


National Statistical Commission

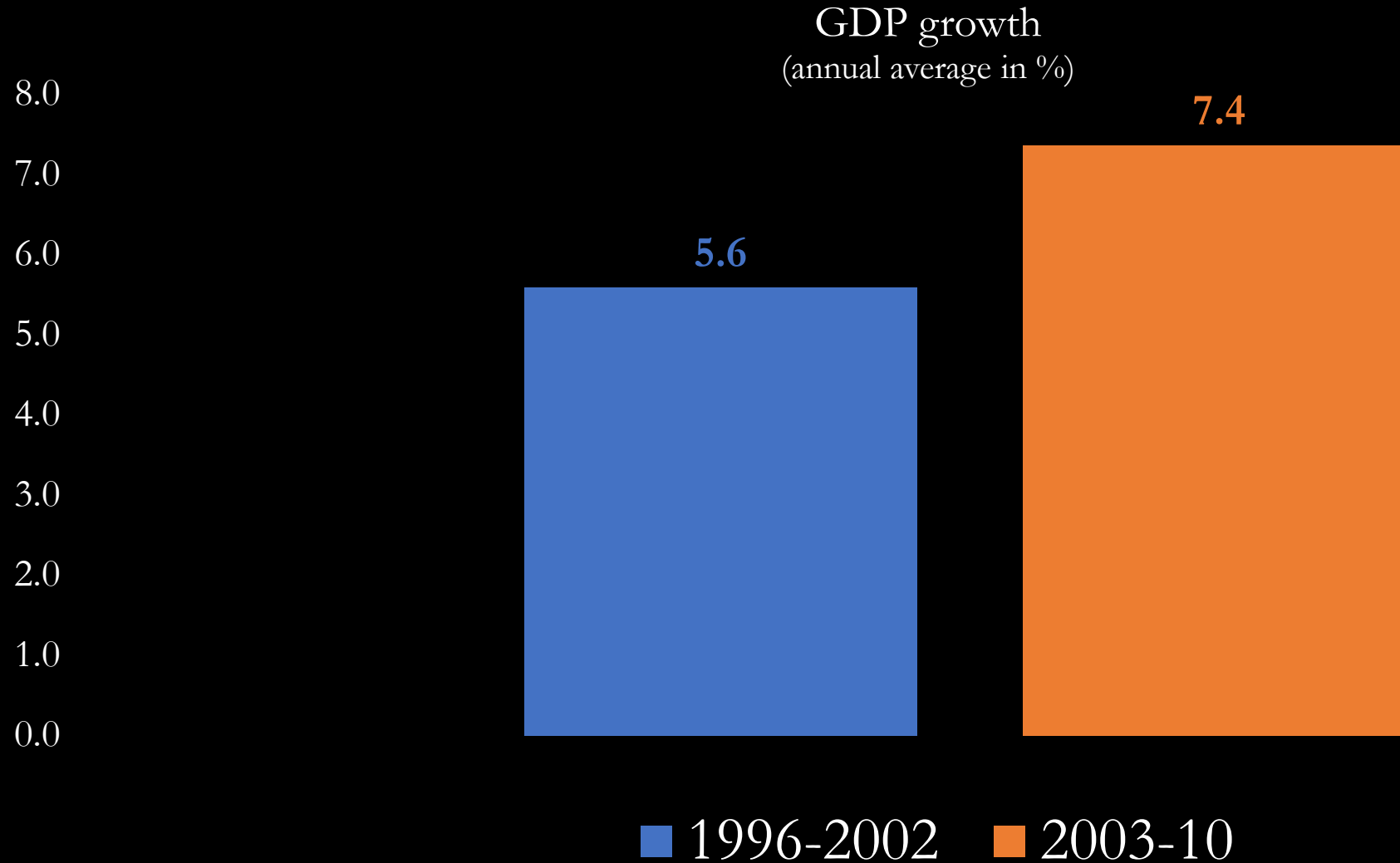
GDP growth



The Great Revision



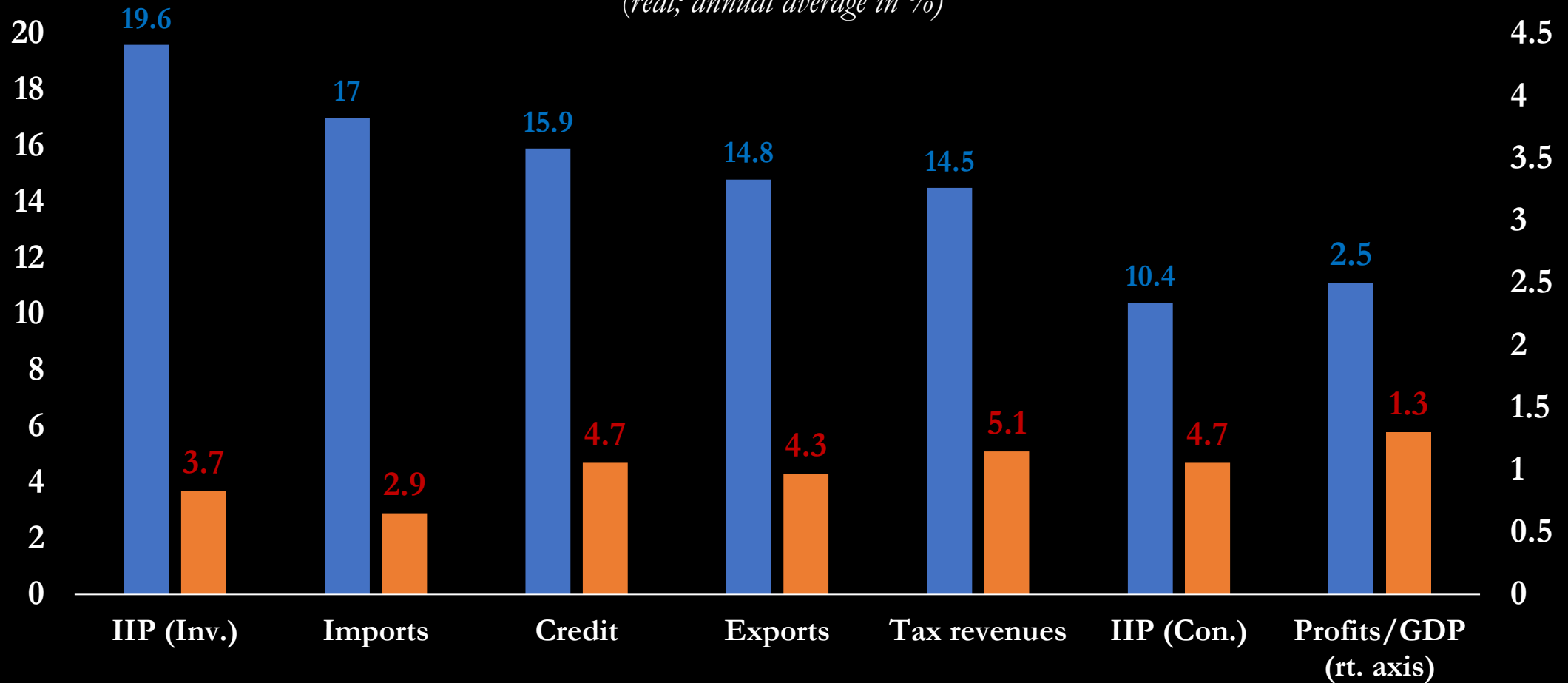
Where's the Sizzle?



- Where's the bust?

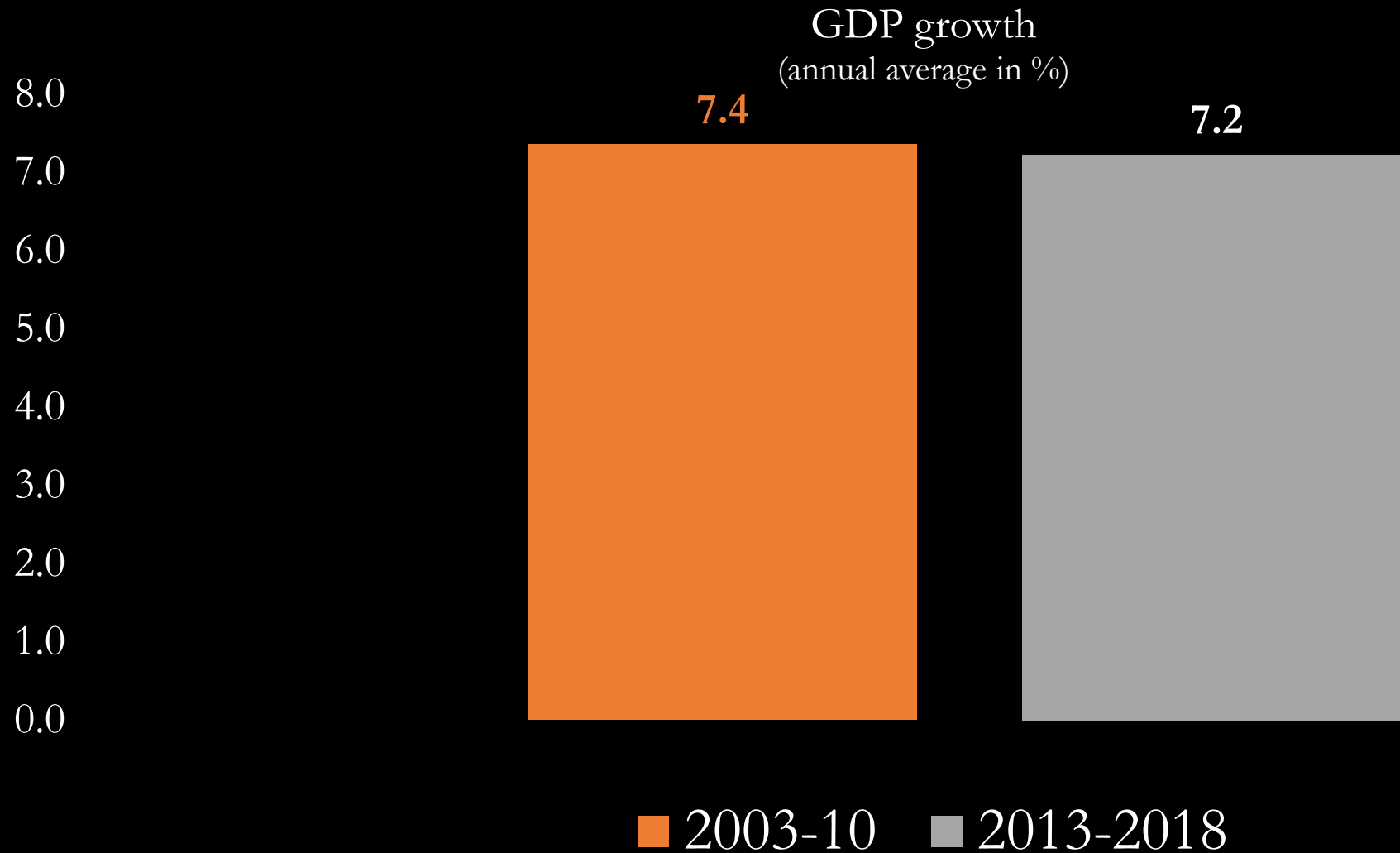
The Great Deceleration

Growth in Macro-Indicators
(real; annual average in %)



2003-10 2013-18

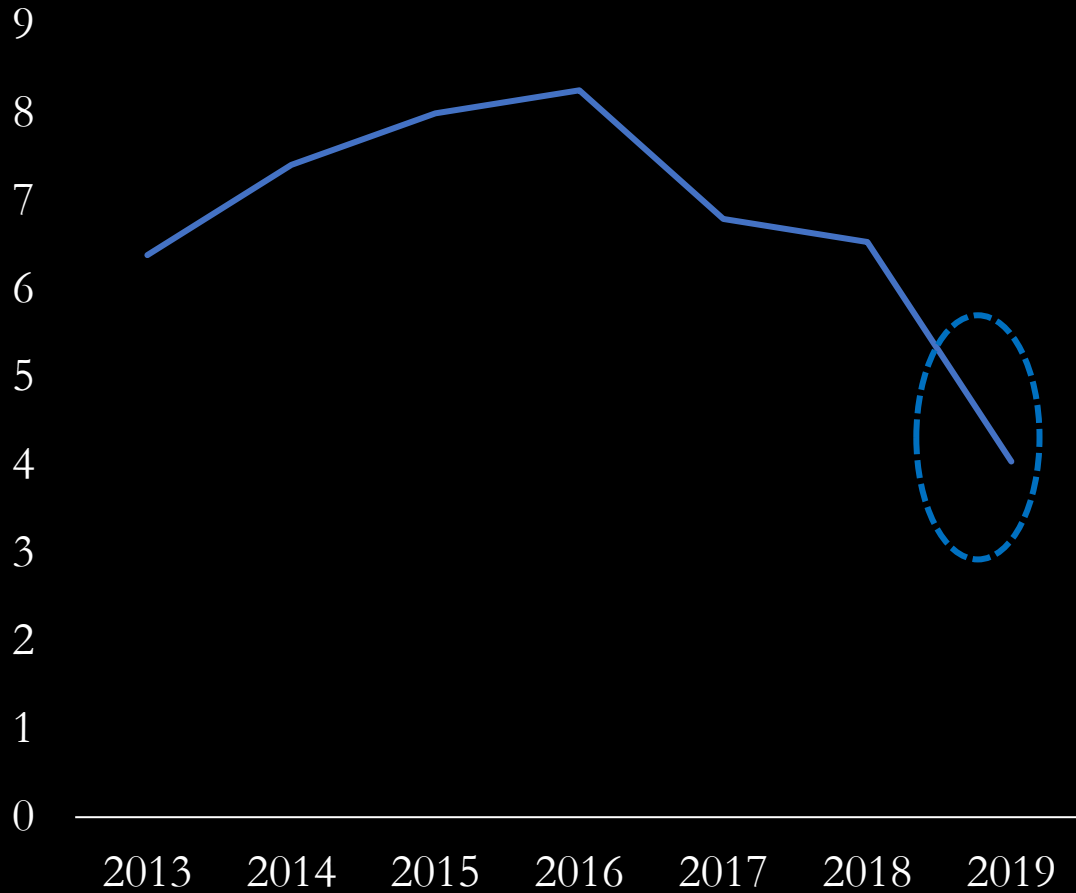
Where's the fizzle?



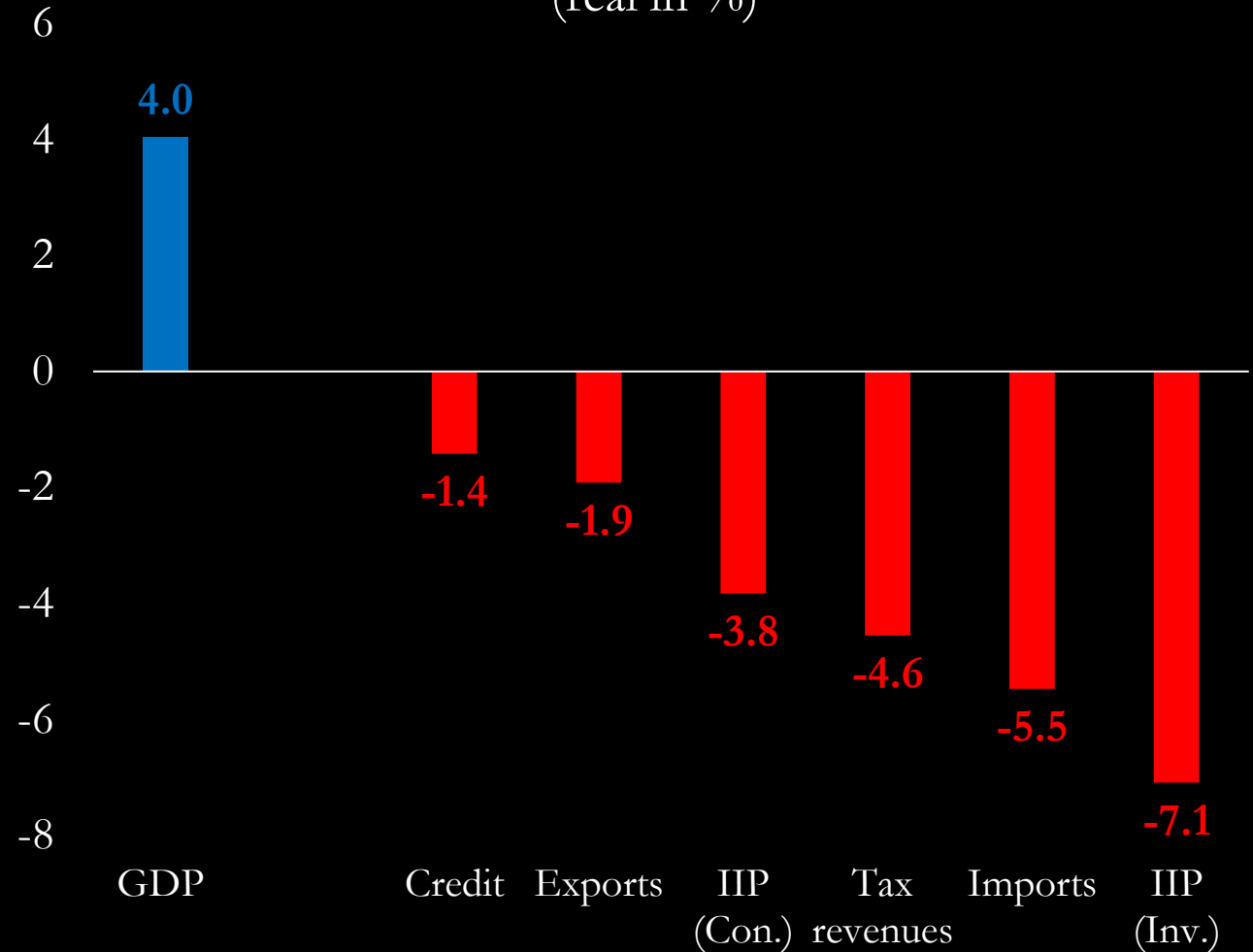
- What happened in 2019-20?

2019-20: Not Deceleration but Collapse

Official GDP growth
(real in %)



Growth in Macro-Indicators, 2019-20
(real in %)



The Growth Puzzle

- Indicators suggest pronounced boom, bust, and collapse
- But you can't see these trends in the NIA statistics

The Consumption Puzzle

- If GDP production mismeasured, GDP expenditure must be mismeasured
 - $Y = C + I + G + (X - M)$
- Which components?
 - Reasonably solid data for I, G, X, M
 - But C is difficult to measure; tends to be a residual
- Is there evidence that C is mismeasured?
 - Compare indicators to NIA data

Vehicle Consumption: Boom/Bust

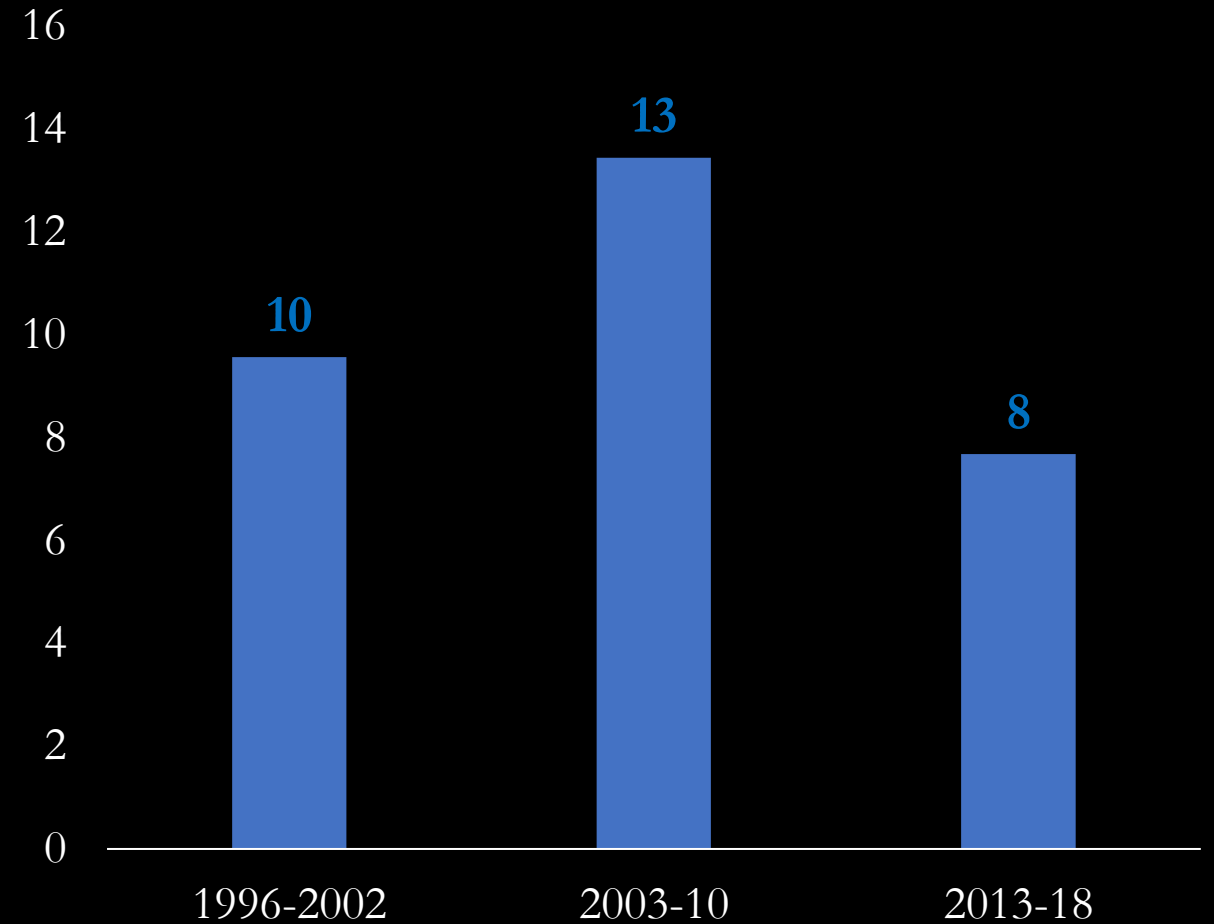
Passenger Car Sales, Growth

(in percent)

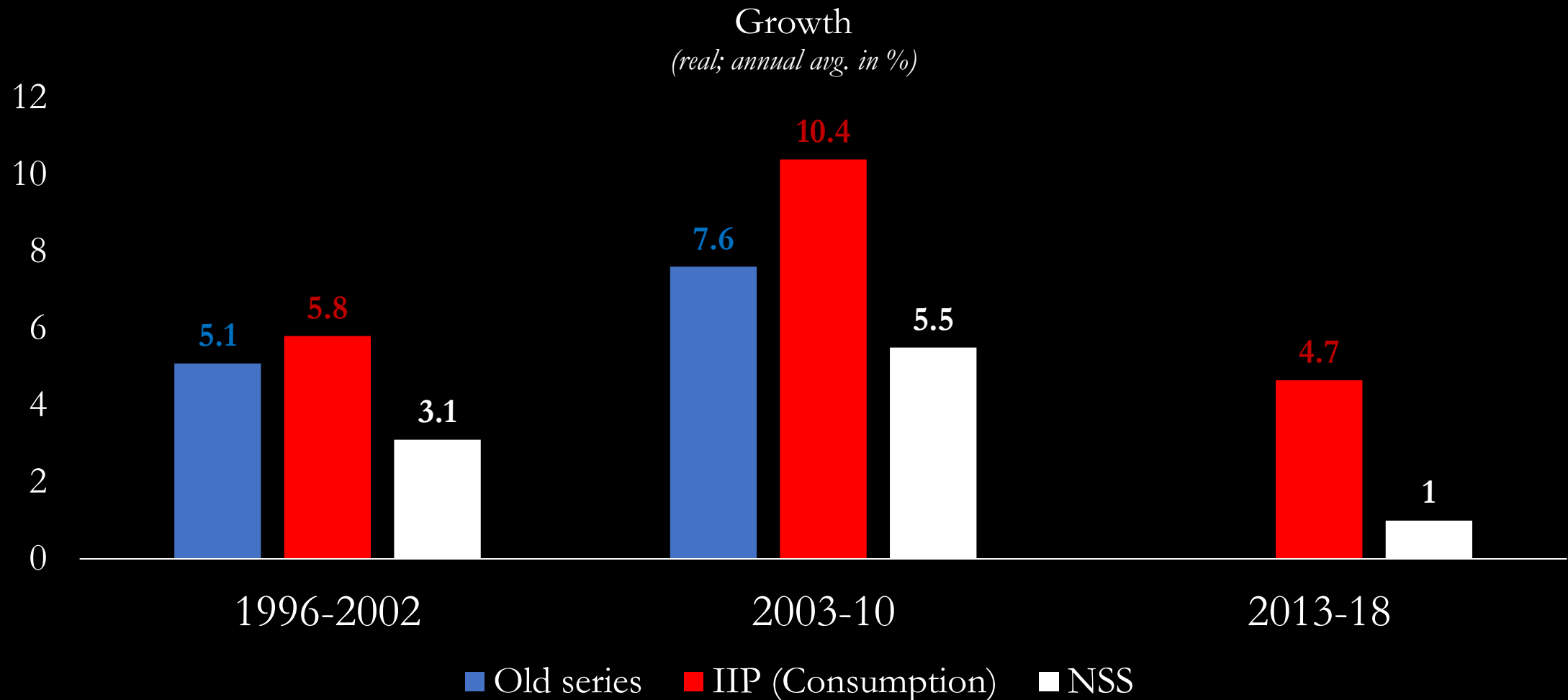


Two Wheeler Sales, Growth

(in percent)

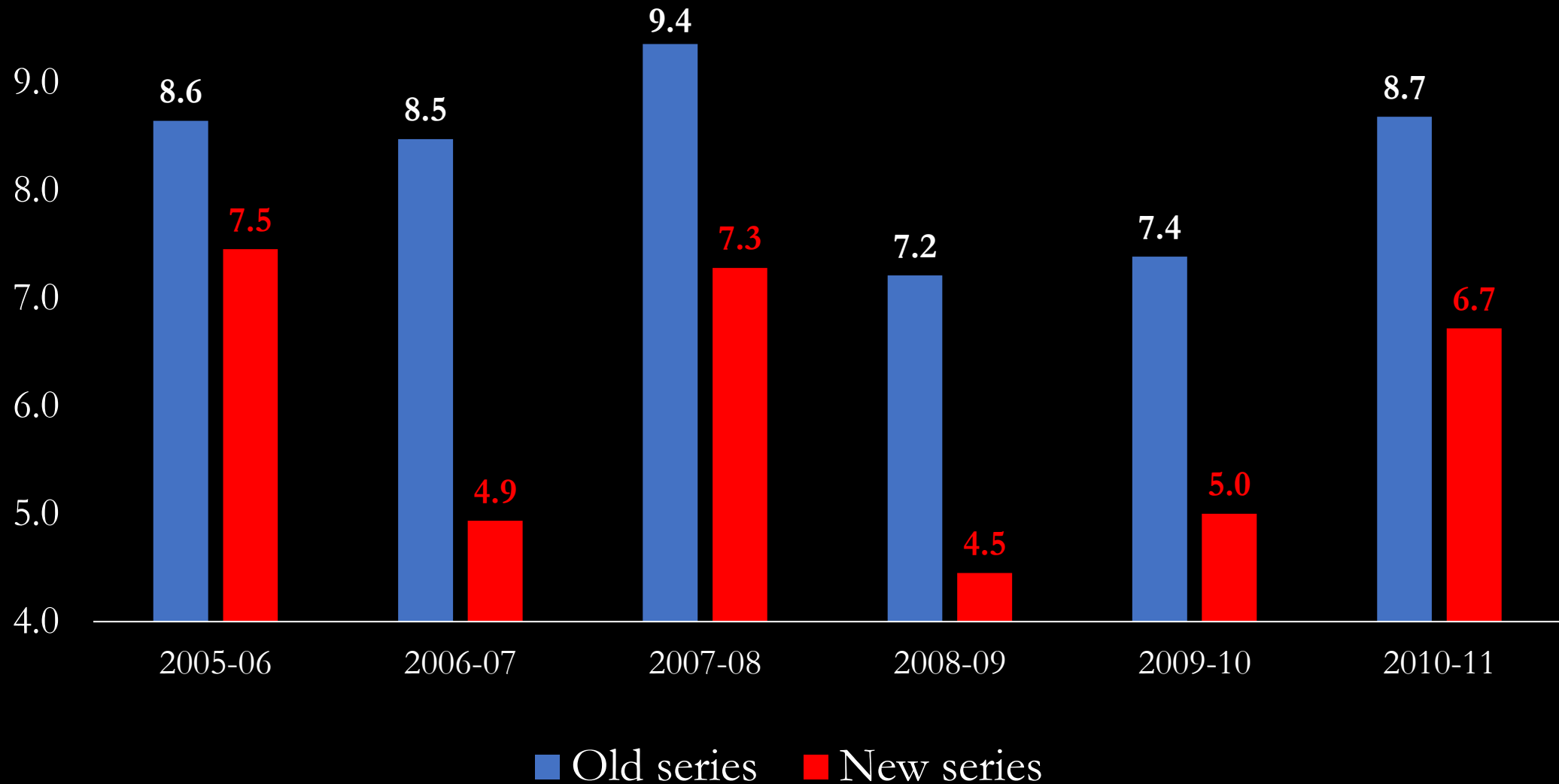


Aggregate Consumption: Boom/Bust

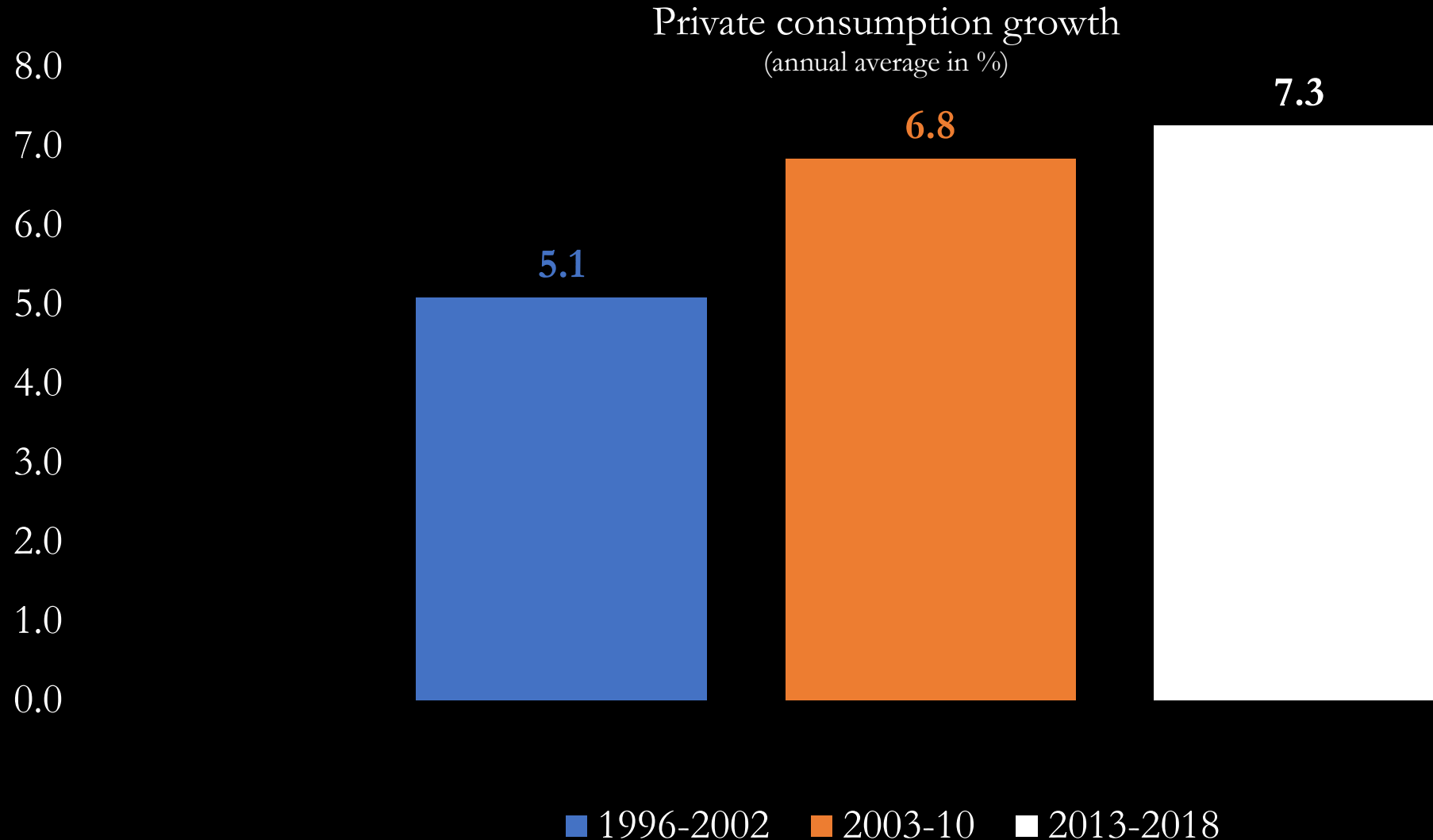


*NSS time periods are: 1999-2004; 2004-2011;
and 2011-2017*

The Great(er) Revision in Consumption



New Series: Continuing acceleration!

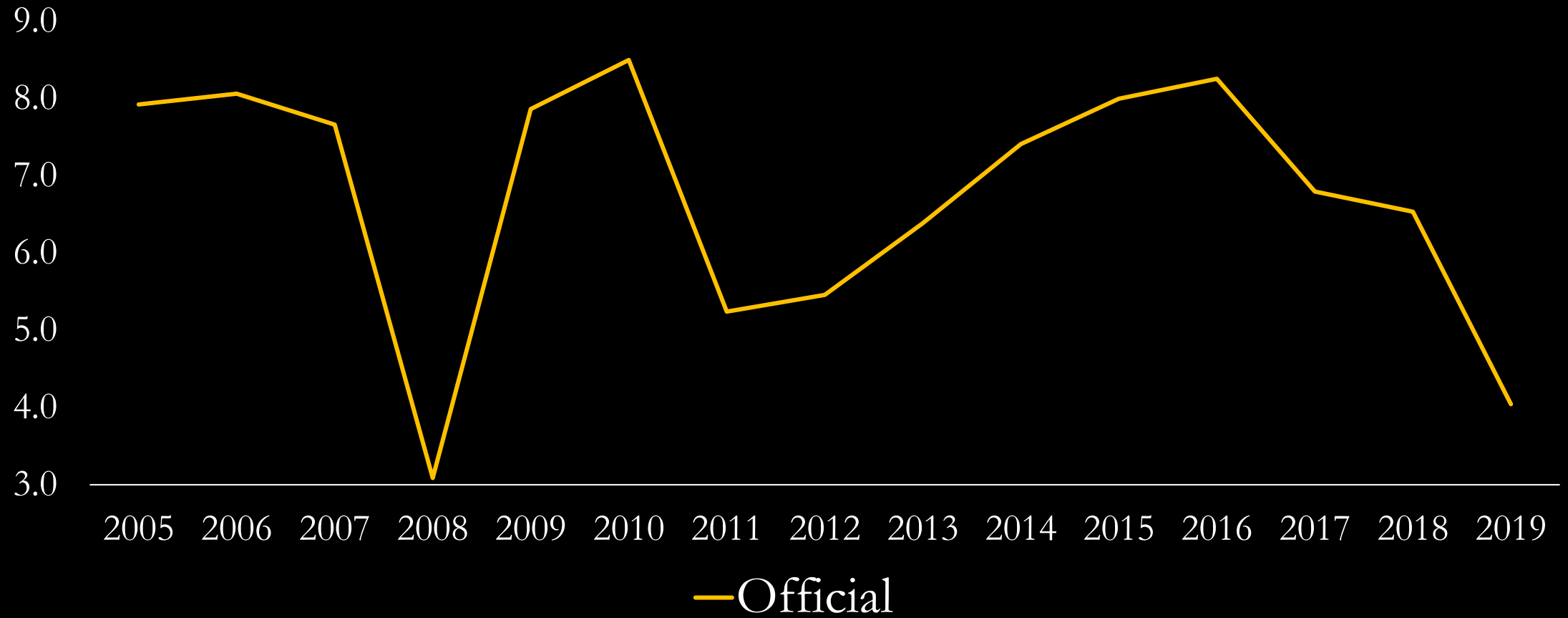


Findings

- **Official data** tell qualitatively different stories of India's recent economic history
- Macro-indicators show a boom, bust, collapse but ...
- NIA data show steady GDP growth, accelerating consumption
- Mismeasurement problem particularly serious in 2019-20

- What is normal?

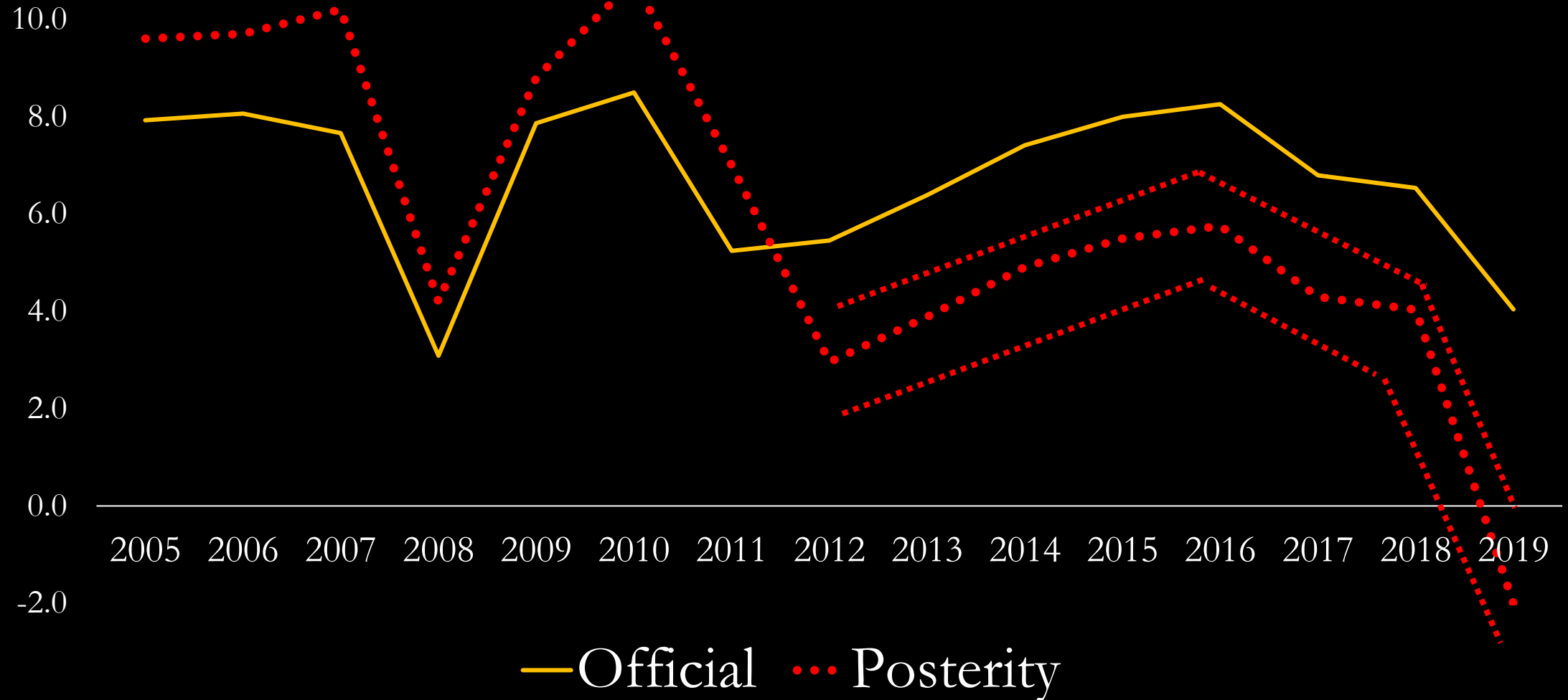
The Official Growth Story: High and Steady-ish



Alternative Growth Story: Boom, Decline and Collapse



Alternative Growth Story: Boom, Decline and Collapse BUT Uncertainty



What is normal?

- Looking back, normal growth could be as low as about 4 percent (average post-GFC, pre-Covid growth)
- Peering ahead, potential growth could be even lower, if there are serious scars from Covid
 - Human capital
 - Small and medium enterprises (SMEs)
 - Re-allocating resources in post-Covid world

Why does this matter?

- Data drives diagnosis
- Diagnosis drives policy
- If data is wrong, then diagnosis and policies can be misguided

Implications

- Diagnosis problem
 - Consumption has sustained growth post-GFC (Chinoy, 2021)
 - Consumption has collapsed (R.Roy, T.N. Ninan, Harish Damodaran)
- Policy problem
 - If growth has been rapid and steady, no reform urgency
 - If growth has been weak, serious remedial measures needed

Conclusions

- Reliable data essential for correct diagnosis and effective policy response
- Without strong policy actions—fundamental improvements in “policy software”—unlikely to achieve 7 percent growth (Subramanian and Felman, *Foreign Affairs*, December 2021)

END