Politics and Economic Statistics: A Tragic Story

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Abstract

Construction of national economic statistics such as GDP had its origin in the work of Simon Kuznets, Colin Clark, Richard Stone and other economists during the 1930s and the post Second World War years. In the debate about some foundational issues Kuznets's views were ultimately rejected in favour of those of the Keynesians. Though their link with true welfare of the citizens is fairly weak, GDP and other summary indices are widely used to assess an economy's overall performance. Politicians have succumbed to the temptation of doctoring data to 'improve' the performance of the economies under their control. India had a globally acclaimed system of efficient and scientific national accounting. Much of that reputation has been lost over the past decade. Due to the unavailability, unreliability and inconsistency of official data, independent research on policy evaluation has suffered a serious setback.

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"Though the Social Product (or National Income, or Gross National Product) has been sold to the public, it has been 'sold' by economists. We have responsibility for it – the responsibility of the manufacturer for the quality of the good that he sells. We cannot escape the duty of justifying it by pretending that it has been justified already." (John Hicks)

Economic statistics on important entities such as national income (Gross National Product, GNP), consumers' expenditure, degree of price rise, trends in employment-unemployment, the nation's balance of payments and a whole host of similar items provide a quick objective view of the current economic condition of a nation and the standard of living (welfare) of its citizens. They critically help the govt to assess the state of the economy and thus design or redesign its policies. Should corporate tax rate be changed in the next budget? Look at the data on current corporate profits and investment plans. Should monetary policy be tightened? Look at the figures of current and projected rates of infla tion. Should foreign funds be allowed more freedom to play the domestic stock market? Look at the data on the experience of a set of countries in a similar situation. Is the Opposition justified in claiming that the recent upward changes in spending on basic education and nutrition have utterly failed to achieve their purpose? Look at the data again. So, on and on and on. At every step, data and summary statistical indices are indispensable for governance. And for judging the effectiveness of governance. But the data must be trustworthy. 'Ay, there's the rub!'

Although measurement of the national economy dates back in UK to William Petty and Gregory King in the second half of the 17th century, modern National Income Accounting principles originated in the 1930s in the writings of two economists, Simon Kuznets and Colin Clark. But it was the Great Depression in the USA (beginning year 1929) and the imperatives of wartime production, combined with the impact of John Maynard Keynes's The General Theory (1936) that finally led to the emergence of the concept of the economy to be managed by the government.

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At the time of the birth of the concept of national income there was considerable debate at the foundational level. Kuznets wanted GNP to be an indicator of the value of final goods and services of *direct benefit* to consumers and not simply a money value of all final activities in a year. In his scheme unproductive items like military expenditure, most advertisement spending, expenses involved in financial and speculative activities and all illegal activities were to be excluded. This was resisted by senior economists in US administration and Keynesians who were in favour of including all expenditure on final production. Demand generation was supremely important for them, irrespective of the social value or morality of the spending involved. Exclusion of military spending would have implied that the US economy shrank during the World War. This was unacceptable. Ultimately Kuznets lost to the Keynesians. Chiefly based on the work of Kuznets and Richard Stone, a harmonised System of National Accounts (SNA), overseen by the United Nations Statistical Commission, gradually came to be adopted by the major countries of the world. Though revised from time to time, the basic framework has remained more or less unchanged over the years.

The way economic growth is calculated today by estimating the change in GNP over time ignores most of Kuznets's warnings. The bigger are the banks and mutual funds and insurance companies, the larger the budget on sales promotion, the more expensive a nation's healthcare, the better is it seen to be performing. This is not what Kuznets wanted, but this is what we have to put up with.

Statistics reveal to the world how a nation is doing. Governments need this information to manage the economy. Good management will show up in good data for the next period. But data or statistics are ultimately manufactured objects. So, the next step - improve the data to prove good performance- follows inevitably. Like improving the image by 'improving' the mirror. Despite vehement denial that GNP is not intended to show improvement in economic well-being, it is constantly used as a welfare indicator for the nation's citizens. International agencies rank countries on the basis of national statistics. No wonder, there is great temptation to doctor the data. This has become a part of politics. But this is not a modern phenomenon. One of the earliest attempts to present a set of national accounts contained a generous dose of fiction.

In 1781 in France Jacques Necker, the finance minister of Louis XVI presented his celebrated 'compte rendu au roi' or 'report to the king'. It was the first serious official attempt to take stock of a nation's finances. The ultimate purpose of this 'objective' report was to demonstrate that the healthy state of public finances (as revelaed by the high level of budgetary surplus) fully justified France's involvement in the American Revolutionary War. Necker, who had made a fortune through speculation in his career as banker, wanted to statistically demonstrate that with finances so solid it would be easy to borrow money for another war against the traditional enemy, Great Britain. The fact that France was already heavily indebted due to substantial borrowing under his own direction was judiciously omitted from the report.

The Cold War provides a striking example of how politics may influence official use of statistics. Nikita Khrushchev famously boasted in 1957: 'Growth of industrial and agricultural production is the battering ram with which we shall smash the capitalist system'. Immediately the US responded by making the growth rate, rather than the level, of GNP the centrepiece of its official statements backed by appropriate statistics.

For statistics to be influenced by politics is one thing, to be manipulated for overtly political purposes is altogether different. It belongs to the realm of serious malfeasance. Soviet progress under central planning was real enough, but the official statistics required some scaling down. Similarly, Chinese data used to be notoriously unreliable. The quality has improved now, but still calls for close scrutiny by experts. But, possibly the worst offender in recent years is Greece.

To qualify for European Union membership countries must satisfy certain criteria, one of which is sufficiently low budget deficit to GNP ratio. The Greek government grossly manipulated both national income and deficit figures to meet the criteria. Eurostat officials expressed grave doubts, but Greece was granted membership nevertheless for geo-political reasons. That was a big mistake, the sort of mistake that encourages wrongdoers. In 2014-15 Greek politicians claimed that national income figures were being understated to make the country eligible for big-ticket bailout by the Union. The economy was really stronger than that. Andreas Giorgiou, the national statistician, was forced to resign in 2016. The country's international creditors insisted his replacement must be approved by an international panel of distinguished statisticians.

Industry lobbying can lead to changes in the construction and display of 'hard' statistics. One fundamental principle of GNP estimation is that it should include only final sales, excluding intermediates as their value is already included in final sales. A strong case can be made that most financial services are intermediate in nature. Valuation of such services itself is fraught with serious conceptual difficulties. But the power of the finance lobby has led to methodological revisions that have significantly boosted the contribution of the sector to overall growth of GNP. This growth importance provided the major basis for wide ranging financial deregulation in the capitalist countries since the late 1980s. The devastating Global Financial Crisis of 2008-09 was the direct result.

What is happening in India at present is very alarming. It has transited from simple manipulation to one of almost Grecian proportions. It is the tragedy of a great edifice being destroyed bit by bit. Let's briefly look at the history of that edifice.

Although an official statistical system was already in place during the Raj, serious efforst to strengthen it began only in the 1950s, when India launched its unique experiment of comprehensive planning in a democracy. The whole statistical infrastructure was revamped under the leadership of P.C. Mahalanobis backed by Prime Minister Nehru. Systematic data collection on a very wide front was started by the National Statistical Organisation (NSO) using the methods of sample surveys developed and refined by Mahalanobis and his team. It inspired similar exercises elsewhere in the developing world. Indian official statistics came to enjoy high prestige globally because of its high quality, embodying scientific rigour in the processing and presentation of raw data collected from farms, factories, other production units and consumers (urban and rural) from all corners of a vast country.

With Mahalanobis's death in 1972 the system lost its powerful leader. The Planning Commission's power and prestige also declined over time. In the early 2000s a high powered committee was appointed under the chairmanship of C. Rangarajan for a thorough review. It suggested numerous reforms, of which only a handful was half-heartedly implemented.

After coming to power in 2014 the Narendra Modi government replaced the Planning Commission with NITI Aayog. This think tank and the Ministry of Statistics and Programme Implementation (MOSPI) are in charge of looking after official statistics now. Are they doing their job well? Unfortunately, most experts feel that together these two entities have brought the system to the verge of a major crisis. Statistics have become a political instrument, objectivity and credibility have taken a nosedive in consequence. Honest appraisal of government policy using official data has become nearly impossible.

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A dense data fog has been generated to hide the true state of the economy, especially in regard to the plight of the poor. For measuring the depth and extent of poverty data on per capita consumer expenditure is essential. An embarrassing National Sample Survey (NSS) Report came out in late 2019, which was very promptly suppressed by the government. Leaked figures revealed a drop of 3.7 per cent in real per capita monthly consumption spending over the period 2012-2017, with a larger decrease in rural areas. Calculations made by a member of the World Bank's Commission on Global Poverty using the leaked data showed that 320 million rural Indians lived in acute poverty in 2017-18, fifty million more than just six years earlier. This is consistent with the sharp drop in rural per capita consumer spending.

Official response was that the survey's estimates were contradicted by consumption data in National Accounts Statistics (NAS), and hence not reliable. This is hardly a tenable defence because NAS procedures are often dubious in themselves. (The persistent, and actually widening, discrepancy between NSS and NAS data is a deeply disturbing feature of the official statistical system.) For example, the size of the informal sector is assumed to vary in tandem with the formal sector. This was certainly not true in the period following demonetisation, when informal activities suffered a disproportionately heavy blow.

Because of the pervasive fog or simply unavailability of data on consumer spending or unemployment and similar items researchers are often forced to turn to surveys by private organisation like Centre for Monitoring the Indian Economy (CMIE). Quality is above reproach on average, but the cost is prohibitively high. Majority of researchers and their organisations cannot afford that cost. As a result, work on consumption based poverty or deprivation measures has virtually come to a standstill.

India's once reliable statistical system built up over the years has been reduced to a shambles within a very short time. It's a familiar situation with all institutions - hard to build up, easy to destroy. One must keep on hoping for the day when good sense and good statistics will prevail once more in our troubled land.

Suggested Reading

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