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Stiglitz' caveat on 'Great GDP Swindle'- Now India must respond!

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The history of economics is crowded with rise and fall of many a sticky myth- perfect competition, supply creates its demand (Classical), price equals marginal cost of production (neo classical), increased public spending leads to recovery in a time of recession (Keynesian), a centrally planned economy knows no crisis (Soviet style socialism) and the like. But the wonder of wonders is the myth of GDP (Gross Domestic Product), which, though occasionally assailed for its inadequacy and ambiguity as a tool of measuring the national income, still continues to rule over the economic thinking of the nation-states and global forums, as if in a whining defiance to its seasonal and not-so-bold detractors. What is however most intriguing is the fact that unlike other myths, each of which had at least the backing of pure theory, the one that emerged around GDP is neither theoretically tenable nor practically reliable; yet it reigned and does still reign sovereign like, over countries and continents, official think-tank and personages of real politick, with no sign of relenting.

Nearer home, just look at para-7 of Budget Speech of India's FM delivered on 6th July last in the Parliament (<http://indiabudget.nic.in/ub2009-10/bs/speecha.htm>) – “*The first challenge is to lead the economy back to the high GDP growth rate of 9 per cent per annum at the earliest. Growth of income is important in itself, but it is as important for the resources that it brings in.*” What could be a better illustration of a country's typical GDP mania than the above utterance? However, to an informed observer, the FM's brazen display of GDP addiction seems to be out of sync with current ripples of GDP controversy that have surfaced in some G-20 countries like France and USA with whom India has been conferencing as a part of collective effort to smooth over the ongoing global recession. India's FM is supposed to have been abreast of the agenda of the 'Commission on Measurement of Economic Performance and Social Progress', formed in Feb. 2008 by French President Nicholas Sarkozy with Prof. Joseph Stiglitz a Nobel economist as its Chairman and Prof. Amartya Sen, another Nobel economist as its Advisor and with 22 member-experts including Prof. Bina Agarwal from India on its panel. As scheduled, after eighteen months of its formation the Commission submitted its 292-page Report (http://www.stiglitz-sen-fitoussi.fr/documents/rapport_anglais.pdf) on 14th Sept 2009 in fulfillment of its principal mission- “*to identify the limits of GDP as an indicator of economic performance and social progress, including the problems with its measurement; to consider what additional information might be required for the production of more relevant indicators of social progress; to assess the feasibility of alternative measurement tools, and to discuss how to present the statistical information in an appropriate way*”. No

doubt, given the path-breaking tenor of the Commission's undertaking, a spate of debate was bound to rage all over even while the final Report containing its detail analyses and recommendations was not yet out. In fact, economists from different parts of the world did partake of the fresh, latest bout of GDP discourse, which was triggered off by the very iconoclastic ambition of the Commission to supplant the GDP as a yardstick of computing economic growth.

To India's credit, Prof.Jagdish Bhagwati from Columbia University, who has a live connection with Indian affairs and Prof.Amit Bhaduri Emeritus Professor of JNU, New Delhi were found to have joined in the GDP polemics. But to India's woes, Prime Minister M.M.Singh and Home Minister P.Chidambaram, who are well-groomed professionals themselves in the discipline of economics and reputed for their knack of responding to each and every major global issue of the day, were found conspicuous by their silence on the GDP controversy, belying the expectations of a curious citizenry. Should one say, they were seized by a strange anxiety that an open utterance by them vis-à-vis the current GDP debate would stir up a hornet's nest all across the country's official intelligentsia, which remains to this day, for no rhyme or reason, enmeshed in GDP orthodoxy, blissfully oblivious of counter-currents that may be blowing against it elsewhere in the world. Be that as it may, both Mr.Singh and Mr.Chidambaram along with VC Planning Commission Mr.Montek Singh Alhuwalia ought to appreciate that GDP as a theory or as a tool was invented neither in India nor by an Indian nor to address to any contingency India faced.

It was in deed Prof.Simon Kuznets a Russian émigré who, commissioned by the Government of USA, submitted an elaborate design of GNP (Gross National Product) to American Congress in 1934, which was renamed as GDP w.e.f. 1991. It is worth noting that Prof Kuznets, who almost single-handedly scripted the GDP thesis, had himself listed out several limitations, on account of which the new technique, though adequate to measure the monetized components of national income, couldn't be relied upon as a faithful and comprehensive yardstick for measuring economic welfare as a whole which comprised too a wide range of non-marketable efforts (<http://library.bea.gov/u?/SOD,888>). India like most other countries of the world simply borrowed it and has been applying it ever since, no matter it benefited or bedeviled the country's economy. Moreover, the above trio should always keep it in mind that the concept of GDP was originally born with a limited portfolio under its disposal i.e. to add up all items of expenditure by the nationals of a country into a single magnitude expressed in monetary terms, called 'national income'.

And mind you the historical context, in which the GDP took birth, received finesse and got entrenched into the official economics in USA and other industrialized countries. It spanned mid-1930s (aftermath of Great Depression), decade of 1940s (Second World War and aftermath) and decade of 1950s (massive post-war reconstruction work). No wonder, the priorities of this historical era necessitated investment of massive sums of money by every industrialized country to meet the post-Depression recovery needs, to liberally fund War efforts and then to rebuild the war-ravaged regions as fast as possible. The hectic spirit of the times didn't allow any Government to shrink back from

any spending proposal on the ground of size, or much less, to envisage a collateral or consequent damage of any kind. Thus GDP mantra, which believed that the benefits would automatically flow from the costs and there existed no need for a cost-benefit analysis as such as is practiced in respect of a firm, became soon not only the idiom in currency, but the too-beloved icon of the linear, one-track and non-stop model of progress for the Governments in all the major industrialized countries, to be aped too quickly by the rest including India. Then the inevitable happened. The mad rush for GDP, as was anticipated then by a few detractors here and there, brought in its trail the depletion of non-renewable natural resources and ecological disaster, besides accentuating the frequency of cyclical ups-and-downs in the economy. It is in this backdrop that the very industrialized countries, which had once pushed the drive for GDP growth to a center-stage, are now desperately seeking its reversal. And here in lies the unique significance of the Stiglitz Commission, set up by the French Government and sympathized with by the rest of the industrialized world.

Manmohan-Chidambaram-Montek-Pranab & Co. ought to remember the historical fact that the GDP dogma, a borrowing from industrialized world, was hastily and thoughtlessly grafted to India's official economics, merely under the impact of an international demonstration effect. Decades of its application on, it's rationale, if there be any, remains inscrutable to the entire spectrum of thinking Indians. They should further recall the all-too notorious but irrefutable finding about the GDP-based growth story that has shocked public at large in the very countries which once scripted and pioneered it. We are now told to our dismay- not only such otherwise avoidable, and unconscionable acts of man as corruption, crime, pollution, neglect of healthcare and depletion of natural resources, but also natural calamities like flood, drought, cyclone and earthquake etc., all contribute favourably to the GDP growth. In a nutshell, more we suffer from them the larger would be the size of GDP. It won't be wrong to infer, the GDP credo, which might have served some countries in some parts of the world at some point of time in the past, has however squarely failed India and is primarily responsible for having pushed India to a situation where it is now willy-nilly. It is simply incomprehensible, how and why the entire brigade of India's official economists including, on top of all, Manmohan and Chidambaram, keep an absolute mum over the currently sweeping world-wide debate on future of GDP, and such a contrived silence, they should know, pleases neither their fellow economists in academia at home nor the Sarkozy-like statesmen and Stiglitz-like free thinkers abroad.

The 4-page Oriya article entitled 'The GDP mirage, is there a way out?' <http://www.box.net/shared/cduskth04j> has been prepared as a part of the popular series on demystifying India's budgetary process, promised by the author before a CRY-sponsored forum of VCRO (Voice for Child Rights Organisations), which first met on the subject on 18th Aug 2009 at Bhubaneswar.

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