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Changes in GDP Methodology

India currently is estimated to be $ 2.1 trillion economy growing at the rate of 6-7% annually. In 2014-15, it is projected to grow at 7.4% surpassing China, a $ 9.5 trillion economy. While these numbers have put India in the league of fastest growing nations, the euphoria may be short-lived as these new growth numbers have little to do with real growth and more to do with the change in the way GDP is calculated in India. The new data series, launched in January 31st 2015, has projected high sectoral growth rates for the manufacturing and financial sector for the years 2013-14 and 2014-15. However, these have surprised economists all over the world, as these projections are not reflected in the data available on India's factory output growth and bank credit for the same.

What are the changes?

There has been a change in GDP methodology from a '***factor***' based approach to an '***expenditure***' based approach. GDP, as we know, is the total value of all goods and services produced within a given year. It can be calculated through income, expenditure and output approach. The output approach to GDP sums up the value of sales of goods after adjusting the intermediate goods used in production. Income approach to national accounting adds up the money incomes of the factors of production in society while the expenditure approach takes into account the total domestic spending on all final goods and services. Thus, India has moved on to an expenditure based approach and will compute its national income by taking into account all domestic expenditure on final goods and services such as consumption expenditure, investment expenditure, government expenditure and net exports. It is important to note that GDP at factor cost or basic prices refer to the prices of products as received by producers and is calculated after deducting indirect taxes and adding subsidies to GDP at market prices. The price paid by the consumers is not the same as those received by producers as indirect taxes and subsidies drive a wedge between them. Thus, GDP at market prices will include indirect taxes and exclude subsidies. For calculating real GDP, the base year has also been revised from 2004-05 to 2011-12. The base year needs to be changed periodically to factor in structural changes in the economy and present a more realistic picture of the macro-economic aggregates. The new series of gross domestic product data has expanded its coverage of manufacturing and under-represented sectors such as farm, corporate and un-organized sectors. There will also be better compilation and collection of data. The data for corporate income will be collated from the corporate affairs ministry's MCA21 records, a comprehensive compendium that allows collecting granular information even from the level of the small firms. In the earlier series such data was taken primarily from the Reserve Bank of India's study on company and finances encompassing only 2500 companies. The new series is also expected to incorporate results of recent national sample surveys such as those on enterprises, unemployment, debt and investment, situation assessment of farmers and survey of land livestock holdings.

Why was it important?

This revision of GDP methodology and improvement in data collection was important to put India at par with GDP computation norms followed globally. At present, IMF's world economic outlook projections by IMF and World Bank statistics are all based on GDP at market prices rather than factor cost. This is also likely to affect a wide range of macro-economic indicators such as public expenditure, taxes and public sector debt that are conventionally analyzed in terms of their ratios to nominal GDP. Also, India's GDP did not include what that the Government received. Now, what it earns by way of indirect taxes such as sales tax and excise duty after deducting subsidy is also factored in. The change in base year was also necessary to ensure that the products and services included in the GDP calculation do remain contemporary and reflect the present state of the economy.

Implications for India

It is important to note that India is making a concerted effort to develop a strong manufacturing base. The current BJP- "Make in India" growth model involves the government spending a significant amount in developmental projects and structural reforms. The new GDP methodology ensures that the rising fiscal stimulus undertaken to propel these sectors is factored in at the expenditure level. Also, given the importance of exports for a growing economy, an expenditure-based approach also ensures the net value-addition of the goods and services being exported and imported through its 'net export' component. The expenditure provided through value-added services from the private sector is also being priced at a higher level than before by including marketing spend which was not included in the 'factor-based approach'. The high GDP growth rates, as per the new methodology, can help investors to view India in a more favorable light and boost foreign investment. However it would also require revisions of fiscal deficit, budgetary policies and targets.

NITI Aayog Replaces Planning Commission

NITI Aayog has replaced the Planning Commission-India's central planning agency. The Planning Commission has served as India's apex policymaking body for 65 years. However, since then, the country has undergone a metamorphosis from an under-developed economy to an emergent global nation. Given the changed dynamics of new India, there is a need to introduce institutional reforms in governance that can seed and nurture large scale change. NITI is an acronym for National Institution for Transforming India (NITI). According to our PM Narendra Modi, "*NITI Aayog is a pro-people, pro-active & participative development agenda. Through NITI Aayog, we bid farewell to a 'one size fits all' approach towards development. The body celebrates India's diversity & plurality*". NITI Aayog is aimed at providing the government at the centre and the states with relevant strategic and technical advice across the spectrum of key elements of policy. This will include matters of national and international import on the economic front, dissemination of best practices from within the country as well as from other nations and the infusion of new policy ideas and specific issue-based support.

How is NITI Aayog different from Planning Commission?

NITI Aayog

- Formed on 1st January 2015
- Advisory body or think tank- the power of financial allocation among states to be vested with finance ministry
- Fewer full time member
- Will promote Co-operative federalism
- More active role to be played by states
- Genuine and continuing partnership with the states
- Will cater to the needs of the state through regular interactions/ initiating pilot projects / sample testing etc
- Will design National –state agenda and foster a spirit of co-operative federalism
- Will follow a Bottom-up Planning approach

Planning Commission

- Formed 15th March 1950- died after Modi became PM in 2014.
- Enjoyed the powers to allocate funds to ministries and state governments.
- Eight Full-time members
- Promoted Centralized planning
- States' role was limited to the NDC and annual interaction during plan meetings
- Centre to state one-way flow of policy
- Followed a one size fits all policy for central sector schemes.
- Designed FY Plans
- Followed a Top-down Planning Approach

The NITI Aayog will work towards the following objectives

- To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States
- To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong States make a strong nation.
- To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
- To maintain a state-of-the-art Resource Centre, be a repository of research on good governance and best practices in sustainable and equitable development as well as help their dissemination to stake-holders.
- To actively monitor and evaluate the implementation of programmes and initiatives.

It is evident that the functioning of the Planning Commission has lost its relevance in present times. It is considered to be a toothless body and has failed to inject transparency and accountability among state ministries and departments with regards the usage of funds. It has also been severely criticized for its failure to implement land reforms, faulty policies for MSME, one-size fits all policies approach for CSS etc. Its birth is therefore considered fortuitous as India is poised to become an emerging superpower and one of the fastest growing nations of the world. The continuing global integration – politically and economically - has to be incorporated into policy making as well as functioning of the government. Thus its formation has been a step in the right direction. The opposition regards the initiative as 'old wine in new bottle'. Ironically its literal interpretation in hindi implies 'policy commission' with a similar mandate of the planning commission. Like PC, NITI Aayog too is a non-Constitutional, non-statutory body formed by a cabinet resolution. It is not accountable to the parliament, and if line-ministries fail to achieve targets, NITI Aayog does not have the power to punish them. While it is too early to write-off this effort of the Narendra Modi led BJP government, a lot will depend on how NITI Aayog evolves and becomes relevant to the changing development needs of the nation.

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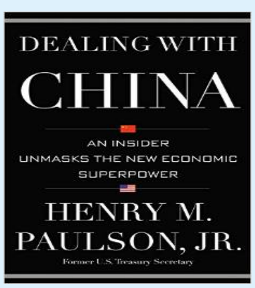
goodreads



Dealing with China: An Insider unmasks the new Superhero

by *Henry M. Paulson* Jr.

Dealing with China, the book explores the truth behind China's phenomenal rise in the recent times. It also takes the reader behind closed doors to witness the evolution and future of China's state-controlled capitalism.

Web Watch

World economic Forum Session on ***A New India: Fair, Free and Prosperous***
@
http://www.weforum.org/events/india-economic-summit