Making sense of growth rates in the time of Hartals

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The International Monetary Fund (IMF) has lately come up with an estimate of

gross domestic product (GDP) growth of 6.0% for fiscal year (FY) 2012-13. This comes after the World Bank suggested a figure of 5.8%, and Asian Development Bank (ADB), of 5.7%. What do we make of this? How seriously should we take these numbers?

For one, we seem to be over-playing the importance of this one measure of economic performance at a time when the economy is in the grip of hartals. Some of the world's leading Nobel Laureate economists have questioned the wide use of GDP as an indicator of well-being and its growth rate as a measure of progress. So much so that former French

President Nicholas Sarkozy set up a Commission on the Measurement of Economic Performance and Social Progress to examine what was missing in conventional GDP measurements in light of the wide-ranging changes that were taking place in our world today and the emerging challenges to sustainable development from climate change and other events such as the global financial crisis. The Commission, which included Joseph Stiglitz and Amartya Sen, came up with the provocative report in 2010, Mis-Measuring Our Lives: Why GDP doesn't Add Up.

Yet, for all the skepticism expressed over GDP and its growth rate as an indicator of how well or how poorly we are doing as a community or society, its popularity and usefulness among economists or the press has hardly waned. Whether it is the impact of the global financial crisis on developed, emerging, or low income economies, or the progress in European and US economies in digging out of the crisis, though the magnitudes of public debt and unemployment are in the picture, the focus of international agencies like the IMF and World Bank as well as economists around the world is constantly on the one critical indicator — GDP growth, as a signal of how rapidly or poorly the affected economies are coming out of their predicament.

So it is not surprising that we Bangladeshis — economists and the media alike — should be so much in awe of this one indicator, which we have come to believe as the be all and end all of economic progress. To be fair, we have a vibrant print and electronic media — 26 TV channels and 50 plus daily newspapers, at last count. They are hungry for news on the economy and who else but gullible economists to meet their thirst. Therein lies the danger of making too much out of too little or incomplete research.

GDP growth rate — current and projected — is constantly on the radar screen. At budget time, at end of the calendar year, and anywhere in between, we are all eager to know whether the economy is on track to achieve its targeted or potential growth rate. Policy success or failure is judged by whether or not targets are met — or not met. In times of crisis, prescient economists are all the more in demand for a quick assessment of where things stand in terms of growth rate, as if growth alone summed up the national predicament, to the neglect of all the miseries and tribulations caused to so many lives and livelihoods.

This is very much the scenario in Bangladesh today, thanks to the ubiquitous and unyielding phenomenon of hartals that has gripped this hapless nation, with no end in sight. Thus far, the pleas from all corners of civil society for a show of restraint and good sense have fallen on deaf ears. The common man or woman, in whose behalf apparently all this is being orchestrated, seems held hostage to the larger game of political confrontation and brinkmanship that brooks no scope for compromise, as of now.

To be sure, there are human costs, and there are economic costs of hartals. Since hartals are fast becoming a unique Bangladeshi phenomenon, it is up to Bangladeshi economists to engage in some serious research to figure out how much or how little the economy suffers as a result. It is a pity that that has not been done.

That being said, the simple truth is that the quest for an economic indicator of the damage suffered by the economy will go on. And some economists will be pressed to churn out numbers, however imprecise they might be. So, I would like to suggest to our readers that given that Bangladesh Bureau of Statistics (BBS) does not compute quarterly or biannual GDP estimates, any estimate of GDP and its growth rate made before BBS comes up with their annual GDP figures must be taken with a large grain of salt.

Prior estimates, particularly by international agencies, have to be purely judgmental, since they do not have access to the myriads of coefficients and parameters used for GDP computation which, in Bangladesh, is done exclusively by BBS through various indirect methods, with a margin of error that is considered acceptable in most developing countries. In the circumstances, anyone coming up with a GDP growth figure estimated down to one decimal point evokes disbelief. True, an agency could make conjectural estimates of GDP growth using updated information on some key variables like crop production, manufacturing production, export, import, and remittance figures, financial sector performance, and the losses suffered to all these areas due to hartals. On that basis, one could at best come up with a range of estimates rather than a point estimate.

Moreover, no one knows whether the year will end with 30, 40, or 50 days of hartals. So, rather than stating that, due to hartals and their deleterious impact on the economy, GDP growth for the coming year is going to be 6.0%, 5.8%, or 5.7%, I think a more sensible pronouncement would have been to indicate a range, such as 5.5% to 6.0%. It is time to show some humility and accept the fact that economists are far better in analyzing the past than in predicting the future.

Having said that, it is also important to reflect on the advantage of having one GDP growth figure rather than a range. Although it is well-nigh impossible to precisely predict what actual GDP and its growth rate will be at the end of a fiscal year, BBS has to project a GDP figure at budget time for annual planning purposes because so many other macroeconomic aggregates depend on this one figure — e.g. revenue and expenditure estimates, fiscal deficits and their financing, trade balance, current and capital account, these are all expressed in relation to projected GDP. Imagine, how complicated a budget would become if its components were stated in terms of a range of GDP and its growth!

Be that as it may, at this point in time, it is all too clear that the targeted growth of 7.2% in FY13 would be impossible to achieve. It would be fair to debate on whether this growth will be more than or less than 6.0%. Some of us might be confident that, despite all odds, the economy is resilient enough to clock over 6.0% growth; others could make a more pessimistic forecast of less than 6% growth, based on rough and ready calculations of the economic cost of hartals. But I am not convinced that anyone has a crystal ball that can accurately forecast GDP growth rate for FY13 down to one decimal point. If any forecast turns out to be true next year when BBS computes the provisional estimates prior to Budget time, that would be pure coincidence.

It is time we began to reflect on how hartals are affecting lives and livelihoods of millions of common folks: the day laborer who gets paid by the day, the street vendor lining the pedestrian walkway, the bus conductor, the garment worker on pay-for-work, and day helpers of all sorts, many of whom would skip a meal or two for lack of any savings from meager past wages. Think of the sick and elderly who could not get to the doctor or the hospital due to hartal – and died as a result. Who takes responsibility for that life lost? What about school children who stayed away from school and did not get the benefit of important lessons in mathematics, science, or literature? Suffice it to say that there are untold human sufferings during hartal which does not make news because they do not lend themselves to any quantitative measure. Yet, failing to take these into account in an aggregate measure would perhaps prompt economists like Joseph Stiglitz and Amartya Sen to describe any GDP growth figure as a case of “mis-measurement”.

What makes news is how much the economy is being battered by hartals: from shops remaining closed; kitchen markets barely functioning; private cars being off the streets thanks to the mindless burning of vehicles; business being slow; potential investors postponing their investment plans while existing investors worrying about poor returns and the specter of defaulting on their loans; the financial sector being hit hard and the capital market stymied beyond redemption, at least for now. Taken together, to an outside observer, this would seem like national hara-kiri of sorts.

It is a pity that all this is happening at a time when Bangladesh was being sought out by foreign investors as the next destination of choice to locate factories for clothing and footwear that would have created another four million jobs in the next ten years if McKinsey &Co. were right in their prediction that Bangladesh's readymade garment export could triple by 2020. If economic history is any guide, such a grand opportunity is not known to be everlasting when competing nations like Vietnam, Myanmar, and Indonesia are also inviting the same investors. J.P. Morgan and Goldman Sachs might be reconsidering their assessment of Bangladesh among the "next 11" or "frontier five" destinations. It is time for the nation to wake up and aggressively press all contending parties to reach a meaningful resolution to the political impasse in the interest of the people whose welfare is their ultimate goal! Is there light at the end of the tunnel?