

That elusive growth rate

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Some two decades ago, economists surmised that income gaps between developed and developing countries would continue to widen with no possibility of catching up in the foreseeable future. Early in the 21st century that notion has been turned around. Sustained high growth rates achieved by countries like China and India has hinted at the possibility of narrowing income gaps over time. Indeed, China has shown the way, by becoming the leading exporter in the world; soon to become the second largest global economy, after USA.

Even the Bangladesh economy shows signs of moving to a higher growth trajectory in the near term. There are optimists who believe the country's inherent potential has not been exploited to the full. The consensus among optimists, if I read them right, is that the economy is not growing fast enough; that is, its growth performance is well below potential. Debate and discussion among professionals, in particular, is about what the potential rate of growth might be if prevailing constraints of energy and infrastructure were to be removed.

The economy has enjoyed the gift of macroeconomic stability for nearly two decades. So the foundation for higher growth has been laid. Though not all is well, compared with past decades, there is every sign that the economy has turned a corner. As far as growth performance is concerned, the 1970s and 1980s could now be described as the lost decades. In the 1970s, growth was erratic, at best, averaging only 2.6% for the decade. Those were the early years and one might think economic policymakers were still searching for the right mix of policies. An occasional burst of 6.0% growth was not sustained. Bangladesh embraced the structuralist paradigm of a closed import substituting economy with all shades of public intervention in the marketplace. That was not a policy paradigm that would yield high growth. Though the 1980s saw some modest change in this approach to economic policy, no breakthrough appeared on the growth scene. So by the close of the decade the economy

seemed to have resigned to a low growth syndrome, and the average growth rate for the decade worked out to only 3.7%.

The 1990s saw significant policy change - in de-regulation, privatization, trade and investment liberalization, and the like. Result? The decade ended with an average GDP growth rate of 4.8%. This trend continued into the 21st century, as the average for the immediate past decade works out to 5.9%. Decadal average growth rate has been rising by just 1.1 (Table 1), as if it has been held captive by some external force.

Decade	Avg GDP growth rate (%)	Increment in average growth
1972-80	2.6	
1981-90	3.7	1.1
1991-00	4.8	1.1
2001-09	5.9	1.1
Source: BBS and PRI staff estimates		

At this rate of growth increments, the economy is expected to clock an average GDP growth of 7% for the decade. That will not be enough to take the economy on to its desired middle income status even by the close of the decade. The challenge is to reach a higher growth trajectory of 8.0% for the ensuing decade by coming out of the incremental bind of 1.1 experienced over the past three decades in a row. Those who believe this is within the realm of possibility are growing in number. High growth of 8.0% is not merely a statistical artifact. Economies that attained such high growth on a sustainable basis have also experienced rapid poverty reduction, with perhaps an initial burst of inequality that eventually tapered off. Most analysts would argue that removing the power constraint opens the first window of opportunity. Commensurate investments in infrastructure could then firm up the 8.0% average growth prospect for the decade and take Bangladesh into middle income territory. Professor Salim Rashid, a leading American economist of Bangladeshi origin, recently presented research that laid the case for a potential growth rate of 10% annually!

All this sounds fine except there is one catch: growth accounting. One major area of concern for researchers and analysts is the credibility of statistics of national output and its rate of growth. The task has been resting on the shoulders of a not-so-well-heeled entity of Government - the Bangladesh Bureau of Statistics (BBS). With its limited staff and resources,

it goes to the credit of BBS that it continues to generate a plethora of national statistics on such diverse subjects as infant and maternal mortality rates to inflation to index of industrial production.

Sadly, the quality of these statistics leaves much to be desired. Furthermore, lack of timely updating of parameters and adjustment of base year — as is the case with inflation and GDP statistics —, raises real concerns about credibility of some of the published estimates. Thus GDP and inflation estimates could now fall in this category. As for GDP, the base year of 1995-96 has remained unchanged for 15 years while its structure and composition has undergone significant transformation. Yet, to my knowledge, the set of coefficients and parameters used to compute value addition in various economic activities have not been updated through the required periodic surveys. For instance, use of technical inputs and fertilizer in agriculture has changed dramatically, with HYV Boro becoming the leading crop. Again, the construction industry has undergone significant transformation in the application of technology and use of mechanical appliances. Cement and rod is still used but in different combination, because steel and glass frames are being widely used. Consequently, the notion of value addition in agriculture or construction (which makes up about 8.0% of GDP) has undergone significant change.

Finally, it does not escape our notice that the BBS as an institution has suffered diminution of profile in the national pecking order. Whereas it has the last word on estimates of GDP growth, other government agencies like Bangladesh Bank or Ministry of Finance steal the limelight in projecting growth rates at the start or somewhere in the middle of the fiscal year. Even multilaterals step into the fray with their own estimates/projections which are then widely quoted in the press. Typically, the local press often fails to distinguish between projections and actual. In the end, what is speculative at best tends to become the real number — a fait accompli of sorts.

GDP growth figures announced in the early months of a fiscal year rests on assumptions that might or might not hold later in the year. Objective analysts often wonder if BBS would have the gall to deviate from the GDP growth estimates announced during the year by their higher profile colleagues in Government? Perhaps not. Given the fact that estimation of national accounts in our country has to adopt indirect methods to capture all available information on output of goods and services during the year, and the use of value addition coefficients in

various economic activities becomes a necessity, it also presents the scope for tweaking some coefficients embedded in the computations in order to achieve the “desired” growth rate.

To the informed analyst, credibility of GDP growth numbers is affected in at least two ways. First, as already mentioned it is the failure to periodically and timely update the base year and the coefficients and parameters used in estimating value added in economic activities (GDP is an aggregation of value added in all activities). Second, it is the non-transparent nature of handling the set of these coefficients which, to economists and analysts, becomes almost like a black box. What is worrisome is that by tweaking some of these coefficients or parameters it is possible to easily make a difference of several percentage points in the estimate of growth rate in any particular year. To elucidate this point, if GDP growth works out to, say, 6.0% after computations, it is possible to iteratively tweak some of the parameters or coefficients to produce a growth rate of 6.3% without anyone under the sun knowing about it except for the computer operator at BBS. In the absence of a National Statistician who stands high in the warrant of precedence and can be taken as the final arbiter on national statistics, without fear or favor, the incentive is high for a government agency rather low in the national pecking order to try and conform to desired or “politically correct” statistics.

We must break new grounds on creating an environment for national statistics to be credible all the way. As for GDP numbers, it is high time to not only update the national accounts coefficients and parameters, but also, in the interests of transparency, to make the whole set public so that it is possible for specialists and experts to cross-check, if necessary, and ascertain the accuracy and veracity of official estimates of GDP and its growth. It is also time to do a fresh technical review of the national accounting system of the sort that was done during 1997-98 with the help of an expert group.

The long and short of it is that GDP growth estimates have to be robust and stand the test of professional scrutiny at all times. (Dr. Sattar is Chairman, Policy Research Institute of Bangladesh. He can be reached at e-mail: zaidisattar@gmail.com)