THEIR VIEW

Our growth needs deep analysis more than constant trumpeting

A close look at Indian GDP trends in international comparison raises questions whose answers could help us perform better

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Reality and rhetoric: Some surprises

Bangladesh has done better in recent years than it gets credit for while India's hard covid blow calls for a closer look at annual growth data.

All figures in %

IMF WEO database January 2023 update	Average growth 2014-22	Average (trend) 2014-18	Average growth 2019-22	Output loss 2019-22
China	6.1	7.0	4.9	-8.3
India	5.5	7.4	3.2	-18.2
Indonesia	4.1	5.0	3.0	-8.4
Malaysia	3.9	5.2	2.2	-13.0
Thailand	1.8	3.2	0.2	-13.0
Vietnam	6.0	6.8	4.9	-7.7
Bangladesh	6.6	6.7	6.4	-1.4
Pakistan	4.1	4.7	3.5	-4.9
Japan	0.4	1.0	-0.4	-5.7
US	2.1	2.4	1.7	-2.9
Euro Area	1.6	1.9	1.2	-3.4

Source: International Monetary Fund

SATISH KUMAR/MINT

Although India is among the world's fastest growing major economies, there is still confusion over how to interpret India's growth numbers and how the economy is performing relative to its potential. This confusion derives in the main from three separate factors.

There is, first, the background controversy over the revised GDP series at 2011-12 prices. There is a widely held and influential view that the GDP numbers in the revised series are overestimated during some years.

The second issue is that data from the informal sector, that accounts for the lion's share of Indian GDP, is available only with a time lag. Consequently, trends from the formal sector are projected into the informal sector while making 'provisional' GDP estimates. These are subsequently revised once data from the informal sector is available. Since it is believed that the burden of currency demonetization, GST complexity and the covid lockdown fell disproportionately on the informal sector, one could expect that current provisional growth figures might be revised downwards when GDP numbers are finalized.

The third factor confounding our growth numbers is that most of the public debate in India revolves around headline figures of the Central Statistical Organization (CSO). These are readily available, as they are released from time to time through press notes, and easily weaponized for political purposes. The international best practice in analysing growth data, however, is to look at output loss/gain relative to the trend (medium-term average) growth rate. This methodology takes the base effect out of the equation.

The near-term raw growth numbers look good on two main counts. First, International Monetary Fund (IMF) data shows India as the fastest growing economy in the world currently. Second, near-term quarterly and annual headline growth numbers look superlative on account of the base effect deriving from the sharp slowdown in 2019-20 and economic contraction in 2020-21. Causes for the 2019-20 growth dip are unclear (possibly the lagged effect of demonetization and introduction of GST), while the GDP shrinkage of 2020-21 is attributable to covid. Thus, while GDP growth of 7% provisionally estimated for 2022-23 by the CSO (and 6.8% by the IMF), is very good by global yardsticks, the average annual growth over the four years ending 2021-22 is just 3.2%.

India's growth needs to be benchmarked with Asia, where India is located, as Asian economies have higher growth potential. The table here shows average growth (a) over the calendar years 2014-22, (b) over 2014-18 (assumed to be the trend growth as it excludes the last four atypical years of crisis and recovery), (c) during the last four years (2019-22), and (d) the output loss over the last four years for major Asian economies, the US and the Eurozone. These calculations are based on data contained in the IMF's *World Economic Outlook* database last updated in January. The results of the exercise are surprising. First, it emerges that the fastest growing major Asian economy over this seven-year period (inclusive of the crisis period) was neither China nor India, but Bangladesh.

Second, while global attention is focused on China's growth deceleration on account of a trend of autocracy deriving from 'Xi Jingping Thought' that privileges security over economic growth, the deceleration over this period has actually been sharper in India despite a more favourable demographic profile. The political economy of autocracy—hubris and unpredictability in decision-making, circumscribed consultative mechanisms, accounting and transparency issues, and excessive reliance on loyal favourites who tend not to tender honest, fearless advice—has thrown cold water on the China story, globally, with its forward-looking growth projections being marked down. This should be a cautionary tale for India.

Third, even as there is talk of an ongoing economic crisis in Pakistan, its average growth during the last four years was higher than that of India. China and Vietnam grew about 50% faster, and Bangladesh twice as fast. During this period, Bangladesh overtook India's per capita income.

The inconvenient truth is that our neighbours both on the east and west have on average done better than us on economic growth over the last four years. This should serve as a wake-up call and lead to introspection and corrective steps.

Fourth, an output loss of 18.2% of GDP over the last four years in India is very high. Some of this can be discounted, as all countries suffered output losses, and emerging markets more so. Even so, this is a very substantial loss by any measure, by far the highest among the countries in the table, and significantly higher than that of China and our South Asian neighbours that appear to have weathered the covid crisis better in economic terms.

A plausible explanation for this outsized output loss is that average growth between 2014 and 2018, based on official data, is overestimated. If this trend rate is downgraded by 1 percentage point from 7.4% to 6.4%, the output loss comes down to 7.9%, around the arithmetic average of the countries in the table, excluding India. Such downgrading would displace India as the fastest growing economy in the pre-crisis period, with China, Vietnam and Bangladesh then placed ahead.

Five questions arise from the above analysis. First, why is India's output loss so large? Second, what corrections need to be made to GDP numbers in the 2011-12 GDP series? Third, how much of this output loss is a dead loss unlikely to be recovered, and how much can be recouped through future growth? Fourth, has trend growth shifted downwards, and if so, to what? Is this 5% to 5.5%, the overall average of 2014-22, depending on lower trend growth assumptions for 2014-18? The true extent of the long-term damage would be known only once data for the informal sector is finalized. Finally, what might or could be done to raise trend growth going forward?

MINT CURATOR

Wealth taxes have always been a tempting but unhelpful idea

They're hard to collect properly and distort the economy too much

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California is among the US states that are considering a wealth tax ISTOCKPHOTO

There is a good reason we do not tax wealth directly. Actually, there are many good reasons. But that's not stopping some states from giving it a try. The best thing to be said about their efforts is that they probably won't work. But it's still a bad idea because even trying to collect this tax require resources states don't have. There are much more effective options for targeting wealthy people for tax revenue that are better for the economy. Some the US is already doing, such as state property taxes, federal capital gains taxes and estate taxes on inheritances. The last two are collected upon an event, when assets are sold or are transferred to another person.

But new bills this week by California and Washington propose taxing their richest residents 1% to 1.5% each year. Four other states including New York and Illinois propose taxing unrealized capital gains, or taxing wealth based on how much it grew in the last year whether or not you sold any assets. How these states will handle assets that lost value is unclear.

Crafting good tax policy starts with a question: How much will it distort economic behaviour? Taxes that impose the fewest distortions incur the least waste and economic harm. Many economists say that wealth taxes create the most distortions, followed by income and consumption taxes.

The problem with wealth taxes is that they discourage saving and investment. A 1% or 2% wealth tax may sound small, but it's very large compared with current tax rates. Since it's levied each year, it's better compared to current taxes on realized capital income. If your assets return 4% in a year, a 1% wealth tax is the same as a 25% capital income tax, and that is on top of existing federal capital gains taxes. These plans drastically reduce the return on risky investment, and rewarding risk is important for economic growth.

But even if you don't think it's important, wealth tax is a bad idea because it will be impossible to implement effectively. Income is relatively easy to measure: Your employer sends you money that is well documented and has an objective value. Overall wealth, especially unrealized capital gains, are much harder to measure. On what day do you assess the tax liability? What if asset values fall between when the tax is assessed and the tax bill is due? If the result of such a tax is that people sell assets around the same time each year to pay their tax bills and just generally lower the return on investments, it can depress asset values for everyone, not just the wealthy. Very rich people also tend to hold a lot of their wealth in assets that aren't publicly traded, either in private equity, in their own businesses, fine art, gold bars or other possessions. California expects to hire people to make this assessment. But it's not easy. The arbitrary nature of valuing a private asset is why many think private equity returns are unreliable. And because privately held assets are so hard to value and easy to manipulate, it creates an incentive to keep assets private for longer and avoid public markets. That would deprive other Americans the opportunity to invest in the best public companies and reduces business transparency.

This is why most jurisdictions have abandoned wealth taxes. They are very hard to implement at the federal level, let alone by states with fewer resources to collect and assess data on wealth holdings. A possible model is Switzerland, where individual cantons have their own wealth tax, but the tax accounts for a trivial share of tax revenue.

A wealth tax is a bad policy based on the economics and feasibility. Collecting it will require tremendous resources that states don't have and it won't produce the revenue they're counting on. It's notable that many states now considering it are those that are losing people to tax-friendlier states like Florida and Texas, and are dependent on the few rich people who already contribute a rather large share of their tax revenue.

But what may be the worst part of these plans is that they inflame the politics of envy, where success is not seen as adding to growth and prosperity, but something to be eliminated. These states all face future fiscal challenges. Promising that a few wealthy people can pick up the public tab is bad economics. States would be better off making their consumption taxes larger and more progressive. They can tax luxury goods like designer clothes, private jet travel or second homes heavily. We can better enforce our existing wealth taxes by eliminating loopholes in capital gains and estate levies.

For now, the odds are these bills won't get much traction. The legal challenges alone will be a hurdle. But wealth taxes will continue to be in the conversation as states and the federal government need more revenue and are reluctant to raise taxes on anyone who earns more than $400,000 a year. Eventually, everyone is going to need to pay more, but there are good and bad ways to do it. Wealth taxes are bad. ©BLOOMBERG

MY VIEW | PARALLAX VIEW

A pogrom whose memory only literature has kept alive

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We know 30 January as Martyr's Day, the date on which Mahatma Gandhi was assassinated. But 31 January also marks a terrible pogrom carried out by the Indian state. Few outside West Bengal—or who have not read Amitav Ghosh's marvellous novel *The Hungry Tide*—would have possibly heard of the little island of Marichjhapi in the Sunderban delta. Here, on 31 January 1979, the state police carried out an operation to evict thousands of helpless people who sought refuge there. When they resisted, they were butchered. No one knows how many were killed that day in police firing or trying to swim away to safety. The official casualty count is a ridiculous two. The actual number may be over a thousand.

In the aftermath of Partition, hundreds of thousands of Bengalis from East Pakistan—now Bangladesh—were forced to flee to West Bengal. The state was swamped by the influx. The well-educated ones—among them, my father—were able to get jobs and start a new life in Calcutta or other cities. But the peasants and fisherfolk who had arrived had no means of livelihood.

However, B.C. Roy, then chief minister of West Bengal, was a man of ideas. He offered land in the Terai region of what is now Uttarakhand, the Andaman islands and in Dandakaranya in central India, where refugees could settle and rebuild their lives. But the Communists, led by then-firebrand Jyoti Basu, virulently opposed the move. They demanded that all the refugees be settled in Bengal. A bureaucrat in the Andaman islands administration once recounted to me how Basu would come to the Calcutta docks and convince people who were about to board the ship to Port Blair to return to their makeshift shanties.

Many of the descendants of those who did go to the Andamans and the Terai are well off today. Those who went to Dandakaranya were less fortunate. The region is mostly semi-arid shrubland and agriculture is tough and unsustainable.

Then, in 1977, the Communists came to power in West Bengal. Basu became chief minister. The wretched of Dandakaranya suddenly saw hope. After all, it was the Leftists who had promised them homes and livelihoods in the state. Many thousands of refugees sold their landholdings and arrived in Calcutta. But the West Bengal government was no longer interested. It was unwilling to listen to their pleas.

Rebuffed in every corridor of power, about 15,000 of them settled in the island of Marichjhapi. In less than two years, they managed to create a sustainable community with a school and a healthcare centre, without seeking any government aid. Then Basu declared that this was illegal occupation of government land and the refugees must return to wherever they had come from. This from a leader who, ever since Partition, had encouraged refugees to squat on land—both government and private-owned—in Calcutta, which led to a proliferation of slums whose inhabitants became a Communist vote bank.

The massacre of Marichjhapi in the Sunderban delta must not be allowed to fade into the mists of time

On 24 January 1979, the West Bengal government clamped Section 144 on Marichjhapi, prohibiting any gathering of four or more people on the island. The island was also blockaded by the police, cutting its people off from food, medicines and other essential supplies. Infants, the elderly and the sick began to die. On 31 January, a massive police contingent, along with "volunteers"—Communist cadre—on a flotilla of motor launches attacked the island and began indiscriminate firing on its residents—men, women, children.

As mentioned earlier, no one knows the actual death count. It will never be known. It was not only bullets that killed. Many terrified victims jumped into the river and either drowned or were claimed by crocodiles that are common in the waters in the Sunderbans. The bodies that the police collected were dumped in the river or in mass graves in the forest No criminal cases were filed against any policeman or politician involved. The survivors were rounded up, brought to Calcutta, and then packed into special trains, whose doors were sealed from outside, and sent back to Dandakaranya.

The story of Jews in Nazi Germany was re-enacted after a gap of four decades. The only bit missing was the gas chambers.

And this was done under a Communist government, which, by definition, is supposed to stand for economic and social justice. The people that it betrayed, slaughtered and sent away were at the bottom of the income ladder, mostly deprived of quality education and from the so-called "lower castes". In other words, they belonged to precisely the marginalized and unempowered classes whose rights the Left has for long publicly agitated for. The Marichjhapi massacre remains horrifically unique in the history of Independent India. Yet, it is largely unknown or has been forgotten.

Writes British-Canadian political scientist Ross Mallick, who researched the carnage: "The election of the Left Front in 1977 was the high water mark of Communism (in West Bengal) as thereafter they never launched a social movement let alone a political one, and gradually descended into corruption and terror, rigging elections, and dispensed state patronage to remain in power for decades." The Left's successor, the Trinamool Congress, now in power for nearly 12 years, has not been any better. After Marichjhapi, all pretences to lofty ideology were dropped. The people of West Bengal would henceforth be governed by the jackboot.