

Under Estimation of Gross Domestic Product

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*The paper lists the sources of underestimation/non-estimation of Gross Domestic Product (GDP). The unorganized segments of non-agricultural industries are underestimated because of the defective methodology, whereas Gathering of Pearls and Chunks and Fish Caught on High Sea in Indian Water by Foreign vessels and the outsourcing of jobs/works to individual contractual and casual labour by government agencies, and large number of freebies are not estimated as part of GDP.

Introduction

The National Accounts Division (NAD) of the Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation, regularly compiles estimates of national accounts aggregates (i.e. domestic product, consumption expenditure, capital formation, saving and capital stock etc.) for the economy as well as for the Public Sector, both at current and constant prices and publishes them in its annual publication called *National Accounts Statistics (NAS)*. These estimates are based on the latest available data on agricultural production, industrial production, government expenditure and other current/partial data received from the railways, communication, non-departmental commercial undertakings etc.

However, some of the economic activities are either underestimated or are getting omitted from the estimation of GDP. These economic activities are as under:

1. Fishing- Gathering of Pearls and Chunks and Fish Caught on High Sea in Indian Waters by Foreign vessels are not accounted as part of GDP.
2. Unorganized Non Agricultural Activities in respect of Manufacturing, Trade, Transport etc.
3. Outsourcing of Jobs/Works by Government Agencies in respect of:
 - a. Electricity and Gas
 - b. Railways
 - c. National Post Office
 - d. Air transport and &
 - e. Public Administration & Defence
4. Money transfer through Western Union and other agencies, Financial Leasing, administration of financial markets, security dealing activities, bureaux de change, financial and mortgage advisors etc. in the corporate sector.

5. Freebies or Fringe Benefits in Kind

1. Fishing

The activity of “gathering of pearls, chanks, oysters, shells etc. (Sub-class 05003 of NIC98)” is presently not covered in the estimation of GDP. The labour input for this activity in 2004-05 from the NSS Employment and Unemployment Survey (EUS) is estimated as 150258, assuming approximate Value Added Per Worker (VAPW). The GDP from this activity can be estimated for the bench mark year and carried forward appropriately.

Fish caught on High Sea in Indian Waters by foreign vessels is also not captured in GDP. The Fisheries Department of Government of India may be collecting royalty value from foreign vessels. If so the same may be obtained from that department by the NAD.

The NAD may take up this matter with the Fisheries Department.

2. Unorganized Non Agricultural Activities

The data on GDP from unorganized segments of non agricultural industries of manufacturing, trade, transport etc. are collected periodically through National Sample Surveys using Production Approach. It is observed that data on expenditure are overstated and on output understated by the respondents.

In Vanuatu under the ADB Project on GDP of Informal Sector, a Survey was undertaken in 1995 using Production Approach as well as Income Approach. The results of this Survey showed that GDP by Income Approach was twice the GDP by Production Approach.

It is suggested that data on GDP may be collected by NSSO for unorganized activities using Income Approach. For **Income Approach** the mixed income of self employed / profits and dividend may be collected independently and not as a difference of output and inputs.

3. Outsourcing of Jobs/Works by the Government Agencies

Outsourcing of jobs/works by government agencies to contractual and casual workers as consultant, ad hoc teachers etc. has been increasing at a faster pace in the recent past. As per the Employment and Unemployment Survey of 61st Round for the year 2004-05 of NSSO the unorganized labour inputs for Electricity, railways, National Post Office, Air Transport and Public Administration are 13.3, 5.7, 4.8, 13.9, and 5.0 percent respectively. These percentages have been taken from the paper on “Contribution of Private Corporate Sector in GDP, Saving and Capital Formation” by Mr. Ramesh Kolli.

The GDP of these outsourced of jobs and works to contractual and casual workers is presently not captured by the NAD.

It is suggested that this may be estimated through the ‘Labour Input Approach’ assuming that VAPW in the unorganized part is ½ of the VAPW in the organised part. The proportion of VAPW has been observed from the VAPW of organized/unorganized service activities given in Table 31 of Brochure on *New Series of National Accounts*, 2010.

4. Money Exchange and Money Bureaus, Financial Leasing etc.

Western Union and other agencies, Financial Leasing (Class 6591 of NIC98), Hire-purchase financing (Sub class 65921 of NIC98), administration of financial markets, security dealing activities, bureaux de change, financial and mortgage advisors etc (Class 671 and 672) etc in corporate sector are not covered directly by NAD. These activities are mainly in the organized part and need to be covered.

It is suggested that data for these agencies from RBI etc. may be collected regularly to estimate their contribution.

The method of estimation of unorganized non-banking financial services including those of money lenders are given para 3.23 of their publication: *Changes in Methodology and Data Sources in the New Series of National Accounts*, June 2015. These estimates have been improved in the last series. Their contribution has significantly increased by 148 percent in 2011_12 from Rs 18033 crores to Rs 44663 crores (TABLE 3, page 38, of above mentioned CSO Publication). These services have been treated as part of quasi corporate by the NAD and are excluded from the household services. As such households contribution to GDP is under stated. Since the money lenders etc. do not maintain any profit and loss account and balance sheet, these cannot be treated as quasi corporates as per NAD’s own definition.

Even according to SNA 2008 para 4.42 these enterprises do not qualify to be treated as quasi corporate enterprises as these enterprises do not have sufficient information to compile complete set of accounts.

Accordingly the NAD may treat these enterprises as household enterprises in the next issue of National Accounts Statistics.

5. Freebies or Fringe Benefits in Kind

98The SNA 2008 treats the fringe benefits in kind as remuneration in kind (paras 7.51 to 7.55 and 17.384 to 17.398).

Some of the fringe benefits in kind listed below are given in the paras quoted above. However, the following freebies are not being estimated by the NAD:

(a) Free accommodation by the Govt. to government servants, retired constitutional heads, MPs; MLAs, etc. and by the corporate enterprises to their employees.

(b) Free telephones after Retirement to pensioners of Telecommunication Department.

(c) Free Air, Railway and State Transport passes given to employees during for their families during their service and after retirement to the employees and their families, MPs, MLAs, etc. and free/subsidized rail/bus travel for women and senior citizens.

(d) Free/subsidized Electricity and Water to the officers and staff of electricity and water departments during and after retirement.

(e) Exemption of excise duty/sales tax for Defence officers, lower ranks and other staff for purchases from Defence canteens.

(f) Interest free/subsidized loans and advances to employees.

(g) Stock options at lower prices than the market.

(h) Free health facilities to pensioners, ex constitutional heads, MPs, MLAs, etc.

(i) Free travel abroad to the dealers and their families by the corporate sector.

(j) Tax free perks to MPs, MLAs, etc. These may be three to four times of their basic emoluments.

(k) Taxes paid by the governments for CMs, etc. and by the corporate sector for their senior executives, and by the International Organisations for their local employees.

(l) Other freebies.

The above listed freebies are only illustrative and may not be comprehensive.

The NAD needs to initiate suitable studies and collect necessary data from various sources to account for their contribution in GDP.

Conclusion

The additional contribution of the above mentioned activities to GDP is likely to be around 8 to 10%. Accordingly the per capita income is understated and rates of saving and capital formation are overstated. In the forthcoming series of national accounts with recent base year for the constant price series, **it is suggested that these activities may be taken into account in the estimation of GDP, Saving and Capital Formation by initiating suitable studies in this regard.**
