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Minimum Income Support Price (MISP/NYAY)

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Abstract

Objective: It is to find out whether such scheme (MISP) will be beneficial to economy as a whole and most importantly, Will a government in developing countries will be able to fund this without increasingtaxes.
Method: We will try to create a model of development in which we will find out the effect of Investment, Consumption and Government expenditure on Relative GDP growth. GDP is driven by combined effect of Investment, Consumption, Govt Expenditure and Net exports. By linear regressing of data available of GDP between 1951 to 1992 (42 years) we will try to find out their respective weights on GDP growth.
Findings: As to make it successful it has to bear most of its expenditure from Investment and Governmental expenditure. But taking out from this quota has its severe effect. An economy cannot grow at a faster rate without developing its resources. To create resources in a developing economy it demands huge investment. According to Harrod-Domar Model a country needs to save more in order to invest more. As the money distributed under NYAY scheme will be given to poorer section of the society so the saving to consumption ratio will be much lesser in their case.
Improvements/Applications: A quantitative study of investment on GDP growth with clear results of its effect in future years will give a better idea to compare between investment and consumption.
***Keywords*:** NYAY, MISP, PDS, India, Public Schemes.

1. Introduction

NYAY (Nyuntam Aay Yojana) or Minimum Income Support Programme (MISP) is announced by INC(Indian National congress) to abolish the poverty in INDIA [1]. India currently have nearly 25 crores people (5 crore families) considered as poor in 2019. More than half (>50%) peoples of India were listed as poor at the time of independence which has reduced to 21.92% according to a report published by Reserve Bank of India in 2012. India has worked on many schemes in past to deal with the problem of poverty in India. The Indian government and other nongovernmental organization have initiated several programs including subsidizing necessary items, improving banking sector, innovation in agricultural sector, Minimum support prices for crops, promoting education and family planning. India is one of the fastest developing countries with a large labour force. India is considered to be young country as most of the part of its population is between 18-45 years. In India Unemployment is a big issue which leads to poverty [2]. To deal with this issue many measures were taken in past which were not sufficient as to eliminate poverty. There is significant decline in number of poor people but then also more than 1/5 of Indian population is living below poverty.

NYAY will deal with the poverty by providing ₹6000 a month to poor families. The target population will be 5 cr families who constitute the poorest 20% of all families. They will be the beneficiaries of NYAY. A scheme with a huge cash transfer will be a highly weighted factor in upcoming Loksabha elections. Such a scheme can also be a illusion to get votes of poor section of society. My objective is to find out whether such scheme will be beneficial to economy as a whole and most importantly, Will Indian government (specifically UPA govt) will be able to fund this without increasing taxes on middle class of the Society? Poverty in India: Despite being one of the fastest growing economies a significant part of Indian families lives under poverty. India is home to largest population of poor in India. According to a report of World Bank as of 2014, 58% of world's population was living on less than $3.10 a day. After Independence many measures were taken to fight the poverty in India. All the measures taken were effective were not successful as assumed. In 1950, India's poverty rate was 65%. At that time main source of income for households was farming.

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It was the time when households were not able to save for future disasters and these disasters killed million of peoples in coming years. In 1962, a committee was formed to set a poverty line for India. This working committee uses the calorie requirement for survival and the money needed to buy those foods as a measure of poverty. In 1971 the committee defined 2,250 calories as the minimum calories required for survival. After adjusting it to rupees value of that time it was calculated as ₹170.80 for Rural India and ₹271.70 for urban India. In 1993 a new committee of experts was formed to define the poverty line for Indian population [3]. This committee recommended setting poverty line on the basis of states. It found a significant difference in the money needed to fulfill calorie requirement in different states. In 2014, the expert group under the leadership of Dr. C. Rangrajan submitted its report on 30th June to the planning commission [4]. This group used all-India poverty line basket as a reference to find out state level Urban and Rural Poverty. On the basis of this report they suggested a new poverty line which is ₹972 per capita in case of rural areas and ₹1407 in urban areas in 2011-12. For a family (which is considered to having five households) this comes out as a monthly consumption expenditure of ₹4,860 in rural areas and ₹ 7,035 in urban areas.

In a country which is growing to become World's economic superpower with 6th largest GDP, a large number of its population is still living in poverty. Poverty to this extent needs to be alarmed to take strong measures to reduce it. With the growing economy rich peoples become richer while poor getting poorer. According to data published by a news magazine India's top 10% of population holds 77.4% of total national wealth [5]. This is even worse in case of top 1% that holds 51.53% of total national wealth. The bottom 60% of population owns merely a 5% of total national wealth. This data shows the economic difference in Indian Society.

2. Materials and Methods

1. Review

This scheme is announced for the upcoming Loksabha election and is a hot topic for many economists and political analysts. This is conveyed as revolutionary by some people and a political stunt by others. Many consider it as a false hope given by a national party to get votes. "GARIBI HATAO" this slogan was given by late Smt. Indira Gandhi in 1971 to influence the poor voters. It has been 48 years since then and not even a single strong measure action is taken against poverty. Indian governments have taken many steps to fought poverty like cheap grains, housing for poor, Ayushman Bharat, ujjawalayojana etc., but none of them have those strong result which can be claimed to fightpoverty.

The news articles published in favor talks about the help that poors will get from this money.They will be able to buy necessary goods to live a happy life. Those article claims that such scheme will fight the economic inequality among society [6]. The poor people will be able to actively take part in economy and the money distributed to them will come back to economy faster as they will consume most of its part. The articles published against this say that it will make peoples lazy and encourage low income households to leave their job. This article strongly advocates resource development as an option to fight poverty in long run. This article suggest to provide basic needs to poor at cheaper price and to develop employment in economy by increasing theinvestment.

The flaw that both people in against or favor talks about it how this scheme will be funded? [7]. Government is not in a position to increase taxes on middle class to earn more revenue and neither the estimated fiscal space of Indian economy allowsfunding it. As population is growing at faster rate so government need to develop basic resources for coming generation and need money for this. As Indian rupee is not in a condition to be made weaker against dollar so printing of new notes in larger number is also not possible. So the only option left to fund this is to cut the existing amounts in different sector of economy. In this paper we will try to talk about whether itwillbe feasible to cut expenses from existing sectors. We will also try to find out the cases in which this scheme can be proved good and the risks associated with it. India has most number of poor populations and it is a hurdle for its development. You can't develop a country by not involving this big section of society. So India needs a strong attack on poverty to develop at a higher rate. India even being World's 6th largest economy lacks in basic resources of development. It is not able to provide quality education, healthy meal and a good health care for all of its population.

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In a time when India needs to invest heavily for building these resources, Is India is capable of handling a burden of more than 3 lakh crores on its financial budget is the most important question asked by nearly every economist. In one of the interviews of former RBI Governor Mr. Raghuram Rajan given to a private news channel, he described this NYAY scheme as fabulous if upcoming Indian government will be able to fund it without disturbing existing economical sectors

2. Statistical analysis

In our model of development we will try to find out the effect of Investment [8], Consumption and Government expenditure on Relative GDP growth. GDP [9] is driven by combined effect of Investment, Consumption, Govt Expenditure and Net exports. We can neglect net exports for simplification as its value is much lower to others.GDP is given by sum of these above mentioned factors.

$$\text{GDP} = \text{Investment} + \text{Consumption} + \text{Govt. Expenditure}$$

We have data of relative change in Investment, relative change in Consumption and relative change in Governmental expenditure. As GDP is dependent on above 3 factors, so we will try to fit a linear equation onto data using regression techniques. As GDP is linear dependent on above three factors, If:
Relative change in Consumption= 'C' Relative change in Investment= 'I'
Relative change in Governmental expenditure= 'G'

If relative change in GDP value is taken as 'GDP' then it will be dependent on above three factors(C,I,G), then using linear regression we can write

$$\text{GDP} = a*C + b*I + c*G$$

Where a,b,c are the linear coefficients and will decide the driving factor of these three inputs. As this scheme will be funded by adjusting Investment and Government expenditure value and will be added to consumption value. For simplification we are assuming that money distributed to poor families in NYAY scheme will totally be consumed and no part of this will be saved by them. This assumption can also be seen as because these families are poorest section of society so they are not in a condition in which they will be able to make any saving and so will not be able to invest in future options. One more assumption that we will make here is that the amount distributed under NYAY scheme, if not given to poor then will be added to Investment and government expenditure or we can say that this scheme will be totally funded by reducing Investment and government expenditure.

$$|C|=|I+G|: \text{Assumption If } |a*C| > |b*I + c*G|,$$

It is the case in which the net effect on GDP will be positive hence the scheme seems successful with overall increase in GDP.

$$\text{Else if } |a*C| < |b*I + c*G|,$$

It is the case in which the net effect on GDP will be negative hence the scheme seems unsuccessful with overall decrease in GDP.

$$\text{Else } |a*C| <^{-} |b*I + c*G|,$$

It is the case in which the net effect on GDP will be zero hence the scheme seems indifferent with no change in;

Validity of Scheme: The validity of scheme depends on the value of a,b and c.

If a comes out to greater than b and c, then this scheme will be valid in all cases and can be considered as: Always well. If a comes out to lesser than b and c, then this scheme will be failed in all cases and can be considered as faulty. If a comes out in between of b and c values than the scheme will be riskier and the values of b and c will decide the risk associated with this scheme. We will work to find out values of a,b and c using regression techniques by using the available data of Indian GDP of last 42years.

3. Results and Discussion

By linear regressing of data available of GDP between 1951 to 1992 these values as calculated are;

1. Coefficient of Consumption a=0.2808670847
2. Coefficient of Investment b=0.1002900127
3. Coefficient of Governmental expenditure c=0.5887876911

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From the data calculated above the schemes comes out to be riskier as b<a<c. It is the case in which feasibility of scheme depends on the shares of sources of expenditures. An option with higher share of expenditure from Investment will make the scheme successful while other option with higher share of governmental expenditure will make it faulty. Now we will try to find out the options to make this feasible Mean (b,c)=0.3445388519.

Mean value suggest that scheme will be profitable even if we use equal shares of both investment and governmental expenditure. If 'x' part of expenditure on this scheme comes from Investment and the remaining part from the govt expenditure then to make the scheme indifferent we can write

$$x*b+(1-x)*c= a;$$

By solving above equation 'x' comes out to be '0.630342006' OR 63.034%. According to the model we used this schemes seems feasible if less than 63.04% of its expenditures is taken out from Investment. The announced scheme promises ₹72000 a year to 20% poorest families of the society. Total expenditure on this scheme per year = ₹72000*5 crore = ₹3.6 lakh crore per year. India's total budget value as in 2017 was 21.47 lakh crores [10]. So the scheme will cost nearly 17% of total budget value if funded by it. If funded from budget this scheme will cost more than the current defense budget which was 3.05 lakh crores in 2017. It is more than 3 times the education budget [11]. This comparison clearly shows that not a little part of it can be funded by budget. India fiscal deficit as estimated for 2017-18 are 5.95 lakh crore [12] at 3.5% of GDP, So it will also not a good move to fund it on the verge of increasing fiscal deficit by 2% of GDP per year. According to the promise, there will be a design phase (3 months) followed by a pilot and testing phase (6-9 months) before roll out. Estimated cost for this scheme is expected to be nearly 2% of GDP [13]. The cost will decrease with reduction in poverty.

4. Conclusion

An economy cannot grow at a faster rate without developing its resources. To create resources in a developing economy it demands huge investment a country needs to save more in order to invest more. As the money distributed under NYAY scheme will be given to poorer section of the society so the saving to consumption ratio will be much lesser in their case. Effective investment will also increase the production capacity of an economy. A continuous investment will increase productivity and will help to shift long run aggregate supply to the right. For increase in economic growth without inflation an increase in LRAS is essential. If this policy will manage to increase consumption of consumers by providing them a monthly amount to spend then economy will demand more production. But as this scheme was funded by reducing Investment then the market will not able to fulfill the demands due to lack of resources. As demand is high in market and production is not increasing then it will result in increasing prices. Due to Increased prices the purchasing power of individuals will decrease and hence will drag more people to poverty. It is always feared to decrease investment in a developing economy and hence to fund it by reducing investment can be a disaster in future. In India we spent nearly 60 lakh crores to run our Government institution. Most of the part of GDP is contributed by services sector which also employ people at a decent salaries. To take out money from this can result in losing jobs for many. India runs on its governmental institutions which are backbone of its democracy. Modern technological advancement can help in reducing cost but he also looking on its past record and growing population at high rate, it seems difficult. In one of the interview Congress Spokes person Mr. Randeep Surjewala said "We spend 60 lakhs crore to run our govt. institutions and if we cut 5% from this, it will be sufficient to fund the NYAY scheme.

Excluding all other factors (Resource prices, rents, etc.), Will Congress party be able to take a decision to decrease government employee income by 5% which is nearly (30 lakhs *5) 1.5 crore households at present. No government is allowed or will be able to do this. Schemes like NYAY will be much beneficial in developed countries to abolish poverty as in their case they have already developed resources for a continuous growth but in India which is still developing, it will be a riskier option to decrease investment in order to help poor. Due to lack of Investment it will not be able tocreate required numberof employment and more people will be unemployed in coming days. This unemployment will add to poor population. It can be a case in which we will end with more poor population instead of fighting poverty. In India according to data published by Indian statistical department, Unemployment is at the top of previous 25 years. A little more addition to this unemployment in this modern age will drag more families to poverty.

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Most of the part of Indian population comes under youth category which is constantly seeking for jobs to get employed. A higher growth rate of population is also dragging Indian families to poverty as it is difficult for unemployed people to provide a good life for their families. So this study does not support this scheme and suggest the governments to focus on resource development in economy. To fight poverty, government should bring down the prices of necessary goods such as grains. It suggests government to invest more on building blocks of society such as education, Health, equality etc. Human being is a positive asset and a precious national resource which needs to be cherished, nurtured and developed with tenderness and care, coupled with dynamism.

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