



## Mains Practice Question

**Q.** Higher disposable income for the poor can have positive multiplier effects in the economy. Discuss. (250 words)

16 Oct, 2019 GS Paper 3 Economy

### Approach:

- Introduce by mentioning about the government's recent decision to improve rural wages.
- Explain the benefits of higher disposable income for the poor on the entire economy.
- Give suggestions to increase the income of poor in the conclusion.

### Introduction:

- The central government has recently decided to adopt new indexation of MGNREGA wages based on CPI-Rural instead of CPI-AL, meant to increase rural incomes. The current daily MGNREGA wages are just a quarter of the minimum daily living wage of Rs 692 as outlined in the 7th Pay Commission.
- The number of taxpayers in India is not even 5% of the total population. This indicates that a substantial percentage of people don't even have moderate disposable income in India.

### Body:

#### Economic benefits of higher disposable income for the poor:

- **Higher purchasing power:** People with higher disposable income have higher propensity to spend more on better food, education, health and basic goods and services driving consumption based demand in economy.
  - The **consumption-led economic** growth model was followed by China. From 1998 to 2008, middle-class income grew only 4% in the U.S. and 70% in China despite trade headwinds.
- **Boosts domestic production:** India's huge population serves as a big market for goods and services. It promotes entrepreneurs to invest in products of better quality which is aligned with the aims of scheme for promotion of **Zero Defect** and **Zero Effect** (ZED) manufacturing amongst MSMEs.
- **Rising demand for better infrastructure:** It raises demand for better roads for improved connectivity between cities and towns, better healthcare facilities, schools, and even higher electricity consumption.
  - Investment in real estate and construction sector will create jobs and will have a multiplier effect on the entire economy.
- **Arresting rural to urban migration:** Nearly 60% of Indian population depends upon agriculture for livelihood. Government's efforts to double the farmer's income by 2022 will address problems related to migration of rural youth to urban areas, thereby reducing pressure on cities.
- **Improves financial inclusion:** With rise in incomes, people tend to deposit money in bank accounts due to improvements in banking and finance sectors especially after Jan Dhan Yojana.

Also, the growth of digital payment services like Paytm, BHIM UPI, etc facilitates easy transfer of money contributing in **formalization of economy**.

- **Improvement in human capital:** Higher disposable income allows poor to provide better nourishment and quality education to their children. This will help creating quality human resources for the future of the country.

## Conclusion:

- Hence, increasing the disposable income of the poor is important not only for their livelihood but is also critical for reviving the slowdown in the economy. It is economically prudent to substantially increase the budget for public programmes such as MGNREGA.
- Also, the centre should revise its decision of raising the 'national minimum wage' by Rs 2 to Rs 178 per day, through the Wage Code Bill, despite an internal Labour Ministry committee recommending a much higher amount of Rs 375.
- As noted by the Economic Survey 2019, a better national wage floor will reduce inequality and poverty in India.
- Thus, there is an urgent need to pay more attention to the poor in economic, ethical, and legal ways.

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