



Circular Economy in the Indian Context

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Abstract

The basic aim of this paper is clarify functions of macroeconomic system and its micro parts. Therefore, paper begins by explaining circular flow basics by detailing the three decision making institutions of economy- household, firms and the government. These decision makers' act and react in such a manner that all economic activities move in circular flow, also they actively engaged in three economic activities of consumption, production and exchange of goods and services. The pervasive problem in which whole 'Economics' has built is "scarcity" and this is also the basic issue of circular economy. Significance of study of circular flow of income is in the measurement of national income also. It is either the income of all the factors of production or the expenditure of various sectors of economy. Circular flow of income signifies the interdependence of each activity upon another. Therefore, policy makers should keep in mind its impact on all other sectors of economy due to its circular nature. In this paper we have critically discussed about some of policies of government and its impact on the sectors of economy.

Keywords- Firms, Scarcity, Circular economy, Injection, leakages.

Introduction – Circular Flow model is one of the basic models that an economics student should understand firmly to grasp the working of economy in its macro view. This model describes the flow of money and products through the economy. A fully fledged model employs all players of an economy namely – Household, Firms, Government and Foreign sector. It shows that household's consumption is the firms income, which then pays for Labour and other factors of production in turn provide household with income. Thus, both are mutually connected in a circular flow manner. In this model leakages are the savings of household tractors by the government and import from foreign trade and to complete this flow we have injection such as investment of firms, government spending and export to foreign countries. All activities has its counter activity in this model some are dependent on its counter activities and some are independent. For example - Household's consumption is firm's income and firms' payment to factor of production is household's income. But import from a country does not related to the exports of that country because it depends on country's available resources and socio-economic conditions.

Circular Flow of Income in a 4 Sector Economy – Considering all the sectors of a practical economy, circular flow model can be described via 4 sectors these are as follows -:

- 1) Household
- 2) Firms
- 3) Government
- 4) Foreign Sector

Flow of income can be demonstrated with the help of simplified circular flow diagram drawn below -:

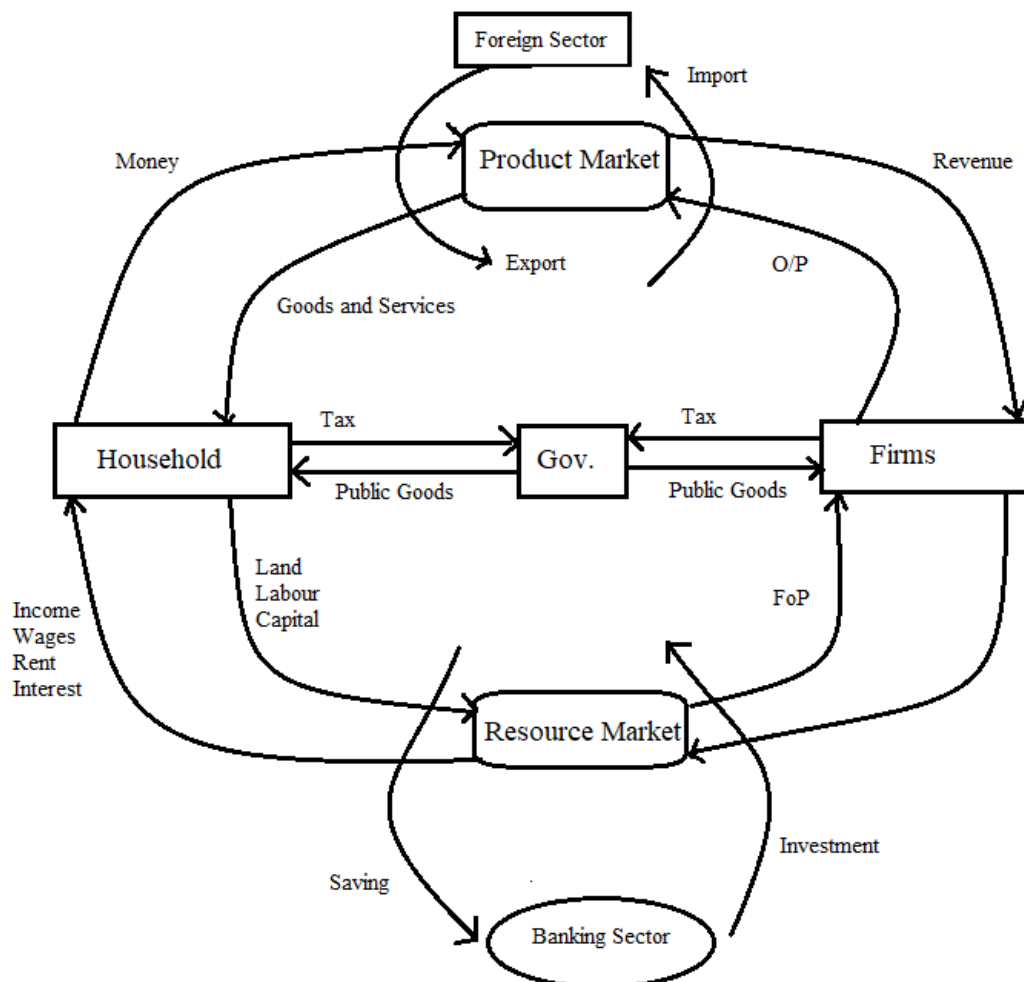


Figure 1. Simplified Circular flow of Income

Each activity of these 4 sectors are described by the table illustrated below-

Sector	Provide	Receives	Spend
Household	Factor Service to all other 3 sectors.	Factor Payments from all 3 Sectors. Subsidies from the government. Transfer payments from government and Foreign Sector	Payment for goods and Services purchased from all 3 Sectors. Tax payment to the government.
Firms	Goods and Service to all other 3 sectors.	Revenue from all the 3 sectors. Subsidies from the government.	Factor Payments to the factor of production to all the 3 Sectors. Taxes to the government.
Government	Goods and Service to all other 3 sectors.	Revenue and Taxes from all 3 Sectors.	Factor Payments to the factor of production to all the 3 Sectors. Transfer Payments to the household. Subsidies to Firms and household.

Table 1 – Activity of all sectors of economy

From the above illustration, we can say that Household provide factor service and other 3 sectors provide goods and service to other 3 players of economy and in return they get either revenue to the government ,firm and foreign sector or factor payment to the household. Tax is the compulsory financial charge, which is paid to the government by all 3 sectors. Likewise Subsidy is provided by the government to the household and firms. A transfer payment is the special type of payment which is given without receiving anything in return. There are no goods or service involved in return to that payment. This payment is transferred from the government to the selected households and from foreign sectors to the specific household.



Measuring GDP or National Income using Income Approach and Expenditure Approach :-

Both of these approaches described below can be traced on circular flow diagram. Basic approach which is used extensively and easy to calculate is the expenditure approach.

Income Approach		Expenditure Approach	
GDP – The total income earned by the household of that nation during a year.		GDP – The total amount spent on goods and services produced in an nation by household, firms, government and foreigners.	
Types of Income received by household are –		Spending by various sectors are as follows - :	
Household	Type of Income	Sectors	Spending
Land	Rent	Household	Consumption (C)
Labour	Wages	Firms	Investment (I)
Capital	Interest	Government	Government spending (G)
Entrepreneur	Profit	Foreign	Export –Import (X-M)
GDP =	Summation of all Income	GDP=	C+I+G+(X-M)

Table 2- Comparison of Income approach and expenditure approach of measuring GDP.

Both of these methods should give the same result because any money earned by the household is spent on the goods and services in the product market.

Therefore,

$$\text{Income earned} = \text{Money spend.}$$

Recent government scheme and its effect in the circular flow sectors and in turn in the GDP -

Schemes are launched by the government with a view to improve the socio-economic condition of its people. Indian economy and society has been adversely affected due to COVID-19 pandemic . Union government’s fully fledged economic stimulus package is

named – Atmanirbhar Bharat Abhiyan. Budget of this economic package is over 20 lakh crore.

Some points of this scheme is used below to show its relevance with our circular flow model and predict changes in the economy.

Provisions	Consequences
Deadline extension for income tax return of the financial year 2019-20	This will make consumer spending level higher since people will have more money due to extension of deadline. Hence, C increases.
To resume business activity and safeguard jobs of 45 lakh MSME units, government announced 3 lakh crore emergency credit line.	This increase will increase the investment (I) by the business firm (MSME), which by multiplier effect will increase GDP.
Easy Credit offering 10000/- loan for initial working capital for the street vendors, through 5000 crore scheme.	This will give money in hands of poor people who are cashless and wanted to do jobs like vegetable seller etc. This will help in creating jobs quickly and increase C.
Union government directed states to enrol migrant workers returning to their native places in the MGNREGA scheme.	Since these workers mainly do infrastructural jobs provided by the government. Hence, this will increase C of household and G of government.
Provisions for banning of some weapons and platform to indigenous defence production.	Import (M) will decrease.
FDI limit in defence manufacturing under automatic route will be raised from 49% to 74 %.	Investment (I) increase. Consumption (C) increase. Taxes (T) increase. New technology will enter the country. New jobs Creation.
Minerals, space and Aviation sector to welcome and increase private players.	Investment (I) increase. Tax (T) increase.
To mitigate the loss faced by poor due to corona virus PM Gareeb Kalyan Yojna (PMGKY) extended till the end of Nov 2020.	Government spending (G) increase. Consumption (C) increase.
PMGKY provided an oppourtunity to declare the unaccounted wealth and black money in a confidential manner.	Tax (T) increases.

Table 3 – Provisions of government Schemes and its consequences in the economy.

All these schemes by the government have one thing in common and i.e. attempt to increase GDP of India and to help people suffering from pandemic.

Conclusion – Circular model as discussed above is very efficient to understand working of economy as a whole. We can somewhat predict the effect of various schemes on different



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sectors and its effect on the GDP by this model. Most of the schemes focuses on the making India Self-Reliant and to increase consumption spending by giving them loans and food grains to sustain their livelihood. Government schemes mainly focuses on giving loans to people, but as this is a period of economic slowdown , there is no surety of paying back. Therefore this is likely to add to our Non-Performing Assets (NPA's). Hence government should be making policy keeping in mind these NPA's. Since all sectors are linked with each other in a circular manner , any one sector's default will affect other sectors too. This is the beauty of the circular flow that we all are connected in a certain manner by an invisible thread. Hence we should support each other for the coming bright future. After seeing our dependence on foreign countries and recent Chinese aggression, it is a good move on government's part to emphasis on self-reliant economy. And that economic model can be achieved by decreasing our imports in the circular flow model. Also, encouraging to the private players is a good step in this regard because privatization leads to avoidance of red tapism and leads to efficient utilization of resources.

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