SSRG International Journal of Economics and Management Studies Volume 6 Issue 8, 83 - 92, Aug 2019
ISSN: 2393 – 9125 / https://doi.org/10.14445/23939125/IJEMS-V6I8P110 ©2019 Seventh Sense Research Group®

Original Article

Notes on the Contemporary Issues in the Indian Economy

Shaleen Nath Tripathi[1], Anubhav Nath Tripathi[2]

[1]*Economic analyst, Independent,3-V Sant Hussain Nagar, Gorakhpur-273014, Uttar Pradesh, India*
[2]*Department of Management Studies, Mahatma Gandhi Antarrashtriya Hindi Vishwavidyalaya, Wardha-442001, Maharashtra, India*

Abstract *- Background/Objective: The article discusses the prime causes for the growth and improvement in the standard of living, and the problems of inflation and unemployment, that also affect the quality of growth and provide ideas to solve them and make INDIA a preferred investment destination.*

Methods: The study has used the theories or the theoretical method to inquire about the major challenges facing the Indian economy and put solutions to increase investment and growth, nonetheless a regression analysis to ascertain the relationship between the economic growth and variables like real wages, real interest rate, and real exchange rate and others could not become possible due to lack of reliable data, which had made the paper more worthwhile.

Findings: INDIA is a hot-spot for global investors and even better among emerging markets due to its equanimity underscored by its reliance on domestic demand for growth, low global commodity price regime, because it is mainly an importer, its rate-cut-cycle. The idea to explore manufacturing and exports possibility with low wages compared to the peers, its high rate of population growth, a reservoir of labor and demand, low fiscal and current-account deficit and its pace of expansion and growth, both actual and potential, present best investment and business returns. However, regulations still constrain the ease of doing business. Nevertheless, INDIA has improved a lot on competitiveness in a recent rating report and the government is conscious about problems of doing business, both foreign and domestic. The central banks must try to control demand when there is no scope of increasing the supply of goods and services. Nevertheless, lower-interest-rate might be good for the supply-side (investment) and the demand (consumption) side, too.

Application: If lower-interest-rate increase supply or productivity to lower inflation instead of just demand, it should be welcomed. Businesses employ people which is good for demand in the market through the multiplier, which creates income and tax to improve human lives. Notwithstanding, the burden of a large number of poor people, also due to high population growth rate and unskilled and unproductive labor force could not be underestimated.

Keywords *- Agriculture*, *demand, exports, exchange rate, fiscal policy, monetary policy, prices, productivity, supply, skill-development, imports, interest rate, wages.*

1. INTRODUCTION

Economics or the Political-Economy, one and the same, has a direct link with the standard-of-living of a country, which is the product of higher-growth-rate, the barometer to measure the rate of improvement in the productivity and wages, and, demand and growth may have a correlation with the lives of the country-men for which a low and constant un-employment-rate and price-level are must, because of the same demand and supply, because the quantity-demanded must match quantity-supplied to fulfill the aforesaid objectives. Nevertheless, in the real world, the match is often absent due to inconsistent monetary and fiscal policies dependent on the data delay and availability for transmission of signals, action, and change in the economic variables and higher growth could be related to the higher investment, though not in case of higher inflation, because that would require tightening and higher unemployment and lower-prices to restore the value of money and equilibrium between demand and supply by managing interest-rate or real-interest rates, the money-rate or nominal-rate of interest -minus- the rate of inflation. Lower-real-interest rate could be linked to higher-investment, higher-supply, lower unemployment, and, higher-demand and spending - consumption and investment - even across economies. The international-trade has a role since it may help to lower the price level in the long run, beyond five years, and it would also increase demand in the trading-partners economies and they would demand more exports and could help us earn foreign-exchange, wealth would increase and would also increase

This is an open access article under the CC BY-NC-ND license (http://creativecommons.org/licenses/by-nc-nd/4.0/)

employment and lower-poverty because it would also increase tax revenue and the government spending on education and research and, skill-development to increase innovation and productivity, and, real wages and demand, and economic-growth or GVA (the Gross-Value-Added after deducting the taxes), in the domestic-economy and also externally. All three - monetary-policy, fiscal-policy, and the foreign-trade-policy are responsible to achieve the NAIRU (Non-Accelerating-Inflation–Rate-of-Unemployment). The NAIRU is that rate of unemployment at which the rate of change in the general-price-level does not reduce the value of money, and, demand and economic growth-rate, in case of lower prices money-supply is loosened and when there is inflation the money-supply is tightened, which help maintain full-employment and price-stability to achieve the projected economic growth.

Nonetheless, unprecedented public spending in a developing economy would increase demand and prices (inflation). The supply of money either by fiscal or monetary policy should match or increase the availability of goods and services. If the policies only aim at increasing the money it would not solve the problem, but might lower demand supply and growth by increasing inflation and interest rate. The economy might start de-accelerating. Higher prices keep demand and supply low because interest-rate would increase. The question naturally arises that if inflation is high then why do the central banks restrict supply by increasing interest-rate, when they may actually increase supply by cutting rates? Low cost of capital might help improve supply and lower prices; lower cost will also lower prices and inflation. When central banks try to decrease demand to lower inflation it also lowers supply, which puts the economy on a down-path, a contraction. Demand and supply are not independent of each other rather they are different names to address the same economic activity. When central banks try to regulate demand by increasing interest-rate it also decreases supply and thereby worsens inflation. However, zero-lower-bound (of interest-rate) and sticky or rigid prices are the limits for real interest-rate-cut to increase domestic supply after that foreign supply comes into play, which might help to store supply and demand and price-stability, actually lower prices to increase economic-activity and growth-rate. So far economists have attributed high inflation to high money supply and demand, and, not to the actual supply and demand of goods and services might be positively correlated with low-interest rates.

Inflation is closer to the downside target even when we have used a higher price base-year and also a change in methodology. A change to a higher-price base-year for inflation will reduce inflation relative to the low base year. A low price base will show higher inflation. All these changes in the base year and methodology have made our inflation target achievable. A rate cut is warranted only when our inflation rate is low. It is not always necessary for the RBI to keep the inflation rate lowest, also, because of price-rigidity, but it is important to keep it low and try to stabilize at that level, which means more consistency in policy, not too many frequent changes.

II. MONETARY POLICY

The RBI has reduced the repo rate to 5.4 % with an accommodative liquidity stance. Inflation in INDIA mainly emanates from the ineffective supply management of food articles. INDIA suffers from seasonal inflation because it is too much dependent on rains and also excessive rains in some parts, which lead to flood and crop damage (1). Every year drought and floods upset the prices of agricultural products. Lack of demand and supply data and effective action in order to maintain price stability and demand puts INDIA in a fix and delayed monetary-policy action to increase growth for the past several years. Nevertheless, the situation has improved on account of proper actions to manage food supply by the government and retail inflation has come down from double digits to below 4% (2). However, to avoid seasonal inflation there is a lot more to be done to get on-time data and effective actions. Agriculture needs a lot of planning to reduce the lag between demand and supply adjustments. The government has a larger role in the supply-side management rather than tweaking demand by the monetary policy.

The RBI said that it would continue to maintain that it would provide the markets much liquidity to pass on the rate cut transmission to lenders to increase investment, but the banks are saying lending rates could not be decreased till deposit rates go down (3). But, the commercial banks are borrowing from the central bank at rates much lower than the current market lending rates. However, deposits are only one source of liquidity or money supply to the commercial banks, others including the interbank rate and other financial arms. Therefore, if the cost of funds from the RBI is low, the banks should decide interest rates closer to it for sectors, which are in the list of strategic or priority lending areas such as infrastructure and capital formation. Commercial banks do not charge the same price for the services they offer. The interest rate for short and long lending differ to a considerable degree. The same is true for the deposits. The banks should recognize that lending is more important for the bank's profit because deposits are an outgo. First, you earn and then pay for the expenses. Lending represents the

income side and deposits on the cost side. Your income decides your expenditure. The banks should realize that they are not the government, which first decides expenditure and then the sources of revenue, they need to decide the lending rates first and then the deposit rates, which is always a tad slower than the lending rates, which increases investment and bank's profits. Bank's profitability is constrained by higher lending rates; moreover, high deposit rates are increasing the cost. The banks themselves are responsible for slow recovery by not reducing interest rates and increasing demand. Nonetheless, banks are also hurt by NPAs, but higher rates would also lower credit growth and profits by banks (4). They are waiting for the signal from the RBI when they themselves can increase their business by lowering the price of their products. The commercial banks have held the economy away from recovery by not reducing rates when the controller wants them to do so. The banks so far have been saved from competition from foreign banks, which has left them with a choice not in favor of the economy, when they can use lower prices and increase their own business and start recovery in the economy. Many already know that banks shares enjoy appreciation even when the repo rate is cut or increased when the repo rate is cut and banks lower interest rate it increases business and when it is hiked it increases their profits. Banks are almost always in profits, because of the protection of the central bank. Even when the RBI is a controller of commercial banks they are not following its signals and communication for which the RBI might need to become more diplomatic by increasing competition to a higher degree by inviting foreign banks to invest in INDIA. Repo-rate cuts are not being translated into lower lending –rates. How else the RBI may help banks to lower lending rates and increase their business? It is a little absurd when the Indian economy needs more investment and growth. Banks are holding the recovery back…

The Indian economy had been doing well, when we see growth in terms of the unemployment rate (4.9%, prior to 2018), which was the reason for an overheating economy because low labor supply has made wages rise in a consistent way with the rate of growth i.e. growth has increased demand, but strings on investment including slow interest rate cuts by the RBI has made the cycle somewhat downbeat and slow in terms of investment and expenditure by the public sector is seen as a tool to crowd in private investment. The stress on the commercial banks' balance sheets due to stressed assets is another factor that has contributed to only half of the interest rate transmission in the market rates. However, the RBI was using Marginal-Cost-Lending-Rate (MCLR) in deciding the lending rates and expanding the bank licenses to increase competition (5), but the stress on the banking was wholesome around several Lakh Crore Rupees of which the government would be able to contribute in Thousand Crores this year (back in 2016). The loss of banking is a debt gone bad after a boom and is restraining the profitability of the banks by constraining lending during low growth (6). Liquidity in the domestic economy has also constrained the interest rate transmission, because of bad loans and fewer funds for credit creation. Nonetheless, our RBI governor has made standout that the RBI wants a liquidity neutral position and has done liquidity improvement through OMOs and other levers. The government and the RBI might try to incentivize the sectors that contribute to low prices and wage demand because that would increase cost and reduce investment by delaying rate cuts and loose competitiveness. But, to increase domestic demand the policymakers may try to increase real wages and income to increase demand and growth by reducing the price level by more investment and supply in the economy by improving liquidity. More liquidity in the economy would make the commercial banks lend on a large scale by lowering the lending rates. Keynes said that nominal wages and prices are sticky at low levels, but lower price rigidity is not supported by the evidence. In the Western World increased liquidity and lower interest rates have improved the supply and reduced the price level in the long run. Lower prices and increased real wage and income expectations could increase spending, consumption, and investment, both, and, GROWTH, too.

Any policy is a dis/incentive for a particular outcome. It is true that black money is a product of tax evasion. But, the money flows to other countries' banks. However, it may have entered the country from other channels, anyways FDI, FII. The Foreign banks do invest in g-secs of other countries. The government could incentivize the return of the money to the Indian banks, which would increase their lending capacity to lend at lower interest rates. The government might offer zero-tax on the condition that money will be lent to the Indian banks at zero interest rate. Taxes might be sacrificed to lower interest rates. There is always a trade-off.

III. THE SUPPLY-SIDE IN INDIA

The current wave in economics is the Real-Business-Cycle-Theory, which says that more money supply is likely to reduce the interest rate and improve supply and reduce prices in the long run. However, inflation is expected in the short run due to full-employment and protectionary policies. It concentrates on increasing demand/supply and growth by concentrating on real variables rather than nominal variables (7). A lower

interest rate would decrease prices in the long run by lowering the borrowing cost. A higher interest rate would make the Indian companies uncompetitive, because of the higher borrowing cost, however, the US, for example, is capital-rich. INDIA has a comparative advantage in labor-intensive techniques because labor is abundant and wages are cheap. Exports would only be competitive if the industry uses more cheap labor than expensive capital-intensive techniques, which save labor (8). Interest rates in INDIA are high compared to the developed world, which means INDIA needs to specialize in labor-intensive products. Indians would benefit from labor-intensive production functions, but if the borrowing cost is also low that would be an added advantage. A higher interest rate is not good for domestic investment. High rural-Agri interest-rate cost is another big problem, because of the lack of proper credit facilities. Farmers borrow at higher rates from the local money-lenders.

Targeting economic variables has had been popular through targeting the economic growth rate is more common than others like wage-rate, interest-rate, and the exchange rate (9). These variables do have a significant effect on growth by the way of manipulating supply/demand or in common the economic activity after accounting for inflation and inflation expectation in the nominal terms. Nominal rates include the real rates plus inflation. Similarly, we have a corresponding real rate after subtracting inflation for every nominal variable. Inflation decides the future expectation about the real wages, the real interest rate, and the real exchange rate (10). Like nominal wages and real wages, nominal-interest-rate and real-interest-rate and the nominal-exchange-rate and the real exchange rate. By targeting these variables we try to form an impression or expectations about the health of the economy by managing supply/demand and inflation and the economic growth rate. The counter-cycle economic policy makes the transition between boom and busts, in a controlled way so that the trade-off between unemployment and inflation during trade cycles for the underlying objective of growth becomes smooth. Expansionary policy during slowdowns and tight budgets during inflation to control demand and expectations by the way of targeting variables have been the role of economic policies for the past three decades (11). Targeting variables has been a popular practice also through forming expectations. Inflation or the general price level and expectations about the same determine the expectations about the real variables – real-wage-rate, real-interest-rate, and real-exchange-rate - and demand/supply/growth. The economic growth and expectations about it would increase spending and demand in INDIA, if expectations about economic growth are bright, people would demand more and it could help achieve full employment and full-growth and investment to help the economy innovate could increase productivity and wages, and incomes. In the West, the developed world is cutting real wages with inflation to make exports competitive, which is also not uncommon, too. Every developed country has a higher weightage of exports in its trade account. Depreciation or the efforts to increase exports during the slowdown has pulled economies out of depression, because when a country compares its domestic-demand vis-à-vis the export sector it is vaster and, also, because of foreign exchange earnings. In the past years, the low import of gold due to higher tariffs has saved INDIA much of its exchange reserves, through higher debt and equity inflows in the form of FPI's, FII's, and FDI's have all shot up. Nonetheless, the export sector in INDIA is under-penetrated. The government might try to increase depreciation to give exports a kick in terms of a higher nominal-exchange rate, it is a short-term fix, but in the longer-run lowering the general-price-level or prices would save or increase the domestic demand with the foreign-demand, lower-prices too can make exports competitive and also increase domestic demand, because of increase in the real wages. Expectations about higher real-wages increase spending. Likewise, interest-rate and interest-rate expectations affect investment and spending decisions (12). An interest-rate cut cycle may increase investment. The RBI has maintained that it would target a neutral or natural rate of 1.25%, which means lower real rates than in the past, which would increase real interest-rate-cut expectations (13). A lower real rate would increase risk-taking because investors would move to higher-yielding asset classes. Bonds are safe, but equities have higher returns. Lower-interest-rate could give a push to spend, higher demand through higher real wages and real-wage expectations could also increase spending. INDIA is going through expansion, but NPA's and impediments to rate cut-transmission by the commercial banks is a drag on the economic growth rate, but delay in action could further pull the growth-rate expectations down. Expect our governor to bring innovative ideas to the board to curb bad loans. It is a matter for the government because the majority of bad assets are in the Public-Sector banks (14). Lowering cash-reserve requirements during a bad turn may help banks pass on the rate cut by the RBI. In the last rate-cut-cycle, the nominal interest rate was just above 4%. Committing a higher real wage, a higher real interest rate, and a higher real-exchange rate and expectations would increase consumption and investment and foreign demand, too, in the economy through more spending and higher supply/demand/growth… and, more jobs, too.

IV. LOWER INTEREST RATE MIGHT BE CORRELATED TO HIGHER SUPPLY AND LOWER PRICES

The scarcity of capital depends upon the scarcity of investment goods and services, and, consumption of goods and services since a rise in the price level would prompt the central bank to increase the interest rate and reduce demand, consumption, and investment, in order to reduce fall in the value of money and demand, when supply cannot be increased in the short-run. The central bank tries to control demand in case of lower supply to keep prices in check. However, if we have space for increasing supply then the central banks may reduce the interest rate to improve supply and control the price level or inflation. Therefore, the first task before the central banks is to determine whether the inflation is supply-side induced or the demand-side because a supply-side solution in case of higher demand and inflation seems more feasible than to control inflation by reducing demand, which diverts the economy from a higher growth trajectory. A lower-interest-rate regime may also increase supply and lower prices depending upon the actual availability of goods and services in the economy (15).

Conventionally, higher money supply and lower-interest-rate are supposed to stoke demand and inflation in the event of labor and supply shortage, but how the central banks can ignore that the same interest rate, which controls demand is also responsible for increasing the supply because the lower capital cost might be significant for it. Keynes said that capital is not that scarce as compared to other factors of production since the central banks could resort to printing money when there is a need and its real scarcity depends on the real availability of investment and consumption goods and services in the economy (16). The capital is scarce because other things are scarce. In a big economy like INDIA how inflation is explained with so many unutilized resources and excess capacity, its inflation might be attributed to low investment and supply compared to high demand, which could be incentivized through lower interest-rates. The central banks try to contain demand and inflation in the short run when the long-run objective is to keep prices low by lowering the cost of credit and increasing supply. Increasing interest-rate and reducing demand and inflation in the short run is a short-term strategy, however improving the supply-side and demand too by lowering the interest rates might increase inflation in the short-run, but would also increase supply. The interest rate in the developed world has shown a downward bias in the long run and it is an assumption that interest-rate in the developing and the developed world would converge in the same direction in the long run. In many of the developed countries with low population growth rates, the interest rates have remained around zero in the past several years with deflation. Japan is now a classic example of economies with zero-lower-bound or liquidity-tarp and deflation for the past two decades. In the developed world the improvement in the supply-side due to lower-interest-rate has made the price level less volatile and less volatility has also kept the interest-rate low. The example of the developed countries shows that in the long-run supply-side has improved much to keep the prices stable when interest rates are at rock-bottom.

V. LOWER PRICES AND DEMAND/SUPPLY

Deflation would not last too long, because demand would go up since lower prices could increase demand. The most relevant example could be understood by depreciation in the exchange rate when the nominal-exchange-rate increases relative to the prices demand increases, another example is the movement of real-wages, since, when inflation cuts real-wages labor-demand goes-up, the last example may be cut in real-interest-rate with inflation, it increases demand for investment, and foreign demand increases, too, and growth goes-up, even if wages are less fixed or sticky, because of the presence of the downward wages rigidity, but prices might go-down, because there is competition in the market to increase market share and demand, and, as more firms enter the market every-year prices go down in the long-run. Supply is scarce people would rush to buy, investors; too, firms could restrict it in the case of the supply-side weakness and lower prices. After, the inventories are consumed; firms could demand more resources and prices could go up. Economists partially explain the effect of lower prices on the unemployment rate, but lower-prices increase real wages and supply of manpower (17). Rich countries that pay higher-real-wages and incomes for the skills in demand attract foreign labor-force, nonetheless voluntary and frictional-employment may exist, but fail to accept the other side, the good-side (common-side). Lower-prices may also help to reap the economies-of-scale and sell more in the short-run and earn higher-real-interest-rate and real-profits, more investment would increase the nominal and real interest rates in the future, but assume inflation is constant or low, close to Milton Freedman's Optimal-Monetary-Policy, he accepted that deflation rather than inflation helps increase growth (18). An incentive to invest increases, Capitalists would save, earn interest income and invest more. At one place the Capitalist income increases and they save more and earn higher real-interest-rate, Investors wait for lower prices to invest and sell at higher prices. It depends upon the ability to hold money, lower-income levels would have a higher

propensity to consume out of a given income and save less and higher incomes increase the ability to consume, save and invest more. Lower prices increase the real wealth of ALL and increase both, consumption and savings and investment and employment and demand/supply and economic growth. The lower borrowing cost would increase the supply. Investors track the growth projection, lower inflation and interest rate could increase investment, employment, and economic growth. In the rich-world prices have gone down in the long run, as interest-rate response and threshold have varied over time. In the long-run interest-rate or the real interest rate have shown a downward bias, because of the lower interest rate in the past period, higher supply, and the lower price level. Cutting the nominal interest rate would also lower the real interest rate if other things, including inflation, are constant. But, the rich-world central banks are trying to lower real-interest-rate by increasing inflation and inflation expectations, which is difficult to achieve below full employment. And, INDIA's unemployment rate has gone up. The central bank's new governor is appointed by the government recently with a loaded monetary-policy committee. The committee has to decide whether a lower real price of capital could stimulate supply and demand and growth to increase investment and employment with stable and low inflation. Lower borrowing costs would also increase export competitiveness. The government has a counter-cyclical role to control too much volatility on either side. Bring, both, buyers and sellers in equilibrium by the effect of wages, interest rate, and exchange rate. Actually, the real wages, interest rate, and the exchange rate by lowering inflation and inflation expectations which means lower cost of borrowing, higher supply, and lower –prices.

VI. LOWER PRICES MIGHT HAPPEN

In Economics the debate usually starts with variables not adjusted for inflation like nominal interest rate, nominal prices of investment assets, nominal wages, nominal exchange rate including others not mentioned here and as the argument deepens, a closer look at the situation shows that the debate always comes to a point where the description cannot be completed without real variables like real interest rate, real wages, real prices of financial assets, real exchange rate i.e. inflation-adjusted values of the variables. Sometimes, the economists also tend to focus majorly on nominal or market variables rather than real variables, because the trajectory of growth of an economy is supported more by increasing prices or inflation rather than deflation. We generally assume higher prices or inflation as a result of an increase in income, demand, and growth rate; economists very occasionally presume deflation as a consequence of growth unless the economy is going through a downturn. Also, more money supply always pushes inflation and expected inflation, because the quantity theory of money says so. Therefore, economists rarely try to increase real variables, because they do not assume deflation as an outcome of economic stimuli.

Economists and laymen never think that prices might also go down as a result of the expansion. However, a central bank does not want to favor and communicate deflation, because that would stifle supply and employment by increasing the value of money and thereby debt, which is expected to incentivize investment, but sometimes the economists forget that increase in the value of money would also increase the real rate of return on investment and may also decrease the real cost of investment by lowering the prices of factors of production. The real investment would be cheap and real returns could also increase. But, the policymakers never commit deflation, because they do not believe that prices may fall as a result of more money supply. Nonetheless, it is possible to have a deflationary price regime, because more money supply would lower interest rates and the cost of borrowing thereby increasing supply and lowering the prices. This is evident in most of the developed countries stuck in deflation and liquidity trap even with so much monetary and fiscal easing Japan, Europe, US. These economies are showing a deflationary bias in their price-trajectory. Although productivity has increased at a lower rate, the population growth rate has also gone down, which has made supply outstrip demand aggravated by recessionary and slowdown outlook in many parts of the World. Lower price and price expectations would make people feel richer, increase real wages and demand, and grow. Lower prices may help boost demand and clear the market. Once Ben Bernake, the former FED-Chief, himself said that" little deflation is not bad".

VII. AGRICULTURE

INDIA is a supply-constrained economy, not only in terms of fuel and energy like the developed countries but also due to bad marketing of other essentials of life, mainly food. Our 60% of the population lives in villages and is dependent on agriculture for a living. The middle-man chain has depressed agricultural income. The profits are not reaching the farmers and also cost the GoI subsidies and MSP determination. All these have made agriculture unattractive to other professions. The land is most scarce, for housing too. Agriculturalists' low income is against demand and growth. Everybody else's income is increasing faster.

Most farming is done in small villages, but it is devoid of good education and close markets. The long-run trend found in the west that as money supply has increased more supply of goods and services has kept prices in check except for oil is opposite of what the quantity theory of money says. As far as the US is concerned, after Paul Volcker (a former Fed chief) inflation remained under control within the comfort levels below 10 % even after increases in oil prices, so reducing the subsidy market is the best strategy, but food prices are mostly administered by the government. Extreme poverty is a partial condition, not a general observation, mostly attached to cities. More farmers' income will directly benefit the industry. And, when 50% population of INDIA is seasonally occupied by agriculture, it is the major source of income, a big sector, a lot of the population is dependent on agriculture, and a lot of demand will be generated (19). This will work through the multipliers (accelerator, too) (20). The more industry will pay the more it will reap. The government is increasing costs in the middle. Agricultural subsidies will be paid by the market. They would invest in storage. The market is competitive it would cut the costs. When it will become profitable more investment would follow. INDIA is populated. Scale is too big for investors.

If we reduce the middle-man chain in the supply of food-grains farmers will get higher prices. It will incentivize farming (21). INDIA still has to transform agriculture into a technology-intensive sector to increase productivity, output. Liberalizing the FDI in the food supply chain management will help increase investment in agriculture, while domestic investors are reluctant and slow. Without significant investment to raise farm output our industry will face a higher cost of capital. Agriculture (food) is very crucial for economic expansion from the viewpoint of inflation, interest rate, and human capital. When we talk about supply-side constraints in INDIA food is a major point, besides oil and infrastructure. The government should not shy away from importing good food to keep prices in check. The government has set aside Rs 500 Crores as price stabilization funds, which should, as sounds, be used to tame prices, but no doubt we will need foreign reserves for imports (22). The fund will help improve supply within the economy, but, again, it will stress our current account deficit that stands low relative to inflation and high-interest rate as a problem. Foreign trade should be used to increase internal demand and growth. It is an opportunity. Controlling CAD at the cost of domestic consumption, prices and interest rate seems too hawkish.

FDI in food processing and retail would increase farmers' income by cutting the middleman-chain by procuring directly for the farmers. Food inflation is generally high in the country; more investment would cut supply-side bottlenecks and reduce inflation. 100% FDI in the marketing of food products sourced locally is a major supply-side reform to reduce the prices of food items and improve farmers' income (23). Companies can source directly from the farmer. It is the same FDI in multi-brand retail, 100 %, but, only in the food.

VIII. SKILLS

No organization can survive without the right skills to produce and market its product. Even our PM believes in the skills-shortage and economists underscore his vision. Firms, especially the Indian ones, do have not much scope, but to employ unskilled and give them on-the-job training. That is how they are running since inception, but, now firms are demanding skill-ready employees from the government so that they do not have to spend time and money to get their job-ready. Skills are also important for productivity, wages/incomes, demand, production, employment, and growth (24). Therefore, any policy, even FDIs, that lead to these conditions within the domestic economy should be promoted. Moreover, the long-run assumption that labor supply is fully elastic on the natural or subsistence wages/incomes is not valid and the evidence of the Indian economy points that the economy easily starts overheating, which is actually good for wages and income. Weak bargaining power of labor and inflation is responsible for the natural-rate wages or the subsistence theory (25). Moreover, more firms relative to the labor supply will certainly push wages and income and will lead to more demand and growth. Therefore, if we have to breach the subsistence-wages trap, either union should be empowered to bargain or at best inflation or prices must go down.

INDIA's, both, high demand and low supply-side are the reasons for higher prices for food which increases wage-demand and prices depending on productivity (wages equals the marginal product of labor), which in turn depends upon training and skills, they might have a correlation. Moreover, wages also do depend upon inflation and inflation expectations, productivity also increases supply, which may help keep prices stable and lower-interest-rate and increase economic activity and growth. More public investment in training and skills is needed when the private sector is constrained by higher credit costs. Low inflation and low wage demand would increase the economy's competitiveness among peers. Skills and training might also help keep prices in check by increasing productivity and supply. In order to boost productivity investment in skills

development and innovation, through investment in education and research, are equally important.

INDIA's productivity or productivity per person compared to its peers has been low given the size of the economy or its labor force and the level of innovation or technology. The US nominal GDP is four times that of INDIA, even though, the labor force is smaller. INDIA, though, having a larger population and labor force has been lagging behind due to its low education and skills base compared to the developed countries on the productivity of the economy is dependent. The Government of INDIA has now realized that competitive markets would help lower the prices by the way of increasing the number of firms or competition or more supply. Therefore, in education and skill-development INDIA too needs to liberalize investment or entry of new firms (26). More education and skill development firms would lower the prices of education and skills and increase employability. Its Make in INDIA program, also, could not succeed without the right skills to add to the productivity of the Industry (27). INDIA has recognized the importance of foreign capital to finance its goals. The government is trying to woo foreign investment in agriculture and manufacturing, but this time it also needs to increase foreign investment in world-class education and skills. The Make in INDIA invites the foreign firms to invest in production with cheap wages in order to be competitive, but, without an educated and skilled workforce, the firms would find it difficult to invest in INDIA. Foreign firms are provided entry into the economy to increase competition for the domestic producers was earlier considered against the domestic industry could also help us import new-skills and technology. Moreover, more FDI in education and skills development would also help us spread domestic skills-base and productivity.

IX. DOWNTURNS ARE THE TIME FOR SPENDING

The fiscal deficit, the gap between expenditure and revenue, and the cumulative borrowings or debt of the government over the years, back, has been a topic of debate between economists over the sustainability of debt that might involve risk because of overheating and bubbles in the economy. Both, spending by the government and the private sector through borrowing might lead to the tightening of the credit and trade cycles (28). Debt is not a problem till your financials are sound and revenues robust, and your economy is moving, but when things are not going the right way, i.e. during recessions or slow down when there is high unemployment, low wages, and demand then the Public-Debt makes more sense because the private sector is not doing fine. Higher public spending increases employment, demand, and growth during downturns through the multiplier. However, to use it on time you must have a low debt to borrow more during crises. Too much public debt in the Western world made the countries spend less during the recession when they should spend more to create employment. Therefore, we might point out that the fiscal policy should be used in times of crisis or rainy days during the downturns for which it has to garner revenue during the booms to control inflation and overheating.

Under these perspectives, INDIA too might draw the right framework for its fiscal policy that downturn is a time for spending and booms are a time for revenues and consolidation to control demand and overheating. Overheating and high inflation fail to give the outcome we want, higher wages, incomes, demand and growth, actually real wages, incomes, demand, and real growth rate. Inflation lowers the real GDP and lower inflation might increase it.

Public spending in times of fiscal consolidation from a rating point of view maybe not be so good, but we have also ample reasons not to believe the rating agencies. The last recession we saw in 2008 is largely attributed to banks' misconduct and wrong ratings in the US. They painted a good scene of the economy while debt and inflation soared at risky levels (the sub-prime crisis). Economists criticized rating agencies for this (29). Therefore, if we think that rating agencies have a credibility problem that might be true. Public spending on infrastructure, when the private sector is constrained of capital would help the economy pick steam, growth because we are supplying what the economy really needs to increase the quality of life. We want inclusive development of all people and regions and that should be best gained when we increase knowledge and skills, a productive workforce, a true human capital, s/he will also pay taxes, and revenue will increase. The government is exploring ways to finance the infrastructure deficit. The best way to finance this is to borrow from the West for the long-term where interest rates are record low. That would also help improve foreign reserves, meanwhile. The RBI too can contribute through lending its gold, which lying idle in the reserves, and corporate should be included to bring in private capital. The GoI is considering PF funds to finance infrastructure in the long run, a good idea.

Disinvestment should be calibrated; otherwise, it would reduce investment and growth. The timing of public investment is also important. Disinvestment during a downturn might weaken demand and growth. However, timely reallocation to other uses may help growth. Infrastructure is important. Re-capitalizing

PSBs could lower-interest-rate, but more investment in infrastructure would also crowd in more private investment to improve supply and reduce inflation. Inflation constrains demand and economic growth by increasing interest rates. Money from disinvestment must be purposefully deployed.

X. CONCLUSION

INDIA in 2015 became the fastest growing economy in the world after China after the change in the methodology for calculating real-gross domestic-product, but higher nominal interest rate has put brakes on demand-supply, employment-investment to achieve the potential economic growth rate. A higher growth rate is important for higher demand, investment, and profits/wages with price stability and full employment. Monetary policy is a supply-side tool, but it also increases demand-supply, both, in the economy by the way of increasing employment, but, again, not after full employment, after it only demands and prices increase. Full-employment means we have reached our limits and there is a scarcity of labor within the economy, and supply cannot be increased with domestic labor and prices or inflation starts rising. This can be called the labour supply-side problems with structural factors like education, skills, innovation, and productivity. In this situation, if we want demand-supply and growth without increasing inflation we need external supplies or international trade without which the economy will only feel overheating and loss in the value of money and demand. The external sector is as important as the domestic sector in fulfilling demand, increasing welfare, and achieving a higher-growth rate. If trade liberalization does not reduce domestic employment and help lower prices and interest rates, it should be promoted, because that might eventually help us achieve full employment and full growth. The point is that if we have achieved full employment, trade-liberalization will also help achieve price stability. More supply and lower prices are important for lower-interest-rate, high investments, and high economic growth. It would not be an overstatement that in recent times foreign exchange-rate policy is centered around exports, employment, and growth. The pattern is present everywhere, US, Europe, Japan, China. Even the Make-in-INDIA initiative of the present government is a step in giving the Indian export sector a push. INDIA's export sector, especially manufacturing, is largely underdeveloped and there is a scope for employment generation with relatively low wages. The country so far has concentrated on domestic demand for growth, but now with greater emphasis on manufacturing and exports INDIA is likely to out-pace cooling China, which is going through a slow down much like the Japanese and the US-style, a deflationary bias in the economy. However, INDIA with a sound policy, even in the exchange rate, a little depreciated Rupee to give export and employment a chance, can take advantage of both the positions, an investment inflow, and hardening rupee and investment outflow and depreciation, too. Increasing foreign-exchange reserves during inflows and hardening will help us weather too much depreciation during outflow and costlier imports and also increase our competitiveness. We should use our foreign-exchange rate policy for more productive employment and growth, it would be helpful as far as demand and growth (external and domestic) are concerned. The investment cycle in INDIA is still to kick in fully with interest-rate reduction.

REFERENCES

[1] As various parts of India witnessed one of the worst droughts, and above-par monsoon is imperative. https://economictimes.indiatimes.com/news/economy/agriculture/as-various-parts-of-india-witness-one-of-the-worst-droughts-an-above-par-monsoon-is-an-imperative/articleshow/51758639.cms?from=mdr

[2] Narendra Modi government gearing up to announce Food Security Act with Rs 130,000 crore outlay. https://economictimes.indiatimes.com/news/economy/policy/narendra-modi-government-gearing-up-to-announce-food-security-act-with-rs-130000-crore-outlay/articleshow/50827770.cms

[3] Repo rate cut — lost in transmission. https://www.thehindubusinessline.com/opinion/repo-rate-cut-lost-in-transmission/article22513690.ece

[4] Economic Survey 2014: Growth of non-performing assets a cause for concern. https://economictimes.indiatimes.com/industry/banking/finance/banking/economic-survey-2014-growth-of-non-performing-assets-a-cause-for-concern/articleshow/38078081.cms?from=mdr.

[5] Linking interest rates to MCLR may hurt borrowers more than benefit them. https://economictimes.indiatimes.com/news/economy/policy/linking-interest-rates-to-mclr-may-hurt-borrowers-more-than-benefit-them/articleshow/63601517.cms?

[6] Insights into issues: Non-performing assets. https://www.insightsonindia.com/2016/08/29/insights-issues-non-performing-assets/

[7] Kydland, Finn E.; Prescott, Edward C, Time to Build and Aggregate Fluctuations". Econometrica. 50 (6) (1982) 1345–1370. doi:10.2307/1913386. JSTOR 1913386.

[8] India needs labor-intensive industrialization: Pranab Bardhan. https://economictimes.indiatimes.com/news/economy/policy/india-needs-labour-intensive-industrialisation-pranab-bardhan/articleshow/38814576.cms?from=mdr

[9] Fisher, Irving (1922). ,Dollar Stabilization, In Chisholm, Hugh. Encyclopædia Britannica (12th ed.). London & New York

[10] Inflation Expectations Are Important to Central Bankers, Too. https://www.stlouisfed.org/publications/regional-economist/april-2016/inflation-expectations-are-important-to-central-bankers-too.

[11] Alesina, Alberto; Campante, Filipe R.; Tabellini, Guido (2008). "Why is Fiscal Policy Often Procyclical?, Journal of the European Economic Association. 6 (5) (2008) 1006–1036. CiteSeerX 10.1.1.485.1225. doi:10.1162/JEEA.2008.6.5.1006.

[12] Yuichiro Ito & Sohei Kaihatsu,. Effects of Inflation and Wage Expectations on Consumer Spending: Evidence from Micro

Data, Bank of Japan Working Paper Series 16-E-7, Bank of Japan.,(2016).

[13] Taylor Rule shows Raghuram Rajan's policy rate regime was prudent, not hawkish. https://www.livemint.com/Opinion/GD0wPV6gzIxKXw2fM0WnSN/Taylor-Rule-shows-Raghuram-Rajans-policy-rate-regime-was-pr.html

[14] NPA clean-up should have started much earlier: Raghuram Rajan. https://economictimes.indiatimes.com/news/economy/policy/npa-clean-up-should-have-started-much-earlier-raghuram-rajan/articleshow/53399706.cms

[15] Econ 101: The Basics of Supply and Demand. https://www.env-econ.net/supply_demand.html

[16] The General Theory of Employment, Interest, and Money. https://www.marxists.org/reference/subject/economics/keynes/general-theory/ch24.html

[17] Economics 301; Intermediate Macroeconomics; Labor Supply. https://faculty.washington.edu/ezivot/econ301/labor_supply.htm

[18] Friedman, B.M. (2001), Monetary Policy, International Encyclopedia of the Social & Behavioral Sciences. pp. 9976–9984. doi:10.1016/B0-08-043076-7/02257-9. ISBN 9780080430768.

[19] India's increasing thrust on rural markets. https://economictimes.indiatimes.com/news/economy/policy/indias-increasing-thrust-on-rural-markets/articleshow/5073950.cms

[20] Knox, A. D., The Acceleration Principle and the Theory of Investment: A Survey, (1970) In Shapiro, Edward. Macroeconomics: Selected Readings. New York: Harcourt, Brace & World. pp. 49–74. ISBN 0-15-551207-2.

[21] FDI in India: Farmer bodies throw their weight behind retail FDI. https://economictimes.indiatimes.com/news/economy/agriculture/fdi-in-india-farmer-bodies-throw-their-weight-behind-retail-fdi/articleshow/10939054.cms?from=mdr

[22] Government unveils draft norms to operate Price Stabilisation Fund. https://economictimes.indiatimes.com/news/economy/policy/government-unveils-draft-norms-to-operate-price-stabilisation-fund/articleshow/416. 6042119.cms

[23] The government allows 100% FDI in the trading of food products. https://economictimes.indiatimes.com/industry/cons-products/food/government-allows-100-fdi-in-trading-of-food-products/articleshow/52832819.cms

[24] Rifkin, H. (18 July 2008)., Invest in people skills to boost bottom line". Portland Business Journal. Retrieved 2009-10-14.

[25] Ricardo, David (1821). "Chapter 5, On Wages". On the Principles of Political Economy and Taxation.

[26] Plan afoot to allow FDI in education. https://economictimes.indiatimes.com/news/economy/policy/plan-afoot-to-allow-fdi-in-education/articleshow/1964366.cms

[27] Why Make in India may be the answer to India's unemployment puzzle, The Economic Times, 15 February 2016

[28] Bahal , Raissi and Tulin ., Crowding-Out or Crowding-In? Public and Private Investment in India, (2015) IMF WORKING PAPERS. ISBN/ISSN:9781513541655/1018-5941.

[29] The Indisputable Role of Credit Rating Agencies in the 2008 Collapse, and Why Nothing Has Changed. https://truthout.org/articles/the-indisputable-role-of-credit-ratings-agencies-in-the-2008-collapse-and-why-nothing-has-changed.