

subdued economic environment.<sup>17</sup> Further data on capacity utilization from the UBICUS (Under Books Industrial Capacity Utilization Survey) reveal a slowdown. For the fiscal years 2010-11, 2011-12 and 2012-13, the capacity utilization rates were 77.1%, 76.8% and 74.5% respectively. In the economics textbooks, macroeconomic analysis of stagflation has generally failed to analyze data on sales and profits. These connections can and should be systematically examined with the large amount of available data.

## 7.8 POLICY CONCLUSIONS: A POSTSCRIPT

This book has analysed two episodes of stagflation – USA and India, based on the Expected Augmented Phillips Curve. There are remarkable similarities between the high employment aspirations of the US in the late 1960s and the high growth aspirations of Indian policy makers in recent years, and subsequent economic outcomes. In his foreword to the Economic Report of the President, in January 1969, from which the real-time Phillips curve figure was taken (Section 2.3), then US President Lyndon Johnson stated,

“I regard achievement of full potential of our resources—physical, human and otherwise – to be the highest purpose of the governmental policies, next to the protection of rights regarded as inalienable. We have begun to progress towards these new aspirations. But we have only begun. And because we are so far to go many of us are impatient....Our economy will not rest on the laurels of the 1960s....the nation will remain on the march”.

The mistakes and outcomes of that period in USA have been covered in Chapters 2 through 5. Similar impatience has been, and still is, a hall mark of the high growth aspirations of India's policy makers. The emphasis on growth targets has its roots in the orthodox development economics of the 1950s and associated growth formulae and five year Plans. Although policies have become free-market oriented, the emphasis of growth targets is still very much there. To conclude with one last citation, about the 9% growth euphoria (Section 7.1.1), from India's former Prime Minister Manmohan Singh, himself an economist,

“It is my expectation that we will return to a 9 percent growth path in 2011-12. I am confident that the strong fundamentals of the Indian economy will enable us to achieve our objective of double digit growth in the coming years”. (The Hindu, 2010)

Similar mistakes to that in USA, in the late 1960s and beyond, were made in India during 2004 through 2013, although on a much lesser scale. The noted equity analyst and writer Ruchir Sharma (2016) and many others concluded that the high food inflation during 2008-2013 led to the sweeping defeat of the Congress Party in May 2014. This in turn led to perhaps irrevocable changes in India's social fabric. Those economists who espoused a supply shock view of inflation should reflect on their contributions to these changes.

The main economic lesson from this period is that aiming too high only raises inflation without higher growth. Going by recent statements of some policy makers, it seems that they have not adequately absorbed this message.

<sup>17</sup> “The biggest one has been the employee cost which has risen by a whopping 88% in the last 16 quarters. (Kanth, 2013)