

Forks in the Road: My Days at RBI and Beyond by C. Rangarajan, 346 pp, Penguin Business (2022), ₹699

The book “Forks in the Road” begins with what Dr. Rangarajan calls his “purely accidental” entry into the Reserve Bank of India (RBI) in 1982 as its Deputy Governor, and goes on to provide a meticulous and interesting account of his vast and impressive professional journey not just in the RBI but also his work in public policy as a member of the Planning Commission, Chairman of the 12th Finance Commission, Chairman of the Economic Advisory Council to the Prime Minister (EAC-PM), Governor of few States and his stint as a Rajya Sabha Member of Parliament (MP). While providing this account, Dr. Rangarajan, a seasoned economist, delves into the intricacies of India’s evolving economic landscape. He provides a rich illustration not just of the changes that took place in India’s economic policies but also of the motivation behind these changes. The book is divided in three parts, covering 17 chapters.

The first part of the book contains a detailed discussion of the evolving economic situation in the 1980s, when Dr. Rangarajan joined the RBI. The decade, as he notes, started and ended with a balance of payments (BoP) crisis. The beginning of the decade was marked by an oil price shock resulting in India approaching the International Monetary Fund (IMF) for an extended facility arrangement. There was an improvement in the initial years of the decade in terms of a moderation in current account deficit and increase in foreign exchange reserves. However, as the decade progressed, there was a deterioration in India’s external sector performance leading to a sharp drawdown of foreign exchange reserves, paving the way for the BoP crisis of 1991. Dr. Rangarajan highlights how both external and domestic factors contributed to the 1991 crisis. He alludes to the ultra-tight monetary policy of the US limiting growth prospects globally, coupled with a strong import substitution policy affecting India’s export competitiveness.

On the domestic front, there were growing challenges in managing both the fiscal and monetary policies. There was a sharp deterioration in the fiscal performance both at the central and state levels compelling the RBI to raise the cash reserve ratio (CRR) and statutory liquidity ratio (SLR) to extraordinarily

high levels. The recourse to RBI to finance public expenditures also became a major point of contention between the Government and RBI during the 1980s. Notwithstanding these contentious issues, Dr. Rangarajan alludes to the positive developments during the decade, including the efforts to manage the borrowing programme of the government to address “fiscal dominance”, along with the reforms in monetary management following the constitution of the Committee to Review the Working of the Monetary System (Chair: Dr. S. Chakravarty) in 1982. A notable contribution of the Committee, which also included Dr. Rangarajan as a member, was its recognition of multiple objectives of monetary policy with price stability being the most dominant one to be achieved through monetary targeting.

Another notable feature of the 1980s was the major reforms undertaken by the RBI for the development of the money market, including the introduction of new instruments *viz.*, certificates of deposit, commercial paper, setting up of the Discount and Finance House of India (DFHI) with Dr. Rangarajan being its first Chairman, for strengthening money market liquidity.

The beginning of the 1990s marked one of the worst crises for the Indian economy. Although the making of the crisis and its fallout is well-known to academics and practitioners, it is Dr. Rangarajan’s lucid language, supported by useful data points that make the discussion in this chapter an illuminating read. The chapter navigates through the complexities of resource mobilisation by India, shedding light on innovative strategies, such as leveraging gold reserves and the ‘Hop, Skip and Jump’ strategy of devaluing the rupee. Dr. Rangarajan argues that the initiative to pledge the gold by the RBI, which was ratified by a caretaker government, showed unprecedented wisdom and courage. The first-hand account by Dr. Rangarajan of the high-stakes operation of shipping gold, involving meticulous planning and coordination among various departments of the RBI, while underlining the gravity of the situation, makes it a vividly engaging read.

The second part of the book is the focal point, which includes Dr. Rangarajan’s tenure as RBI Governor in India’s post-reforms era (1992-1997). It also provides a deeper understanding of the RBI’s pivotal role in steering India through the process of economic liberalisation. His partnership with the then Finance Minister, Dr. Manmohan Singh (to whom he has dedicated the book) comes through strikingly in this part of the book. Dr. Rangarajan’s tenure

was marked by several far-reaching reforms that resulted in the much-needed autonomy in the working of the RBI. The phasing out of the ad hoc treasury bills, introduction of ways and means advances, dismantling of administered structure of interest rates in the banking system, and reduction in the CRR and SLR rates, were few of these reforms. The narrative also brings to the fore Dr. Rangarajan's contributions to fiscal responsibility, emphasising measures taken to limit deficit monetisation.

The adoption of the liberalised exchange rate management system (LERMS) in 1993, which was followed by a relatively stable exchange rate during the initial years of India's transition into economic liberalisation, was nothing short of a "silent revolution" according to Dr. Rangarajan. He presents the challenges of recalibrating monetary policy and addressing inflation and exchange rate concerns with a mix of academic precision and real-world pragmatism, underscoring the role of the central bank in facilitating the transition from a administered setting to a more liberalised one.

Notwithstanding this transition, Dr. Rangarajan argues that the focus of the banking system from its social responsibility was not lost. He alludes to the continued emphasis on priority sector lending, creation of the Rural Infrastructure Development Fund (RIDF), adoption of the Self-Help Group-Bank Linkage Programme as some of the major developments of this period.

The book also brings out Dr. Rangarajan's pivotal role in strengthening the economic research and knowledge base in RBI, which was evident from the critical decisions relating to the recruitment of economists and statisticians in the Bank and strengthening the various reports and research publications of the Bank during his tenure. He was deeply involved in the establishment of premier research institutes like Indira Gandhi Institute of Development Research (IGIDR) and Institute for Development and Research in Banking Technology (IDRBT).

The third part of the book extends beyond Dr. Rangarajan's tenure at RBI, offering readers insights into his role in the Raj Bhavans and the Finance Commission. There are numerous illustrations in this part of his commitment to public service and integrity. Dr. Rangarajan's modesty is also evident by his statement that "many things in life are a game of chance", such as he being awarded the Padma Vibhushan, while many others who were equally deserving did not.

While acting as the chairman of the 12th Finance Commission, he took steps for vertical as well as horizontal equity. The Commission recommended an increase in the share of states in the divisible pool of taxes. Furthermore, equalisation approach to transfers was also recommended to address the horizontal imbalance.

As the Chairman of the PM-EAC, Dr. Rangarajan chaired several noted committees, such as the Committee on Financial Inclusion (2006-08), Expert Committee on National Food Security Bill (2010), Committee on Deregulation of Sugar Sector (2012) and Expert Group to Review the Methodology for Measuring Poverty (2014). Each of these has left an indelible imprint on public policy in India.

Throughout the book, against the backdrop of the BoP crisis and the subsequent reforms, Dr. Rangarajan seamlessly weaves in his reflections on the contemporary economic challenges. His discussion on Goods and Services Tax (GST) reflects a nuanced understanding of the implementation challenges of policies and their economic impact.

The concluding chapters, “Advice to Government” and “Some Ruminations,” offer valuable insights for policymakers and economists alike on critical issues such as rapid economic expansion and sustainable development. He emphasises on discussions and consensus-building as important levers for policy making and implementation.

In conclusion, the book is not merely a memoir but also a masterclass in economic governance. Dr. Rangarajan’s ability to distill complex economic concepts into accessible narratives, coupled with his astute observations on leadership, makes this book invaluable for economists, policymakers, and anyone seeking insights into India’s economic journey. The narrative, spanning pivotal moments in India’s economic history, offers lessons in crisis management, the art of policymaking, and the enduring pursuit of a balanced and equitable growth trajectory.

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