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Head of India's Central Bank Criticizes Post-Crisis Efforts

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Q & A

By KEITH BRADSHER

MUMBAI, India — Raghuram G. Rajan, the governor of the Reserve Bank of India, has a reputation for bluntness. A former chief economist of the International Monetary Fund, he has criticized central banks around the globe for focusing too much on their domestic issues instead of considering the international ramifications of their decisions.

Yet in India, his reluctance to cut overnight interest rates in recent months, before he finally reduced them by a modest quarter-point on Thursday to 7.75 percent, has made him controversial. Critics say that with oil prices tumbling, he should have been less concerned about fighting inflation and more worried about allowing faster growth.

In a broad-ranging interview on Wednesday afternoon, Mr. Rajan talked about the role that central banks should play in financial markets and the challenges he faces in India. The following are edited highlights from the interview with Keith Bradsher.

• On his calls, particularly in a speech in April, for greater coordination by central banks and restraint in quantitative easing — large bond-buying programs by central banks in industrialized countries that are seeking to rekindle economic growth even as interest rates and inflation approach zero:

"My sense is that industrial countries are looking inwards so much that expecting international cooperation for anything other than the crisis of the day is probably wishful thinking. See, these are all attempts to — what's the right word — to sensitize thinking. And I think that the speech had that effect.

"In fact, many people have come around to the point of the speech that additional Q.E. is largely about exchange rates … than really energizing a lot of domestic activity. I think that is now a much more widely held view than when I started talking about it.

"But the point, I think, is that it had had the benefit of at least making people aware that when the time comes, when sort of market volatility creates the crisis somewhere, that there is a need for the international system to come together to fix it. You know, I was hoping we would put in place a system anticipating crisis, but if it is post-crisis, at least making sure we can pick up the pieces reasonably efficiently.

"Maybe that's the best we can hope for in this scenario, where there has been so much demand of different political systems that there has been no space or energy left to look outside and say, 'What else can happen?'"

• On his worry that central banks have gone too far in cushioning shocks in economies and financial markets:

"I was talking to some market participants, and they were extremely worried about the extent of volatility that can emerge in markets in a very short run, one example being oil prices. I mean, this is a very deep market. And overnight, virtually overnight, maybe in a span of a month or two, it has gone from $100 a barrel to $50.

"Now, what were the events that changed this? Was $100 too high? Is $45 too low? Or is there such a range of possibilities? And then if you think, this asset can move so much, and of course the dollar has moved — could we see enormous volatility in asset prices going forward?

"That is a concern, and it is a concern I have been expressing for some time. That is, have central banks suppressed volatility through these policies.

"Effectively, every time prices move considerably, some central bank or the other says, 'Wait a minute, wait a minute, I'm going to give you some fresh liquidity,' and we essentially offer a put option to the markets. So it's not a Bernanke put or the Greenspan put. Now it's the universal central bank put. Have we, in an attempt to banish volatility — which wasn't, I think a direct objective of any central bank, but indirectly, we've come to that — created the danger of much more volatility."

• On his insistence, as the main bank regulator in India, that the founders of large companies should be forced to take losses if their companies fail, including provision of collateral in advance for loans to their businesses:

"One of our attempts here is to make sure that the system is evenhanded, that the large guy also repays, or if he or she cannot repay, that the debtholders have strong recovery rights. Now that's work in progress. But it is extremely important to make the system legitimate.

"One of the worries about capitalism is 'heads the capitalist wins, and tails the system loses, but the capitalist is O.K. all the time.' To get a proper capitalist — or I should rather say, free enterprise — system in this country, we certainly need people to have the ability to take risk. But if they do take the risk, they should pay the costs of taking that risk, rather than benefit when that risk pays off, but shove the cost on somebody else when it doesn't.

"And that has been one of the big focuses of the last few months: How do we get the big promoter to absorb the losses and not shove it onto the banks? And how do we make sure that the system works for everybody in the same way?"

Governor Dr. Raghuram Rajan's interview with Keith Bradsher of New York Times. First published in New York Times on January 16, 2015