*Welcome Remarks**

Duvvuri Subbarao

On behalf of the Reserve Bank, I have great pleasure in welcoming Professor Michael D. Bordo who will shortly be delivering the fourth P. R. Brahmananda Memorial Lecture. Hearty welcome also to Ms. Jann Grace Seale, who has accompanied Prof. Bordo as the Reserve Bank's guest. I also have pleasure in acknowledging the members of the family of late Prof. Brahmananda – Dr. P.R. Ramaswamy, Shri P.R. Vishwanath, Smt. Gayatri Viswanath and Ms. Kritika Viswanath. We are delighted to have you here. And, of course, a warm welcome to all the invitees, who have made time to attend this lecture.

Prof. Brahmananda

2. Professor Brahmananda was a distinguished academic, a much-loved teacher and a widely respected policy thinker. His pioneering work, centred around reconstructing classical economic and political thought for developing economies, is a legendary contribution to furthering the frontiers of political economy. The 'wage-goods model' that he developed in the 1950s, which provided inspiration for what came to be known as the 'Bombay School of Thought', remains Prof. Brahmananda's enduring legacy.

3. Prof. Brahmananda showed exemplary intellectual integrity and courage of conviction in going against the mainstream wisdom of the time embodied in the Mahalanobis strategy. He argued that the quickest route to poverty reduction lay in emphasising employment and consumption in the short-term, and that this will automatically lead to capital goods production in the medium to long-term. Whether India would have been better-off had it followed the Bombay School will, for ever, remain an interesting counterfactual.

4. Even as Prof. Brahmananda's contributions enriched almost all areas of economics, monetary economics remained his forte. The Reserve Bank benefited in many ways from his prolific scholarship. Most notably, he undertook to write for us the monetary history of India for the 19th century. What he produced was a significant contribution that not only chronicled the development of classical monetary and international trade theories, but also threw up refreshingly fresh perspectives on contemporary debates in monetary policy. He is remembered fondly in the Reserve Bank for the enthusiasm and commitment with which he engaged with our staff on a host of monetary policy issues.

5. The Reserve Bank instituted this lecture series to honour the memory of Professor Brahmananda in 2004 in acknowledgement of his long and memorable association with the Reserve Bank, his endearing commitment to teaching and his seminal contributions to research in economics.

6. So far, the Reserve Bank has organised three memorial lectures in this series, the last one being by Prof. Stanley Fischer, Governor of the Bank of Israel, in February last year.

The Distinguished Speaker – Prof. Michael D. Bordo

7. We are privileged that another distinguished academic and internationally renowned monetary historian, Prof. Michael Bordo, will be delivering the Brahamananda Memorial Lecture today.

8. Prof. Michael Bordo is currently National Fellow at the Hoover Institution in Stanford University. He has previously held academic positions at Rutgers University, University of South Carolina and Carleton University in Ottawa. He was a visiting professor at the University of California in Los Angeles, Carnegie-Mellon, Princeton, Harvard, and Cambridge. Prof. Bordo has an M. Sc. Degree in economics from the London School of Economics, and he earned his Ph. D. from the University of Chicago. The universities where he

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studied, taught and worked comprise an impressive roll of honour of academic institutions, which I am sure, are on the dream-list of many aspiring students present here in the audience today.

9. Prof. Bordo's breadth of professional experience is equally illustrious. He was a visiting scholar at the International Monetary Fund, the Federal Reserve Banks of St. Louis and Cleveland, the Bank of Canada, the Bank of England, and the Bank for International Settlements. He is also a member of the Shadow Open Market Committee. He has published many articles in leading journals and authored as many as ten books on monetary economics and monetary history.

10. Prof. Bordo's work on monetary policy from a historical perspective covered a broad array of themes such as the historical origins of central banks; the history of financial crises; operations of the lender of last resort; war finance by monetary and fiscal authorities in an environment of optimal public finance; and the case for stable money.

Great Depression and Great Recession

11. Prof. Bordo will be speaking today on 'The Great Depression and the Great Recession: What Have We Learnt?', a subject on which he is an acknowledged authority. The importance of this topic is so self-evident that it will be presumptuous on my part to reiterate it. When Lehman Brothers collapsed in September 2008 and the global financial sector seemed to be hurtling towards a collapse, one of the biggest fears was whether we were heading for Great Depression–II. In the event, we stopped just short of that. This crisis is not yet over, but the panic has subsided, and the 'D' word has yielded to the 'R' word.

12. A lot has been written about both the similarities and dissimilarities between the Great Depression and the Great Recession in terms of the origins of the two crises, how they unfolded, the policy responses and the longer term consequences.

13. At an aggregate level, the similarities between the two crises are quite striking. Both were preceded by remarkable economic booms – the 'Roaring Twenties' in the case of the Great Depression and the 'Great Moderation' in the case of the Great Recession. Both were also preceded by mounting global imbalances, with the United States being a major creditor nation leading upto the Great Depression and a major debtor nation leading up to the Great Recession. Arguably, both had their origins in easy monetary policy, excess leverage, irrational exuberance and asset price bubbles. In terms of outcomes too, there are striking similarities by way of loss of output, employment and welfare. So, how does the Great Recession compare with the Great Depression?

14. One standard measuring stick used by economists is GDP. During the Great Depression, global GDP fell by a stunning 27 per cent. During the Great Recession, GDP fell by only 4 per cent. By this yardstick, the Great Recession was only 15 per cent as severe as the Great Depression.

15. It could be argued, and I believe quite rightly, that comparing the two events at the aggregate level is too simplistic. If we drill down further, we will discover important and unique differences between the two crises, especially in terms of how the two crises transmitted, how policymakers responded to them and their respective longer term consequences.

Have We Learnt from the Crisis?

16. Apart from the mainstream debate about the crisis, there is a parallel debate running on whether we learn anything at all from a financial crisis. This is a debate that has largely frowned on moderation. At one end are those who say that we learn nothing at all. In their painstakingly researched book, *This Time is Different: Eight Centuries of Financial Folly*, Kenneth Rogoff and Carmen Reinhart argue that every time a crisis occurs, and experts are confronted with the question of why, based on past experience, they could not see it coming, they would argue that past experience was no guide as circumstances had changed. Yet this 'this time is different' argument does not hold. Reinhart and Rogoff put forward impressive evidence to show that over eight hundred years, all financial crises can be traced to the same fundamental causes as if we learnt nothing from one crisis to another.

17. On the opposite side of this debate are those who contend that policymakers have indeed learnt a lot. That the Great Recession stopped short of a depression is itself evidence that we implemented what we learnt. In particular, the G-20 orchestrated a much-acclaimed co-ordinated policy response to the Great Recession, effectively putting in place a new institution to manage globalisation. Contrast this with the Great Depression when the animosities of the inter-war period prevented a co-ordinated policy response. Also, the Great Recession saw policymakers acting with an unusual show of policy force, aggressively pumping in liquidity to counter deleveraging and the deflationary forces. They also topped up quantitative easing with explicit assurances that the stimulus will be retained over an extended period. Again contrast this with the Great Depression when a premature, sharp fiscal correction in 1937 resulted in a double-dip recession.

Fed and ECB – Different Lessons

18. But here again, it is important to take a more nuanced view. The same historical experience can lead to different interpretation and, therefore, different lessons. There has, in fact, been some recent writing on how the US Fed and the ECB viewed the crisis differently. The Fed saw potential deflation, on account of the deleveraging under way, as the bigger threat, rapidly responded with zero lower bound interest rate and followed it up with several variants of quantitative easing. The ECB under former President Trichet, on the other hand, inferred that in most cases, it is an unbridled rise in credit growth prior to a crisis that causes the eventual crisis. And importantly, the economy fully recoveres only after the pre-crisis excesses are worked out. This means significant capital destruction. The quicker the process of capital destruction, the faster and stronger the recovery. And liquidity support in the aftermath of the crisis only slows this process of creative destruction. We have all witnessed how this differing perception has guided differing policy approaches to crisis management.

19. I have spoken briefly about the similarities and differences between the Great Depression and the Great Recession. I also underscored how different people and different institutions draw different lessons from the same historical experience. I have done this not because I am an authority on the subject, but to emphasise that we need to understand these issues, and draw the right policy lessons for the future. As Liaquat Ahmed says in his very thoughtful book, *Lords of Finance*, 'More than anything else, the Great Depression was caused by a failure of intellectual will, a lack of understanding about how the economy operated. No one struggled harder in the lead-up to the Great Depression, and during it, to make sense of the forces at work than *John Maynard Keynes.* He believed that if only we could eliminate 'muddled' thinking, then society could manage its material welfare'.

20. As we exit what is unarguably the biggest crisis of our time, we need to repeat this exercise, of making sense of it all. It is eminent scholars like Prof. Bordo we turn to for leading the intellectual effort in this regard.

21. Please join me in inviting Prof. Bordo to deliver the fourth P.R. Brahmananda Memorial Lecture.