

*Remarks for the Convocation Ceremony at the Meghnad Desai Academy of Economics**

Urjit R. Patel

1. The 'Class of 2018' and their parents, guests and students, Lord Meghnad Desai, Chairman of the Meghnad Desai Academy of Economics, and the academic fraternity of the Academy, I am deeply honoured to be invited to the convocation ceremony. It reminds me fondly of my graduation ceremony three decades back.

2. Although his enormous standing and body of work is well known, let me say a few words about Lord Meghnad Desai, the Academy's Chairman, Professor Emeritus at the London School of Economics, a renowned academic and a prominent global public figure. His contributions to the field of economics and education, and particularly his commitment to teaching at the London School of Economics, are the stuff of legend. He has also been an enlightened institution builder, a shining example of which is the Centre for the Study of Global Governance that he established in 1992. Lord Desai has written extensively, covering international political economy, Marxian economics, monetary economics, economic history and globalisation (as an aside, Lord Desai's book 'Testing Monetarism' was required reading for macro courses in the United Kingdom in the 1980s). He has also worked extensively on issues relating to the Indian polity and has also been a sagacious influence in the political life of the UK. In recognition of these contributions to society at large, he was bestowed with the Lordship of St. Clement Danes in 1991 by the United Kingdom and the Padma Bhushan

by the Government of India in 2008. From where I hail, Lord Desai delivered the First Brahmananda Memorial Lecture in September 2004, a lecture instituted by the Reserve Bank of India in the fond memory of an eminent teacher and scholar of economics, Prof. P.R. Brahmananda. It was most apposite that the first memorial lecture was delivered by one of his most distinguished students.

3. As I understand, the Meghnad Desai Academy has been established as an institution of excellence to provide graduate students with the academic rigour and technical skills to meet the needs of a more challenging profession that gets more demanding with every passing day for academics, policy makers and practitioners in markets, industry, policy think tanks and government. It is befitting that the Academy has been initiated by some of India's leading economists and finance professionals, bringing in rich and diverse perspectives for students.

Role of economists/researchers in shaping policy

4. In keeping with the occasion, let me say a few words about economists. Their vital role in shaping public perceptions and discourses and in designing strategic policies in the corporate sector, central banks, governments and multilateral institutions, is more often than not unsung. Rigorous research and training helps in formulating informed set of policy choices and consequent decisions. In the domain of public policy, we have to distinguish between the direct and the indirect impact that economists can make. The former is what we usually think of when we consider how experts might affect formulation of a policy, say, minimising the subsidy burden on the exchequer. However, their greatest contribution to policymaking may take place through less direct routes such as through their research by nudging policymakers to think about economic problems/challenges in newer/different ways.

* Urjit R. Patel, Governor, Reserve Bank of India, Remarks for the Convocation Ceremony at the Meghnad Desai Academy of Economics in Mumbai on August 3, 2018.

5. Policy makers too have a crucial role in creating an enabling environment for economists to contribute to society. In this context, the Government of India has to be lauded for instituting three land mark reforms in recent years. One cannot and should not underestimate the sagacity and uncommon courage of the Government to undertake reforms that can only be described as truly transformative. These will shape, for the better, our economic evolution in the years and decades to come.

6. In 2016, the Government legislated amendments to the RBI Act to invest the Reserve Bank of India with the specific mandate to operate the monetary policy framework of the country whose primary objective is to 'maintain price stability while keeping in mind the objective of growth'. This was a fundamental shift in the institutional architecture for the conduct of monetary policy, with the formal transition to a flexible inflation targeting framework and the relinquishing of the monetary policy decision by the Governor to a six member monetary policy committee (MPC). Another momentous reform is the establishment of the Goods and Services Tax council whereby the Government of India has created one of the most effective institutional mechanisms for cooperative federalism. Along with the State Governments, it has offered a refreshing counter-narrative to the divisive course of the international federal dialogue, voluntarily choosing to relinquish and then pool sovereignty for a larger collective cause. Also, the enactment of the Insolvency and Bankruptcy Code, 2016 (IBC) is a watershed towards improving the credit culture in our country. The IBC provides for a single window, time-bound process for resolution of assets with an explicit emphasis on promotion of entrepreneurship, maximisation of value of assets, and balancing the interests of all stakeholders. These steps are unprecedented in the history of our nation in that they show the Government's commitment

to sound public policy by establishing institutions and ceding power to them to perform functions vital for securing and entrenching macroeconomic and financial stability.

7. Economists are often misunderstood and at times maligned. To illustrate, economists are heaped with the criticism that they failed to see and predict the 2007-08 global financial crisis, and this has dented the credence of their profession. To my mind this is patently unfair. Doctors understand diseases but cannot predict when one will fall ill. The fundamental mission of economists is not to forecast crises but to explain how mankind behaves in the ordinary business of life and in doing so they do warn of crisis formations, suggest pre-emptive strategies and formulate mitigating policies that address those crises that slip through macroeconomic surveillance. More often than not, they meet with resistance. Hyman Minsky laboured in relative obscurity from the start of his academic career in the 1950s until 1996, when he died.¹ His research about financial crises and their causes attracted little mainstream attention back then. It was only in 2007 when the subprime-mortgage crisis erupted, that everyone started turning to his writings as they tried to make sense of the chaos engulfing global financial markets. The eruption of a financial crisis from a state of dormancy or calm is now often referred to as the 'Minsky' moment. In another striking example, George Akerlof's landmark paper '*The Market for Lemons*',² was rejected by several journals before it was finally published. As time passed, his seminal paper brought home the wisdom that adverse selection was a fundamental cause of market failures and the idea turned into a foundation stone of information economics.

¹ Hyman Minsky [1986], "Stabilising an Unstable Economy", McGraw-Hill Professional, New York.

² George Akerlof [1970], "The Market for Lemons: Quality Uncertainty and the Market Mechanism", *Quarterly Journal of Economics*, Vol. 84, pp. 488-500.

8. New and fresh ideas often meet a wall of resistance as they tend to challenge inertia in the existing shores of thinking. So as you go into the world to answer your calling, be fearless and experimental in opening up your minds and in thinking out of the box. I am confident that young minds like you can think differently, produce new thinking and bring more creativity into empirical scrutiny of the ideas you theorise. Your 'millennial' generation must strive to challenge the accepted wisdom so that we can have more 'creative destruction' in society and a brave new world.

9. In my own profession as central banker, thinking new and fresh is demanded by the ever changing world in which we operate. To give an example, we have been trying to understand household and firm behaviour through our surveys and analysis. However, the need now is to understand micro-level price formation dynamics in new dimensions such as e-commerce, digital transactions and big cross sectional data. This applies to domains such as banking, non-banking financial intermediation, payments, currency management and financial inclusion as well. In the absence of this type of research, policy choices could yield sub-optimal outcomes at times. There is an acute information deficit regarding the unorganised sector in India, despite its significant role in income

and employment generation. The absence of official or non-official statistics has not, however, prevented economists from conducting survey-based studies to help understand its dynamics.

10. In closing, I would like to quote Paul Romer, a pioneer of endogenous growth theory, from his much cited paper 'The Trouble with Macroeconomics':³ *'Even when it works well, science is not perfect.... Scientists commit to the pursuit of truth even though they realise that absolute truth is never revealed. All they can hope for is a consensus that establishes the truth of an assertion in the same loose sense that the stock market establishes the value of a firm. It can go astray, perhaps for long stretches of time. But eventually, it is yanked back to reality by **insurgents** (my emphasis) who are free to challenge the consensus and supporters of the consensus who still think that getting the facts right matters.'*

11. As you pass out as young economists remember that you have the power to shape the destiny of this country and touch the lives of its millions. You are the harbingers of our enlightened society of tomorrow; equipped with ideas and also the ability to convert them into a better reality for all. I congratulate all the new graduates of the Academy, and wish you all a very bright future ahead.

³ Paul Romer [2016], "The Trouble with Macroeconomics", The Commons Memorial Lecture of the Omicron Delta Epsilon Society, January 5, 2016.