

*RBI History – Looking Back and Looking Ahead**

Duvvuri Subbarao

On behalf of the Reserve Bank, I have great pleasure in welcoming everyone to this function for the release of Volume IV of the Reserve Bank of India (RBI) history by the Hon'ble Prime Minister Dr. Manmohan Singh.

2. Volume IV of the RBI history covers the period from 1981 to 1997 which subsumes the period when the Prime Minister was the Governor of the Reserve Bank during 1982 to 1985, and the subsequent period when he was the Finance Minister from 1991 to 1996. Today's history release function is therefore historic in its own way.

RBI since 1935

3. Established in 1935, the Reserve Bank of India is one of the oldest central banks in the developing world. The history of the Reserve Bank reflects in many ways the economic history of India. The Bank's journey over the last nearly eight decades has been marked by a host of historic developments both at home and abroad. Internationally, there were the aftermath of the Great Depression of the 1930s; the Second World War and the consequent challenges of war financing; the establishment of the Bretton Woods system in 1944; the unravelling of the gold standard and the oil price shocks of the 1970s; the Asian Crisis of the mid-1990s; and most recently the global financial turmoil and the ongoing eurozone sovereign debt crisis.

4. There were varied historic developments on the home front too - starting with the launching of the five-year plans and the challenges stemming from one of history's most ambitious and gigantic experiments

in economic development; the after-effects of the two wars in the 1960s; the devaluation of the rupee in 1966; bank nationalisation in 1969; the balance of the payments crisis of the early 1990s and the follow on path-breaking economic reforms that moved India into a new economic era. The Reserve Bank is proud of the role it has played in shaping these developments, or responding to them as the case may be, and always doing so with sensitivity and integrity.

RBI History - Previous Volumes

5. It is a matter of pride and satisfaction for all of us in the Reserve Bank that it is one of a very handful of central banks which document their institutional history. We have so far published three volumes of history covering the period since the inception of the Bank up to 1981. Volume I, straddling the period from 1935 to 1951, highlights the early efforts to establish a central bank in India, particularly the concrete proposal made by John Maynard Keynes in 1913 to set up a 'State Bank' in India by merging the three Presidency Banks to undertake some of the functions of a central bank. Volume II narrates the Reserve Bank's role in the process of development planning from 1951 to 1967. The highlight of the third volume of history, covering the period from 1967 to 1981, is its depiction of the Reserve Bank's efforts to deepen banking into India's hinterland.

RBI History - Volume IV

6. This brings us to the present Volume IV which covers the period from 1981 to 1997. This straddles the leadership of six Governors, starting with the last phase of Governor I. G. Patel.

1. Dr. I. G. Patel	: 01.12.1977 to 15.09.1982
2. Dr. Manmohan Singh	: 16.09.1982 to 14.01.1985
3. Shri Amitabha Ghosh	: 15.01.1985 to 04.02.1985
4. Shri R. N. Malhotra	: 04.02.1985 to 22.12.1990
5. Shri S. Venkitaramanan	: 22.12.1990 to 21.12.1992
6. Dr. C. Rangarajan	: 22.12.1992 to 21.11.1997

7. Apart from the Prime Minister, I am happy to acknowledge the presence here of two other former

* Welcome remarks by Dr. Duvvuri Subbarao, Governor, Reserve Bank of India at the release of Reserve Bank of India's History Volume IV by Prime Minister Dr. Manmohan Singh in New Delhi on August 17, 2013.

Governors from that period - Shri Amitabha Ghosh and Dr. Rangarajan. Shri Venkitaramnan is unable to be here today, but sends his best wishes for this function. As this is a 'history moment', our thoughts also go back to late Dr. I. G. Patel and late Shri R. N. Malhotra, both of whom served the Reserve Bank with great dignity and distinction.

8. The period covered by this fourth volume of RBI history was by far one of the most challenging times for our economy. The history takes us through the difficult times when the Government and the Reserve Bank had to contend with unprecedented strains on the external payments situation. In response to the balance of payments crisis, the Government embarked on a wide ranging programme of economic reforms that defined a paradigm shift in the economic management of the country. The Reserve Bank was a partner in this exciting process, generating ideas, processing proposals and implementing reform initiatives. Chapters 10 to 12 of this Volume provide a vivid account of this momentous phase in our economic history.

Does History Repeat Itself?

9. Does history repeat itself? This is a clichéd question but nevertheless an instructive one. 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 has occurred, experts have been asked why they did not see it coming. Every time, experts have replied that past experience was no guide because the latest crisis is a result of new circumstances. In other words, their standard excuse has been, 'this time is different'. Yet this 'this time is different' argument does not hold. Reinhart and Rogoff put forward impressive evidence showing 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.

10. The surmise therefore is that, at least in matters of economics and finance, history repeats itself, not because it is an inherent trait of history, but because

we don't learn from history and let the repeat occur. I believe this surmise holds notwithstanding the spreadsheet error in the Reinhart-Rogoff research.

11. Has RBI history repeated itself? That is a judgement call. But some issues do keep repeating in RBI history. I will give just one illustration

RBI and Gold

12. Take the issue of gold. RBI history documents that about 35 years ago, the Reserve Bank got into a controversy over its auction of gold. Again, in 1991, there was a heated, if also emotional, debate in the country when the Reserve Bank pledged its gold reserves to tide over the balance of payments stress. It will be interesting to conjecture on how history will judge the purchase of 200 MT of gold by the Reserve Bank from the IMF in 2010, and its more recent policies to restrain imports of gold.

Looking Ahead

13. When former Chinese Premiere Zhou En Lai was asked what he thought of the French Revolution, he said it was too early to take a view. Defying Chinese wisdom of experience is not for the faint hearted. Nevertheless, I am tempted to look ahead to how history might judge the Reserve Bank on some of the current debates. Please allow me the indulgence of defining some such issues.

Growth-inflation Balance

14. The first, and possibly the most important debate, is about balancing between growth and inflation in the policy context. This is a balance that both governments and central banks struggle with. In my view, this debate has been clouded by some oversimplifications. One such oversimplification is to say that governments are for growth and central banks are for price stability. Another oversimplification is to assert that there is a tension between growth and inflation, and that one necessarily has to play the trade-off between growth and inflation in policy making.

15. The Reserve Bank's monetary policy aims at three objectives - price stability, growth and financial stability.

To contend that the Reserve Bank is obsessed with inflation, oblivious to growth concerns, I think, is both inaccurate and unfair. The Reserve Bank is committed to inflation control, *not because* it does not care for growth, *but because* it does care for growth. There is any amount of evidence to show that an environment of low and stable inflation is a necessary precondition for sustainable growth. How history will evaluate the Reserve Bank on its balanced commitment to growth and inflation is an interesting conjecture.

Fiscal Dominance of Monetary Policy

16. Another big debate today, not just in India but around many countries in the world, is on fiscal dominance of monetary policy. This issue is playing out in a big way in Europe today, but it is not new; nor is it unique to Europe.

Here in India, structural reforms piloted by Dr. Manmohan Singh as Finance Minister, Dr. Rangarajan and Dr. Y. V. Reddy in the Reserve Bank and Shri Montek Singh Ahluwalia as Finance Secretary have helped establish the autonomy of monetary policy in India, free of fiscal policy compulsions. Experience over the last five years has shown that despite that autonomy, the degrees of freedom available for monetary policy management can be constrained by the Government's fiscal stance. What will be history's verdict on how we, as an economy, managed this tension between fiscal and monetary policies?

Managing Policy in a Globalising World

17. I am often asked about the challenges for the Reserve Bank of India on the way forward. Looking ahead, one of the big challenges for the Reserve Bank will be to learn to manage both economic and regulatory policies in a globalising world. Dr. Jalan, as the Governor, showed extraordinary competence and leadership in insulating India from the impact of the Asian crisis in the mid-1990s. Dr. Reddy had the courage of conviction to remove the metaphoric punch bowl before the party got wild.

18. Yet the global financial crisis was so virulent that it affected virtually every country in the world. Did the Reserve Bank learn from the sagacity of Dr. Jalan and the wisdom of Dr. Reddy to manage the current crisis? Governor-designate Rajan, who will take over from me early next month, is here in the audience. The challenge for you, Governor Rajan, will be how you will use your formidable intellect, scholarship and global experience to shape the Reserve Bank as a knowledge institution that will set standards for how an emerging economy central bank should manage macroeconomic policy in a globalising world. I am aware this is history in the future, but history that will nevertheless be historic.

Keep Your Ear to the Ground

19. When I was appointed Governor of the Reserve Bank in 2008, I went to call on the Prime Minister before I took charge. A man of few words as we all know, he told me one thing that stuck in my mind: "Subbarao, you are moving from long experience in the IAS into the Reserve Bank. In the Reserve Bank, one runs the risk of losing touch with the real world. With your mind space fully taken up by issues like interest rates, liquidity traps and monetary policy transmission, it is easy to forget that monetary policy is also about reducing hunger and malnutrition, putting children in school, creating jobs, building roads and bridges and increasing the productivity of our farms and firms. Keep your ear to the ground."

20. In the five years that I have been at the Reserve Bank, I had followed this wise counsel to the best of my ability. I believe that the Reserve Bank is more conscious today than before that the policies it makes and implements have a meaning if, and only if, they make a positive difference to the real world. Admittedly, the Reserve Bank is still on a steep learning curve in this regard. How will the Reserve Bank traverse this learning curve? That will determine not only the history of the Reserve Bank in the years ahead but also, in some ways, the history of India.

Thanks

21. Let me now conclude. The preparation of this volume of history was guided by an Advisory Committee chaired by Dr. Bimal Jalan. The Members of the Committee were Dr. Subir Gokarn and Dr. Rakesh Mohan, both former Deputy Governors, Dr. A Vasudevan, former Executive Director, Dr. Amitava Bose of IIM, Kolkata and Prof. Dilip Nachane of IGIDR, Mumbai. The staff members and consultants in the History Cell in the Reserve Bank, under the guidance of Executive Director Deepak Mohanty, produced this volume with exemplary diligence, intelligence and

commitment. I want to place on record my deep appreciation for the work of the Advisory Committee, the staff and consultants. They are going to be more influential than they realise.

22. Finally, Prime Minister, Sir, thank you very much indeed for agreeing to release this volume of history today. It means a lot to all of us in the Reserve Bank.

23. May I now request Dr. Jalan who provided enormous intellectual leadership for steering the writing of this volume of history to share his thoughts with us?