BOOK REVIEW

Dialogue of the Deaf – The Government and the RBI

Srinivasa Raghavan, T.C.A.; Dialogue of the Deaf – The Government and the RBI; Tranquebar Press, 2017 pages 290 cost Rs. 599/-

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T.C.A. Srinivasa Raghavan's book "Dialogue of the Deaf – The Government and the RBI" is based on the first 3 volumes of the RBI's official history, speeches of Governors and Deputy Governors and news-paper articles covering the RBI's history and interactions with Government in the years 1935 to 2008. T.C.A. Srinivasa Raghavan was contracted to by the RBI to edit and rewrite some parts of Volume 3 of the RBI's history covering the years 1967-81. He worked closely with the RBI for the years 2003-2011 closely examining the archival records and the functioning of the organization. His book represents a serious contribution to RBI history, from a non-official. The journey of the RBI from being called a subordinate office of Government, to being the savior of India in the 2008 global financial crisis represents the underlying theme of the book. The author is candid and lucid in his analysis.

I never met T.C.A.Srinivasa Raghavan. That said, I am aware of his work through his numerous articles in the economic newspapers over the past 2 decades. I remember the irritation expressed by Finance Minister Jaswant Singh at one of his articles in my years as Private Secretary to Finance Minister. His articles always evoked reactions, positive or negative, but they could not be ignored as they dealt with contemporary national policy. I know many of the personalities in the book, Dr. C. Rangarajan, Dr. Y.V.Reddy, Dr. Duvvuri Subba Rao, Raghuram Rajan, K.Kanagasabapathy are men with whom I have had the privilege to serve in the years 2000-2017.

The book is dedicated to the TCA family- an illustrious family, who have distinguished themselves in the service of the Nation, each one of them, with remarkable achievements. I have served with several members of the T.C.A. family - T.C.A. Raghavan was my senior colleague in the EAM's office and in the FM's office for 3 years and went on to serve as High Commissioner of India to Pakistan, T.C.A. Rangachary was Additional Secretary in the Ministry of External Affairs when I was Private Secretary to EAM, went on to serve as Ambassador of India to France, T.C.A. Anant serves as Secretary to Government of India in the Ministry of Statistics and Program Implementation and we had a number of interactions in my years as Joint Secretary Textiles. Raghavan's father, late T.C.A. Srinivasa Varadan served as Home Secretary to Government of India. His name evokes immense respect in the Indian Administrative Service to this day. S. Narayan, Finance

Secretary in 2002 said in his introductory meeting with T.C.A.Raghavan, how privileged he was to meet Varadan's son.

The RBI came into existence in April 1935 with the main responsibility to fix the exchange rate and regulate the interest rates to maintain the monetary stability in India. Monetary policy remains an intensely political aspect of economic governance. The tense relationship between the Ministry of Finance and the RBI is the constant underlying theme of the book. Sir Osborne Smith, the first Governor once said "as long as I run the Imperial Bank, I will not run be run by London or anywhere else, and further, that I will not tolerate interference with my business". He was sacked. His successor Sir James Taylor served as Additional Secretary in the Ministry of Finance before being appointed as Governor. He was succeeded by an ICS officer Sir C.D. Deshmukh who wrote thus.."I cannot engage to do in subservience to what amounts to a claim to be consulted…I regard it as important that the independence of the Reserve Bank of India be preserved…and I feel constrained to enter a caveat any semblance of an encroachment on its discretion." Despite this the RBI Board from 1942 to 1949 rarely defied the Government. In 1958, Sir Benegal Rama Rau, ICS, the Governor of RBI was yelled at by T.T. Krishnamachari and had protested to Nehru, who took the view that the RBI is a part of the activities of the Government and has to keep in line. T.T. Krishnamachari once described the RBI as a subordinate office of Government. The situation has been best summed up by Dr. Y.V. Reddy as "We are totally free – within the limits set by the Government".

What is the at the core of the ideological divide between an apex Institution of Government and the Government that has lasted 8 decades? The RBI has invested heavily in developing a considerable degree of expertise in monetary policy, but the dominance of fiscal policy over monetary policy has always been felt. The differences pertained to deficit financing, in the latter half of the 1950s, the RBI was asked to print notes for the difference between the Government's revenue and expenditure irrespective of inflationary expectations. The RBI replenished Government's cash balances by printing adhoc Treasury Bills in favor of Reserve Bank. L.K. Jha as Governor of RBI did not seem to be too involved in the 1966 rupee devaluation which was personally negotiated by the Prime Minister herself. Neither was he too involved with the 1969 decision on Bank Nationalization following which the RBI seemed to have been considerably disempowered that no records of discussions are available. The RBI Board on July 23, 1969 merely stated that "there was a brief discussion on the implications of the bank nationalization ordinance."

The Bank Nationalization was followed by a major push to enhance Rural Credit for which the Regional Rural Banks Bill was passed in January 1976. The RBI had to cope with a significant increase in demand for credit particularly from State Electricity Boards. The

RBI's monetary policy between 1970 and 1996 is compared to credit rationing with too many creditors and too little by way of deposits. Throughout 1980s, the RBI emphasized the imperative need for containing inflation and moderation in monetary expansion for a viable financial strategy. India negotiated with the IMF an extended fund facility in 1983. Between 1980 and 1985 Government created far too much money via adhoc treasury bills. Dr. Manmohan Singh as Governor RBI and his successor, R.N. Malhotra who came as Governor RBI after a 3 year stint as Finance Secretary called for more coordination between monetary policy and fiscal policy.

Bimal Jalan as Finance Secretary took the view that deficit financing per se not bad and money supply zoomed. Large current account deficits and balance of payments difficulties emerged. Not only were there differences in the conduct of monetary policy but there were also differences over issues of new bank licenses. In the late 1980s, debt waivers became common as also targeted lending. The RBI was ignored and made irrelevant as Banking Regulator. The RBI – Government confrontation always low-key and always polite but intense and vicious during the 1985-89 period was mostly about fiscal policy and banking. The IMF offered India a Stand-by arrangement in 1988 in a meeting between Managing Director IMF, Michael Camdessus and Rajiv Gandhi but it was not accepted. India was on the verge of an economic crisis by 1990. All expansionary policies to raise growth had failed. On January 23, 1991 India entered into a Fund program.

The IMF program in 1991 brought to the fore of policy making, several market friendly economists and technocrats: Dr. C. Rangarajan as Governor, Montek Singh Ahluwalia, Rakesh Mohan, Arvind Virmani, Ashok Desai, Raja Chellaiah, and Shankar Acharya. Together they brought in the market/ IMF/ World Bank philosophy in full measure. The 1997 monetary policy announced by Dr. C.Rangarajan contained a number of reform measures. RBI moved away from micro-regulation to macro-regulation allowing banks greater freedom. By then, RBI had become a slightly junior partner of the Finance Ministry. The reason for this change was the Government's key officials had a better understanding of RBI's role in Indian economy and relied heavily on the RBI's expertise in integrating India's complex economy with the world economy. By 2001, the RBI had become a regulator of the money market in the real sense. A number of market reforms were introduced: automatic monetization of budget deficits was phased out with Government borrowing from the market, the rupee was convertible on the current account and an independent debt management office was proposed.

Although the RBI had handled the banking supervision extremely well, with no major bank collapsing since 1960 except the Global Trust Bank (GTD) in 1997, there were 2 major stock market scams. The RBI's payments and settlements department was caught napping during the stock market scam of May 1992 and again the supervisory oversight did not observe the massive pay orders given by Madhavpura Mercantile Bank to brokerage companies in March 2001. In response, the RBI adopted a modern payments and settlements system for its oversight of the financial sector and took severe penal action against 45 errant banks. In the aftermath of GTB the RBI insisted on merger of banks with weak balance sheets with stronger banks ensuring that there were no private sector banks which did not meet the RBI's capital adequacy requirements by the time of the global financial crisis of 2008. The RBI also successfully blocked proposals for financial sector liberalization to allow private well-governed deposit taking small finance banks to enter into business as it wasn't a viable initiative.

Dr. Bimal Jalan as Governor RBI accelerated the process of bringing down interest rates, a process initiated by Dr. C. Rangarajan, with the explicit objective that for investment to revive, money must not cost too much. India never had it so good, as investment revived, GDP growth rate improved and there was a sudden increase in capital inflows. The RBI was worried about the extant and volatility of capital inflows as reflected in the speeches of Dr. Y.V. Reddy. In 2004 Dr. Bimal Jalan and Dr. Y.V. Reddy convinced Government to open the Market Stabilization Scheme (MSS) through which moneys were provided to RBI for buying dollars. In these years the RBI introduced a number of instruments to achieve its monetary policy objectives. Dr. Y.V. Reddy's approach was "we will reform but at the pace and manner of our own choosing." The Financial Times description of Dr. Y.V. Reddy as the man who saved India from the 2008 global financial crisis is an apt tribute not only to the leadership skills of Dr. Y.V. Reddy but to the Institution of RBI.

T.C.A. Srinivasa Raghavan's book is an authentic description of the history of the Reserve Bank of India for the period 1935 – 2008.

It is a thoroughly enjoyable read.

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