

PREFACE

This is a history of the Reserve Bank of India covering the years 1951–67. It is based on the records of the Reserve Bank, and where necessary and available, some other public records. The focus of the book is on the Bank's engagement with public policy. It steers clear of issues of organization and management. While a short chapter on these subjects would have done insufficient justice to their importance, a longer and more detailed study would have made for an unmanageably large volume.

It is useful at the outset to say what this book is not. It is not an economic or financial history of India. Nor does it provide a comprehensive account of Indian economic or financial policies and their formulation. The Reserve Bank of India was, and remains, India's pre-eminent public financial institution entrusted with responsibility for monetary policy. It also discharged a wider range of public responsibilities than almost any other central bank. This history of the Reserve Bank may therefore yield insights into many more issues of public policy than the history of other central banks. But the Reserve Bank did not have a monopoly of policy-making. As such, while this book is an important input into a comprehensive account, so far unwritten, of Indian economic policies during the 1950s and 1960s, it is not such an account.

Yet *The Reserve Bank of India, 1951–1967* is in many ways a pioneering book, and it is a privilege to be associated with it. It is the first account from the inside, as it were, of the functioning of a major public institution in post-independent India. Debates over India's post-1947 economic and social policies have not receded with time. Unfortunately, neither have they benefited from a hindsight enhanced by access to official documents such as other democratic countries normally place in the public domain after a suitable interval. The present work will not fill this void in our knowledge of our own recent past, but I will be satisfied if it helps to highlight and lessen it.

A notable feature of this volume is the publication, for the first time, of a selection of the Bank's documents. These have not been abridged in any way, even though doing so would have enabled some more documents to be reproduced. The documents are arranged largely in the same order as the

chapters themselves, and most of them are referred to, quoted, or discussed at length in the narrative. Consequently, they are not annotated.

It is possible to approach the history of a central bank's public policies from several directions. Historians of economic thought, for example, would be most interested in the evolving intellectual and theoretical basis of the institution's monetary practice. Those wishing to marry the Muse of history to the metrics of quantitative analysis might like to focus on assessing, as precisely as their models allow, the impact of the central bank's policies on the latter's target (and non-target) variables. The political basis of policy would probably most engage the attention of students of politics and political economy. In addition, one may adopt a parachutist's perspective by placing the Bank against the widest possible background, while the truffle-hunters amongst us may like to do the opposite. Merely to catalogue these possibilities, which are not exhausted by this list, is to highlight the many stools amidst which this book must inevitably fall. I should hope, however, that readers will find worthwhile, the sacrifice of the elevation offered by these stools for the relative solidity of terra firma.

I am often asked whether a history of a public institution which is based on privileged access to its documents can be 'objective'. This question admits of two interpretations. To address its more commonplace meaning first, I can unhesitatingly state that I had unrestricted access to the Bank's documents and complete freedom to read and interpret them, and write this history. This will be obvious to anyone reading the book.

In a broader and more academic sense, this history is as 'objective' as any history can be, in that every statement and view expressed in it is supported by the documentation. But equally, it is important to beware of the illusion that a history is something that exists outside of us and merely awaiting capture between cloth covers. Histories are constructs—patterns we draw to make sense of our own past. This past is merely latent in the historical materials, and emerges through our engagement with them. The historian unavoidably brings a variety of intellectual and other dispositions and preoccupations to this engagement, including some which are unambiguously of the present. Sometimes, a history may be as much a chronicle of the times in which it is written as of the times of which it writes. Such histories are no less 'legitimate' or 'objective'. However, where this history of the Reserve Bank is concerned, I am confident that while not shying away from stances in the present, it carefully documents and assesses policies (including some which were merely debated and not adopted), their rationale, and their

successes and failures against the background of the concerns, preoccupations, and motivations and attitudes of the period with which it deals. Yet it remains true that no two histories by different historians of a public institution based even on its own documents will be similar, and that another historian might have written a different account of the Reserve Bank.

The periodization adopted here needs little explanation. The starting point was given by the terminal date of the last volume. The year 1967 marked an important watershed in India's economic development due to the crises of the mid-1960s and the policy responses to them. However, readers should note that one consequence of drawing a line at 1967 is that many policy and other initiatives the Bank undertook earlier did not mature until the 1970s, so that a detailed account or assessment of them would have to await the publication of the next volume of the Bank's history.

This project got under way about eight years ago, while in its present form, this book has been three years in the making. During these three years, I have accumulated an enormous burden of debt to many individuals within the Reserve Bank and outside. Foremost among them is the then Governor, Dr C. Rangarajan, who invited me to write this book and who thereafter supported this project in every possible way. But for his keen interest, initiative, and counsel, this project would not have come to fruition in the present form. Few individuals could have devoted so much time and attention to a history of the past in the midst of making it in the present. Mr M. Narasimham, Mr S. Venkitaramanan, Mr P.L. Tandon, Mr S.S. Tarapore, and Dr Y.V. Reddy were members of the Committee of Direction which was set up by the Reserve Bank in 1990 when the project was initiated. I would like to thank them for their courtesy in reacting promptly to the typescript, for readily sharing with me their knowledge of the period and its events, and despite disagreements, for not seeking to interfere with my judgement or evaluation of them in any way. I also had the good fortune in other ways as well, of being able to rely upon the counsel and experience of successive Deputy Governors, and the Executive Director, Dr A. Vasudevan. Dr I.G. Patel, Mr Manu Shroff, Dr V.V. Bhatt, and Mr S.S. Thakur discussed developments in the external sector with Dr C.J. Batliwalla, while I am indebted to Mr V.G. Pendharkar for discussing with me and Dr Batliwalla over several meetings, a wide range of issues bearing on the history of the Reserve Bank.

Material at the Bank of England, the Federal Reserve Bank of New York, and the World Bank and the International Monetary Fund have been used in writing this book. On Dr Batliwalla's behalf and my own, I should thank

Mr Henry Gillet and his staff in London, Ms Rosemary Lazenby in New York, and the Indian Executive Directors and their staff at the World Bank and the International Monetary Fund in Washington. The photographs used here are published with the permission of the *Times of India* and the Press Information Bureau, while the cartoons are from the *Times of India* and *Shankar's Weekly*.

This book would not have been possible without the unstinting efforts and cooperation of the History Cell of the Reserve Bank of India, whose dedicated staff, both past and present, had already located the bulk of the documentation when I arrived on the scene. Some of them had departed the History Cell earlier, but my appreciation of the efforts of Mr U.K. Sarma, who did the initial spadework for the project, and Dr N.A. Mujumdar, who researched the material on monetary policy, is no less sincere for that reason. So too my appreciation of the efforts put in by Mr A.G. Athavale (government finances), Mr P.G. Krishnamoorthy (banking), and Mr P.T. Kurien (deposit insurance).

Once the chapters were written, the staff of the History Cell undertook the elaborate and painstaking exercise of verifying the details and the data, made important suggestions for revisions, and checked the proofs. As officers in charge of the Cell, Mr S.N. Dalal and later Mr A.L. Verma provided excellent support and cooperation, and helped overcome the many obstacles to which a project such as this is prone. I thank them warmly. Apart from assisting with the research and writing of the introduction, the chapters on monetary policy, government finances, and Bank-government relations, and some appendixes, Dr N. Gopalaswamy played an invaluable role in coordinating the efforts of the other staff of the History Cell and in seeing the typescript through press. His commitment to the project was unflagging, while his cheerful willingness to undertake a variety of responsibilities was complemented by his efficiency in discharging them. There is not a single page of this book to which Dr Gopalaswamy has not contributed in some way, and he fully deserves to share in the credit for the final product.

Dr C.J. Batliwalla is justly the co-author of the chapters and the appendixes on the external sector. The parts of the book with which she has been directly associated bear the imprint of her painstaking research and study, while all who know her will vouch for her commitment, hard work, and unflinching good humour. She was ably assisted in her task, first by Mr G.J. Jog and then by Mr M. Joseph, from whose eye for detail and sense of writing style, many other parts of this volume have also benefited.

Mr M. Devarajan initially collated the basic material, and later checked the chapters on rural credit, and Mr T.J. D'Mello those on industrial finance. Mr E.T. Rajendran's ready and cheerful assistance was as valuable as his

extensive knowledge was a source of great comfort and assurance in the four chapters on banking and some other related parts of the book. Besides taking over responsibility for the industrial finance chapters, Mr P.M. Bhatia helped develop the index for this volume. To him also should go a share of the credit for the jacket of the book.

Mr S.A. Joseph was instrumental in painstakingly putting together the selection of documents at the end of the book. This task was greatly complicated by a variety of factors, and he deserves to be complimented for fulfilling it with great tenacity. Dr M.Y. Khan made useful suggestions. Mr A.A. Chougale, Mr C.N. Vazirani, Mr K. Balasubramanian, and Mrs A.S. Lakkadghat helped in ways too numerous to mention. Mr M.I. Koshy was always reliable, and his initiative and positive and cheerful approach often helped overcome difficult problems. Mr H.R. Amberkar, Mrs N.V. Joshi, and Mrs S.H. Gajare shouldered typing duties willingly, and a special word of appreciation is due to Mrs Joshi for putting aside many personal problems to word-process the documents and other material with her customary care and accuracy. Mrs L.S. Haldankar not only discharged her own administrative duties with great efficiency and warmth, but also the additional responsibilities she willingly undertook. I am indebted to Mr R.K. More for his hard work and sincerity. It is a pleasure to appreciate the services of Mr A.T. Bhave who discharged all his responsibilities promptly and with dedication, and of Mr D.A. Rane who always offered cheerful help and cooperation.

I should also take this opportunity to thank the Library of the Bank's Department of Economic Analysis and Policy, and the Central Records and Documentation Centre, Pune for their excellent support and cooperation. And a special word of thanks to Mr S.K. Venkitachalam at the Central Office.

It is a privilege to have been associated with the staff of the History Cell in this collective endeavour and a pleasure to acknowledge the kindness, consideration, and support which I have received from everyone at the Reserve Bank.

There are many whom I have to thank outside the Reserve Bank. First and foremost, Mr Samuel Israel for copy-editing, designing the page layouts, other editorial consultancy, proof-reading, and finalizing the index. Mrs Sarah Israel and Ms Rivka Israel transformed the production of this book into a friendly and collaborative family effort as they brought to it a care and diligence which were matched only by their warmth and unfussy generosity. I owe a special word of thanks to Ms Soniya Khare. At the Oxford University Press, Ms Nitasha Devasar offered helpful advice and opened doors, behind which Mr Thomas Abraham, Mr Subhasis Ganguli, and Mr S.A.A. Zaidi helped in various ways. Ms Sumita Arora designed the jacket. It is a pleasure to thank the friendly staff at Tata Donnelley, notably Mr Joe Rego who brought, besides vast expertise, a rare

sense of enjoyment of his work to bear on the production of this book, for their splendid support.

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Researching and writing this book has involved prolonged periods of absence from home. I can never adequately express my gratitude or appreciation to Molly for having made this book, and other things, possible. Nor to my parents and Molly's for all their help. Piroune is too young for any of this to mean much to him, but it is a consolation that he will read this book, if at all, only after he has long forgotten my frequent absences from home.

The courteous staff at the Reserve Bank's Visiting Officers' Flats at Nepean Sea Road provided me a home during my visits to Mumbai, and I thank them, in particular the caretaker Mr M.H.K. Jugari, for their extraordinary warmth and hospitality. And last but not least, Umesh Chavan for his reassuring presence and cheerful assistance at all times.

I made and renewed several friendships in the course of this project. These friendships kept me company during the many months of toil, when deadlines were missed, changed, and missed again, and the end of the tunnel appeared only dimly in sight. These friendships and their warmth and generosity will abide long after the memories of the labours through which they endured and grew have abated.

G. BALACHANDRAN

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Delhi