

Foreword

The Reserve Bank of India, completing 70 eventful years in 2005, has the distinction of being one of the oldest Central Banks of the developing world. The first volume of the Bank's history, published in 1970, covered the beginnings and early evolution of pre-planning and mostly the pre-independence era of 1935–51. The second volume, published in 1998, covering the period up to 1967, focused upon the Bank's pioneering efforts in public policy and institution-building in the first (about) one-and-a-half decades of planned economic development. The period of 1967–81 covered by the present third volume was marked by phenomenal expansion and diversification of the financial sector, and attempts to closely align financial and regulatory policies with plan and development priorities. Aiming at correction of market failures, it was a period of heightened regulation and direction of the Central Bank in every sphere of financial activity.

It needs no reiteration, therefore, that the defining event of the period under study here was the decision by the government, in July 1969, to nationalize fourteen private banks. This decision was taken at the highest policy-making level and, more importantly, it was aimed at promoting the cause of a particular shade of economic policy. As the institution charged with maintaining the financial health of the country, the Bank was at the centre stage of spreading banking from a few urban centres to semi-urban and rural centres including remote parts of the country. This made a significant impact on the overall economic life of the country, by deepening the financial system and through detailed directions shaping the behaviour of banks and financial institutions.

It thus became the Bank's responsibility to ensure that the poor and the vulnerable participated in the huge financial experiments undertaken at that time. As an institution responsible for the conduct of monetary policy, it also had the important task of maintaining price stability. Although dominated by fiscal imperatives and considerations arising out of central

planning, the Bank was able to tame intense inflationary pressures twice in the 1970s, which were partly driven by large and unanticipated external shocks. Against the backdrop of chronic shortage of foreign exchange, the Bank made signal contributions to the management of India's external relations.

The experience of the period left behind a powerful legacy, large elements of which were carried forward in the later period and at least some of them are still with us. The Bank's history is, after all, a truthful record of events and decisions evolving in the context of a time and environment, and reflecting, in large part, socio-political realities. I hope this volume will enable readers to assess both the positive and negative consequences in an objective and dispassionate way. While passing judgments with hindsight is easy, I am sure that a discerning reader will keep in mind that the past should not be judged by the standards and wisdom of the present.

The history, as is the case with the previous two volumes, is based on official records and a number of published sources, as well as discussions with persons who were closely involved with different events of the period. The series of volumes, though it represents an institutional history and is sponsored and published by the Bank, should by no means be viewed as an official account since considerable freedom was available to those who worked in choosing the focus and expressing opinions. These efforts should therefore be considered, in some ways, as an exercise in transparency and accountability through an objective and somewhat independent scrutiny, in retrospect, of the functioning of the Bank.

This volume was made possible by contributions coming from a number of Bank officials, including former Governors, and vast expertise also drawn from outside, as our acknowledgements would show. I feel privileged to have been associated with the process of preparation, first as Deputy Governor and later as Governor. This volume also benefited from the advice and guidance of Dr Bimal Jalan, former Governor of the Bank.

Originally, the task of preparing this volume was initiated by the distinguished economic historian, Dr S. Ambirajan. But sadly, due to his sudden demise, we missed the opportunity of his continued involvement. The writing of the history was then entrusted to a team of experts from the Bank headed by Dr A. Vasudevan. Simultaneously, Dr (Ms) C.J. Batliwalla, with her compendious and first-hand knowledge of the external sector, shared the debates, dilemmas and decisions of a most difficult period. Subsequently, Shri T.C.A. Srinivasa Raghavan was given the task of rewriting some parts and editing the draft chapters. I am grateful to Dr A. Vasudevan,

Dr (Ms.) Batliwalla and Shri T.C.A. Srinivasa Raghavan for their valuable contributions.

Former Governors Shri M. Narasimham and Dr I.G. Patel also made themselves generously available and the books authored by them too were particularly useful. Discussions with former Union Finance Minister Shri C. Subramaniam, former Deputy Governor Dr K.S. Krishnaswamy, and former Executive Directors Shri W.S. Tambe and V.G. Pendharkar, about some of the events of the period, have made this volume richer.

Thanks are also due to several distinguished central bankers, academicians and bankers who, through their involvement as members of the Advisory Committee at different points of time, guided the effort, including Shri M. Narasimham, S. Venkitaramanan, S.S. Tarapore, M.G. Bhide, the late Dr P.R. Brahmananda, the late Shri R. Janakiraman, Dr T.C.A. Anant and Dr Rakesh Mohan.

Notable contributions were made by officers and staff of the Bank who did the initial drafting, as also those who assisted them with material and ideas. In particular, to be placed on record are the services of the late Shri Y.S.R. Sarma, Shri A.L. Verma, Dr N. Gopaldaswamy and above all Dr T.K. Chakrabarty (assisted by Shri Ashok Jangam), who ensured that all the tasks of finalizing and releasing the volume came to fruition. They also coordinated all the academic and administrative activities of the History Cell efficiently.

Overall guidance, all through the preparation of this volume, was provided by Dr C. Rangarajan, Chairman, Advisory Committee. On behalf of the Bank and on my own behalf, I would like to place on record a deep sense of gratitude to him for ungrudgingly sparing his valuable time for this monumental work with his characteristic erudition, dedication and meticulousness.

Finally, I can do no better than to wish the readers, as Professor Paul Samuelson did to the readers of one of Dr Sukhamoy Chakravarty's books: *bon appetit!*

Mumbai
June 2005

Dr Y.V. REDDY
Governor
Reserve Bank of India