

Wrong to say central banks always have a bazooka: Rajan

He also took on industrial nations for expecting emerging markets to be "orthodox" in their monetary and economic policies

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Reserve Bank of India Governor Raghuram Rajan

Cautioning against expecting too much from central banks, RBI Governor Raghuram Rajan has said it is wrong on their part also to always claim a 'bazooka' left up their sleeves, even as he asserted that life is "very difficult" in emerging markets.

In a panel discussion here on lessons learnt by the central bankers from the global financial crisis, he also took on the industrial nations for expecting the emerging markets to be "orthodox" in their

monetary and economic policies at a time when they themselves have "thrown out the orthodoxy out of the window".

He was speaking at a panel discussion after the Per Jacobsson Foundation Lecture, delivered by JPMorgan Chase International Chairman Jacob Frenkel, on the occasion of the Bank for International Settlements (BIS) Annual General Meeting here.

The lecture took place on June 26, but its content has been made public now only. Those participating in the panel discussion included Bank of Mexico Governor Agustun Carstens and Bank of France Governor Francois Villeroy de Galhau.

The lecture took place within days of Rajan making public his decision that he would not opt for a second term as RBI Governor when his current three-year tenure ends on September 4.

Rajan, a former Chief Economist at IMF, who is credited for predicting the global financial crisis, was here to attend the BIS Annual Meeting, as also a bi-monthly meeting of select central bankers from across the world here at BIS Tower.

Referring to Frenkel's lecture that talked about unconventional monetary policies and the central bankers not being the only game in the town, Rajan said the question at the heart of his talk appeared 'why is the populism popular'.

"In a way, he was making a desperate plea for orthodoxy and saying let's not abandon orthodox principles and I guess the converse of that is that populism has become popular.

"I think if you want to talk about the institutional and environmental situation which supported the orthodoxy, the 80s and 90s, one would guess that it was a society where the elites were respected, where there was a feeling that they could understand and interpret the policies for the masses.

"There was broadly a positive sum game... And actions were not interpreted as favouring one constituency versus another. There was a sense of coherence in the society, little more than today," he said.

Rajan further said that when there is trust in the elite and there is no common economic paradigm, a lot of competing paradigms come up, some of which contradict the laws of economics and very little trust is left in the institutions.

"Well, that's what we call an emerging market," he said.

"It's the kind of environment we have worked in the past and we have tried to change that to try and say that there are some broad principles, there are institutions that we should build and yes that some people can be trusted, the experts can be trusted. It takes time to do that.

"But my sense is that what the crisis has done is that in the industrial countries, created the kind of conditions that bring you back to the conditions we experienced in the emerging markets," he added.