

Tyranny of the elected in RBI vs Govt? The Reserve Bank has got it wrong many times, so have lawmakers!

By: [Sunil Jain](#) | Published: November 1, 2018 2:35 AM

Of course, regulators like RBI get it wrong many times, but this doesn't automatically mean elected representatives get it right each time, or that only they are punished for getting it wrong



Indeed, at an IDFC Bank event over the weekend, when he was asked if he had some advice to give a 3-year old bank, he joked, "May you survive your regulations!"

Finance minister [Arun Jaitley](#) struck a chord among many when he spoke of how, while the political class was responsible to the electorate—and more frequently since elections were happening all the time—and to the 24×7 news

media, regulators don't have to face the consequences of their actions. Jaitley didn't name [RBI](#), but he didn't need to since the context was very clear. Indeed, at an IDFC Bank event over the weekend, when he was asked if he had some advice to give a 3-year old bank, he joked, "May you survive your regulations!".

At the very outset, it is no one's case, not even RBI's, that it must have complete autonomy as a regulator; it cannot, since all RBI appointments are made by the government. But even to do its job, it cannot be second-guessed, and that is what the government was doing when it wanted RBI to relax the PCA norms for weak banks or to hand over a large chunk of its reserves. So, when some analysts argue that RBI should have known its autonomy could never be absolute, they're missing the point.

Others seem to have taken Jaitley's argument to heart. So, in response to the Supreme Court asking Delhi [BJP](#) chief Manoj Tiwari why he broke the seal of a building that had been sealed by the monitoring committee appointed by the Court, Tiwari's lawyer found it easy to say, according to Bar & Bench, "Your Lordships sit in this cosy place where nobody questions Your Lordships. However, I am answerable to the people". In other words, it is not just RBI, even the Supreme Court is being effectively categorised as an organisation that is being arbitrary precisely because it is an unelected body!

Apart from the fact that it is unfortunate that the rift between RBI and the government has become so public, and so high-pitched that backing off isn't going to be easy for either side—rumours of RBI Governor Urjit Patel's resignation continue to do the rounds—Jaitley's premise isn't quite accurate either since there are enough instances of politicians making huge mistakes and not getting penalised for it; to that extent, they, too, are unaccountable. As

for being accountable to 24×7 media, Jaitley just has to see the opprobrium heaped on RBI and other regulators to know they are held to higher standards than most politicians are, and by analysts and other professionals who are less easily fooled than the lay public.

Of course, everyone has their favourite story about how regulators—unelected, by definition—get it wrong; from telecom to electricity, and from the stock markets to competition law, there are enough instances of regulators having got it wrong. Of course, the saving grace in these cases is that there is an appeals process which, in the case of RBI does not exist. In the case of the courts, as the ongoing fight between the government and SC makes clear, SC even appoints and supervises all judges for all practical purposes.

But those berating the judiciary must accept there have been some great judgments from the courts that, were they to only follow political directions, could simply not have been given. Section 377 and Triple Talaq are just two very recent examples. And, had it not been for classic judgments like Indra Sawhney, surely the political class would have ensured levels of reservations in the country would have risen dramatically, to pander to every caste group that is powerful even if not either backward or oppressed; though even 50% is too high, it is only thanks to the unelected judiciary that reservations have been capped at even this level.

Similarly, the government should be grateful that RBI staved off a full-blown banking crisis by, under [Raghuram Rajan](#), forcing banks to recognise their bad loans instead of pushing them under the carpet. Jaitley rubbished RBI for keeping quiet when lending soared to unsustainable levels under UPA, but never mentioned this. And, under Urjit Patel, RBI started ring-fencing the weak

banks and putting PCA (Prompt and Corrective Action) curbs on them; had the weak banks continued to lend as they were, chances are some of them would have gone under, potentially exposing the entire banking sector to contagion. No elected government could have fixed this, only a regulator could have.

If, as Jaitley says, politicians are held accountable while regulators are not, surely the UPA would have lost the elections for bringing the banking sector to a grinding halt? It lost the elections in 2014, but the banking crisis had little to do with it. And while the government berated RBI for not knowing about NPAs for a long time or for not figuring out the mess in IL&FS, with PSU banks and financial institutions owning the bulk of IL&FS shares, surely the government should also be held responsible?

Similarly, since the share of PSUs in total market capitalisation has fallen quite significantly since prime minister Modi came to power, is it the case that the electorate will punish him for this next year? Using this methodology (goo.gl/sHZqHE), all PSUs lost `6 lakh crore of value during UPA 1 & 2, but `11 lakh crore since Modi came to power. Yet, when is the last time you heard anyone blaming an elected government for this dramatic destruction of the citizens' wealth? Had Modi eased the rules for PSUs to function, this colossal value destruction would not have taken place.

Indira Gandhi dealt a body blow to the economy when she nationalised banks in 1969, but was never held accountable for this. Successive governments, including the present one, have robbed the country's youth of millions of jobs in exports sectors like apparel and shoes by not liberalising labour laws (primarily) but who is holding them responsible for this? If politicians were as accountable

as Jaitley claims they are, the country's labour laws would have changed a long time ago. Sure, the electorate will be upset if there isn't enough jobs creation in the economy, but politicians tackle this by crafting policies to woo various caste or religious groups. In large parts of north India, the building of the Ram mandir is likely to be a much bigger issue than the loss in value of PSUs or the lack of export opportunities.

Other than a few sarkari economists, most argue demonetisation caused a lot of suffering to millions, even if it was for a few quarters. But it is not clear that this is going to be a big issue in next year's elections. Even [Rahul Gandhi](#) has moved on from demonetisation and, instead of talking of the jobs lost due to it, he is concentrating on visiting as many temples as he can between now and May.

Instead of sniping at RBI, the government should take another look at its strategy. It wants RBI to relax norms for recognising bad loans to stressed power assets, but since it can't resolve the issues quickly—five years later, issues relating to [Tata Power](#) and Adani Power remain unresolved—how does it plan to deal with the resulting weakening of bank balance sheets? If it wants RBI to make PCA norms less stringent, does it have the money to pump into these banks to allow them to lend in a robust manner? And, while its latest nominee to RBI's board, S Gurusamy, believes the provisioning norms are too stringent (goo.gl/wMGg3Q), it would be interesting to know the government's view on this. More so since, while such reckless behaviour will raise bond yields and frighten FPI investors—they pulled out \$8.7 bn in Apr-Oct—in the government's own words, it is responsible to the people for the consequences of any actions.

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