# Duvvuri Subbarao: Tribute to two distinguished academics and economists

Welcome remarks by Mr Duvvuri Subbarao, Governor of the Reserve Bank of India, at the third P R Brahmananda Memorial Lecture by Prof Stanley Fischer "Central Bank Lessons from the Global Crisis", Mumbai, 11 February 2011.

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I have great pleasure in welcoming Governor Stanley Fischer who will shortly be delivering the P.R. Brahmananda Memorial Lecture. A hearty welcome also to the members of the family of late Prof. Brahmananda – Shri P.R. Ramaswamy, and Smt. and Shri P.R. Vishwanath. Of course, a warm welcome to all the invitees, who have made time to come for this lecture.

## Prof. Brahmananda

Professor Brahmananda was a distinguished academic, a noted researcher and a respected teacher. His contribution to teaching and research in economics in India is legendary.

Even as Prof. Brahmananda's research interests spanned a wide spectrum and he will be remembered for a number of significant contributions, his most enduring legacy is the "wage-goods model" he developed in the 1950s which provided the inspiration for what came to be known as the "Bombay School of Thought". Prof. Brahmananda had the intellectual courage and conviction to go against the mainstream wisdom of the time embodied in the Mahalanobis strategy. He argued that the quickest route to poverty reduction lay in emphasizing employment and consumption in the short-term which will automatically lead to capital goods production in the medium to long term. Whether India would have been better off had it followed the Bombay School will, for ever, remain an interesting counterfactual.

Even as though Prof. Brahmananda's contributions enriched almost all areas of economics, monetary economics remained his forte. The Reserve Bank benefitted in many ways from Prof. Brahmananda's prolific mind. Most notably, he undertook to write for us the monetary history of India for the 19th century. What he produced was a sterling contribution that not only chronicled the development of classical monetary and international trade theories, but also threw new insights on the debates in monetary policy of that period.

The Reserve Bank of India instituted a lecture series in memory of Professor Brahmananda in 2004 as a tribute to his abiding commitment to teaching and research in economics and to pay homage to his long association with the Reserve Bank of India.

## Prof. Stanley Fischer

We are privileged that another distinguished academic and internationally renowned economist, Prof. Stanley Fischer, will be delivering the third Brahamananda Memorial Lecture today. Prof. Fischer is so well known that it will be presumptuous on my part to introduce him. But I will do so nevertheless if only to pay homage to a tradition.

Prof. Fischer, who is presently Governor of the Bank of Israel, has a formidable reputation as an academic, as a teacher, as an economic policy adviser and administrator, and in his current position, as an economic policy practitioner. His academic credentials are impeccable – PhD from the Massachusetts Institute of Technology (MIT), Assistant Professor of Economics at the University of Chicago and Professor of Economics at MIT. You would no doubt have noted that with this blend, Prof. Fischer will make an ideal referee for the perennial feud between the salt-water and fresh-water economists of the American School.

Prof. Fischer served in several top level institutions in senior positions. He was Vice President, Development Economics and Chief Economist at the World Bank. After two years of that, he made a momentous career change by walking across the 19th Street in downtown Washington to become the First Deputy Managing Director of the International Monetary Fund (IMF), in which position he served for seven years from 1994 to 2001. At the end of 2001, Prof. Fischer joined the influential Washington-based financial advisory body, the Group of Thirty.

At least two generations of students of economics, not just in the US, but around the world, have learnt their macroeconomics from the seminal text book "Macroeconomics" that Stan co-authored with late Rudi Dornbusch. He wrote several other books, all noted for their original thinking, intellectual insights and clarity of argumentation.

Stan Fischer assumed office as the Governor of the Bank of Israel in May 2005. He was associated with the Bank of Israel in the past, having served as an American Government adviser to Israel's economic stabilization program in 1985. On May 2, 2010, he was sworn in for a second term at which time the Prime Minister of Israel said of Stan Fischer, "This is a man on whom there is no disagreement in the whole world that he does excellent work".

Prof. Fischer has made a distinct mark in academic research and analysis. His principal contribution has been on the role of activist policy in stabilizing an economy, and the effects of lags and uncertainty on the effectiveness of policy. Subsequently, Prof. Fischer extended his research to the role of policy in the context of rational expectations, stickiness in prices and indexation of wages.

## Israel

A brief comment on the Bank of Israel under Governor Fischer's leaderships. Israel came out of the crisis relatively unscathed, and the credit for that goes largely to Stan. Replying to a question on how that happened, he answered, and I quote, "*When the crisis came, we saw it approaching from afar in the form of currency appreciation, and we balanced this phenomenon with foreign exchange deals. When Lehman Brother collapsed, we decided it was the moment to cut interest rates*." Whoever said "academics do not make good practitioners"?

In 2010, the Bank of Israel was ranked first among central banks for its efficient functioning, according to IMD's World Competitiveness Yearbook, yet another tribute to Stan's leadership and sagacity. In September 2009, the Bank of Israel was the first bank in the developed world to raise its interest rates demonstrating Stan's intellectual courage to be an outlier. In October of 2010, Stan Fischer was declared Central Bank Governor of the Year by the Euromoney magazine.

## Central bank lessons

Professor Fischer will be speaking today on "Central Bank Lessons from the Global Crisis". That topic needs no explanation, but maybe it needs some context. When asked what he thought of the French Revolution, Mao Zedong had famously replied – "It is too early to tell". People who take a long view of history, like Mao, take the position that it is just too soon to draw the lessons of the crisis. Policy practitioners do not have the luxury of historians; they have to respond to unfolding developments in real time, and incorporate the lessons of experience.

There is another reason why it is not too soon to be talking about the lessons of the crisis; indeed why we should be more activist in learning the lessons of the crisis. In their painstakingly researched book, "*This Time is Different: Eight Centuries of Financial Folly*", Kenneth Rogoff and Carmen Reinhart show how over eight hundred years, all financial crises can be traced to the same fundamental causes as if we learnt nothing from one crisis to the next. Each time, experts have chimed that "this time is different" claiming that the old rules do not apply and the new situation is dissimilar to the previous one.

Is this time really different for central banks? Remember, central bankers were a triumphant lot in the years before the crisis. They thought they had discovered the holy grail of stable growth, low inflation and low unemployment and declared victory. The crisis then came as a serious blow to the credibility of central banks and the reputation of central bankers. The challenge for central banks, as indeed for all policy makers, is to learn the lessons of the crisis and reflect them in their policies.

There cannot be a more learned person than Stan Fischer to draw the lessons of the crisis for central banks and set them off on meeting their most urgent challenge of regaining lost credibility. I have great pleasure in inviting Governor Stanley Fischer to deliver the third Brahamananda Memorial Lecture.