

Lunch with the FT: Raghuram Rajan

By James Crabtree Author alerts

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One year on from his appointment as India's central bank governor, the man credited with spotting the last financial crisis discusses robber-baron capitalism and a fine veg cutlet.

Dark monsoon rain clouds hang over Mumbai, as I gaze down at the city's gothic skyline from the 18th floor of the Reserve Bank of India, waiting for Raghuram Rajan to arrive. It's a suitably stormy backdrop against which to contemplate my guest's first year in charge of India's central bank.

Rajan took over as governor in September last year during a moment of profound financial crisis. He had returned to his homeland in 2012 with an academic superstar's reputation, forged first at the University of Chicago, then at the International Monetary Fund, where he was chief economist for three years. In 2005 Rajan also gave a celebrated speech at an event for Alan Greenspan in which, instead of praising the outgoing chairman of the US Federal Reserve, he was critical of the financial establishment, predicting many elements of the global financial crisis. Even so, Rajan had never led an institution like the RBI, let alone at a moment when the rupee was in free fall, capital fleeing and India perilously placed, even among the so-called "fragile five" emerging economies.

One year on, and that sense of disaster at least has passed, in part thanks to Rajan's economic competence and calm public persona which themselves seemed to revive confidence, beginning a market rally that ran from his appointment last September through to the election of India's new prime minister, Narendra Modi, this May. But the journey has not been smooth, and I am keen to hear his reflections on the often-awkward realities of political power.

Rajan arrives just a few minutes late, looking relaxed in a dark suit, offset with swirling red and blue tie. RBI rules do not allow the governor to be bought lunch, he apologizes, while trips to restaurants involve too many interruptions. "It's very hard for me to go out," he says, with a sheepish shrug. "So when I have guests, they come here, and we eat."

We are in a suite near Rajan's office, where a white cloth has been laid over a conference table, on which a bouquet of red roses has been placed. Roughly two dozen portraits of former RBI governors stare down solemnly from the far wall, while a nearby menu lists five courses, featuring a quixotic mixture of Indian and

western dishes. Rajan is a vegetarian, he says, but the RBI's chef has added "non-veg" options for me, including fish and chips.

The menu offers no hint of alcohol so I take a fruit juice, while two waiters in dark traditional Indian suits serve our first course: a salty, warming French onion soup. I begin by asking the governor about his early days in the job. "It felt a little panicky," admits Rajan. "And, to some extent, this was our fault... It seemed like we were flailing around a little bit, with a measure every week... It gave the impression of 'They're really worried, they're really panicking.'" In fact, he says, India's position was stronger than it appeared: "The important thing was to change the conversation away from the rupee, which was the underlying measure of panic."

In person Rajan, 51, is tall, with a tennis- and squash-honed physique, and thick black hair, greying slightly at the temples. In the Indian media, in those early months at the bank, his good looks attracted as much admiration as a hawkish inflationary stance. "The guy's put 'sex' back into the limp Sensex," wrote one columnist, referring to India's main stock index. More sober commentators dubbed it the "Rajan rally".

What, I ask, did he make of it all? "I haven't psychoanalysed the process, but it does seem to me that, for a while, there were people looking for somebody who would tell them that we [India] could do this," he says. "There was sort of a vacuum in the economy, and people coalesced around me." Did he enjoy it? He pauses. "I'm not a publicity hound, I hope," he says, looking mildly put out.

We finish our soup and the waiters re-emerge with more courses. Rajan chooses a curried vegetable cutlet, served with a rich, green palak paneer and a warm bread roti. I opt for crab, which comes in a shell filled with creamy potato, and curried eggs. My fish and chips, meanwhile, turn out to be battered fish goujons served in a large bowl filled with salted crisps. The combination is curious but the fish is fresh and pleasingly spicy.

After the US, the hierarchies took some getting used to. Of course, you don't make your own phone calls

I ask Rajan how he has found returning to India. "The hierarchies took some getting used to," he admits with a smile. India's antiquated bureaucracy still operates by passing physical files between departments, while rank is established via protocols such as who arrives last on a conference call. "Of course, you don't make your own phone calls," he says. "And the personal assistants will fight very hard, when there is any ambiguity, to establish their superiority over the person they're calling."

As the waiters top up our plates, I ask Rajan about his childhood. He was born in 1963 in the central Indian city of Bhopal – "some metres from where the gas tragedy

took place” – while his youth was spent in various foreign countries, including Indonesia and Sri Lanka at times when both were rocked by internal strife. Rajan describes his father as a diplomat, which brings our conversation to a potentially awkward turn, that job title glossing over the fact that Rajan senior was a senior officer in India’s intelligence service, the equivalent of Britain’s MI6.

It is a topic Rajan discusses rarely, so I decide to be blunt. While growing up, did he know that his father was a spy? He didn’t, he replies, finding out only later. “He used to tell me that John le Carré got it largely right,” he says of his father’s profession. “You’re just like another bureaucrat, except you’re doing things that other people would find very, very interesting. But it’s not that you’re walking around with a Walther PPK and lovely women; my mother would not have appreciated that.”

Rajan traces an early interest in economics to having grown up in socialist India; after school, however, he studied engineering, at the elite Indian Institute of Technology, where he excelled academically, while also being named the institution’s best “all-rounder”, a prize awarded to a widely liked and admired student. A further degree followed at the Indian Institute of Management Ahmedabad where he also met his wife, Radhika, with whom he has two children.

The Reserve Bank of India

Central Office Building, Mumbai 400 001

Onion soup

Egg curry

Stuffed crab

Fish and chips

Palak paneer with

vegetable cutlet

Pulao, rice, chapatti, dal

Green salad

Fresh fruit and ice cream

Total: Free

The switch to economics came only in his mid-twenties, with a doctoral thesis entitled “Essays on Banking” at the Massachusetts Institute of Technology, followed

in 1991 by a post at the Booth School of Business at the University of Chicago, where his early academic work focused relatively narrowly on finance. So how, I ask, does his experience of the realities of power at the RBI differ from his earlier textbook assumptions?

“In every organisation there is turf, and turf is defended very, very strongly, whether it’s in the IMF or the government of India,” he says. To make progress, he learnt to win allies: “They have to get some of the glory . . . If they think you’re a prima donna, then they will resist.” This collegiate approach might sound trite but it also rings true, given Rajan’s unfailingly affable persona.

Indeed, it is hard to find anyone willing to utter a word against him – an unbroken reputation for niceness that stretches back to his university days, and through the often bitchy worlds of academia and government, and which so far seems to have helped him to avoid any clashes with his political masters in New Delhi.

Glancing up at the portraits, Rajan says he has been happy to learn the arts of compromise. “If you look at the long history of these 22 guys behind me, just one resigned because he didn’t agree with the policies of the government,” he says. On the topic of Narendra Modi, however, he politely demurs, saying only that he met India’s new prime minister for the first time following the latter’s election triumph. Earlier in our conversation, however, he had described that victory as the “single biggest positive development for the economy”, even if the new government has since started slowly. “I understand there is some disappointment amongst investors about the pace of change, but their expectations were unrealistic,” he says. “You’re not going to change the face of the economy overnight.”

Outside the skies have blackened further, and rain lashes the windows as I ask Rajan if he has enjoyed his main course. The waiters are hovering, making it another question to be answered diplomatically, and the governor warmly compliments the cutlets. I change topics, to India’s economic future. Before his return home, he gave a number of speeches attacking the country’s corruption problems and warning of the risks of Russian-style “oligarchy”. Does this still worry him?

Many businesses treat public sector banks as their equity kitty . . . I want to change that

He pauses, as if weighing the risks of such a controversial topic, before ploughing ahead, referring to recent scandals in areas such as telecoms and mining rights. A puzzling question links them, he says: “Why do we tolerate the venal politician?” Inspired by Richard Hofstadter, a historian who studied America’s own era of robber-baron capitalism, Rajan says the answer lies in India’s threadbare public services. Because the state is weak, voters demand that local politicians help them secure jobs or gain government benefits. For this, the politicians need funding, which they get by soliciting bribes. “So it’s sort of an unholy nexus, so to speak. Poor public services, politician fills the gap. Politician gets the resources from the

businessman, politician gets re-elected by the electorate for whom he's filling the gap. And electorate turns a blind eye to the deals done with the businessman." A related problem comes when industrialists win favours in return, for instance via cheap loans. "Many business groups treat public sector banks as their equity kitty," he explains, meaning that lenders are lenient when times are bad, but businesses take the benefits when matters improve. "So it's heads I win, tails you lose. And I want to change that."

Rajan's evident distaste for India's more delinquent tycoons stems partly from his position both as an outsider and an economist with a belief in healthy competition. Yet I sense the disapproval runs deeper still; as if his nice-guy persona is morally affronted by those skimming off the top. Either way, these are problems he plans to tackle, he says, by reforming India's banking sector and cracking down on excessively indebted businesses.

The waiters return to clear our plates, providing a small silver bowl filled with water to wash our fingers, and then desert – a fruit platter served with soft vanilla ice-cream, both of which Rajan declines. I move on to an obvious question: as the man credited with spotting the last global crisis, what of the next? He replies modestly. "The beauty of having been right once, or partially right once, in hindsight, is that now everybody expects you to be a prophet. But the truth is, nobody really knows where the next one will come."

For all that, he seems anxious. "Central bankers have had enormous responsibilities thrust on them to compensate, essentially, for the failings of the political system. And my worry is we don't have sufficient tools to do that, but we're not willing to say it. And, as a result, we push as hard as we can on the existing tools, and they may create more risk in the system." An early critic of quantitative easing, Rajan picked a very public fight this January, accusing the US Fed of reining in QE without considering the effect on emerging economies, not least the period of capital flight and investor panic in India, prior to his arrival at the RBI.

"Six years since the financial crisis, central banks still have their foot fully on the accelerator [Pushing] credit into emerging markets," he says. "We don't know how this will end; it may end smoothly, if we let the air out of these inflated markets slowly, or by a series of mini-crises. But it may be more dramatic if, one fine day, suddenly the world realizes the US is going to raise interest rates quite quickly then the air will go out much faster."

Even worse, he says, is a broader pattern of globalization beset by repeated crises, as developed and developing worlds fail to co-ordinate, sending capital washing back and forth between them, violently destabilizing their financial systems?

"Leverage moved to the emerging markets, emerging markets spent too much, crisis, then leverage moved to the industrial countries, and now it is moving back to emerging markets," he says. This time, however, the blame lies with richer countries

that have failed to reform their economies, and the inability of institutions such as the G20 to formulate a response. "I'm worried that it's everyone doing what they can do, given we have a vacuum in the multilateral space," he says. "The vacuum is harmful."

Our time is running short, so I polish off my dessert and ask one final question, about his own plans. The array of portraits nearby include a picture of former prime minister Manmohan Singh, a one-time RBI governor who rose to the top of Indian politics. Many of Rajan's admirers hope he might take the same path. But if higher office does interest him, he doesn't let on.

"My intent has been, and is, to go back to academia," he says, sketching out a future research agenda on the interplay of markets and democracy, with a particular focus on India itself. The question of what type of country India will become interests him in particular, especially given its socialist heritage and often-ambivalent relationship to the free market. "In India, we say one thing, and we do something else," he says as we finish our coffee, and place our napkins to one side. "So what are we trying to do as a country? Figuring that out, I think, would also be fun."

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