



In a spirit of accommodation

Posted at: 29/11/2018

In a spirit of accommodation -The RBI, the RBI board and the government must understand the limits to which they can push each other

- The saying, 'all's well that ends well', appears to be most appropriate in the case of the recent spat between the Reserve Bank of India (RBI) and the government.
- Even though the agreement itself has raised certain fresh questions, by and large it is a satisfactory one.
- Without going into the merits of the issues raised, two important questions have arisen, which relate to the relationship between the RBI and the government and between the RBI management and its board.

Earlier episodes

- Section 7 of the RBI Act, in a sense, sets out the relationship between the government and the RBI.
- This section gives the government the right to issue directions to the RBI in public interest.
- The recent change in the monetary policy framework setting up the Monetary Policy Committee and giving it full freedom to determine the policy rate is a giant step forward in terms of giving the RBI autonomy.

A distinction

- But it must be noted that the first step in this direction was taken by Manmohan Singh when he was the Finance Minister.
- There is, however, a distinction between autonomy as a monetary authority and autonomy as a regulator.
- However, coming to the issues that were thrown up in the current spat, these are mostly operational and it would have been unwise for government to use Section 7 to issue instructions.

RBI and board

- The second issue is about the relationship between the RBI management headed by the Governor and the board.
- The debate arose because of the contentious issues between the government and the RBI being referred to the board.
- The question that has been raised is whether the board as it is constituted today can discuss such issues and compel the Governor to act according to the majority view.
- Some argue that Clause 3 abridges the powers of the board.
- The right way of interpretation is that both the board and the Governor have concurrent powers in almost all matters.

Endnote

- It is, however, true that in the case of the Federal Reserve System in the U.S., the board does take decisions with voting if necessary.
- But then the nature of the board is very different.
- Section 7 is a mix of things.
- Against this background, while the Governor can act on his own, he must listen to what the members feel and the sense of the board must be fully reflected in his actions.
- The crux of the problem is that the RBI, the board and the government must understand the limits to which they can push.

Conclusion

- A spirit of accommodation must prevail.

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