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PERSON IN THE NEWS

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Raghuram Rajan, academic in an emerging storm

By James Crabtree

India's central bank chief is a vital figure in the fight to stem economic turmoil, writes James Crabtree



When he settles down in his office on the 18th floor of the Reserve Bank of India for the first time next Wednesday, Raghuram Rajan will be greeted by calming views over Mumbai's harbour and the monsoon-soaked hills beyond. But as he contemplates his new role as the central bank's governor, the predicament facing his nation could hardly be less tranquil.

Mr Rajan is one of India's most celebrated sons: a brilliant University of Chicago economist who won special renown as one of the few in his profession to foresee the global financial crisis. Yet early last year he received an unexpected phone call asking him to leave America and return home, first as an adviser to Prime Minister Manmohan Singh; and, early this August, as his country's most senior financial regulator.

The appointment attracted global attention on account of Mr Rajan's intellectual stature, but more particularly because it thrust him into the heart of India's growing economic struggles. Its once-stellar growth rate has slumped, while fears of reduced US Federal Reserve quantitative easing have sent the rupee plunging, raising worries that Asia's third-largest economy could be on the cusp of a genuine financial calamity.

As a result India is at the vanguard of the wave of crises sweeping through emerging markets, in turn making Mr Rajan a crucial figure in the global battle to stop the turmoil engulfing financial markets in Mumbai and São Paulo cascading onwards and crippling the world's economic recovery.

India last faced such grave financial dangers during its balance of payments crunch in 1991, the year Mr Rajan finished his doctorate at the Massachusetts Institute of Technology and moved to Chicago's famously free-market economics faculty. His work there focused on the intricacies of financial markets, earning him the Fischer Black Prize for the best academic in his field under 40; and, in 2003, a post as the International Monetary Fund's youngest ever chief economist.

More than anything, however, his reputation as an unorthodox, creative thinker stems from a paper he presented at a US central banking conclave two years later, warning of the risks posed by growing financial securitisation. It was poorly received, with former US Treasury secretary Lawrence Summers attacking it for its "basic, slightly Luddite premise".

Yet as Lehman Brothers fell, and faith in efficient markets ebbed, Mr Rajan's portents seemed ever more apt, winning him prestige as a prophet of financial collapse. "Here was a Chicago finance guy going into the lion's den at a time when the world was enamoured with high finance, and saying maybe markets were going to blow up after all," says Arvind Subramanian, author of papers with Mr Rajan. "It was a very brave thing to do."

Born in the southern Indian city of Chennai in 1963, Mr Rajan comes from a family of Tamil Brahmins, a high-caste grouping noted for its austere intellectualism. His father was a foreign office official, moving from Indonesia to Belgium before his son began studying engineering at the prestigious Indian Institute of Technology in New Delhi. An MBA followed, during which time he met his wife, Radhika (also an academic), with whom he has a son and daughter.

Speak to those who know him and the same descriptions come up: level-headed, diligent, methodical, calm, a good listener. Generous and courteous are often used, too. “What is remarkable about Raghu is that everyone wants him to succeed,” says Jayant Sinha, a university classmate. “Superstar economists like him often are resented, or are arrogant and dismissive. But he is kind and thoughtful, and he inspires tremendous loyalty.” Another compares him to his critic from 2005: “Raghu is just as brilliant as people like Larry [Summers], but so much nicer and more of a team player. Everyone likes him.”

That said, there is a driven edge beneath the affable exterior, which comes out when he relaxes over a game of tennis or squash at New Delhi’s colonial-era Gymkhana club. “He is a nice guy but he is also extremely competitive,” says Luigi Zingales, a long-time academic collaborator. “I remember in Chicago he used to play squash with another colleague, and a few times they got injured because of the intensity at which they played. He likes to win.”

That said, Mr Rajan is not without his critics, some of whom doubt his ability to steer India through this storm. The economist Paul Krugman has chided him for an excessively cautious approach, unsuited to times of crisis – he was an early quantitative easing sceptic, for instance. Others fear he will now struggle to navigate India’s labyrinthine bureaucracies, especially after so long away from home.

There are concerns, too, about how a man accustomed to the easy adulation of celebrity academia might cope with the unpopularity that often clings to central bankers in moments of tumult. “Will he have the courage to face down the politicians, even if it means jacking up rates like [former Fed chair Paul] Volcker did?” asks one person who knows him. “We’ll just have to see.”

Even so, expectations are high. “He has been out there in the world at the IMF, seeing other countries go into a funk, and get out of it,” says Harvard’s Kenneth Rogoff, who was Mr Rajan’s predecessor at the fund. “And even if there is a full-blown crisis, and India has to go for help, he will be a great asset. He is the gold standard from the point of view of international lenders.”

Cornell’s Eswar Prasad concurs. “It is going to be an extraordinarily challenging balancing act managing the economics, which is terribly complex, but also the politics too,” he says. “But I think Raghu relishes these sorts of challenges, and the sense that he is on the front line when India needs help is especially powerful for him. India is lucky to have someone like him at a moment like this, too.”

The writer is the FT’s Mumbai correspondent

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