Why the ‘oil’ that greases India’s economic engine – its financial system – needs an upgrade

The Indian economy has been growing at a breakneck pace in recent years. However, the country is in serious need of financial reforms to make growth sustainable and inclusive, explains Cornell professor Esvar Prasad, the Natalil P. Tolen Senior Professor of Trade Policy in the Department of Applied Economics and Management, and an adviser to the Indian government. Before coming to Cornell, he was the head of the international Monetary Fund’s Financial Studies Division.

BY ESVAR PRASAD

A country’s financial system – including its banks, stock markets, government and corporate-bond markets – is a key part of the engine that drives the economic growth. For an emerging market economy like India, a well-functioning financial system could spell the difference between low and volatile growth on the one hand, and high, stable and equitable growth on the other. While India’s financial system has improved over the years, the demands placed on it have multiplied as the Indian economy has become richer, more complex and more integrated into the world economy.

Last August, the Indian government set up a high-level committee, chaired by the former chief economist of the International Monetary Fund (Raghuram Rajan) and including Indian bankers, financial regulators, academics, to articulate a vision for the next generation of financial reforms for India.

I was on the research team for the committee and was responsible for drafting the chapter on macroeconomic policies. What do monetary, exchange rate and fiscal policies have to do with the financial system? Therein lies the rub.

This committee was given the freedom to paint on a broad canvas. Its mandate was to “outline a comprehensive agenda for the evolution of the financial system.” The committee rightly decided that it would have to take a holistic perspective, including thinking about the risk macro policies that could serve as a foundation for financial reforms. For instance, good monetary policy – and the resulting confidence that a central bank will keep a tight watch on inflation – is essential for people to enter into long-term contracts and participate in markets for long-term bonds. The committee’s composition seemed primed for conflict, considering that it put together heads of the leading private- and public-sector banks together discussing how the government should reform market structures and make them more subject to market discipline. Remarkably, despite the inevitable differences in views, the committee succeeded in reaching consensus on a sharp set of recommendations. This is a testament to the strong desire of all committee members to push for significant financial reforms, even if they disagreed on some specifics.

The report – <http://planningcommission.nic.in/reports/gmprep/report_fr.htm>, which was released this month, provides a blueprint for the next generation of financial sector reforms in India. It contains a broad vision for strengthening the banking system, building up government and corporate-bond markets, and supervision of the financial system and promoting financial innovation. More importantly, it shows how these different elements are being put together in an online platform to deliver more than just financial inclusion is a key priority for India, especially rural India. This means providing not just basic banking but also instruments to ensure against such adverse events as low crop yields due to bad weather.

Here is a risk that India’s rich and complex political process could stall the implementation of the broad vision in the report. Hopefully, the report also contains specific smaller steps to build up some momentum for reforms as people see the benefits. For instance, something as simple as converting trade receivable claims to electronic format and creating a structure allowing them to be traded in a secondary market could greatly boost the credit available to small and medium-sized enterprises.

The report has already generated strong reactions, and members of the committee, including myself, have been busy writing articles in the major Indian newspapers summarizing the arguments in the report and rebutting our critics.

Even if we change the terms of the debate among Indian policymakers and the public, something will have been accomplished. But it is the committee’s fervent hope that the report will achieve a lot more; we will have to wait and see what the government does with it.

To the committee, the choice is clear. The implementation of our blueprint for financial sector reforms could lay a strong foundation for India’s future economic growth and also contribute to the social and political stability of that growth. The absence of reforms, on the other hand, would represent a lost opportunity and perhaps also a huge source of risk for the economy.

Soil

While the composition of organic carbon in soils from North America, Brazil, Kenya or New Zealand proved remarkably similar within each sample, the researchers found that soil samples separated by mere micrometers, soils formed in locations that showed striking variation in their compositions. For example, the compounds that “hang on” to soil vary by location.

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Duke University Press joins Cornell Library to expand Project Euclid by putting independent journals online

In a publishing agreement that reaches across boundaries, Cornell University Library has partnered with Duke University Press to establish a joint venture to expand and enhance the services of Project Euclid, the premier online information community for mathematics and statistics resources from independent publishers.

Project Euclid was established in 2000 by Cornell Library with funding from the Andrew W. Mellon Foundation. It created an online presence for a group of nonprofit, independent publishers in mathematics and statistics, to help them thrive in the increasingly competitive and commercial world of scholarly publishing. It is now home to 90,000 journal articles (75 percent of which are open access) from 54 journals, along with 60 monographs and conference proceedings. In addition to being an online publishing service and repository, Project Euclid may also in the future provide publishers and editors with tools to streamline their editorial and peer-review processes, as well as increased opportunities for their content in a more timely and cost-effective manner.

The collaboration is unique, said Terry Ilahig, executive director of Project Euclid, because this is the first time “a university press and a library consortium won’t share the same genetic material have entered into formal partnership.” Duke was involved in the original planning for Project Euclid, she said, and “their formal association and complementary strengths now afford a singular opportunity to expand Euclid’s footprint nationally and abroad.”

Duke University Press is one of the leading university presses in the nation, and its journals publishing program is one of the five largest, Ilahig explained. “Duke University Press will bring expertise in marketing, order fulfillment and recruitment of new journals to the table,” she said. “With Duke Press will allow the library to do the things it does best – provide innovative technology and promote fundamental changes in the publishing and delivery of scholarly information.”

“A collaboration that pairs the complementary strengths of a leading research library and a university press from different universities is an extraordinary move,” said Anne Kenney, university librarian and leadership for Project Euclid. “This collaboration represents a new approach to the future of scholarly publishing, but agreements for independent publishers for independent presses in the fields of mathematics and statistics. The joint venture was undertaken in cooperation with the Scholarly Publishing and Academic Resources Coalition, an alliance of universities, research libraries and organizations, created by the Association of Research Libraries. Leadership for Project Euclid will be assumed by management at both Cornell and Duke when the agreement takes effect in July.

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