The Push for Privatizing Banks*

Prabhat Patnaik

From the very beginning there has always been a demand for undoing bank nationalization in India. This demand naturally gathered momentum with the adoption of neo-liberal policies. It was completely unacceptable to international finance capital that the bulk of the banking sector in a country like India should remain under public ownership. Accordingly, "friends" of the Wall Street working in the U.S. administration like Tim Geithner and Larry Summers would visit India and demand of our government that, even if it could not privatize the entire banking sector, at least it should send a "signal" by privatizing the State Bank of India.

The Indian government however demurred because it feared a backlash of people's anger. More recently, however, with the non-performing assets of public sector banks mounting, there has been a further push for bank privatization, with a former Deputy Chairman of the Niti Ayog even asking all political parties to put it on their agenda for the 2019 elections.

Unfortunately for these privatization advocates, real-life has exposed the vacuity of their argument even on the basis of their own premises almost immediately after they have advanced it. Thus the absurdity of the Summers-Geithner push for privatization was demonstrated by the 2008 financial crisis in the U.S. This crisis, though it engulfed much of the capitalist world, left the Indian banking system, barring the private sector ICICI bank, virtually untouched, since the public sector banks, motivated by a different set of objectives, hardly held much foreign assets, let alone foreign "toxic" assets. Likewise, the recent NPA-based argument for privatization on the grounds that private share-holders' vigilance ensures better administration of banks and would not allow the sort of NPA build-up that has occurred in the public sector banks, has been shown to be a hollow one by the happenings in the ICICI bank. Its Chief executive has been charged with "cronyism" in fixing a large loan for the Videocon group which has helped her husband's business interests. Ironically, the supposedly "vigilant" share-holders of the ICICI bank have not even asked her to go on leave while the charges against her are being investigated. (Initial reports that they had done so have later been denied).

All this push, though it has failed to undo nationalization, has succeeded, nonetheless, in forcing a creeping privatization of the nationalized banks, and this has been effected on the basis of a completely spurious argument, which goes as follows.

The public sector banks' capital base has to be strengthened to satisfy the Basel III "norms"; but since the government does not have adequate fiscal resources for strengthening their capital base, and should not use scarce fiscal resources for this purpose even if it had them, it should raise equity from the private sector for doing so. The public sector equity share accordingly has come down sharply from its original 100 percent.

This argument for taking in private equity is completely spurious for several reasons: first, strengthening the capital base may be required in the case of private banks, but hardly in the case of public sector banks, since everyone is certain that the government would always come to the banks' rescue if they faced a crunch. It is noteworthy that even recently in the wake of the Punjab National Bank scandal, where Neerav Modi had decamped with Rs.13000 crores of this bank's resources, there was no panic withdrawal of deposits from it: the depositors were confident that their deposits were safe in a government-owned bank. Hence the Basel-III norms are not at all relevant for public sector banks.

Second, even if these banks' capital base is to be strengthened, the funds do not have to come from the budget itself. Since banks do not get called upon to dip into their capital base in the normal course, and just hold this amount for a "rainy day" that never comes, if the government borrowed the amount required for capitalizing its banks from the Reserve Bank, then that amount would simply lie with the RBI. It would in short be a pure book transaction of the RBI, which, even though it would appear as a fiscal deficit in the government's budget, would just be a notional deficit, and have zero adverse effects on the economy. Hence, again, there is no real reason for going to the capital market for strengthening the capital base of public sector banks.

These spurious arguments however have been used for effecting a creeping privatization. But creeping privatization is not good enough for international finance capital. It wants outright privatization, not just only that would open up a vast amount of financial resources for it to control, but also because it would underscore the ideological point, so crucial for the modus operandi of finance, that social interest is best served not by State control over finance, but by according full freedom to finance, or, put differently, by finance's control over the State. And towards this end, the NPA crisis of the public sector banks, is being used to the hilt.

Even this use however is marked by utterly spurious arguments. Two points in particular have to be noted here. First, the most important reason for the NPA crisis is "corporate loot" of the public sector banks, in a context where the government has been putting pressure on these banks to give large loans to the private sector for "infrastructure" investment.

The reason for the government's putting this pressure is itself a spurious argument, which goes as follows. The government cannot undertake the infrastructure investment itself, because that would swell the fiscal deficit. Hence this investment has to be done by the private sector, and for this bank finance is essential. Now, if the government did undertake this investment then it would have to borrow from these banks (which is how its fiscal deficit would be financed); hence this argument amounts to saying that if the government borrows from the banks for investing in infrastructure then that is bad for the economy, while if the private sector borrows from the banks for investing in infrastructure then that is good for the economy, which is a completely absurd proposition.

But, anyway, because of this absurd argument, the government has been pressurizing banks to lend hugely to the private corporate sector, and several of these corporates are simply filching this money in what must be a novel form of primitive accumulation of capital. Of the total NPAs of around 8-9 lakh crores of rupees, corporate borrowers are believed to account for about 75 percent, and 75 percent of these corporate loans in turn are believed to constitute pure filching, i.e. "corporate loot" pure and simple, which thus amounts to 56.25 percent of the total NPAs.

It is sheer effrontery on the part of the privatization advocates to demand that those who have carried out this loot of bank funds should be rewarded by the ownership of the very banks they have looted, on the grounds that the banks are in a sorry state (because of this loot). What is needed on the contrary is not privatization of banks, but their continuation as State-owned entities, the argument for which remains as valid today as it had been in 1969 when the banks were nationalized, together with punitive measures against those who have carried out this loot.

Incredibly, let alone take such punitive measures, the government has not even disclosed the names of the large defaulters on loans from public sector banks. It has not disclosed these names even when the loans of these defaulters have been written off, which means they have been free to go on borrowing from other banks, even as they claim helplessness in repaying, and hence get reprieve, from some banks.

Indeed, all government measures in this sphere have been based on taking the firm as the point of reference. But in all cases of willful default, i.e. where it is established through investigation that the default is a case of "corporate loot", the promoters' property must be attached, including what they own through other firms in their empire. This very simple expedient would be a major deterrent against corporate loot, and would also bring back a substantial amount of the defaulted loans.

But, it may be asked, are we past the point of no return as far as saving public sector banks is concerned? The simple answer is "no". Not only is the NPA crisis a result largely of "corporate loot", but the crisis itself is being exaggerated to push the privatization agenda.

Why do I say so? When Narendra Modi had undertaken his absurd demonetization measure, the banks had suddenly become flush with funds, since people had rushed to deposit their currency holdings. But this huge increase in bank resources did not lead to any larger credit; rather, banks chose to hold these funds in government bonds, for which new government bonds had to be created whose sale proceeds could not even be spent by the government (since that would have increased the fiscal deficit to the annoyance of finance capital).

Thus what the demonetization exercise clearly showed is that the disbursement of credit in India is not supply-constrained but demand-constrained (in the sense of being constrained by the credit-demand of borrowers whom the banks consider creditworthy). The existence of NPAs therefore is not choking credit from the supply-side, whence it follows that if the government actually capitalized the public sector banks by borrowing from the RBI, then the amount of such borrowing would simply be held by the RBI itself (as banks' capital). This would just be a book transaction of the RBI with no adverse effects on the economy whatsoever.

It follows therefore that even if infusion of fresh capital into public sector banks has to be done owing to their large NPAs, there is still no need to rely on private sector equity for such capital infusion. The current claim to the contrary is meant merely to dupe people into believing that, because of the NPAs, there is no alternative to privatizing public sector banks. This bluff must be called.

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