The RBI Governor's Unwarranted Remarks *

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The Governor of the Reserve Bank of India, Dr. Raghuram Rajan, while inaugurating the annual conference of the Indian Economic Association at Udaipur on the 27th of December, questioned the wisdom of the debt-waiver scheme for agriculturists, which the UPA government had announced in order to halt peasant suicides. He suggested that it had actually affected adversely the flow of credit to the agricultural sector.

Dr. Rajan is not the first to question the wisdom of the debt-waiver scheme for agriculturists; many others, especially neo-liberal economists, have done so in the past. And they have buttressed their argument by the observation of the Controller and Auditor General of India that many non-deserving persons benefitted from the scheme while many deserving ones got left out of its ambit.

This fact *per se* of course should not be germane to the issue of the desirability of the scheme. Just as it is absurd to argue for a winding up of the system of rationing of essential goods on the grounds that several bogus ration cards are in existence, or for a winding up of the MGNREGS on the grounds that some of the funds are siphoned off by middlemen, likewise one cannot oppose the debt waiver scheme merely on the grounds that there were several non-deserving beneficiaries. The fact that a scheme is improperly administered is an argument not for abandoning the scheme or for questioning its wisdom; it is merely an argument for improving its administration. But any stick is good enough for the neo-liberal crowd to beat such schemes with; and they use "poor administration", if at all there is such "poor administration", as such a stick.

The RBI Governor's argument however did not touch on this point. Instead he made two other, quite different, points: one, that the agriculturists obtain their credit from several different sources, including from outside the banking system, as the latter's credit largely takes the form of crop loans rather than of long-term loans. It follows that since the formal banking sector's contribution to the indebtedness of the agriculturists is rather limited and partial, the contribution of the debt-waiver scheme to the alleviation of the "agriculturists' distress" can correspondingly be only limited and partial. Given the fact that the degree to which suicides are caused at all by indebtedness remains unclear, the debt-waiver scheme imposed by the government on the banks therefore appears on the whole to be a hasty reaction with questionable rationale. When we add to this the second point, namely that credit flow to agriculture may have been adversely affected by the debt-waiver scheme, then it follows that the scheme was an unwise one, an ill-thought out over-reaction to an insufficiently understood phenomenon, viz. of peasant suicides, with harmful consequences to boot.

Let us take these arguments advanced by Dr. Rajan *seriatim.* Contrary to his belief, there can be little doubt about the link between peasant indebtedness and peasant suicides. Innumerable studies, not to mention reports by intrepid journalists who have visited the spots where such suicides have occurred, have attested to this fact. Indeed there even used to be a rather cynical view, often expressed by those with little sympathy for the distressed peasantry, that suicides were a planned stratagem on the part of the victims to get government compensation for their families, which implicitly amounted to an admission that suicides were driven by pecuniary factors. Where the peasants owed large loans, which most of them did, relief from loan repayment, which necessarily improved the potential victims' pecuniary position, could not but be seen as a weapon against suicides. The government in short was right to use alleviation of indebtedness as a means of countering potential suicides.

But then what about Dr. Rajan's argument that since bank credit was mainly for crop loans, a waiver on bank credit could only have a limited effect. What this argument misses is that the peasant's economy is an integrated one; even a waiver on *consumption* loans can help the peasant break even in the sphere of *production*. The point in short is not the purpose of the loan, but whether its waiver, no matter for what purpose it was originally taken, can make the peasant economically viable to an extent sufficient to prevent acute distress and possible suicide.

And even though reliable data on the magnitudes of loans from different sources, are not available, not even to Dr. Rajan, there is no gainsaying that it is the duty of a government to help in whatever way it can to improve peasant viability in a situation of acute distress. This is what governments had done even in medieval times, when land revenue demands were occasionally lowered in situations of acute distress. And in the pre-independence period, provincial governments in undivided Punjab and undivided Bengal had undertaken debt relief measures in favour of distressed peasantry at a time when the debt was owed to private moneylenders rather than to nationalized banks. It would have been ironical if over six decades after independence the elected government of free India had not done for a distressed peasantry what provincial governments under colonial rule had done.

Let us now come to the argument that the debt-waiver adversely affected the flow of credit to agriculture. Why this should have been the case remains a mystery and Dr. Rajan did not spell out the reasons for it; but if credit flow to agriculture was indeed adversely affected, *then the fault lies squarely with the Reserve Bank of India that should have prevented this from happening.*

Any non-repayment of bank debt naturally affects fresh credit disbursement by banks, but debt-waiver has nothing to do with this. In other words whether a non-repaid debt remains in the books as an outstanding amount against the borrower, or whether it gets written off, makes not an iota of difference to the banks' ability to give fresh loans, for in either case they do not have the resources to advance any fresh credit. But on the other hand when there is a debt waiver *at the behest of the government* which therefore takes upon itself the responsibility of providing banks with fresh resources in lieu of what they have not recovered from the distressed borrowers, banks' ability to extend credit *increases.* The debt-waiver in short, instead of *reducing* the flow of credit to agriculture should in principle have *increased* the flow of credit to agriculture.

But if the Governor of the Reserve Bank says that this did *not* happen, then either there must have been some administrative lapse in implementing the debt-waiver scheme, which he did not specify, or the banks themselves, afraid that such a debt-waiver by encouraging "bad habits" among borrowers would cause future defaults, became reluctant to give further loans to agriculture. If the former was the cause, then the blame for it cannot be laid at the door of the debt waiver scheme itself. But if the latter was the cause then clearly the banks were not living up to their social banking obligations which the fact of their being publicly-owned banks had enjoined upon them; *and the Reserve bank of India should have pulled them up for reneging on these obligations.*

In fact the banking system of the country, including even the nationalized banks, has been systematically reneging on its social obligations. Priority sector lending norms have been regularly violated by all banks, especially with regard to the agricultural sector. The foreign-owned banks are the worst culprits in this regard, followed by Indian-owned private banks; but even the nationalized banks have not been free of this vice. And the response of the government has been not to pull them up, but rather to dilute the definition of agricultural credit in such a way that they can fulfill the norms even while not providing much actual agricultural credit.

The situation has come to such a pass that even credit advanced to MNCs for setting up processing plants for agricultural products now counts as "agricultural credit" and can be used for satisfying priority sector norms. Many banks like the ICICI bank have openly declared that they cannot take on the onerous task of giving loans to individual peasants, and have instead got "facilitators" who act as intermediaries between them and the agriculturists. These "facilitators" are no different from the village moneylenders of yore, except that they now take money from banks to pursue their usurious activities.

The government and the Reserve Bank in the era of "neo-liberalism" are complicit in this process. It is significant that the fragility of the banking system that has given enormous loans to big capitalists for "infrastructure" projects of dubious viability did not get a mention in Dr. Rajan's address, while the debt-waiver scheme of the UPA government did. True, he was rather circumspect in his criticism of it, but the criticism, despite being veiled, was quite obvious. This however only underscores the fact that "social banking" gets progressively eliminated in the era of neo-liberalism, as the State gets increasingly pre-occupied with promoting the interests of the corporate-financial oligarchy, to the exclusion of those of traditional petty producers and even small capitalists.

*This article was originally published in the People's Democracy, Vol. XXXIX No. 01, January 04, 2015.