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Gist of EPW March Week 3, 2021

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Government and Its Adaptive Ignorance

Context:

The article analyses the various issues related to the privatization of public sector banks and argues against the move.

Introduction:

- A countrywide strike against the privatization of public sector banks was led by the bank employees which have affected the finance sector across the nation.
- In response to this, the Finance Minister said that the pay and pension of the employees of the privatized banks will be protected.

Move by the government to privatize public sector banks:

- The contributions of the public sector banks have not been acknowledged by the government.
- It has also ignored the half-hearted performance by the private sector banks which mainly focus on operation in the urban areas except for a few outliers and on high end-users who are able to afford the extravagant charges imposed by the private sector banks.
- It is very clear that the government is willingly blurring the fact that the performance of private sector banks has been so inefficient that the Reserve Bank of India had deliberately intervened to rescue a large number of ill-performing banks and merged them with other healthier banks in the last two decades.
- In fact, Yes Bank which was the fourth largest private sector bank was almost on the verge of collapse. This incident has shaken the confidence of the public in the banking sector.
- Currently, after recurring consolidation, there has been a significant reduction in the number of public sector banks from 27 in 2017 to 12 in the present date.
- The experience of some of the oldest surviving private sector banks such as South Indian Bank, Tamilnad Mercantile Bank Limited, Nainital Bank, Karur Vysya Bank, Karnataka Bank, and many others established in the first half of the last century, barely leads to build confidence in the ability of the private sector banks to become large banks.
- Regardless of this fact, the government is still willing to privatize the public sector banks.

Role of public sector banks in the economy:

- Blaming public sector banks alone for the inadequacy of credit availability which is regarded as the major reason behind the idea of privatization, would be unfair and unacceptable.
- At present, the ratio of domestic credit for the private sector to the Gross Domestic Product (GDP) in India is very low at 50.2%.
- This ratio is not only remarkably lower than the global ratio of 132.3% but also falls below the share in middle-income countries which stood at 107.3%.
- If we compare India's performance with other countries then the ratio of domestic credit to GDP is 164.7% in China, 174.7% in Japan, and 198.4% in the US. This clearly signifies that the banking sector of India has underperformed in providing adequate credit facilities.
- There are many reasons for limited credit to the private sector. Government usually takes up public sector bank funds to finance its huge fiscal deficits. This reduces funds available to the private sector.
- It should be noted that public sector banks have helped in increasing the credit to GDP ratio by almost five times. The credit to GDP ratio increased from 10.4% in 1969 to 52.4% in 2014 and subsequently decelerated to 50.2% by 2019.

Busting myths of privatization of banks

- Those who favour the privatization of banks have forgotten the lessons from the regular collapse of banks. Between 1919 and 1934, as many as 16 banks failed each year on average. Even after the establishment of RBI in 1935, the rate of bank collapse increased around fourfold to an average of 67 each year till 1948.
- After the enactment of the Banking Regulation Act in 1949, the rate of bank failure halved to 38 each year. However, between 1960 and 1969, on average 30 banks collapsed each year.
- Since then, bad management of private banks has forced many of them to either merge or collapse. Their number reduced from 50 in 1969 to 24 by 1995.
- Such a poor track record of private sector banks points out that relying on them to foster growth is completely unwarranted.
- Supporters of privatization of banks highlight the high non-performing assets (NPAs) of public sector banks. However, they ignore the fact that a major reason behind high NPAs of public sector banks is their fulfillment of social objectives. Priority sector lending accounts for 36.7% of the total NPAs of public sector banks.
- As compared to this, the private sector figure is only 19.7 % in this domain. However, non-priority sectors account for 80.3% of the total NPAs of private sector banks as compared to only 63.3% of public sector banks.

Impact of privatization of public sector banks in financial inclusion:

- Allowing a greater role to the private sector will be a setback for the expansion of banks in rural areas.
- Public sector banks locate a third of their branches in rural areas. As compared to this, the private sector locates just one-fifth of their branches there. The number of rural branches of public sector banks is four times larger than that of private sector banks.
- A greater role to private sector banks will quickly emerge as a major hurdle to the extension of banking infrastructure to underserved and unserved areas and hamper the financial inclusion drive.

Conclusion:

- By favouring the privatization of banks, the government is trying to boost credit availability. However, such a move is not going to fetch any dividend and will only lead to increased costs for banking services together with an increasing probability of bank failure.

The 'Public' within and beyond the Enterprise

Context:

The article analyses the attempt of the central government to privatize the Vizag Steel Plant which is being opposed by workers and people.

Introduction:

- Recently, the government has decided to privatize public sector units (PSUs) and argued that it is not the government's business to be in business.
- The government has also claimed that these loss-making PSUs are nothing but a drain on taxpayers' money and also added that the money received from disinvestment will be used for the public along with increased efficiency from the private sector.
- The Cabinet Committee on Economic Affairs (CCEA) has provided in-principle approval for the 100% disinvestment of Rashtriya Ispat Nigam Limited (RINL), which is the corporate entity of the Vizag Steel Plant (VSP).

Protests against privatization:

- In terms of industriousness and wisdom, the private sector is more efficient and a better economic actor as compared to the public sector. But, the recent farmers' protests have weakened this claim.
- A joint action committee (JAC) of trade unions and employees named The Visakha Ukku Parirakshana Porata Committee, has been protesting against the privatization of VSP for over a

month and their demand is the immediate withdrawal of the proposal for privatization of the plant.
- Various political parties along with leaders of ruling parties at the centre, the Chief Minister of Andhra Pradesh have also come forward in support of the protests.
- The protests will probably be intensified in the coming days by JAC in the hope of replicating the farmers' protests.

The Visakhapatnam Steel Plant (VSP)

- The VSP was commissioned in 1992 after many protests and delays which also led to some casualties.
- Direct employment under VSP consists of more than 18,000 workers and indirect employment is also not less than that. VSP is regarded as one of the major drivers of economic development in that area.
- The protests against the privatization of India's first integrated coastal steel plant is getting intensified. Hence, a deeper analysis of the notion of the public enterprise is developing as well.
- JAC is renewing history again by invoking the Andhra identity. Workers are taking pride in the public nature of the plant and are opposing any kind of move towards privatization.
- Ironically, when the state government appealed to the centre to withdraw the move for privatization, the central government asked the state government to take over the operations.
- People of Visakhapatnam have also taken out rallies in support of the protests.
- Earlier, the union government had proposed merging RINL with the Steel Authority of India Limited (SAIL) or the National Mineral Development Corporation (NMDC).
- In February 2020, the union minister for steel stated that South Korea-based POSCO was interested in setting up a steel plant with a 50% partnership with VSP on RINL land.
- Such a proposal betrays the trust of thousands of people who were displaced from their villages to provide 20,000 acres of land to build the plant. This memory appears to deepen the engagement with the land and evoke a collective claim to its use.
- In 2000-01, the overall losses of RINL were Rs. 4,987 crore, and was declared as a potential sick company to the Board of Industrial and Financial Reconstruction (BIFR).
- However, since then it showed a remarkable turnaround, and by 2005-06, wiped out its losses.
- It was conferred Navratna status in 2010. It again started making losses from 2015 (except in 2018-19). The reasons for losses were lack of a captive mine and dependence on external sources for raw materials as identified by the parliamentary committee on steel.
- The joint action committee (JAC) has demanded captive mines for RINL. However, it should be noted that captive mining leads to environmental degradation and displacement. This is evident from the Bailadila iron ore complex of NMDC. Bailadila iron ore complex is also a supplier of iron ore to RINL.

- The demand for captive mining also reflects the other side of ‘Public’. Can ‘public’ interest be used to empathize with tribals whose stories of displacement and unemployment can be related to the VSP story?

Conclusion:

- The move to privatization of PSUs has led to increased popular resistance. The resistance has also spread to other industries and requires reimagination of the public sector both for the industry and the people who are dependent on it.
- It has made employment and welfare a matter of public debate and given new dimensions to the thought of how lands belonging to factories should be used and how PSUs could be made profitable.
- It is defining what the industry means to different stakeholders and how far the political leverage can be successful in restoring a deeper faith in the “public.”