

# Where Will The Money Come From?

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Only a few months back, the day Finance Minister P Chidambaram in his budget speech announced Rs 60,000-crore loan waiver for the beleaguered farming community, there was an orchestrated outcry: “Where will this money come from?” Television anchors were visibly angry at this ‘supposed windfall’ for the farmers, the print media was outraged at this ‘political and not economic’ decision just before the ensuing elections, and the industry leaders were seen sulking.

Six months later, no one is asking the same question. With the global financial crisis failing to work itself out, the Reserve Bank of India (RBI) is under pressure to intervene. Soon after the Wall Street mayhem, the RBI had pumped in Rs 84,000-crore in the domestic banking system through liquidity facility adjustment. An additional Rs 20,000-crore has been released through a 0.5 per cent reduction in cash reserve ratio (CRR).

Liquidity in layman term means ‘fund availability’ or in simple words making available more cash. All over the industrialised world, governments are stepping in to provide more cash in the hands of the private banks, and India is no exception.

Despite the Finance Minister saying that the fundamentals are strong, the banks are on a massive borrowing spree. In the first week of October alone, they borrowed Rs 90,075-crore every day from RBI through liquid facility adjustment. In the days to come, the RBI is under pressure to release another Rs 30,000-crore through the CRR, and also to cut repo rate – the rate at which it lends to banks. And thanks to the loan waiver, the banks will receive another Rs 50,000-crore in the coming weeks as part reimbursement for the farm loan waiver and fertiliser loan.

Isn't it a fact that Rs 60,000-crore loan waiver (later enhanced to Rs 71,000-crore) was actually a relief to the banks? What seemed to be a ‘political’ decision in the name of pulling out the indebted farmers was actually meant to maintain and sustain the health of the banking system. If the government had not provided the loan waiver, banks would have been in terrible liquidity crisis. With farmers unable to repay, these banks would have been saddled with massive non-performing assets (or a shortfall in liquidity) or non-availability of Rs 71,000-crore in cash.

In other words, the loan waiver was a partial bailout for the banks. Now no one is asking: “Where will this money come from?” On the contrary, most analysts are asking for more ‘speed and sagacity’ to tide over the crisis.

If only such ‘speed and sagacity’ was shown to tide over the terrible agrarian crisis sweeping throughout the country for over a decade now, thousands of farmers would have been saved from committing suicide. If only the RBI had stepped in to make more cash (or liquidity) available, the nation could have easily provided an assured employment to each and every Indian not only for 100 days but for all the 365 days in a year. The National Rural Employment Guarantee Programme (NREGA) can be easily extended to bring every unemployed Indian under its gambit.

And it is here that one fails to understand the sagacious logic of keeping the poor hungry and then expecting a higher economic growth trajectory; of paying

a multi-million dollar salary (in addition to lucrative perks) to the bosses of the banks and corporate houses and then make the man on the street pay for the losses; in other words the logic behind *privatising the profits and socialising the losses*.

Take the case of the bankrupt Lehman Brothers. While the shareholders in the company have been wiped out, Richard Fuld, its chief executive, walks away with US \$480 million as his personal remuneration over eight years, and this includes a \$14 million ocean-front villa in Florida, and a home in an exclusive ski resort. Lawmakers investigating the bailed out insurance company AIG, were shocked to learn that days after the government rescued the company, it unashamedly spent US\$ 44,000 on a posh California retreat for its executives, complete with spa, banquets and golf outings.

Why blame the American corporate leaders when US president George Bush himself had given them a free rope : “Government should not decide the compensation for America’s corporate executives.” Probably what he meant was that come what may, the US government will continue to provide funds to meet obscene corporate salaries and perks.

Prime Minister Manmohan Singh too had removed the upper ceiling on corporate salaries. According to Merrill-Lynch and Capgemini, driven by impressive economic gains and robust market capitalism growth in 2007, India led the world in High-Net-Worth-Individual population growth at 22.7 per cent. Two year earlier, in 2005, there were 83,000 high net worth individuals with a wealth of at least \$1 million (and this does not include immovable property).

This brings back the same question. How long will the world go on encouraging an economic system that makes the rich richer and the poor poorer? While 36 billionaires in India have a collective economic wealth equivalent to one-third of the country’s GDP, the country’s 600 million farmers collectively account for only 17 percent share. With every passing year, the share of agriculture in GDP continues to slide down still further. No wonder, the average monthly income of a farm household (which includes five members of a family and two cattle) does not exceed Rs 2,400.

Bailing out the farmers from a distressing situation is always considered to be bad economics. It is branded as a political compulsion, and the sooner politicians emerge out of it the better it would be for economic growth and development. This economic prescription, which every economist worth the name is willing to endorse, is invariably for the farming community, the landless workers and the marginalised communities. They need to learn to be enterprising, and therefore must stop living on government subsidies.

When it comes to the enterprising millionaires—corporates and the banks — government bailouts are not only a must, but should be done speedily. “Where will the money come from?” is not a question to be asked when poor people are subsidising the rich and the elite. It is their birth right. □

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