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COMMENT

'No' to Savings

GONE ARE THE DAYS OF RE- tired employees of government and semi-government establishments and beleagured widows to earn something as subsistence, somewhat independently, from their life-long savings invested judiciously in different Post Office and Bank Savings Schemes. They are particularly in a hopeless situation as their incomes from savings are falling steadily while prices are soaring and soaring. This government is hell-bent on gradually abolishing fixed income from such savings by way of systematic reduction in interest rates.

In India, interest on savings has been progressively reduced to 3.5 per cent. If given a choice, Prime Minister's Economic Advisory Committee would like to also reduce it still further. The days are not far when customers will be asked to pay service charges for depositing money in Banks and Post Offices. In England, as early as in 1996, banks provided barely one percent interest on savings.

All these years the basic habit of household savings has come under a sharp attack. Forced by orthodox economists, and backed by the fast-moving consumer goods industry, governments have deliberately reduced the incentives to save saying that the more one spends the more one adds to the national economy.

The logic being that the more people spend, the more will be the economic growth. Unfortunately, this is not true. The less people save and more they consume, the more the economy becomes unsustainable in the long-run. It increases people's inability to cope up with economic pressures, and thereby multiplies their vulnerability to any economic volatility. In turn it brings heavy expenditure burden on the governments, and the economy starts to hang precariously. Such flawed economic thinking sowed the seeds of the US housing bubble in 2008, when people were left with no savings to pay mortgages, triggering a global economic meltdown.

Such predatory lending policies, in the absence of adequate legal protection, is also 'sucking the blood' of the poor in the name of micro-finance. The same flawed and in many ways criminal lending practices are robbing the poor across the globe.

Whether it is micro-finance or global capital, it follows the same route. Instead of taming the galloping horse, the US is trying to do what the Wall Street wants. It is printing excess money to ward-off its short-term crisis, and blame China for its present crisis. Everybody knows that the US and its allies pumped in huge bailout packages, which again went to service the banks and a privileged few, leaving the masses in shock and awe.

China's trade surplus is what the US is now eyeing to reduce. And China is refusing to oblige. Rightly so.

The increase in income disparities, aided by fiscal policies that discourage household savings, fuels the stock markets. It is here that speculation takes over, and in the absence of tough regulations, capital flows dictate the economic policies. In the past few months, agricultural commodities prices are once again witnessing price spiral. With over 30 per cent jump in prices, one doesn't know whether the world will soon witness a repeat of the food riots of 2007. □□□