

Economists' Statement on Bank Scams

The scale of the recent bank scams and the potential losses faced by banks holding non-performing loans given to some large companies and individuals, has shocked all of us. However, we are concerned to note that this has become an excuse to demand the privatisation of publicly held banks. While it is true that the current scam involves Punjab National Bank, the second largest public sector bank, the basic cause is very clearly the inadequate and faulty regulation and monitoring of the banking sector. This affects all banks, regardless of ownership. But in a curious turn, fraud that was led by and benefited private players pursuing super-profits at any cost is being made the reason for handing control of the nation's savings to the private sector.

Poorly regulated private banks are even more prone to scams and failure, as the financial sector is rife with information asymmetries and market imperfections. Private profit orientation generates incentives for managements to exploit loopholes in rules and engage in risky behaviour, as shown by US and European bank behaviour leading to the Great Financial Crisis of 2008-09. The bailouts they then require tend to be even more expensive for the public exchequer, because bank runs have to be prevented.

It is worth noting that even a scam as large as the present one has not led to a widespread run on PNB and other banks. This is because of the state guarantee that still generates trust in the public banking system.

In India, before the nationalisation of banks in 1969, there was an average of 35 private bank failures every year. This came down drastically after most of the sector came under public control. After the liberalising reforms of the 1990s, the collapse of the private Global Trust Bank, Times Bank and Centurion Bank (among others) resulted in mergers, with the losses being borne by public sector banks. At present, several private banks also face large NPAs, often with the same companies that are defaulting on public banks. Some private banks have also been found guilty of providing unsecured loans and ever-greening of loans – both practices that PNB is now accused of. In fact, because of the opacity of banking practices, public banks are actually easier to regulate than private banks. As a first step to address the problem of NPAs, the Finance Minister should immediately require all banks to publish their lists of wilful defaulters.

Public sector banks in India have played a critical role in financial inclusion, a project that is still far from complete. After nationalisation, there was an increase in rural bank branches and accounts, and an increase in credit to sectors that were ignored earlier, such as agriculture and small-scale enterprises. Even now, private banks continue to avoid these activities and focus only on higher value borrowers and lenders, thereby excluding the poor.

At this juncture, it is critical to focus on effective regulation and supervision of all banks, and to make the regulatory process stricter as well as more transparent and accountable. Using this crisis to privatise public banks will only make matters much worse.

Signatories

1. Prabhat Patnaik, Emeritus Professor, Jawaharlal Nehru University, New Delhi and former Vice Chairman, Kerala State Planning Board
2. C. P. Chandrasekhar, Professor, Jawaharlal Nehru University, New Delhi
3. Jayati Ghosh, Professor, Jawaharlal Nehru University, , New Delhi
4. S.P. Shukla, Former Finance Secretary & Member, Planning Commission, Government of India
5. Amiya Kumar Bagchi, Emeritus Professor, Institute of Development Studies Kolkata.
6. Abhijit Sen, Former member, Planning Commission and retired Professor, Jawaharlal Nehru University, New Delhi
7. Amit Bhaduri, Emeritus Professor, Jawaharlal Nehru University, New Delhi
8. C. Rammanohar Reddy, Readers' Editor, Scroll.in
9. Pronab Sen, International Growth Centre, New Delhi and former Chairman, Statistical Commission of India
10. Vikas Rawal, Professor, Jawaharlal Nehru University, New Delhi
11. Praveen Jha, Professor, Jawaharlal Nehru University, New Delhi
12. Parthapratim Pal, Professor, Indian Institute of Management Calcutta, Kolkata.
13. Byasdeb Dasgupta, University of Kalyani
14. Rohit, Assistant Professor, Jawaharlal Nehru University, New Delhi
15. Ravi Srivastava, Professor, Jawaharlal Nehru University, New Delhi
16. Indira Hirway, Director and Professor of Economics, Center For Development Alternatives, Ahmedabad.
17. Sushil Khanna, Professor, Indian Institute of Management Calcutta, Kolkata.
18. Atul Sood, Professor, Jawaharlal Nehru University, New Delhi
19. Biswajit Dhar, Professor, Jawaharlal Nehru University, New Delhi
20. Smita Gupta, Independent researcher, New Delhi
21. Himanshu, Associate Professor, Jawaharlal Nehru University, New Delhi
22. Mritiunjoy Mohanty, Professor, Indian Institute of Management Calcutta, Kolkata.
23. Utsa Patnaik, Professor Emerita, Jawaharlal Nehru University, New Delhi
24. Sudip Chaudhuri, Professor, Indian Institute of Management Calcutta, Kolkata.
25. Venkatesh Athreya, former Professor of Economics, Bharathidasan University, Tiruchirapalli.
26. Ashwani Saith, Professor, Institute of Social Studies, The Hague.
27. Sunanda Sen, former Professor, Jawaharlal Nehru University, New Delhi
28. Sona Mitra, Senior Research Consultant, Centre for Budget and Governance Accountability, New Delhi.
29. Smitha Francis, Consultant, Institute for Studies in Industrial Development (ISID), New Delhi.
30. Akhilesh Mishra, University of Delhi
31. Ramparasad Sengupta, Emeritus Professor, Jawaharlal Nehru University

32. Malancha Chakrabarty, Associate Fellow, Observer Research Foundation, New Delhi.
33. Reji K. Joseph, Associate Professor, Institute for Studies in Industrial Development (ISID), New Delhi.
34. Rajeswari Sarala Raina, Professor, School of Humanities and Social Sciences, Shiv Nadar University, Uttar Pradesh.
35. Dr Jhilam Ray, Assistant Professor, Burdwan University, West Bengal
36. Sangeeta Ghosh, Editorial Team, Economic and Political Weekly
37. Indranil Chowdhury, Assistant Professor, PGDAV College, University of Delhi, Delhi.
38. Dipa Sinha, Ambedkar University Delhi
39. Chandra Dutt, Director, Centre of Science and Technology For Rural Development (COSTFORD), Thrissur. Kerala
40. Prasenjit Bose, Independent researcher, Kolkata
41. Balveer Arora, Professor Emeritus and Chairman, Centre for Multilevel Federalism, New Delhi.
42. Amit Shovon Ray, Professor, Jawaharlal Nehru University, New Delhi
43. R. Ramakumar, Professor, Tata Institute of Social Sciences, Mumbai.
44. Victor Lewis Anthuvan LIBA
45. M G Devasahayam IAS Retd, Economist
46. Dinesh Kumar Abrol, Associate Professor, Institute for Studies in Industrial Development (ISID), New Delhi.
47. Dr. Meera Nangia, University of Delhi.
48. Ajitava Raychaudhuri, Professor of Economics, Jadavpur University Kolkata
49. K.S. Chalapati Rao, Professor, Institute for Studies in Industrial Development (ISID), New Delhi.
50. Debarshi Das, IIT Guwahati
51. Anamitra Roychowdhury, Assistant Professor, Jawaharlal Nehru University, New Delhi.
52. Malini Chakravarty, Additional Coordinator-Research, a Delhi based not-for-profit policy research organisation
53. Kamal Chenoy, JNU, New Delhi
54. Kamal Kabra, Institute of Social Sciences
55. Ranjanendra Narayan Nag, St. Xavier's College, Kolkata
56. Subhanil Chowdhury, Institute for Development Studies Kolkata
57. Sudipta Bhattacharyya, Visva Bharati
58. Vamsi Vakulabharanam, University of Massachusetts Amherst
59. Vrajindra Upadhyay, IIT Delhi
60. Nagaraj Karkada
61. Resmi P Bhaskaran, Independent Consultant
62. Gorky Chakraborty, IDSK, Kolkata
63. Prithviraj Guha , Presidency University, Kolkata
64. Rajesh Bhattacharya, IIM, Calcutta
65. Ranjanendra Narayan Nag, St. Xavier's College, Kolkata
66. Soutrik Basu, Institute of Development Studies, Kolkata