

The Pursuit of Unreason*

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A distinguished Ugandan social scientist of Indian origin, whom I happened to meet earlier this month at an academic conference, told me that Modi's demonetization reminded him of the Ugandan dictator Idi Amin's fiat in 1972 that all Asians should quit Uganda within a period of three months. His analogy of course would be considered inapposite for an obvious reason: expelling people from their places of domicile, as Amin did, is certainly a more inhumane act than snatching away people's purchasing power as has happened in India; and this remains true, even when the victims in the former case are relatively more affluent compared to those in the latter case, and number only a few thousand, compared to crores in the latter case. But his analogy is apt in another sense: both fiats are instances of extreme unreason.

In fact, in the scale of unreason, Modi's demonetization even exceeds Amin's expulsion of persons of Indian origin from Uganda. Ethnic Indians did after all occupy a privileged position in the Ugandan society of that time, with scant regard for the black majority; and this majority did resent the privileges of the ethnic Indians, and blamed them, not altogether without reason, for the perpetuation of its own poverty. What Amin offered was an inhumane and untenable solution to this problem, but an apparent solution of sorts nevertheless. Demonetization on the other hand is a complete non-solution to the problem it supposedly addresses. If Amin's was an untenable and extremely inhumane solution to the problem it addressed, Modi's is a complete non-solution to the problem it addresses; and this non-solution is also inhumane in addition, and hence constitutes an even greater act of unreason.

How much of a non-solution demonetization was, even at the time it was originally introduced, is now clear from the data supplied by the government itself. In round figures, almost 12 lakh crores of old notes have now been exchanged for new ones, or come into banks as deposits; and according to Attorney General Mukul Rohatgi's submission before the Supreme Court, the government believes that at least 1 lakh crores more of old notes will come in before the December 30 deadline. Taking the total value of the demonetized currency to be approximately Rs. 15 lakh crores, this means that almost 90 percent of the demonetized currency would have entered the ambit of the banks before the deadline.

In fact the amount of non-returned currency when the deadline ends is unlikely to exceed Rs.1 lakh crores. Since not all of it necessarily would be in the black economy, this means that only a fraction of this sum, i.e. just a few thousand crores, would have got "disabled" in the "black economy". The size of this economy being at least a quarter of the "white economy", with a Gross Domestic Product of its own that accordingly is in excess of Rs.35 lakh crores, the extinction of a few thousand crores of cash holdings within it, if at all that happens, does not constitute even a pinprick for the "black economy".

It must not be thought in this context that the government had the right idea on how to tackle the "black economy", but was simply unable to implement this idea properly; and that it is this inability which underlies its lack of success in crippling the black

economy. On the contrary, its idea itself was unfounded in reality from the very beginning.

Its basic assumption in demonetizing 500 and 1000 rupee notes was that the “black economy” held huge amounts of such notes, and that since this economy would not dare to come to banks for exchanging or depositing them, demonetization would deal it a crippling blow. This assumption itself however was completely wrong. The fact that Rs.12 lakh crores have already visited the banking system suggests that the bulk of the now-demonetized currency was actually held in the “white economy”, and not in the “black economy”; or, alternatively, it could move freely between the two economies. From the beginning therefore what the government was embarking upon was a non-solution to the problem of the “black economy”, a non-solution for whose implementation it has relentlessly attacked the common people and brought ruin to their economy.

Even this mistaken assumption of the government, namely that a huge amount of currency is stored in the “black economy”, cannot just be explained away as an error of assessment. Virtually all professional economists of the country, cutting across ideological lines, have been saying from day one that the assumption that there are huge cash-hoardings in the “black economy” in the form of high-denomination notes, is wrong. (I am referring here not to government economists or those employed by corporate entities which either are beneficiaries from demonetization or wish to curry favour with the government).

The economists have been saying this on the basis of plain common sense, not because they have any privileged access to data. For the government, which does have privileged access to an enormous mass of data, to proceed on an assumption that is so ludicrous that economists as diverse as Amartya Sen, Manmohan Singh, Govind Rao, Arun Kumar, Utsa Patnaik, Kaushik Basu, and Jayati Ghosh, are all agreed upon its ludicrousness, is indicative of the unreason I mentioned earlier. Furthermore, to bring acute distress to crores of common people and to cripple the economy, because of sheer adherence to this assumption, betrays a degree of extreme unreason that exceeds even what Idi Amin had shown in 1972.

Besides, Idi Amin had been less inflexible than Modi. His original diktat had been to expel all persons of Indian origin, no matter what their citizenship, including even Ugandan citizens of Indian origin. When the absurdity of this diktat, which sought to expel a country’s own citizens from within its boundaries, had been brought home to Amin by an international hue and cry over it, he had rescinded it, confining the expulsion order only to those ethnic Indians who held British, Indian, Pakistani, or Bangladeshi passports. Modi however is impervious to all criticism. The question of rescinding any diktat does not arise for him; on the contrary, anyone criticizing the diktat is branded by him and his colleagues as being soft on “black money operators”.

An ominous hint of this inflexibility has been given recently by Mukul Rohatgi in a remark he made before the Supreme Court. Against the Rs.12 lakh crores of old notes that have come into the banks, the government has till now printed only Rs. 4.2 lakh crores of new notes. When it was suggested that at this rate months will elapse before the old notes can be replaced by new ones, Rohatgi reportedly said that the government did not intend to replace all old notes by new ones, that it deliberately

wished to retain a shortage of notes in order to make people adopt cashless ways of settling transactions.

In other words the difficulties which people have been facing owing to the shortage of cash are going to persist, even after Modi's famous "fifty days" are over, and even after the six months which most others see as the minimum period required for the restoration of "normalcy", are over. "Normalcy" it seems will never again be restored, unless people shift towards a cashless economy.

This is nothing short of holding a gun to people's heads to force them towards cashless transactions. Whether a government, and the Reserve Bank of India owned by it, can default on an IOU of the RBI (which every note, except the one-rupee one, is) and force people to accept some other asset instead, is a moot point in legal terms. True, the government has interfered in the past with the people's asset preference, but these have invariably been specific cases, such as land acquisition for industrial or infrastructure projects, and have made use of enabling parliamentary legislation. To have the executive taking unilateral decisions of its own on what kind of assets the people should hold, whether they should hold cash or not, whether they should settle their transactions with cash or with Paytm, is unacceptable in a democracy.

An individual must have the right to choose how he or she settles transactions, and any interference with this right should only be permissible under laws enacted by the legislature for specific well-defined reasons. Any arbitrary interference by the executive in the asset preferences of the people, without parliamentary sanction, is an assault on democracy.

This however is precisely what Modi is attempting. It amounts, as Amartya Sen put it, to an act of "despotism". It is a pursuit of unreason reminiscent of Idi Amin, and must be resisted if we are to preserve democracy in the country.

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