

Demonetisation and its Discontents

Arjun Jayadev

You know it is trouble when the metaphor that is said to get describe your policy is backwards from the very get-go. The demonetisation decree was hailed at the outset by a breathless and chest-thumping media to be a “surgical strike” against black money. But a ‘surgical strike’ is at least in theory precise and targeted- in this case presumably aimed at the ‘black’ part of ‘black money’. What has transpired instead is more akin to a carpet bombing- the very opposite sort of campaign- a widespread and indiscriminate operation without concern for collateral damage. The demonetisation decree outlawed ‘money’ in the hope that ‘black money’ would be targeted and destroyed.

There is a reason, of course, that carpet-bombing is considered a war crime. The costs in terms of an unfocused policy taken in the knowledge that it will cause pain to those who are not its intended targets is seen by many as reason to strenuously oppose such actions. But in the case of demonetisation, there is something even more perverse. The unjustly injured here are told (and have by and large accepted) a narrative that this is for the greater good and will somehow rid the system of the depredations of illegality and the breakdown of law and order.

It is hard to see how this was ever supposed to work. As many have pointed out, cash hoarding is a very small part of asset holdings gained from illegal activities and at least some fraction of the cash hoards are generated by activities that are perfectly legal (indeed most activities that generate black income simultaneously generate white income). Moreover, even these hoards can be laundered and made white under the current dispensation through multiple routes. The scroll magazine helpfully published 13 different ways in which to do so within a few days of the announcement. These include providing temple donations with a kickback, backdating invoices, using factotums to deposit money and so on. There is already evidence that this is taking place and there is no reason to believe that those with cash hoards are going to be caught. Even if there was some way to track these incomes it beggars belief that an income tax department that is inept at catching and prosecuting income tax evaders now will suddenly have the wherewithal to do so. An equally unhinged justification of the policy is that it was important to get rid of high denomination notes to prevent cash hoarding-as if somehow the extra burden of 4 notes would magically prevent illegal transactions. An acquaintance told me without irony “No one will ever hold black in 100 notes”, displaying a desperate need to believe in the cause. Of course, this justification ran aground when it became clear that there would be Rs. 2000 notes that were legal tender. Finally, we were told that this was a move to prevent counterfeiting (the Pakistani threat!!) -without reason to believe that this was a major problem or any understanding as to how new currency would not be counterfeitable. Evidence has mounted that all of these are real problems with the implementation. In the best case scenario--highly unlikely to be achieved--there will be some people dispossessed of illegal cash holdings. But the underlying ways to generate illegal income have gone untouched.

So in the days that followed, the justification has slowly moved goalposts. The idea behind the move is to promote a cashless economy we are told-and this policy is a

way to force that. But if that was the real aim—there is nothing to back it up. Surely the first order of the day is to have publicly funded payment clearance mechanisms that is easily and freely available to everyone and advertised and pushed by the state and very widely held. Instead, we are treated to the obscene spectacle on TV of the head of Mobikwik, a private payment mechanism extolling the virtues of the policy. Talking heads and government spokespeople speak easily of the idea that every family has a bank account and that there are over a billion Aadhar cards, conveniently forgetting that for the vast majority, those are not accounts from which everyday transactions take place (indeed, this is not true of the majority of the middle classes as well).

How then to explain the fact that people have been tolerant and willing to undertake the hardship associated with this? There are many potential reasons, but certainly the continued corrosion of law and order, the venality and intransigence of the state in its day to day dealings with the citizenry, the wholesale abdication of the sense of the public by the middle and upper classes and its silent practical secession from the rest of the nation have all combined to create a deep and abiding toxicity from which all people want release. And in such a situation, any hope, however feeble, of a change is taken at face value. We hope that ‘fat cats’ who hoard ‘black money’ will be dispossessed and ‘the honest, law-abiding citizen’ will have his or her rightful place at the table. We are happy to countenance any policy that is done in this name, however far fetched. But this is pure fantasy—on all fronts, and absolves everyone of the need to think about the myriad ways in which the collective project of Indian society has been corroded. The government has bet on the fantasy without doing all the hard work associated with addressing the underlying malaise.

But the demonetisation also has a malign edge that has as of yet not been adequately acknowledged. If there is a collective understanding that has prevailed in India for a long time it is in the belief of the integrity of the monetary system—that legal tender will be widely accepted, that our ‘pay community’ is strong and cohesive. Relatively unusually among developing economies, India has avoided monetary drama— inflation has never gotten to hyperinflationary levels, deflation has never been on the cards, widespread defaults have been few and largely contained, money has been accepted as means of final settlement everywhere and at all times. But what demonetisation has done is to shake that faith. Indeed, the only way for the policy to have long-term effects in preventing cash hoarding is to have the threat of further demonetisations. There is a reason why demonetisation has never previously happened in peacetime or without hyperinflations. They are events that acknowledge the widespread breakdown of social life and attempt to reset it. Money itself is an essential metaphor, it is a social contrivance to signify a means of final settlement of debts without which binding commitments or promises would be impossible. The anonymity of money is exactly what allows people who don’t have any strong social ties to cooperate in all sorts of ways. And cash in particular allows for cooperation and coordination among the poor, the rural people who don’t have access to electronic payments systems or coordination through corporate structures, professional networks and so on. Demonetisation undermines those structures and in that, the sense of a collective social understanding. Doing so, while unlikely to be fatal, will corrode this most basic trust.