

Post-truth demonetisation

Instead of government by argumentation, we have government by rhetoric and spectacle.



, Prime Minister Narendra Modi has not only unleashed an economic blitzkrieg, he has also wrapped nationalism around it, even arguing that those opposed to demonetisation are like Pakistanis.

With the rise of Donald Trump, the term “post-truth” has entered the public sphere. The basic idea is that victorious arguments in politics do not depend on evidence. Rather, politics is about clashing narratives purveyed by contending politicians or groups. The narrative that aligns with the feelings, prejudices, or even interests of a plurality, however untrue, wins out. On Twitter and the social media, partisan armies of supporters fight the political battle unencumbered by evidence or truth.

Why are these considerations relevant to India's demonetisation? By withdrawing 86 per cent of the currency in one fell swoop, Prime Minister [Narendra Modi](#) has not only unleashed an economic blitzkrieg, he has also wrapped nationalism around it, even arguing that those opposed to demonetisation are like Pakistanis.

The debate, which could be about logic or evidence, is framed as a contestation between two narratives: If you are pro-demonetisation, you are patriotic; and if you are against it, you not only lack patriotism, but you have something to hide or you wish to promote corruption and criminality. By equating critics with Pakistanis, the Modi regime has legitimated — yet again — its Twitter vigilantes, who are only too quick to revile those who disagree with government policies. This is dramatically different from the 1991 economic reforms, when government critics were plentiful and were not afraid to speak out. Several independent voices, of course, will remain undeterred even now. But many not so intrepid, though honestly unconvinced, will prefer silence over the costs of dealing with the Twitter militia.

The government has also made it obvious that failing is not an option. To fail will not just be the failure of a policy, but also a personal humiliation of the leader and the failure of a regime. As a result, every fragment of confirming evidence, however weak, is being loudly displayed as a great success of demonetisation, and every evidence of failure, however strong, is being presented as a temporary difficulty or a sign of a lack of patriotism. Instead of government by argumentation, we have government by rhetoric and spectacle.

Demonetisation has three aspects that bear consideration: Economic, administrative and political. As for the economic consequences, they are radically unclear. India's press has yet again played up the clash between two

great economists of Indian origin — Jagdish Bhagwati and Amartya Sen. The press has failed to emphasise that neither is a macroeconomist specialising in monetary issues. Two leading macroeconomists of the latter kind have spoken: Harvard's Kenneth Rogoff and Lawrence Summers. Both are known for their view that in the US and Europe, high-denomination notes mainly serve tax evasion and crime, are of little use in normal transactions, and should be banned. Though Rogoff does not rule out long-term benefits of India's demonetisation, he is surprised by the introduction of a Rs 2,000 note, even as a Rs 1,000 note is being scrapped on grounds that it encourages illegal cash hoarding. He adds that an overnight outlawing, as opposed to a phased decommissioning, entails too much "collateral damage" (Financial Times, December 9, 2016). Basically agreeing, Summers adds to this reasoning a basic utilitarian principle that it is better to let a few criminals go free than hurt so many innocent people — 93 per cent of India's labour force, after all, is in the informal economy. He also thinks the costs of such a policy exceed the likely benefits (Financial Times, November 21, 2016).

If the economic case is thus ambiguous, the administrative story is one of utter disaster. Not only was the Reserve Bank of India (RBI) not ready with an appropriate amount of substitute currency, it turns out it will take many months to do that. To deal with the short-run liquidity crisis, it rationed note distribution from banks, which will continue, though with a higher daily ceiling. The RBI has also flipped and flopped, sometimes within a day, which makes a mockery of the economic principle that short-run monetary consistency is essential for financial trust. Has the RBI become an arm of the political executive? Little that the RBI has done since November 8 suggests otherwise. Central bank autonomy is normally inseparable from the idea of a modern polity.

The government has also presented a new rationale: A cashless economy. In a country less than 75-80 per cent literate, with another 25-30 per cent barely

literate, with poor connectivity and unclear laws about privacy, the idea of a cashless economy verges on being an outrageous fantasy. Like Modi, Rogoff also favours cashless exchanges, but for him, it is viable only in a rich economy, where most economic exchanges are in the formal sector. It can spell disaster in an overwhelmingly informal economy.

Let us finally turn to the political issues. Two stand out. First, if mass misery is great, why haven't protests broken out? Modern theories of protest provide an answer. Need does not create its own fulfilment. Mass mobilisation cannot normally take place without organisational leadership. By turning criticism of demonetisation into an unpatriotic and corrupt act, Modi has undercut the ability of political parties and NGOs to lead protest. NGOs are especially vulnerable. If the misery widens, political parties might, of course, be able to organise protest, but conserving their resources, they might just focus on getting the vote out in the coming months, instead of concentrating on mobilisation.

The second big political issue is: What next? Given that failure is not an option, the government will have a vested interest in demonstrating success. One obvious path is to investigate those whose deposits were dubious. Many people will be caught and showcased.

There is nothing inherently wrong in pursuing this option. But India's bureaucracy is not a Weberian bureaucracy, acting according to neutral principles. Will it not target those without political patrons, and leave out those too powerful to touch? Will the state investigate corrupt politicians, in general, and the big donors to the ruling party, in particular, to ascertain whether their donations were black? In his December 31 speech, Modi had a lot to say about corrupt officials and citizens, but only a few perfunctory remarks about the corruption of political parties.

2017 is unlikely to be a year of redeeming grace. It is more likely to be a year when a crusading state will unleash a politically subservient and heavy-handed bureaucracy on India's citizens. So much for the prime minister's promise of minimum government.

The writer is director, Centre for Contemporary South Asia, Sol Goldman Professor of International Studies and the Social Sciences, Watson Institute for International and Public Affairs, Brown University