“Gresham Law – Bad money drives out good money” - Learn not to be consistently stupid

You would have read how the current Government is grappling to tackle the ailing public-sector undertakings. They want to sell Air India, but buyers are not coming forward, whereas private sector airlines are flourishing. Similarly, the market caps of all public-sector banks combined is less than that of HDFC Bank. This story continues in other industries too, including steel and other manufacturing sectors.

We know these Public Sector Undertakings (PSU) and bureaucratic departments are handled by some of the most brilliant people in the country. Civil Service Exams of the Government are the toughest exams and it is difficult for the best engineers and CAs to clear such exams. When all of the above is true, the question then arises as to why are there so many inefficiencies in the system and why are they languishing. Is this a classic case of bad taking over good?

The principle of bad taking over good is explained by Mr. Gresham and is popularly known as Gresham’s law which states “bad money drives out good money…”

Let me tell you a historical story of Indian ruler Muhammad Bin Tughlaq. He ruled from 1324 to 1351. In his era, India used gold coins (called dinar) and silver coins as currency for exchange. Tughlaq introduced coppers and brass coins as the token currency which had same value of gold and silver coins. Ordinary people stated making fake coin of copper and silver and hoarded gold and silver. Soon gold and silver went out of circulation as they were either hoarded or melted and sold. His failed experiment made him famous in the history text books as the “Mad Sultan of India”.

Similar stories are found across the world in Europe, USA or Canada.

Gresham’s Law

While Gresham’s Law says that bad money will drive away good money as per economics, so how does it help us in our lives. This pattern is true even today. Will give few examples of similar nature where Bad drives away Good.

- Situations where you will see that bad news take precedence over good news in the newspaper will arise. I will tell you a personal story. I told my then school-going son quite a few years ago to read the newspaper. On my follow up he said that he reads it regularly. I quizzed him, and he could not reply and told me that he only reads the sports section and not the first page as our headline news are more about failures as opposed to the successes of sports page. I am sure he got my message to read the news to know worldly affairs but it also made me think
about the prevalent Gresham’s law about negative journalism crowding out positive journalism.

- There are scientific studies that show that we get around 50,000 thoughts a day and most of them are negative rather than positive.

- We sometimes see that unethical (dishonest) people succeed over ethical ones in organisations. We can also get tempted to do unethical things to follow the majority (another weakness of ours which I do not want to discuss in this Perspective).

- Investors land up holding bad stocks and sell away good stocks quickly. I must confess that I have succumbed to this mistake.

- Bad policies of treating good and bad performances on par for civil servants drive the performance of PSU, Regulators and Bureaucracy.

On aggregate, in reality, if bad and good are given same importance then bad will surely drive away good – whether it be a bad person, negative thought, negative story, unethical behaviour or so, bad will drive away the good if treated equally.

**Hacks for preventing us for this trap**

**Law of Inversion**

Let me explain this to you with an example. In our induction program for article interns, I ask them a hypothetical question: “If you want to do very badly in your CA final exam and perform miserably in the office, ensuring that you upset your bosses, what should you do?” It’s fun to hear the answers – “Come late to office, be manipulative, don’t be respectful, don’t study, give hate speeches” and so on. In the end I tell them, now you know what NOT to do to succeed in your exams and work place.

Law of inversion is inverse of learning, popularised my idol, Charlie Munger. It has helped me and many more to avoid getting trapped in unproductive cycles. (We have discussed in an earlier Perspective.)

**Belief System**

We are a 50 year old organisation, maintaining the culture of trust, integrity and delegation of powers. The biggest strength of our firm is alignment between partners
and their subordinates. Our firm is fortunate that we do not compromise our work ethics and take pride in doing the right thing, thinking above our bounded boxes. Hence, laying down principles, ethics and self-disciplinary rules can help us stay the course.

**Check list and discipline**

My previous Perspective explained in detail the importance of a simple checklist. Also, our learning programme and commitment for improving lives of all has helped us.

In the end, I would urge you to be a continuous learning machine, reflect on what goes right and what goes wrong for you, read books, read blogs, consult people and I am sure you will achieve a fulfilled life. I was asked by one of my colleagues about what should he do if he is a poor reader. People who are poor readers must read inspiring quotes to learn. This is my secret too, which is now revealed. I got inspired to write this perspective after I read the following about a great German mathematician:

> “The great Algebra pioneer Jacobi knew that it is in the nature of things that many hard problems are best solved when they are addressed backward. In life, unless you’re more gifted than Einstein, inversion will help you solve problems.”

Warm Regards,

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