



## THE ECO BULLETIN

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## A Look Back to 1978 When Currency Notes Were Last Scrapped

It was on 16 January 1978 that the country was told that the Janata Party coalition, which had assumed office a year earlier, has decided to scrap Rs. 1,000, Rs. 5,000 and Rs. 10,000 notes.

The Reserve Bank of India's (RBI) history (third volume) details how things happened.



- On 14 January, R Janaki Raman, a senior official from chief accountant's office in RBI, was informed about the government's decision to demonetize high-denomination notes and told to draft the ordinance.
- It was through the All India Radio's (AIR) 9 am news bulletin that people were informed about the policy decision. It added that all banks and treasuries would be closed the next day, on 17 January.
- It was in the early 1970s that the Wanchoo committee made recommendations about withdrawing the bank notes. However, these recommendations could not be publicised for the fear of it being counterproductive – black money operators could get rid of high-value notes.
- In his article for India Today, Jay Dubashi wrote that the move was directed at freezing the secret funds of politicians, especially Indira Gandhi's Congress.

## Economic Updates

☞ India's GDP accelerated to 7.3% in Q2 of 2016-17: CSO

The agriculture sector maintained the overall growth by registering a 3.3% GVA growth rate in Q2 of this financial year in comparison with 2% in Q2 of 2015-16.

☞ RBI releases fifth Bi-monthly Monetary Policy Statement 2016-17

The key announcement was that the policy Repo Rate under the Liquidity Adjustment Facility was kept unchanged at 6.25%.

☞ SBI writes off debts owed by 63 willful defaulters

The move is a part of a cleanup process of the SBI's balance sheets. Vijay Mallya's Kingfisher Airlines tops the list with dues amounting to almost 1201 crore Rupees. KS Oil, edible oil maker is the second in the list with dues amounting to 596 crore Rupees.

Morarji Desai, the then Prime Minister said that the party had been spending money “like water”. Gandhi had reportedly denied allegations saying that “even a ten-rupee note is a luxury to me”.



- What’s interesting to note, however, is that IG Patel, the then RBI governor, was not in favour of the step. He felt that many in the government perceived the step as a measure targeted at the “corrupt predecessor government or government leaders”.
- In his book, Glimpses of Indian Economic Policy: An Insider’s View, Patel writes that most people in possession of black money rarely keep their ill-gotten earnings in the form of currency for long. Thinking that black money is stashed away under mattresses or suitcases is naive, he said.
- Dubashi in his article also wrote that demonetisation of currency is not entirely effective because one can’t really know how much black money there is in circulation, and more importantly “whether black money can really be defined in precise terms in all its shades.”

## Did You Know

### ☞ Walmart’s revenue to India

Excluding the revenues that the world’s largest retail chain Walmart offers to India in terms of revenues through Bharti-Walmart venture, it still manages to outsource around \$ 1 billion in IT contracts to India. This is surely a surprising fact because Walmart is known for absorbing wealth of countries more than offering revenues to them.

### ☞ One of the biggest forex reserve

India holds one of the largest foreign exchange reserves in the world. According to IBEF, India holds US \$368.231 billion forex reserve on November 11, 2016. In this, Foreign currency assets (FCAs) was US\$343.927 billion, while gold reserves was US\$20.46 billion

### ☞ Most FDI inflows from tax haven

India’s most inflow of investment from foreign investors (FDI) is coming from Mauritius. The country has invested about US\$9.03 billions during FY 2015, followed by Singapore (US\$ 6.74 billion), Netherlands (US\$ 3.43 billion) and Japan (US\$ 2.08 billion).

## Triffin's Dilemma

### Onset during Bretton Woods era

- Due to money flowing out of the country through the Marshall Plan, U.S. military budget and Americans buying foreign goods, the number of U.S. dollars in circulation exceeded the amount of gold that was backing them up in 1959.
- By 1960, an ounce of gold could be exchanged for \$40 even though the official rate in the United States was \$35. This price difference was due to price controls on gold in the US
- In support of the Bretton Woods system and to exert control over the exchange rate of gold, the United States initiated the London Gold Pool and the General Agreements to Borrow (GAB) in 1961.

### The Balance of Payments dilemma

- In order to maintain the Bretton Woods system, the U.S. had to run a balance of payments current account deficit to provide liquidity for the conversion of gold into U.S. dollars. With more U.S. dollars in the system than were backed with gold under the Bretton Woods agreement, the U.S. dollar was overvalued. This meant that the United States had less gold as foreign governments started converting U.S. dollars to gold and taking it offshore.

### The Nixon Shock

- In August 1971, President Richard Nixon acknowledged the demise of the Bretton Woods system. He announced that the dollar could no longer be exchanged for gold, which soon became known as the Nixon shock. Although it was announced as a temporary measure, it was to remain in effect. The "gold window" was closed.

## Know an Economist

### ROBERT TRIFFIN

Belgian-born economist who, warned in 1962 that without a complete overhaul the international system of fixed exchange rates established at the Bretton Woods Conference in 1944 would inevitably collapse under the weight of a "dollar glut."



### TRIFFIN'S PARADOX

The Triffin dilemma or Triffin paradox is the conflict of economic interests that arises between short-term domestic and long-term international objectives for countries whose currencies serve as global reserve currencies.

The Triffin dilemma is usually cited to articulate the problems with the role of the U.S. dollar as the reserve currency under the Bretton Woods system. John Maynard Keynes had anticipated this difficulty and had advocated the use of a global reserve currency called 'Bancor'. Currently the IMF's SDRs are the closest thing to the proposed Bancor but they have not been adopted widely enough to replace the dollar as the global reserve.

## **References**

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2. <https://www.thequint.com/>
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4. <http://www.ibef.org/economy/foreign-direct-investment.aspx>

*“As Sure as the spring will follow the winter, prosperity  
and economic growth will follow recession.”*

- Bo Bennett

# Thank You