THE NEW GOLD POLICY

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"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—EUGENE BLACK

INTRODUCTION

Gold has played an important role in Indian economy over the centuries. While some economists have held the view that people should be prevented from holding gold because it is a dead investment, others have taken the view that gold holding is not only an integral part of our social life but that it also plays an important role in the credit structure of the country.

The announcement by the Finance Minister in the Union Budget 1978-79 that Government would sell gold to the public from its own stocks and might even import gold for sale has once again created active public interest in the economics of Gold.

The Forum of Free Enterprise had arranged in Bombay a symposium on this subject on 3rd April 1978. This little publication is based on the talks given by three participants, Mr. B. S. Mahajan, who analysed the subject from the viewpoint of the jewellery exporters, Mr. D. R. Pendse, who dealt with it as an economist, and Mr. S. N. Sonawala, who treated it from the viewpoint of bullion trade. A small article by Prof. Gangadhar Gadgil has also been added.

We hope that this booklet will prove useful to all students of economic affairs.

THE NEW GOLD POLICY

I

GOLD CONTROL ACT SHOULD BE SCRAPPED

B. S. MAHAJAN *

Gold has became a problem rather than a solution to other problems on account of Government's negative Gold Policy in the past 15 years. The Gold Control Rules were enacted in January 1963 as an emergency measure under the provisions of the Defence of India Rules 1962. The Rules aimed at stopping smuggling of gold which caused a loss of foreign exchange between Rs. 40 and Rs. 60 crores per year. The means adopted to achieve an otherwise laudable objective were not practical and consistent with the socio-economic environment in India. Gold always has had an attraction for the Indian people. Due to this traditional attachment to gold, and the vital part it has been playing in our economy, in our religious and social customs, any sweeping move concerning gold was bound to rouse public discontent, ultimately resulting in lack of public co-operation in the effective implementation of the Gold Control Act.

Government's strategy to solve the Gold Problem was based on the 14-karat theory which assumed that a reduction in the quantity of pure gold used in ornaments (i.e.

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58% as compared to 97%) would automatically reduce the demand for gold, and wean the people away from the lure of gold as a means of adornment and investment. And that this, in turn, would bring down the price of gold in the process making it unprofitable to smuggle gold. This strategy proved a dismal failure until Government decided to withdraw the 14-karat rule in September 1966. This decision again was obviously the result of political expediency rather than a rethinking on a socio-economic legislation of vital importance. Keeping an eye on the General Elections in 1966, the then Government announced the repeal of the 14-karat rule.

As expected, the 14-karat rule did precious little to achieve any of the avowed objectives during the period January 1963 to September 1966. The Gold Control Act 1968 was passed by Parliament in September 1968. The vires of this Act was challenged in the Supreme Court in 1969 which struck down as many as 7 important provisions of the Act, namely Sections 5(2)(b), 27(2)(d), 27(6), 32, 46, 88 and 100. The Act, as it stands now, is virtually a legislation of regulatory nature meant to supervise transactions in gold ornaments between goldsmiths, licensed dealers and consumers. It prohibits the possession of primary gold by people at large and controls transactions of primary and standard gold between refiners and licensed dealers. The promise given in the Preamble to the Act, namely "An Act to provide in the **economic and financial interests of the community . . .** " failed to be true because smuggling of gold continued inspite of the enactment until recent years when smugglers did not find smuggling of gold profitable.

Since the introduction of Gold Control in 1963, many economists and the trade have time and again emphasised the view that the smuggling of gold can be effectively checked, if not stopped altogether, by making the process unprofitable for the smuggler. In other words, disparity in the international and the internal price of gold should be so low as to make the smuggling of gold unprofitable for the smuggler. The following table shows, the percentage of disparity in the international and internal price of gold and the quantity of gold (in metric tons) consequently smuggled into India.

Year	London price per 10 gms. in Rs.	Year	Bombay price per 10 gms. in Rs.	Degree of disparity	Quantity in metric tons
1969	114·91	1969–70	179·52	56 % higher	—
1970	100·51	1970–71	184·96	84 % ,,	215
1971	114·09	1971-72	200·16	75 % ,,	175
1972	162·76	1972–73	242·14	49 % ,,	107·2
1973	271·76	1973–74	369·23	36 % ,,	60·5
1974	443·92	1974–75	519·10	17 % ,,	14
1975	449·73	1975–76	544·99	21 % ,,	25
1976	348·84	1976–77	549·50	57 % ,,	32·9
Dec. '77	447·30	Dec. '77	680·00	50 % ,,	—

Notes : (i) London gold prices taken from Annual Bullion Reports of Samuel Montague & Co.

(ii) Dollar price of gold per troy ounce converted @ Rs. 100 per $ 11·50.

(iii) Bombay prices taken from R.B.I Bulletins.

(iv) Figures of quantity of gold coming into India for fabrication from the year book Gold 1977 published by Messrs: Consolidated Goldfields Ltd., London.

Between 1963 and 1968, the price of gold in Bombay fluctuated between Rs. 97 and Rs. 162 for 10 gms. while the international price remained fixed @ $ 35.00 per troy ounce or roughly Rs. 54 for 10 gms. The degree of disparity, therefore, varied between 79.5% and 200%. No wonder, the smuggling of gold went up from Rs. 40 crores in 1963 to Rs. 100 crores when the Gold Control Act 1968 was passed. These figures are Government estimates disclosed in Lok Sabha debates on Gold Control. In short, it is the profit motive that can make the smuggler open or close his shop and a legislative measure like the Gold Control Act becomes futile to stop this menace. Incidentally, smuggling is not a new phenomenon or a phenomenon on the Indian sub-continent alone. British and Portuguese traders smuggled into India — in the Port of Surat — unminted silver and silver granules in the 18th century! Those were the days when panned gold and gold dust was officially exported from India! Even in the so-called free ports like Dubai, Hong Kong and Singapore, goods are smuggled merely to save 1%—3% harbour dues! These examples conclusively prove the profit motive of the smuggler.

In addition to the factor of disparity in the price of gold, other equally important factors determine the quantity of smuggled gold and the margin of profit for the smuggler. These are compensatory payments by means of (1) foreign exchange and (2) smuggling out of India (a) silver, (b) cereals and other foodstuffs. and (c) opium and drugs. Figures for such indirect loss of foreign exchange are anybody's guess-work. When the unofficial rate of the dollar went up in the vicinity of Rs. 12, smugglers resorted to barter of goods as mentioned above in (2). This was how the smuggling out of silver started and continued for a number of years until the price of silver in India rose along with the price of gold in the international market. During this peirod, the Government lost foreign exchange on both counts, viz., the smuggling out of silver and the smuggling in of gold. Students of the gold problem will find articles and books by Mr. Timothy Green on this aspect interesting and instructive.

As far back as 1965, the trade had made a representation to the Government **to allow licensed exporters to export officially silver and to import officially gold** to the extent of 50% of the F.O.B. value of exports. The Government could retain the balance 50% of the foreign exchange earned. Although this was a practical solution to the problem of smuggling, it was turned down by the Government. The importance of this proposal can be easily appreciated by the fact that between February 1974 and March 1977 official exports of silver fetched over Rs. 400 crores of free foreign exchange. The loss of foreign exchange between 1965 and 1973 on account of the smuggling out of silver defies all guesswork. To sum up, neither the Gold Control Act nor the other security measures really succeeded in stopping the smuggling of gold into India. It was only the change in the economic situation in the free world that really led to a check on the smuggling of gold into India.

Around 1970, the U.S. Government ended the control on the price of gold which the Gold Reserves Act of 1934 had fixed @ $ 35 per troy ounce while redefining the dollar in terms of gold. Since then, gold price has been moving freely according to the law of supply and demand. Almost the whole of the total supply of gold around 1,570 metric tons during 1976 was taken off for fabrication of ornaments and jewellery, the minting of gold coins and for hoarding purposes. Considering the world-wide inflationary trends, uncertain political conditions in many parts of the world and the extensive use of gold in ornaments and jewellery, the off-take is likely to match the supply of gold. There is hardly any indication of the price of gold going below $ 160 per troy ounce.

It is believed that the aggregate world stock of gold comprising of Monetary Reserves and private holdings is about 58,000 tons. This assumption, coupled with the theory that there is a limited amount of gold left to be mined in the free world. namely, around 41,000 tons, presents a rather grim picture indeed. Gold is, however, a wonderful metal. It is virtually indestructible in the sense that it is never totally consumed. Of all the metals, gold is the one which is most recycled with simplicity and with little loss in the process. Perhaps this is why gold ornaments found as early as 5,000 B.C. are still functional. Further, gold probably became a medium of exchange around 3,400 B.C. In January 1977 the British Museum held an Exhibition of 700 items of jewellery and the oldest item was authenticated *circa* 5,000 B.C. No substitute has yet been found to replace gold.

The gold problem, should, therefore, be examined against this background, and also with reference to the recent Government announcement to sell gold worth about Rs. 500 crores. It is still premature to comment on either the implementation or the effect of this new scheme on the internal price of gold. Considering the financial stringency in the gold market and the consumer resistance, it is unlikely that the Government gold supply would finish soon. Even sale of Government gold to exporters of gold ornaments and jewellery may not exceed Rs. 60 crores in view of the modest export target of Rs. 100 crores in the initial stage. Exporters are bound to get gold at the international price. However, the price to be charged for gold for local consumption will have to be carefully determined so as to make the smuggling of gold uneconomic for the smuggler.

Another equally important consideration is how far we can depend on our accumulated foreign exchange reserves to be able to import gold for local consumption. Under the circumstance, it becomes necessary to tap our own resources of primary and ornamental gold. India stands second to France in respect of estimated private holdings of gold. Although these holdings amount to slightly over 3,700 tons, these may be termed negligible in relation to India's population. It is, however, possible to tap this source effectively and make primary and ornamental gold available for recycling and equitable distribution.

The greatest damage the Gold Control Rules and Act have done is the creation of fear in the mind of the layman that gold would not be available in future and that Government would dispossess him of gold and gold ornaments under any pretext. This fear has led to unnecessary hoarding of gold and gold ornaments. Many people still hold primary gold but are afraid to declare it on account of the abovenamed fear. If given an amnesty in the form of a Voluntary Disclosure Scheme for Primary Gold, many people would come forward to sell their undeclared primary gold to the Government. If Government should sell gold at international price of about Rs. 500 for 10 gms., internal price of gold is bound to fall heavily. Hoarders will quickly realise that there would be no further appreciation in the price of gold and would remain satisfied with getting a price which has reached the saturation point. This is how primary gold within the country can be tapped and the gold recycled for equitable distribution.

This is the right time and occasion to take the people into confidence and reassure them that gold would be made available to them to make ornaments only and not for hoarding. If Government want people to surrender their primary gold hoarding, a healthy climate of confidence needs to be created. And nothing can achieve this better than the removal of the fetters of Gold Control. The technique of controls as an instrument of economic regulation has been used in this country on a wide front. It has also been the fond assumption of the Government that controls are a panacea for all the ills of an economy of shortages. **But experience has taught us by now that apart from the ineffective implementation of control measures, the entire mechanism of controls has created more imbalances than it can resolve.**

Except perhaps the ban on possession of primary gold by private citizens, there is hardly anything useful in the Gold Conrol Act which really serves the economic and financial interests of the community. Gold Control, therefore, is a fit case to be examined by the Committee appointed by the Government to evaluate and review the system of controls. The Government should not make Gold Control a prestige issue and hesitate to abolish it if so advised by this Controls Committee. Fifteen years is a pretty long time for a young nation to repent for something done in haste under the pretext of emergency.

II

THE GOLDEN SOLUTION

D. R. PENDSE *

Gold is very much in the news these days. Most of us are perplexed that the very yellow metal which, ever since Independence, was presented to the country as one of our chief problems, is now offered to us as a solution to some of our basic economic problems. This may look paradoxical but it is true.

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* The author is Economic Adviser to Tatas. The views expressed are personal. Based on a talk delivered under the auspices of the Forum of Free Enterprise on 3rd April 1978, this article appeared in "Economic Times".

The proposed Golden Solution can be put quite simply: Gold should be imported and sold at a profit within the country; and the profit should all go to the Government.

Significantly, the proposal is called a "solution", because it will help solve, or more correctly, help partly to solve at least three of our economic problems: These are, first, the chronic problem of mass unemployment, particularly among the unskilled rural people. Secondly, we have also the problem of acute scarcity of resources for the Government. Government needs money so badly that even after increasing our taxes by Rs. 636 crores, there is, this year, going to be a huge deficit of Rs. 1,050 crores. And then, we have also the perennial problem of gold smuggling.

This of course is only a partial list. Our economic problems are numerous and intractable and, despite our best efforts, have eluded any time-bound solution. In these circumstances, it will be truly a (literally) golden opportunity if three of the problems can be tackled with one single economic policy measure. Happily, the Government of India has seized this opportunity and has announced the decision to start the sale of gold in the country.

Exchange Reserves: The proposal is tailor-made to take advantage of some peculiar features of our economic situation. During the last two or three years, we have acquired substantial reserves of foreign exchange. In 1964-65, they were at the lowest recorded level of Rs. 116 crores. Now they are at the highest level of about Rs. 4,300 crores. Economists, who are not very famous for agreeing with one another, seem to agree that at least for the next two to three years we will continue to accumulate such foreign exchange reserves, even after meeting all our likely foreign exchange requirements for the economic development of the country. We are, therefore, in a position to import gold without in any way hurting any other imports necessary for our economic growth.

Another fact is that gold prices in India have for decades been way above those in the free markets of the world. Both the world prices, as well as the Indian prices fluctuate widely; but the large difference remains. Of late, world prices are around Rs. 480 per ten grammes; and prices in India are about Rs. 680 per ten grammes. So the difference is now about Rs. 200 per ten grammes. In the past, the difference has been sometimes wider, and sometimes narrower. But, for the sake of illustration, we can take it to be Rs. 200 per ten grammes.

Smuggling : Finally, there is the fact of gold smuggling. This goes on perennially because of two main reasons: First, the difference in prices is large; so large that it not only compensates for all the expenses of smuggling, but it also allows for the total loss in cases of confiscation; and it still leaves handsome profits for the smuggler. But there is also another reason, viz., that there is nobody else to supply the gold. Imports of gold are prohibited; and the smugglers are enjoying a monopoly.

Under these circumstances, when gold is imported and sold in the country, the entire difference between the import price and sale price remains with the Government as clean profit for keeps; e.g. if and as long as the difference is Rs. 200 per ten grammes, that is the profit for the Government from import and sale of every ten grammes; or, in other words, the profit is Rs. 2 crores from import and sale of every tonne of gold.

Selling Government's Gold : The latest decision announced in the Finance Minister's Budget Speech is brief and to the effect that Government will start the sale of gold "from its own stocks". This decision needs to be welcomed. It looks a little different from what is said above, but it stems from an identical logic. (Incidentally, it is important to emphasise that the sale will be from Government's own stocks, as distinct from the stock of gold owned by the Reserve Bank as backing to our currency. There is no question, and rightly so, of selling any part of RBI's gold.) These stocks owned by the Government are reported to be worth about Rs. 500 crores. We do not know their exact size. Nor is it in the wider public interest for us to press for all the details being announced.

Actually it is immaterial to know the exact quantum, because the Government's stocks could always be replenished by buying abroad as and when necessary; and the sale can continue as long as the Government would, in the overall interest of the economic development of the country, wish it to continue.

I am personally of the view that this scheme envisaged by the Government should be supplemented by allowing the Indian people also to import gold on payment of an appropriate and flexible import duty. In such a case, the collection of the revenue from this duty would be the Government's profit.

The importance of correct and business-like implementation of this scheme cannot be over-emphasised. It is the quality of implementation that will make or mar the success of this decision. The eye has to be on profit for the Government (a) by Government being able always to offer gold at a competitive price in relation to the price at which the smuggler will be offering it; and (b) by making the whole transaction as simple as buying across the counter in a provision shop. If the scheme and the transaction become cumbersome, e.g., by there being twenty forms, ten returns and triplicate copies, that will be the death-knell for one more excellent economic policy decision.

Thus, by means of a well-directed operation of this scheme, Government can earn handsome amounts. If, e.g.. the effective price difference is Rs. 200 per ten grammes. and if we sell, say, 50 tonnes of gold, the profit will be Rs. 100 crores.

As is well-known, Government's thirst for revenue is ever-increasing. Total expenditure of the Central Government has increased thirty-five times from a mere Rs. 531 crores in 1950-51 when Planning began, to a staggering Rs. 18,400 crores, budgetted for the current year. So, these hundred or two hundred crores of Rupees could vanish into this mammoth figure in no time. That will be a pity, considering that the success of a decision of signal importance, representing an overdue change of heart after thirty years, is at stake.

A New F.E.R.A. : Therefore, the profit to be earned from the sale of gold should be credited to a separate new Fund; and this Fund should be used exclusively to finance employment schemes for the rural poor. Employment of the rural poor is, rightly, the top priority of the Government; but, alas, in the hundreds of thousands of crores that we have spent on our Plans, the employment objective has not received the prominence that it deserves. So, let at least this Fund be ear-marked totally to finance schemes that directly create jobs for the poor; particularly the poor in the rural areas, so that the poor do not have to swarm to the cities and add to the already intricate urban problems.

This Fund could as well be called '**Fund for Employment in Rural Area**', and we could nickname it FERA. That will be a new FERA—a FERA, for a change, to be welcomed by all sections of society.

How many jobs can this Fund finance? It is too early to answer that question. It will depend (a) on how much will the Fund—FERA—amount to every year and (b) on what sort of employment schemes are being considered. Some time ago, a scheme was put up to the Government suggesting that employers be paid a subsidy of at least one-third of the wages they will pay to every new unskilled worker for projects located in the rural areas. If the wages were, say, Rs. 3,000 per year (Rs. 10 per day), the subsidy would amount to Rs. 1,000 per year per new job, and if the FERA has Rs. 100 crores to its credit, it can finance at least one million new jobs. (For "jobs" the new, and more correct, jargon used in the draft Sixth Plan is "person years".) Government does not seem to have reacted very positively to this. But there has been good evidence elsewhere that it does not have a closed mind to economic issues, and one hopes that Gold and Rural Employment will not be an exception.

High Gold Prices: But let me come back briefly to Gold proper. I see doubts repeatedly expressed whether this Gold policy will really reduce the price of gold in the country. Frankly, I do not see why Government should at all be worried about high prices of gold. Gold is surely not an article of basic consumption of the poor. It does not figure even remotely in the working class cost of living index! In point of fact, the profit for the Government—and it is this profit that will finance our new FERA—depends on there, being as large a difference as possible between the world price and the Indian price of Gold. Therefore, Government should not shirk from adopting strategies and tactics that keep the difference high and for this purpose, keep the Indian gold prices high!

"Tactics" is the right word. Because, Government must be ever alert that the smuggler is not able to offer better prices than what the Government itself will offer. If Government wants to sell gold and make a profit, they must induce people to buy from the Government and not from the smugglers. I personally remain fully convinced that if Government is willing to deploy the considerable business acumen that is available, it will root out the evil of smuggling, and get the money that will swell the new FERA, and earn for the Government the blessings of the innumerable rural poor, for whom jobs can be financed from it.

Love of Gold: There are also a host of other objections commonly heard in responsible quarters: that gold is unproductive, gold-hoarding amounts to putting the clock backwards, it is bad, it is a vice, it is only for the rich, etc. Most of these objections are highly subjective assessments, and in matters of urgent economic problems, they lose much of their relevance. If the love of gold is bad, a vice, or for the rich, it is perfectly legitimate for the Government to charge a heavy fee to the people who chose to indulge in such love-making. There is nothing to be ashamed of it.

As a matter of fact, it is a harsh reality that the so-called vices and habits of people have been giving Governments all over the world, much of the revenue badly needed for worthwhile objectives. It was Napolean Bonaparte who said that he found vices very good patriots and wanted to know which of the virtues would give him so much revenue as he derived from the love of brandy. In India too, such "vices" of the people like cigarettes and alcohol yield Government over Rs. 700 crores annually by way of excises alone; and petrol, which is said to be consumed by the rich, yields another Rs. 400 crores. If we all became teetotallers and drank subsidised milk. if we all stopped smoking, seeing pictures and using cars, but went for walks in public parks, if we all were to wear controlled cloth and not blended fabrics, I suppose the Government's financial position would start becoming quite precarious! Similarly, the lure of Gold may or may not be a vice, it may or may not be bad. But what does it matter? What does matter is that Gold has strong shoulders and if carefully and intelligently deployed, it could cheerfully carry the burden of financing jobs for the poor, instead of merely adding to the ill-gotten fortunes of the smugglers.

III

PRICE STABILITY ESSENTIAL

PROF. GANGADHAR GADGIL *

One of the novel and apparently controversial measures introduced in the 1978-79 Union Budget proposals is the sale of gold by the Government of India.

The proposal falls into two parts. One part is intended to be mainly an anti-smuggling measure and involves the sale of gold from the stocks of gold held by the Government. These stocks consist of domestic production of gold over the last several years and gold confiscated from smugglers. It is estimated that these stocks of gold are worth Rs. 500 crores.

The second part of the proposal involves the sale of gold from Government stocks at international prices or allowing import of gold. This gold would be available only to exporters of gold jewellery. This part of the proposal is aimed at encouraging the export of gold jewellery for which an excellent market exists abroad.

Gold is an unproductive asset and the predeliction of Indians to invest their savings in gold has been considered for long a wasteful habit, which reduces the investment of the country's meagre savings into productive assets and further slows down the rate of economic growth. The habit

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was considered particularly obnoxious because it involved the import of gold. The purchase of gold thus did not have the redeeming feature of providing employment at home in the mining of gold. It further involved the utilisation of our scarce foreign exchange resources for the import of unproductive gold. In view of these considerations, the import of gold was banned and various restrictions were imposed on the transactions of goldsmiths and traders in gold.

Is the reversal of this policy justified? That we now have a balance of payments surplus and large foreign exchange reserves does not justify such a reversal. Our foreign exchange reserves would be better utilised if they are spent to stimulate investment and production and for stabilization of prices. This can be done by using them for import of plant and machinery, raw materials and components and essential consumer goods.

However, the policy stands justified on other grounds. It has to be noted, in the first place, that the policy does not involve any net import of gold. Gold will be imported only for manufacture of jewellery which will be exported. Thus, the gold imports will result in value added exports of gold in the form of jewellery. Instead of reducing our foreign exchange reserves, the policy would add to them to a significant degree. Moreover, these imports would provide employment to a large number of persons in this country. The manufacture of gold jewellery is a labour intensive activity and would provide considerable employment opportunities.

The import of gold for this purpose would be on par with import of diamonds for cutting and export. Our diamond exports today amount to several crores. Apart from a net addition to our foreign exchange reserves, they provide employment and income to hundreds of workers. We are advantageously placed in this sphere, because we have the necessary skills and a large supply of relatively cheap labour.

We enjoy the same advantages in the manufacture of gold jewellery. There exists a large market for this jewellery, which is demanded by Indians settled abroad and also the now affluent Arabs. There is also a demand in other markets which can be developed through sales promotion measures.

We could not take advantage of these opportunities because the domestic price of gold was much higher than the international price of gold, which placed our manufacturers at a disadvantage in the foreign markets. This disadvantage will now disappear with the sale of imported gold at international price for purpose of export in the form of jewellery.

The objective of ban on import of gold for domestic use was laudable. However, this ban was never successfully enforced. Even the harsh measures adopted during the Emergency failed to enforce it. Gold is easy to smuggle and it is very profitable to do so in view of the wide margin between the domestic and international prices of gold. The smuggling of gold has been a part of our economic life for many years. This smuggled gold was paid for by smuggled exports or by underinvoicing of exports. It thus continued to act as a drain on our scarce foreign exchange resources and at the same time led to tax evasion and black marketing.

Given the ease with which gold can be smuggled and the numerous points of entry for smuggled gold, it is impossible to stop this activity altogether by preventive measures alone. It is, therefore, better to satisfy the domestic demand for gold by sale of gold on Government account. As a result, a part of the profits earned by smugglers would accrue to the Government which can be used for productive investment. Moreover, the margin between international and domestic prices of gold would be narrowed down. As a result, smuggling of gold would be less profitable and would be discouraged. Further, an important source of black market funds would be at least partially eliminated.

It would of course be most desirable if Indians cease to have a preference for investment in gold. But this has to be accomplished by public education, as it cannot be done through control and restrictions. Incidentally, the inflationary tendencies in the economy, which were largely the result of Government policies, made it actually advantageous to hold savings in the form of gold as compared with other assets. **If, therefore, the Indian people are to be weaned away from gold, it is necessary to ensure price stability in this country.**

The Gold Control Policy has had an unintended result. It deprived thousands of craftsmen of their traditional occupation and means of livelihood. The restrictions placed on sale and purchase of gold made it difficult for them to carry on their work and placed them at the mercy of traders. Moreover, it encouraged the use of machinery in the manufacture of gold jewellery. For when gold content of jewellery is lowered, it becomes possible to manufacture it mechanically because of the hardness of the alloy. When the gold content is high the alloy is soft and not suitable for being shaped by machines. It well known that a number of goldsmiths committed suicide as a consequence of the Gold Control Order.

The sale of gold for domestic use by the Government has made it possible to relax the various rigid restrictions imposed on goldsmiths and has partially removed the injustice from which they suffered for a number of years.

The gold required for sale for domestic use is not to be imported. Nor is it to come out of the Reserve Bank's stocks of monetary gold. It is to be provided from the Government's stocks of gold, which are valued at Rs. 500 crores. As the domestic sales of gold in any one year need not exceed Rs. 100 to Rs. 150 crores, these stocks would meet the requirements for at least 4 years. In fact, the period may be much longer.

This sale of gold would perform another very valuable function. It would help the Government to mobilise Rupee resources for developmental purposes. The Government is at present suffering from a serious paucity of these resources, which is also coming in the way of utilisation of our foreign exchange resources. This is because any import of plant and equipment requires Rupee resources to finance the domestic component of investment. The sale of gold for domestic use, therefore, would stimulate the rate of economic growth more than proportionately. Thus, Rs. 150 crores raised through such sale would make possible additional investment of say Rs. 500 crores based on imported plant and machinery.

What the Government would accomplish through the sale of gold for domestic use would be the conversion of an idle, unproductive asset into a productive asset. At the same time, it would curb smuggling, tax evasion and black marketing, provide employment and partially prevent the frittering away of savings in paying ever rising prices for gold.

IV

SOME COMMON QUESTIONS AND THEIR ANSWERS

S. N. SONAWALA *

Question : How can the sale of gold from Government stock be justified?

ANSWER : Sale of gold by Government will help to achieve two main objectives of curbing inflation and checking smuggling.

By siphoning off surplus money from active circulation into a "dead" investment like gold, it will reduce the pressure of purchasing power on essential commodities and thus help in curbing inflation.

To argue that sale of gold will encourage black money is not correct. Black money gets generated in various ways in a controlled economy, more particularly if the rate of taxation is felt to be very high. Sale of gold by Government is not going to generate, or even encourage creation of black money. It will rather provide an outlet for escape of black money into a harmless channel, and thus prevent black money from playing havoc with the prices of more essential commodities which may be temporarily in short supply. Further, the stock of gold in Government hand has been built up mainly by confiscation of contraband gold or dug out from gold mines. And this stock of gold, unlike the gold lying with the Reserve Bank of India as monetary reserve, is not playing any useful function.

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Question : How can smuggling be checked?

ANSWER : As the Finance Minister said in his Budget speech, preventive measures, however strict and vigilant, are not sufficient. Government has to adopt economic measures to check smuggling. And the simple, and sure economic measure to discourage smuggling is to make gold available to the public (either at the international price plus normal costs of importing it, or even at somewhat higher price.)

But if the embargo on gold continues, and the gap between international price and internal price of gold remains unduly wide, there will be an open invitation to the smuggling gentry to carry on their nefarious trade, with all its attendant evils.

Question : What should be the mode of sale of Government stocks?

ANSWER : The chief aim of the scheme of sale should be to make it impossible for a few large operators—or a powerful syndicate—to manage to buy all (or bulk of) the gold offered by Government for sale, and by thus cornering available supplies, to push up the price for the goldsmiths and the public. Therefore, the scheme of sale of gold should have the following main features:—

(a) All licensed dealers to have the right to give their tenders.

(b) Not more than one kilogram to be sold to any bidder on any one day.

(c) Prescription of a limit on total sale on any day—say 200 kilograms. But this figure is not to be announced in advance, Government reserving the right to sell more or less quantity on any day.

(d) Prescription of a ceiling on holding of gold by every licensed dealer of gold (say 20 kilograms) and every certified goldsmith (say one kilogram).

Question : How can export of gold jewellery be promoted?

ANSWER: Export of gold jewellery does not need any promotional incentives. What is required basically is the removal of the obstacle of the very high price of gold—the raw material.

But we may list the following things as necessary to be done:

(i) Supplying gold at international price.

(ii) Requiring exporters to hall-mark the purity of gold used in making the exported jewellery, and take full responsibility for the same.

(iii) Helping to set up an Apex Body for verification of the fineness of gold used in making the jewellery. The Apex Body should be representative of all concerned interests under the auspices of an impartial organisation, and also have Government's nominees on its governing body. This Apex Body should have the necessary facilities for verifying gold content of jewellery.

(iv) Until such time as such an Apex Body is set up, the amount of gold to be given to an exporter at international price, by way of replenishment, should be a certain percentage of the f.o.b. value of goods already exported against firm order.

(v) Ensuring payment of adequate remuneration by the exporters to their artisans to keep them away from indulging in adulteration of the gold given to them for fashioning into ornaments.

(vi) Evolving some scheme for welfare of goldsmiths by setting aside a portion of the foreign exchange earnings from export of jewellery.

[Those who wish to study this subject further may read an informative publication titled "The Case for Importing Gold" published by the Bombay Bullion Association Ltd., 185 Sheikh Memon Street. Bombay-400 002. Price Rs. 5/-.]

"Free Enterprise was born with man and shall survive as long as man survives."

—A. D. SHROFF
(1899-1965)
Founder-President,
Forum of Free Enterprise.

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