RE-THINKING ON GOLD CONTROL

B. S. Mahajan*

It has become all too common now for the Government to introduce regulatory measures which are afterwards found difficult or impossible to enforce. Some of these measures are intended to protect the economy of the country. However, many of them are later found to be results of misconceived notions about the correct methods to be adopted to solve various problems. Invariably, all these measures in one way or the other cut across the long-nurtured sentiments, cultural heritage, and basic human nature.

One such measure is the Gold Control Rules, which seeks to put an end to gold smuggling, by reducing the demand for this precious metal in the country. Its provisions relating to licensing of refineries, dealers, goldsmiths, maintenance of accounts, checks and supervision are aimed to be complementary to the anti-smuggling provisions of the Customs Act.

The Government has sought to destroy the image of gold from the minds of the people with the idea of curbing the lure for the yellow metal which still continues to be a time-honoured means of saving, in addition to being ornaments of aesthetic value. However, in the absence of banking facilities in the rural areas and because of the widespread illiteracy in the country, people's habit of investing in gold for the rainy days is so well entrenched that any measure to cut this tradition from its roots overnight is bound to fail.

Gold provides the most important form of security for credit as its prestige and appreciating value in terms of bulk compared to any other object of value remains high. This is due to the continuous depreciation of rupee which is now estimated to be 17 paise in terms of purchasing power of the pre-war rupee.

A recent survey of the National Council of Applied Economic Research has indicated that an important item of saving in the country is represented by the net purchase of gold and silver. The traditional craving for gold, according to the Council, explains to some

**The author, Secretary of the All-India Sarafa Association, is an authority on the Gold problem.*

extent the purchase of gold. The Council has brought to light an interesting aspect of the problem. It has worked out that Rs. 100 invested in gold in 1949 would have appreciated to Rs. 410 in 1962, which means a return of capital plus compound interest at the rate of 6.02 per cent. On the other hand, the same amount of Rs. 100 invested in postal savings would have brought less than Rs. 300 which works out to capital plus compound interest at 4.4 per cent.

This clearly brings out the fact that investment in gold, apart from traditional attachment, is based on profitability.

The object of the provision which compels the manufacture of new gold ornaments of a purity not more than 14-carat is aimed at reducing the demand for gold by creating an aversion to the debased metal. But this very aversion to 14-carat gold ornaments has created an insatiable hunger for fine gold so much so that most of the people are resorting to acquiring pure gold ornaments even by clandestine methods.

Even if the measures are enforced very strictly, thus making it impossible for people to go in for gold ornaments of high purity, and even if the people start taking to 14-carat gold, they will be inclined to buy more ornaments because they will always calculate the actual amount of gold in the ornaments purchased.

It follows that the demand for gold will not be reduced, thus defeating the very objective of the Gold Control Rules. It is also quite evident that the demand for gold will keep in step with the rise in the living standard of the people and the growth in population and the increase in prices.

The administrative machinery created specially to implement these measures is reported to have cost the national exchequer about Rs. 29 lakhs. Besides, the cost of rehabilitating unemployed goldsmiths is estimated to have imposed an additional burden of Rs. 20 crores. The Government has also lost a permanent source of revenue of over Rs. 27 crores per annum by way of income-tax.

This huge sum could have been profitably utilised to strengthen the existing apparatus to stop smuggling not only of gold but other articles as well. Smuggling constitutes a tremendous drain on the country's foreign exchange resources.

Almost every day we come across in newspapers reports of smuggling activities. This belies the Government's contention that the Gold Control has proved a deterrent to smuggling. The gap between the internal and international prices of gold is an incentive to smuggling. This is sought to be curbed by reducing the demand for gold by means of Gold Control Rules. But the Government has failed because the measure seeks to overcome human nature. When the normal doors of gold transactions are closed, it is natural for the public to resort to unlawful practices, because the desire for gold is deep-seated.

It is also seen that gold prices have gone up compared to pre-control days. For example, according to the Bombay Bullion Association, fine gold was quoted at Rs. 103.50 to 112.50 for 10 grammes in July 1963 whereas during the same month this year it was quoted at Rs. 135.50 to 139.65. Therefore, it would appear that instead of adopting a negative way of ending smuggling, the Government should take direct action such as creating necessary machinery to maintain an extensive and intensive vigil along the shores and borders and raising an effective barrier against this nefarious activity.

The acid test of success or failure of the Gold Control Rules finally rests on whether or not the demand for gold has abated. The Government claims that the demand for gold has tapered off. The Government's contention rests on the argument that the number of dealers and refineries in gold has gone down to 12,000 from 27,000 in pre-control days. The Government also avers that business of dealers is considerably less. But the fall in the number of dealers and refineries in gold does not necessarily mean that there is also a fall in the demand for gold. It is an open secret that a clan of clandestine operators have sprung up replacing honest jewellers and sarafs. As all operations have gone underground, the Government cannot claim to have a correct picture of the turnover in gold.

The remedy to make people lose the glamour for gold is to offer a stable rupee whose value will remain the same even after a number of years. Far from creating such a sense of security, the Gold Control measure, by seeking to create a near monopoly in gold in the hands of the Government, has created an impression that the Government is trying to grab all the gold in the country.

These measures have only resulted in tempting honest people to become dishonest. They have lessened respect for law and helped create opportunities for further bureaucratic harassment of the public and corruption. The Government's attempt seeks to cure a symptom while the disease remains unattended. It is a pity that the Government refuses to learn a lesson from the failure of its prohibition policy. An independent Currency and Gold Commission of experts should be appointed to consider the basic problems of inflation and smuggling. The Gold Control and similar negative measures will never cure basic economic maladies.

The views expressed in this leaflet do not necessarily represent the views of the Forum of Free Enterprise.

Have you joined the Forum?

The Forum of Free Enterprise is a non-political organisation, started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other means as befit a democratic society.

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs. 10/- and Associate Membership fee is Rs. 5/- only. **Bona fide** students can get our booklets and leaflets by becoming Student Associates on payment of Rs. 2/- only.

Write for further particulars (state whether Membership or Student Associateship) to the Secretary, Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Post Box No. 48-A, Bombay-1.

Forum of Free Enterprise

235, Dr. Dadabhai Naoroji Road, Bombay 1.

Published by M. R. PAI for the Forum of Free Enterprise, "Sohrab House", 235, Dr. Dadabhai Naoroji Road, Bombay 1, and printed by H. NARAYAN RAO at H. R. MOHAN & CO., (PRESS), 9-B, Cawasjee Patel Street, Bombay 1.

11/Sept./1965