Article sent to Mr. John Mampilli, "The Malabar Herald"

on January 22, 1965.

THE FOLLY OF GOLD CONTROL

(By M. R. MASANI, M.P.,)
(General Secretary,)
(Swatantra Party.)

Many years ago, Mahatma Gandhi, talking in Wardha to Mr. Louis Fischer, the well-known author, made a remark which has been published in Mr. Fischer's book ' A Week With Gandhi '. In that conversation, Mahatma Gandhi told Mr. Fischer that, if he had his way, he would open the vaults of the Imperial Bank and the Reserve Bank of India to take out all the gold and distribute it among all the villages of India so that economic power, which was concentrated in the hands of the Government, could be decentralised and distributed in the hands of the people.

The Gold Control Act recently passed by Parliament is the exact negation of Mahatma Gandhi's wish and advice. It seeks to take away all the gold in the hands of the people and concentrate it in the hands of the Reserve Bank and the State Bank of India. This is the climax to the betrayal of Mahatma Gandhi by those who seek to thrive in his name and mislead the people in his name.

The Act seeks to create a near-monopoly of the possession of gold in the hands of Government. All monopoly, whether in the hands of private people or of Government is bad. That, was the reason for the appointment of the Monopolies Commission by this Government, which we welcomed, but it is quite clear from this law, that far from being anti-monopoly, this is a Government of monopolists, who seek to monopolise the possession of gold and the political and economic power that it gives.

The Gold Control Act is a misconceived measure. It is a measure altogether uncalled for by the economic situation in the country.

This measure was conceived in January, 1963. Taking advan-

-tage of the Emergency and the patriotic sentiments of our people, the present Finance Minister's predecessor put through the Gold Control Order. That was a bad day for India. I have an idea that, when the history of our times comes to be written, the economic history of our times, and of the collapse for which we are now heading, it will be mentioned that January, 1963, with the Gold Control Order and the Compulsory Deposit Scheme, marked the beginning of the end of our economy under this Government.

OBJECTIVES

What are the objectives of Gold Control ? There are three objectives. One is to cure what is called the "lure" of gold, and to lessen the demand and stop hoarding. The second is to bring down the price of gold in India, which is twice that in the international market. And the third objective is to help in stopping smuggling.

One wants to know is the experience with regard to these three things. Has the control lessened the love of gold or the desire to have gold so far ?

Not at all. How much gold has been surrendered to the Government under this measure?

Secondly, has the price come down ?

Most definitely not. In August/September, 1964, when the Joint Committee was discussing this measure, the price of gold was higher than it had ever been. The Indian price of gold last August/September was Rs.145 per tola, while the international price was Rs.63. In other words, the Indian price, after 15 months of the Gold Control Order, was more than twice the international price of gold.

Finally, has smuggling stoped, or even diminished ?

It has increased. It is true that the risks of smuggling have increased, but so have the profits of smuggling. The profit margin has widened, and we know that when the profit margin widens, there are bold and daring spirits, lawless spirits, in every part of the world, who take advantage of that profit margin and that is what they have been doing. So, neither has the price of gold gone down, nor has smuggling diminished.

If this is the poor experience of 18 months of gold control then the country will ask why Government are persisting with this measure. It is a very legitimate question. As far as I can divine, there are two motives behind this Bill.

MOTIVES

The first is the motive of grabbing the gold that exists in this country. The Government knows that the only valuable things left in this country are things like gold, land foodgrains, buildings and so on. They know the worthlessness of their own money, and they know the worth of gold. They are trying to tell the people of India that it is useless, that it is a lure. The best way of setting an example is to say: "We do not care for your gold, you may keep it". What is the example this Government is setting to the people ? When the Finance Ministry of the Government of India go and try to lay their hands on gold, they not only convince the people of this country of the worthlessness of our rupee currency but convince them that it is wise to have gold.

Why does Government want gold ? Because they want to meet their foreign obligations on which they are about to default. Having brought this country to the brink of bankruptcy, this Government now tries to grab some gold so that they can pay foreigners for what we owe them.

That is the first motive - the desire to grab gold and establish a monopoly. It is the "acquisitive instinct" at the Finance Minister seeks to mock. If there are any acquistive people today, they are on the Government benches and Treasury benches in this country. They are the real acquisitive people who are trying to gra b everything in the hands of the people.

The second motive is to fool the people into believing that something is being done. Like Hitler, they want scapegoats for the failure of their own economic policies, and they have fastened on the poor gold-smiths of this country, just as Hitler fastened on the Jews. They are trying to cover up their failure to stop smuggling, the inefficiency of their Customs Department.

Let me quote one of our very astute economic observers. In the 'Indian Express' of 17th July this year, Shri G.R.Ponkshe says:

> "More than eight months have passed since then, and the present situation is that the gold control rules are more honoured in the breach than in the observance. Despite the closure of the futures trading in gold and the ban on the sale or purchase of anything exceeding 14 carats, there is a roaring black market......
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What is the basic issue in regard to the pride of gold and the hoarding of gold ? Why is the price of gold high ? Why is there the demand for gold? Why is the Indian price twice that of the international market ? It is not an unhealthy craving nor is it the desire to hoard gold for its own sake. The cause is that our currency has been debauched by this Government. This Government, for the last ten years, as a result of its Second and Third Plans had debased our currency until it is today what it is: the rupee is worth exactly 17 nP. of thepre-war rupee of 1939-40. In every city of India, people are buying the pound sterling for Rs.24 when the official price of the pound is Rs. 13.33. It is very interesting that in September 1963, when the gold control order of the present Minister was brought in, the pound was worth Rs.18.7 and this control was supposed to bring down the price of the p ound and raise the price of the rupee. But the price of the pound in our black markets has gone up from Rs.18 to Rs.24 today. That is the abject failure of this gold control.

It is not only the price of gold that has gone up. Don't we know that other prices also have gone up ? Gold has very little to do with it. Has not the price of land gone up ? Has not the price of foodgrains or of cloth gone up and, as somebody pointed out the other day, has not the price of green vegetables gone up, due no doubt to the wicked hoarders, the vegetable merchants who keep green vegetables for one or two years!

Prices have gone up because the rupee has gone down, because those in possession ofthe Government of this country have defaulted on their primary obligation of giving us a clean and hones rupee, a rupee whose value is the same today or tomorrow or ten years from now. In other words, the problem of gold is the problem of inflation. There is no gold problem in Inida; there is the rupee problem inIndia there is the currency problem in India; there is themontary problem in India.

WHY INFLATION ?

What are the causes ofthis inflation ? They are the policies of this Government and its predecessor Government.

The first is the wrong priorities of the Second and Third Plan. By showing an obsession for heavy industry, which is unremunerative and slow in returns, as our Prime Minister has belatedly learnt, by investing more in the State sector, which is a wasteful and unproductive sector, we have deliberately and cold-bloodedly created inflation in our country. Let me read one sentence from the report of the Auditor General of March, 1964. He said that there are 45 public enterprises and, according to him, only ten make some profit; the remaining 35 made a loss. On a public investment of Rs.1200 crores, our public undertakings had made a loss of Rs. 12 crores. This is the kind of wasteful investment in our Plans which is the direct cause of the gold problem which we a re facing today.

Secondly, the burden of foreign indebtedness. It has been estimated that during the Fourth Plan period, we have to repay Rs. 1200 crores in foreign currency by way of instalments of capital and repayment of interest. This is where gold is wanted - to repay these obligations. Then, there is deficit financing, manufacturing of currency notes without reserves and without resources against them. Finally, there is excessive taxation of the needs of life of the poor, those excise duties which have further aggravated the rise in prices.

It is sometimes said that the great economist, Keynes, justified some amount of inflation. It is a great injustice to that grea t man. Keynes said on the contrary:

> " Debauching a currency saps the foundations of society more subtly, swiftly and permanently than any other conspiracy. "

This is what the Government has done. They have debauched our currency. Having done that, they now come and stop people having gold. Only a fool would hoard repees in this country.

Therefore, it would not be unfair to say that this is a Government of counterfeiters which is taking advantage of the confidence of our illiterate people. There is no gold menace; there is the governmental menace; there is the rupee menace in this country. A man who holds gold or land or grain is a rational human being. He is reacting in a normal, human way, an acquistive way, if you like. But all of us acquisitve, not excluding this Government.

EVIL EFFECTS

What has the gold control done ? It has pushed up prices of other articles higher. When control is put on gold and you cannot hold it legally, the more timid spirits turn to other things because they will not hoard the rupee, worthless as it is. Theprice of diamonds has gone up by fifty per cent since gold control has come; the price of silver has gone up; the price of land, of houses of foofgrains. If today,foodgrains are hoarded by the people, one cause is the gold control order.

Gold control has destroyed rural credit. It has hurt our peasants who, with their little holdings of gold, were able to get credit for seeds for fertilisers.

Lastly, it has driven dealings underground. The same people who were dealing in gold openly,now do it underground. I mentioned earlier Mr. Ponkshe's remark that the gold trade is not carried on by gold dealers and goldsmiths but is being carried on by cloth merchants, bidiwalas, panwalas, restaurant keepers and "biscuit-walas". Go to Chandni Chowk in Delhi, or Bhuleshwar in Bombay and see the gold trade going on openly and shamelessly.

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Lenins may come and go; pinchbeck Napoleons may gome and go. After all of us have passed away, gold will remain as it was, because gold is pure and the Government's policies are impure and filthy.

Finally, gold control has created a new bureaucracy, new forms of corruption and new expenditure, and it has lost to the public exchequer revenue, lakhs of rupees in the way of sales tax and income-tax which would have come to us from the earnings of honest goldsmiths and gold dealers of this country.

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Mr. David Caldwell Hutchinson.

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London, W.1.