On the Gold (Control) Bill *

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The following Minute of Dissent to the Report of the Select Committee on the Gold(Control) Bill has been tabled by Shri M.R. Masani, M.P.:-

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By the time members of the Select Committee on this Bill had read the memoranda presented to the Committee and heard the oral evidence, it was clear to some of them that no purpose whatsoever would be served in placing the Bill on the statue book. Not only was the weight of evidence adduced before the Committee overwhelmingly against it but it checked with the results of one's own study.

The desire for gold or the "lure" of gold is partly due to its aesthetic qualities and traditional prestige but primarily as a secure form of the investment of savings.

The continuous erosion in the value of the rupee, which is now estimated to be worth 17 paise of the pre-war rupee, in terms of purchasing power, has increased the value of all other articles and commodities and raised prices all round. Because of the prestige of gold and its high value in terms of bulk, this particular metal has been favoured over other objects of value as a form of retaining savings. For the peasant in the villages, where there is hardly any alternative due to the absence of banking facilities, gold provides the most important security for credit. The refusal to allow imports to meet indigenous demand has created a black market and this, in turn, has provided a tremendous incentive to smuggling.

There is agreement on the proposition that it would be all to the good if people would invest their savings in industry and business by buying shares instead. But for that to happen, incentives are needed, such as a sense of security to the entrepreneur and a good rate of return on the investment. Today, such security is conspicuously absent in India because of the threat of nationalisation, the network of controls and the vindictiveness often underlying Government's policy towards people's enterprise; and the return on capital is inadequate because of excessive and savage taxation. Unless these basic policies change, no power on earth can stop people from wanting to hold gold and others from smuggling it to meet the demand. The only way to make people lose the glamour of gold is to offer an Honest Rupee whose value tomorrow and ten years hence will be the same as it is today.

Far from creating any such sense of security, this Bill, by seeking to create a near monopoly in gold in the hands of Government, will make people feel that the Government, which gives them such sermons about the uselessness of gold, is itself trying to lay its hand on all the gold in the country.

In such a situation, the present Bill is an exercise in futility. Worse, it reeks of hypocrisy, since even its proponents must know at the back of their minds that every one of its provisions will be violated.

Tempted by the huge profit to be obtained from buying gold abroad and selling it here, the smuggler will continue his activity with an added margin of profit balancing the added risk of punishment. Dealers and goldsmiths will continue to make 22 carat ornaments on the sly instead of making them openly and honourably so long as the women of India prefer the real article to the 14 carat variety enjoined by this law. All that this measure will succeed in doing is to tempt honest people to be dishonest. It will lessen respect for the law. It will help to create opportunities for further bureaucratic harassment and corruption.

* A Minute of Dissent of Mr. M. R. Masani to the Report of the Select Committee on the Gold (Control) Bill) submitted on September 10, 1964.

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Even to the extent that the law is obeyed, it will do little good to the country and the economy. People will instead keep their savings in diamonds, silver, grain or other articles whose value may be expected to appreciate, while the rupee pursues its Rake's Progress downwards.

Prices, like water, find their own level. Where the law seeks to keep down artificially the price of one commodity, as in this case, the price of all other commodities will, to that extent, be pushed up further. The lady, as a British economist has written, goes to a plastic surgeon to have her double chin removed, only to discover that the bulge has come up at the back of her neck!

After all, the proof of the pudding is in the eating. During the last fifteen months when Gold Control has been in operation, there has been no evidence that the lure of gold has diminished or that the gap between the indigenous and world price of the metal has narrowed or that smuggling has decreased.

This Bill fights a symptom while the disease remains unchecked. It must, therefore, fail in its purpose. The only remedy for the ills that the Bill seeks to remove is to give up the inflationary policies of Government by abandoning deficit finance, remove excise duties on the needs of life, and scrap the wrong order of priorities embodied in the Second and Third Five Year Plans by giving priority to agriculture, road building and other high-and-quick-return enterprises and postponing low-and-slow yield projects like heavy industries.

A certain amount of gold should be allowed to be imported into the country to meet indigenous needs. A specially beneficial manner in which this can be done is for gold to be brought within the scope of the various Export Promotion Schemes in existence as an item of incentive imports.. This will have the added advantage that gold will be bought and imported at the international price and no expenditure of foreign exchange on the part of Government will be involved.

It is a matter of deep regret that the Select Committee could not be persuaded to appreciate these facts and to advice Parliament that this measure should not be proceeded with further. Nor, it must regretfully be said, has the Bill emerged from the Select Committee improved in any material respect. It has, therefore, become necessary for me to append this minute of dissent to the Select Committee's Report.

~~Not for publication.~~

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