SUMMARY

OF THE

REPORT OF THE INFORMAL GROUP

ON

GOLD CONTROL

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INTRODUCTORY

At the request of the Finance Minister, an Informal Group of officials—consisting of Shri S. S. Khera, Cabinet Secretary as Chairman and Sarvashri P. C. Bhattacharya, Governor of the Reserve Bank, S. Bhoothalingam, L. K. Jha and V. T. Dehejia, Secretaries to the Government of India in the Ministry of Finance as Members and Dr. I. G. Patel, Chief Economic Adviser in the Ministry of Finance as Member-Secretary—was constituted on September 5, 1963 to "review the working of the Gold Control Order in all its aspects" and "to suggest ways of improving, simplifying and rationalising the Control". The Group had intensive discussions, and met the concerned officials, and the Members of the Gold Board. The report of the Group was submitted to the Finance Minister on September 14, 1963.

2. The Group took note of the twin principal aims of the Gold Control Order, namely, by a variety of measures to make smuggling more difficult by making it less easy to dispose of smuggled gold in the internal market; and secondly, to reduce the demand for gold in a number of ways and simultaneously to wean people away from gold by explaining to them the purposes of the gold policy, the economic waste and hardship involved in the lure for gold and by providing alternative means of investment as well as of meeting minimum social and personal needs for adornment and gifts. In the opinion of the Group, it is of the utmost importance that Government should reaffirm the basic objectives of the gold policy and the basic purposes of the Gold Control and end without delay any uncertainty regarding the intentions of Government. Only then can the real problems created by the Gold Control be tackled in a mood of calmness and cooperation.

GENERAL ASSESSMENT

3. In its general assessment of the working of the Gold Control, the report is convinced that the provisions of the Gold Control which seek to reduce smuggling, by control over individual holdings of non-ornament gold and by control over refineries and big dealers, have succeeded in their central objective and that at least for the time being, there has been a significant reduction in the extent of smuggling. The fact that the internal price of gold today is no higher than what it was when the Control was introduced (and in fact lower than what it was a year ago) is a clear indication of the fact that, for the time being at any rate, there has been a significant decline in the demand for gold in the country. The task for the future is essentially one of preserving, consolidating and extending the gains of the past few months.

4. The Report points out, however, that though the policy underlying the Gold Control is essentially well-conceived, certain factors have led to disaffection, in regard to its working, on a scale which requires immediate attention if the prospects of successful implementation of a rational gold policy are not to be vitiated by lack of popular support. These, in its opinion, are:—

(a) the lack of concerted political support for the Gold policy;

(b) the somewhat tardy response to the legitimate complaints of thousands of small goldsmiths; and

(c) the lack of adequate machinery for effective and equitable enforcement of the Control.

THE PROBLEM OF GOLDSMITHS

5.0 In regard to the problem of goldsmiths, the recommendations of the report are:—

5.1 The Problem of Unlicensed Goldsmiths (Section VII and Postscript):

(1) A quick, generous and publicity-informed approach to the problem of unemployed goldsmiths is at the very heart of the matter of making the gold policy succeed by making its implementation equitable and, therefore, generally acceptable. At the same time it must be realised that if the demand for gold in the country and the extent of smuggling are to be held in check, the scope for employing goldsmiths on the basis of the use of gold as such is bound to diminish considerably.

(2) The suggestion that Government should import a certain amount of gold, or use a part of the gold it already has, in order to release it in the form of 14 carat bars to goldsmiths in the country would be self-defeating in the long run. The release of a certain amount of gold by Government will not put an end to smuggling; there would be no rational way of distributing small quantities of gold among thousands of goldsmiths and sooner or later, Government will be driven to open the flood-gates officially by conceding to demands for more and more import of legal gold.

(3) The report of the Group did not favour the suggestion that goldsmiths may be permitted to make ornaments of purity higher than 14 carat at least in so far as conversion from existing ornaments is concerned, because it felt that the 14 carat rule was an important part of the long-term gold policy and any attempt to go back on it would give a further impetus for the demand for gold and might also marginally increase the scope for smuggling.

After a study of the Report, the Finance Minister drew attention to the fact that the continuance of a virtual ban on any activity by thousands of goldsmiths would aggravate their economic distress as the rehabilitation measures proposed would necessarily take time to implement. The Finance Minister desired that this aspect of the matter should be further studied. The Chairman and other members of the Group available in Delhi met again to consider the problem from this aspect. They recognised that if self-employed goldsmiths were permitted to work only on 14 carat ornaments, it was not likely to result in any significant volume of employment for the simple reason that even a minimum supply of 14 carat gold could not be ensured without import of primary gold involving expenditure of foreign exchange. They also recognised that the measures for rehabilitation proposed in the report would necessarily take some time to produce results, even if implemented with great vigour. There was, therefore, a real transitional problem which had to be met by some concession. On the other hand there was the inherent disadvantage of postponing the time when no ornaments other than 14 carat would be manufactured. After careful consideration of these two aspects, and in view of the scale of the human problem these members of the Group came to the conclusion that some limited concession could be permitted, for such minimum period as may be found really necessary, without serious violence to the basic objectives of the gold control. In this light, they agreed in a postscript to the Report that conversion of existing ornaments of higher than 14 carat purity to ornaments of a purity not exceeding the original could be permitted subject to the following safeguards:—

i) The concession should be confined to self-employed goldsmiths.

ii) To prevent abuse, the maintenance of accounts in a simple form should be prescribed.

iii) No new gold should be issued.

These members of the committee also recommended that as a further safeguard, steps should be taken to call for declaration of holdings of gold ornaments beyond a certain limit.

(4) The report is unable to accept the argument that the best way of reducing the demand for ornaments would be to put a low ceiling on individual holdings of ornaments without bothering about the purity of such ornaments. The country is not yet ready for accepting or administering such a suggestion, especially if the ceiling is kept low enough to have a real meaning in our circumstances.

5.2 Extension of Licensing facilities (Section VIII):

(1) The Gold Board had approved a scheme whereby out-workers will be issued primary gold of 14 carat (or less) purity by the licensed dealers in order to enable the out-workers to execute orders placed on them by the licensed dealers. This scheme may be adopted without delay so that this part of the problem of unemployment among goldsmiths at any rate is met, to the extent possible.

(2) As regards the small goldsmiths who are self-employed, provision should be made for a special licence on nominal fee which might be issued in the first instance for one year. The holders of the special licences might be permitted to hold at any given time a limited amount of primary gold in the form of 14 carat or less. The submission of regular returns by the special licensees is not suggested in view of the administrative burden it would involve; the check on them would essentially be a physical one.

(3) No one who does not hold either a regular licence or a special licence should be allowed to deal in gold. Special licencees should be disqualified for rehabilitation licence but will be free to surrender the licence and opt for rehabilitation, if they so choose. The right either to rehabilitation or the licence should be limited to those families who can substantiate, before competent authority, that they had a significant business in gold in the past. The right should be related to each family rather than to each individual member of it.

5.3 Rehabilitation of Goldsmiths (section IX) :

(1) Efforts to rehabilitate goldsmiths have not been so far as determined, widespread or generous as they needed to be. Whatever the machinery at the Centre, the detailed task of rehabilitation must necessarily be entrusted to the States. The first thing is for the Centre to prepare an overall scheme of rehabilitation in consultation with the States. The major emphasis in such a scheme should be on loans for productive purposes. As far as possible, the attempt should be to rehabilitate goldsmiths at or near their present place of residence.

(2) It is difficult to determine the financial implications of such a programme. On a rough estimate, the cost may be of the order of Rs. 20 crores. An expenditure of even this order would be justified in view of what is at stake.

5.4 Desiderata for a successful policy towards goldsmiths:

Two things, in the opinion of the report, are vitally important for the successful operation of the measures outlined above. One is a clear reiteration of policy on the part of Government to the effect that the Gold Control has come to stay, that its basic provisions are sound and would if any thing be implemented more strictly in future, and that the scope for employing the goldsmiths as goldsmiths in the years to come would inevitably be much less than it has been in the past. It is only on such a clear statement of policy that the goldsmiths as a class can be expected to turn away from the futile course of agitation seeking to restore the status quo to a more responsive frame of mind towards attempts to rehabilitate them in other occupations.

The second imperative for the successful implementation of the scheme is that the Government should be earnest, generous and quick in so far as the task of rehabilitating the goldsmiths in other occupations is concerned. This task is central to the whole problem of resolving the dissatisfaction against the Gold Control.

ADMINISTRATION OF THE GOLD CONTROL:

6.0 The other major area of the Gold Control, in which the Report makes several important recommendations, is the Administration of the Gold Control. These are as follows:-

6.1 The Administration of the Gold Control (section XII) :

(1) The actual work arising out of the Gold Control can broadly be subdivided into four groups:

(a) Administration (including inter alia formulation of policies and procedures, licensing, obtaining, collation and scrutiny of returns etc.)

(b) Detection and enforcement (including watch on and random inspections of licensees, raids, seizures, prosecutions.)

(c) Rehabilitation of former goldsmiths, and

(d) Persuasion (use of publicity and propaganda to wean people away from gold).

The first three are principally administrative functions where an official is more likely to deliver the goods than any non-official. It is in the last item viz., organising the means of persuasion that a suitable non-official may be in a better position than an official. Considering all the circumstances, the Board form as the administrative agency should be given up.

(2) Instead, the administration of the Gold Control machinery should be entrusted to a senior official who may be designated the Gold Control Administrator. To assist him and to act as a two-way bridge between him and the public, there should be in addition an Advisory Board (or Committee). The Advisory Board (or Committee) should have on it a number of non-officials and, if so considered necessary, official representatives as well from some State governments where the rehabilitation problem may be more acute. Its Chairman should be a non-official.

(3) Immediately as he is appointed, the Administrator should be asked to formulate detailed proposals for the implementation of the Control in all its aspects for the approval of Government.

(4) The Administrator may start with his head office in Delhi with a self-contained staff for work relating to administration and policy and licensing.

(5) The central responsibility for enforcement and the field work relating to gold must continue to rest with the Central Excise Department acting in close collaboration with the Central Customs Department. The efforts of the Central Excise Department must be supple-

mented by the enforcement agencies of the State Governments that have wide coverage in the field and somewhat similar training and responsibilities. A practical arrangement would be for the Central Excise Department to earmark, in the jurisdiction of each Collector of Excise, another officer of that Department of suitable rank to have whole-time responsibility in respect of the Gold Control in that jurisdiction. This officer, while being subject to the local control of the Collector of Central Excise, would in other respects be directly responsible to the Gold Control Administrator.

(6) The Administrator should be contained within the Department of Revenue in the Ministry of Finance and also be designated as an Additional Member of the Central Board of Revenue.

(7) There should be an official coordinating Committee in each state and a small standing Committee or Group of Secretary level at the Centre to provide internal assistance and guidance to the Administrator in regard to any major difficulties that he may have to face.

(8) The programme of rehabilitation of goldsmiths should be implemented through the State Governments within the broad frame-work of the policy laid down by the Centre. A separate Central Agency for the purpose is not necessary.

(9) The task of persuasion and propaganda, at official levels, should be the responsibility of the Ministry of Information and Broadcasting. In the discharge of this responsibility they should be associated closely with the Administrator and the Advisory Board (Committee). In this particular field efforts of the official machinery alone will not suffice, considerable amount of work will have to be done by and through non-official agencies.

PROCEDURAL MATTERS

7.0 The report makes a series of recommendations for improving, simplifying and rationalising Gold Control procedures in its sections on Declarations by individuals Control over Refineries Control over licensed dealers and Provisions concerning industrial users In summary, these are :-

7.1 Declarations by individuals (section IV):

1) In all major cases where violations of the provision to declare non-ornament Gold have already been detected, immediate steps should be taken to launch prosecutions and to secure the exemplary punishments permitted under the law; the enforcement machinery must be strengthened and special efforts made to unearth further cases of non-declaration.

2) It is not necessary to call for declarations of ornaments possessed in excess of a certain limit, at this stage. But powers to call for declaration of ornaments in specific cases may be assumed and general powers in this regard incorporated when the Gold Control is put on a permanent legislative footing at an appropriate stage.

(3) Government should provide a ready and free facility, such as at the offices of the State Bank, for tendering of declared non-ornamental gold, and of gold ornaments, in exchange for standard 14 carat gold bars

7.2 Control of Refineries (Section V):

(1) The licensing of refineries, whether power operated or not, should be completed without delay. All those who have applied for licence, and who were in the legitimate business of gold refining before the Control, should be given a licence on specified conditions. As soon as practicable, refining of gold except under bond should be eliminated. Provision should be made for the

primary gold produced by refineries to have a standard identifying mark.

(2) A cautious attitude should be followed towards extension of licensed refining facilities. The long-term objective should be to centralise gold refining activity as far as possible and, ultimately, in the hands of the Government.

7.3 Control over licensed dealers (section VI) :

(1) There should be an intensive drive to obtain regular returns, as required under law, from licensed dealers and to punish non-compliance by revocation of licences.

(2) The returns should be systematically scrutinised and possible cases of violations detected and punished.

7.4 Provisions concerning Industrial Users (section X) :

(1) While it is recognised that the needs of industrial users must be met, search for substitutes must be encouraged and their use facilitated by suitable fiscal devices.

(2) With a view to avoid the danger of malpractices, bonding of major producers of liquid gold, and if possible, of Zari makers could be considered.

ANCILLIARY QUESTIONS

8.0 Two ancilliary matters dealt with in the report are Impact of the Gold Control on Rural Credit' and Measures to supplement Gold Control'. Its recommendations on these matters are :-

8.1 Impact of Gold Control on Rural Credit (section XI):

(1) As regards bank credit, it is not desirable that the long-

term policy of discouraging bank advances against gold should be modified. At the same time, as far as the valuation of gold or ornaments for the purposes of determining credit limits is concerned, commercial banks should be free to be guided by their own best judgement of the market.

(2) Wherever rural credit has declined as a result of the Gold Control, special steps might be taken to step up credit operations by other agencies such as land mortgage banks, cooperative societies and the like.

(3) The special problem regarding pawn brokers in States where jewellery not redeemed can under the law be sold only through recognised auctioneers could be resolved in consultation with the State Governments concerned by providing that such auctioning could be undertaken by suitable officers such as District Magistrates.

8.2 Measures to supplement Gold Control (section XIII).

(1) Suitable forms of investment should be devised which should be endowed by law with the same quality of " Streedhan " that gold ornaments have at present.

(2) Facilities for obtaining credit against investments in forms other than gold should be liberalised and the habit of insurance spread further in the rural areas.

(3) Sooner or later, the Gold Control, which is at present operating as a part of the Defence of India Rules, should be given a separate and permanent legislative footing. This should be done at an appropriate time and in an atmosphere of reason when the immediate problem of rehabilitating the goldsmiths has been tackled in right earnest.

9. The report is a unanimous one.