

17.40 hrs.

HALF-AN-HOUR DISCUSSION

QUANTUM OF GOLD SOLD THROUGH
AUCTION BY RESERVE BANK OF
INDIA.

SHRI P. M. SAYEED (Lakshadweep): On account of the wrong policies pursued by the present Government, a decision was taken to sell gold. When this decision was taken, we from this side of the House suggested that it was going to create complications especially in the field of smuggling of gold to our country. But since we happened to be on this side, our suggestion was dubbed as politically motivated. We know that in the last budget, there was a deficit financing of Rs. 1500 crores. This gold sale was intended to serve two purposes - firstly, to check the smuggling of gold and secondly to have an impact on the budgetary deficit that was generated in the last budget. If you take the very first point i. e. smuggling of gold to our country, it was told to the Government that it was not going to discourage smuggling. Rather this policy was going to encourage only a handful of capitalists who had formed themselves into a syndicate in order to take away this stock of the gold. We know the present Finance Minister and his capitalist oriented views. The persons who had been offered this gold in these bids, were only confined to less than 20. Benamis were formed and all the 14 auctions had been some how managed and taken away by these licensed gold dealers.

They are in all 9984 in number and only these licensed dealers were given chance to bid. It was not justified because in the country there are more than two lakh of goldsmiths and small artisans. Moreover, the stock of gold with the Government was not unlimited. The Government was possessing only 85 tonnes of gold. 14 auctions were held and on every auction, prices of gold was going up. And the Government went on encouraging these 9984

licensed gold dealers. All of them were not getting the chance. Only a very few of them were getting the chance in each auction. They had already formed a syndicate.

The dual purpose for which this gold sale was resorted to, had been miserably failed. Firstly, from London, gold is flown to Dubai. More than 50 per cent of that gold is smuggled to India. In our country .25 to 30 tonnes of gold comes through smuggling every year. Though the Government for the sake of argument will say that smuggling is completely wiped out, while the Government is at liberty to inform the House like that, we know the position in Bombay and the other ports, so far as smuggling is concerned. So far as gold auction is concerned, 44 per cent of the sale has been confined to Maharashtra. Further, black money has been invested in buying this gold.

Now, having made a mess of it, they have appointed a Committee to go into the question, the Chairman of the Committee being the Governor of the Reserve Bank of India, who has been instrumental in formulating this plan. So, I do not know how they are going to find out the culprits or the mistakes committed by this kind of wrong policies.

I am told that the quantum of gold required for home consumption in this country every year is 50 tonnes. Only half of it is supplied by the country. How is the other half going to be met? Is it going to be met by smuggling? Out of the stocks available with the Government, 13 tonnes have already been sold and then the auction was suspended. Are the Government going to resume auctions and, if so, will they ensure that gold is supplied, say upto 100 grams, to smaller artisans and village goldsmiths and also to the rural areas where banking facilities are available, where some developments have taken place, where social obligations are to be met? Secondly, how will they meet the annual require-

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ment of 25 to 30 tonnes? Will they purchase it from the International Monetary Fund or the London Market? How have they met it over the last two years and how are they going to meet it in the future? Thirdly, I want to know from the Government when the Committee is going to report to the Government and when Government will take action on those recommendations.

THE MINISTER OF FINANCE (SHRI H. M. PATEL): The hon. Member wants to know whether the Government is going to resume gold auctions. The answer is that it would be decided after the report is received from the Committee that has been appointed. The second question was when this report is going to be received. The Committee has been told to complete its work as quickly as possible. Beyond that, I cannot say anything.

His third question was how are the Government going to find 25 tonnes of gold, which is the normal requirement, for use in this country. Until this experiment of selling gold by auction was undertaken, import of gold was forbidden. So, the requirements of gold within the country could come only from old ornaments, which were being remodelled and re-fashioned. There was no other source of gold in the country as long as the Gold Control Order operated. There was no question of importing gold in order to meet the domestic requirement, so long as the Gold Control Act remains in force.

What the hon. Member perhaps may have in mind is the policy of importing gold and supplying it to goldsmiths at international prices in order to increase the sale of gold jewellery outside, export of gold jewellery. That is, today also a certain amount of gold jewellery is exported, but that is under difficulties, and the extent of export is very much limited.

SHRI P. M. SAYEED: I was hinting only at the International Monetary Fund from where you got already.

SHRI H. M. PATEL: What has been purchased from the International Monetary Fund is purchased by the Reserve Bank for reserve purposes. It remains in the stock of the Reserve Bank and it is not to be sold.

SHRI P. M. SAYEED: If at all the auction is going to be resumed.

SHRI H. M. PATEL: What has the Committee is appointed. What the recommendation of that Committee is what will decide our future policy.

SHRI KANWARLAL GUPTA (Delhi Sadar): My question is very simple. It has got three parts. You have got confiscated gold worth about Rs. 500 crores weighing about 70 tonnes, roughly speaking and this is not utilised for the development purposes. If you dispose of it, I think these Rs. 500 crores can be utilised for the development of the country. So, my question is whether this Committee will consider this question or not and what are the terms of reference of this Committee. Secondly, there is a rumour in the country that you are going to put certain ceiling on the gold, I mean to say, beyond a certain limit, say, 50 tolas and 100 tolas, you will not allow anybody to possess gold. Are you going to put any such ceiling? Thirdly, you will agree with me that the Gold Control Order is now useless and that you have made certain changes, perhaps 12 changes in the last so many years. There were some economics when it was enacted, but you will agree with me that there are now no economics. I am a student of economics and I can say that it has absolutely no impact and there is unnecessary harassment, and if you abolish it, I think you will provide employment to about one million people in the rural areas and in the urban areas. Will the

Government consider it and see that this Gold Control Order is revoked?

SHRI H. M. PATEL: Sir, three questions are put. Regarding the first, he says that when we started this experiment, we had something like 86 tonnes of gold which was mainly the confiscated gold and some small quantity of gold found in this country. We have some gold mines. 12.9 tonnes of gold was sold during the 14 auctions that were held. So, we certainly have over 70 tonnes of gold. If all these 70 tonnes of gold were sold, certainly we shall get Rs. 400 to Rs. 500 crores of money and this is what the hon. Members have in mind when they keep on referring to the impact on the budgetary deficit. During the Budget debate when it was said that this is not successful, they forgot that Rs. 86 crores has been obtained during the sale of this. To that extent, certainly it has had an impact on the deficit. Then the question is of ceiling.

The question of bringing in any fresh legislation also does not arise at the moment. We certainly do not intend to modify the Gold Control Act as it exists today. Whatever limits are imposed by the Act on the quantum that each individual can hold remains, and will remain. There is no intention to increase or decrease it.

The last question is whether we will consider abolishing the Gold Control Act because it has ceased to have any effect. Merely abolishing it will not really provide the solution. When you say it will provide employment to a large number of people, with what gold will they proceed to fashion the ornaments? So, do we, while abolishing it, also permit the import of gold? That is a major change of policy in this country, whether we should use our limited foreign exchange resources for the purpose of importing gold or for developmental purposes. The whole object of the experiment was not to import gold to make it available to the goldsmiths. People were

attempting to smuggle gold and it was seized. So, we wanted to see whether by using that gold we could meet the immediate requirements of gold by reducing the gap between our price and the international price sufficient to make an impact on the smuggling of gold. Certainly we think that gold smuggling has been kept under control. Less gold has been seized during 1978 than during 1977. That is no complete proof that there is a check on smuggling, but it is one of the indicators whether smuggling has come under some control or not.

SHRI UGRASEN (Deoria): What about the price?

SHRI H. M. PATEL: There was no question of this small quantity affecting the price. People are found of gold in this country and when it becomes available, they are ready to buy it. When this experiment was not going on there was a smuggling and it was estimated that about 25 tonnes of gold was coming in through smuggling and being used. That meant that foreign exchange was going abroad somehow, and it has a much worse effect on the economy than otherwise. That is one of the reasons why controlling smuggling was important.

SHRI KANWARLAL GUPTA: Why don't you scrap it?

SHRI H. M. PATEL: You can scrap it, but you will still have to make gold available to the country. There is not much gold produced in the country. It has to come from somewhere. Unless we formulate a policy of importing gold, we cannot really have the desired effect. But, in fact, during the first three months of the sales, prices came down. When we started, the difference between our price and the international price was Rs. 160. It came down to Rs. 77. But at that time the situation internationally changed, because of the dollar going down and various other things, the international price shot up as never before. But in the initial stages it shot up slowly, but as it went up, the prices here also started going up. After July, the prices here also start-

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ed going up and after September there was a sudden spurt in the international market and also within the country it went up very high. It was at that point that we decided that we would not continue with these sales, we shall go into the whole policy once again and consider what should be done. So, I am afraid there can be no question at this stage of abolishing the Gold Control Act. Nor is there any intention to enforce any fresh ceiling, lower or higher.

SHRI KANWARLAL GUPTA: What are the terms of reference of that Committee?

SHRI H. M. PATEL: The terms of reference to the Committee are to examine the Gold Policy and to formulate a new Gold Policy for this country.

18 hrs.

डा० राज जी सिंह (भागलपुर) : सोने की नीलामी के लिये दो उद्देश्य थे। एक तो सोने की तस्करी को रोकना और दूसरी सोने के भाव को संतुलित रखना। तस्करी कहां तक रुकी है वह तो आप बताएंगे लेकिन सोने के भाव पर आप कोई नियंत्रण नहीं रख सके और सब से बड़ी बात तो यह हुई कि इस सम्बन्ध में दो लाख स्वर्णकार जो छोटे छोटे हैं उन को तो कोई लाभ हुआ नहीं, केवल 9984 साइसेंसड स्वर्णकारों को इस का लाभ मिला और वह भी फिगर केवल कहने के लिए है। सिटीकेट में बैठ कर कुछ गुट बना कर सारा लाभ लोगों ने ले लिया और जैसा सईद साहब ने बताया कि किसी क्षेत्र विशेष में यह चला गया। इस प्रकार से सोने की नीलामी का लाभ दो लाख स्वर्णकारों को नहीं मिल सका। कुछ मूठ्ठी-भर पूंजीपतियों को मिला खास कर के जो बम्बई के हैं। दूसरी बात यह हुई कि स्पेकुलेशन में भी बहुत राइज हुआ।

सोने के भाव का नियंत्रण करने के सम्बन्ध में आप ने अभी इंटरनेशनल प्राइस की बात कही है, ठीक है जुलाई में तो बड़ी है लेकिन जुलाई से पहले भी जनवरी से ले कर जुलाई तक बम्बई न्यूयार्क या लंदन का जो भाव है वह इस प्रकार है— बम्बई में जनवरी में 697 रुपया, जुलाई में 685 रुपया, लंदन में जनवरी में 455 रुपया और जुलाई में 511 रुपया, न्यूयार्क में जनवरी में 457 रुपया और जुलाई में 517 रुपया। संक्षेप में हम इतना निष्कर्ष निकाल सकते हैं कि आपने दो उद्देश्यों को ले कर सोने की नीलामी की और हिन्दुस्तान के 77 टन सोने में से 12.9 प्रतिशत सोना बेच दिया जिस से लोगों में एक मनोवैज्ञानिक प्रसूत्ता भी हुई। आप ने बेचा इसलिए कि बजटरी गैप कुछ पूरा हो जाये लेकिन वह भी लाभ हुआ नहीं।

इसलिए हम केवल एक प्रश्न जानकारी के लिए कर रहे हैं। वह हम इस प्रकार फॉर्मूलेट करते हैं :

"Gold serves and will continue to serve as a hedge against inflation. Inflation elasticity affects the demand for gold more than its price elasticity. With inflation showing no signs of abatement, gold auctions could neither regulate gold prices nor stop its smuggling."

इस संबंध में आप की क्या प्रतिक्रिया है, क्या विचार है वह हों बता दें। इति

SHRI H. M. PATEL: Certainly, what he has formulated is quite correct. The gold is going to be greatly in demand because it is one commodity of which the price remains stable vis-a-vis the normal currency because its quantity is limited, its availability is less and the demand is great. For the point that has been put, I would like to say to the hon. Member that the whole object with which these gold auctions were commenced was essentially the curbing of smuggling. If you will look at my statement then, I had said at that time that it will certainly have some impact on the prices and it will also help to some extent in reducing our budgetary deficits. Now if we had gone on selling the whole of 85/80 tonnes of gold that we have had, we would certainly have had Rs. 500 crores of money which would have reduced the deficit to a substantial extent.

SHRI P. M. SAYEED: Then, why did you stop it?

SHRI H. M. PATEL: We stopped it because we found that the speculative forces were beginning to have a hold which was unhealthy to the country. If we consider that the experiment is not going the way we thought it would, it is in the interest of the country that I should stop it and look at the problem again. If you blame me for that...

SHRI P. M. SAYEED: Was this aspect also referred to the Committee.

So far as the price is concerned, again, it was not a question of reducing the price so much as of narrowing the gap between the internal price and the international price. If you go through my budget speech, you will find that I never said anything of that kind in the budget speech.

The hon. Minister has said that there is a particular attraction for the people of India—it does not exist in most of the countries—to invest in gold. The reasons are two-fold. Firstly, it is the economic reason, namely, the people find that investment in gold is the best way of saving. A section of the people have got accustomed to evade taxes by investing in gold. We have to cut this evil at the root.

Another thing is that I am coming from an area which is traditionally known as a heaven for smugglers. I remember, in so many books, it is mentioned about smuggling gold through Goa. I know, for the last two years, there has been definitely an increase in smuggling and there has been a slackening in anti-smuggling operations. I want to know whether the Government will tighten up anti-smuggling machinery also and, if so, what are the details thereof.

The other point that he mentioned is that the entire policy has failed. I must confess that I have never said it.

SHRI H. M. PATEL: The speculative forces increased. At the time we stopped gold auctions, I stated that this was one of the considerations which weighed with us in stopping the auctions.

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Another point that he mentioned shows that he really belongs to Goa and not to the rest of India.

SHRI EDUARDO FALEIRO: How?

SHRI H. M. PATEL: He said, for instance, that the real attraction of gold for the people in this country is because they are poor, because they consider it a good way of holding their savings. The real point is that there is a great attraction in this country, a genuine attraction, for ornaments. It may not be in Goa, but in the rest of the country, certainly, the attraction for gold and gold ornaments is very great, and it continues. This is one of the reasons why smuggling continues also when the import is stopped.

He has made a suggestion that we may encourage savings by giving increased interest rates in rural areas. I am sure, my hon. friend, who is, obviously, very intelligent and studious must know that we cannot increase the rate of interest in rural areas....

SHRI EDUARDO FALEIRO: What I have said is that more branches of banks may be opened in rural areas, the rate of interest in postal savings account be increased and the LIC premium be reduced.

SHRI H. M. PATEL: So far as the LIC policy premium reduction is concerned, the hon. Member may, perhaps, know that I myself have said in the other House that the LIC must consider seriously reducing the premium which they have not reduced ever since the LIC came into existence. So, that is one of the points which is certainly under consideration.

So far as opening of more branches in rural areas is concerned, there also my hon. friend must know that the total number of rural branches now exceeds 28,000 and now that the regional rural banks are going to be established with greater speed, I

think, we will soon find that the rural areas will be very much covered with banks. It takes time to cover the whole of the country. When we started, the per capita bank branch—per number of people—was something like 70,000, and today it has come down—the average—to 21,000. But there are areas in which the per capita would be much higher than 21,000. We are trying to see that more branches are opened first in those areas, and we shall go on opening more branches thereafter.

SHRI EDUARDO FALEIRO: What about increasing the rate of interest of postal saving account?

SHRI H. M. PATEL: It is not something which we can consider. In fact, we should think of reducing it rather than increase.

श्री युवराज (कटिहार) : यह नीलामी सोने का उपयोग करने और सोने की तस्करी रोकने के उद्देश्य से हुई थी। जो 14 नीलामियां हुईं उनमें 15143 व्यक्तियों को बोलने की अनुमति दी गई, लेकिन बोलियां हुईं—कुल 8547। मैं जानना चाहता हूं—क्या यह बात सही है कि सोने की नीलामी में कुछ लोगों के द्वारा बोले जाने के कारण इस के मूल्य में वृद्धि हुई?

दूसरी बात—जिन लोगों ने सोना खरीद किया—क्या उन के रिकार्ड की आप ने जांच कराई और जो रिजर्व बैंक के गवर्नर हैं—श्री आइ. जी. पटेल, जिन की अध्यक्षता में यह कमेटी बनी कि सोने की दीर्घकालीन नहीं नीति बनाई जाय—तो क्या आप ने उस कमेटी के जिम्मे यह कसौटियां सौंपी हैं कि लोगों का आकर्षण सोने के प्रति कम हो और इस तरह उन को जो बचत हो, उस को वे उत्पादक कामों में लगायें?

सरकार सोने के बढ़ते हुए मूल्य को स्थिर करने और इस की तस्करी को रोकने के लिये क्या कोई आयात करने का विचार रखती है?

SHRI H. M. PATEL: I will answer his last question first. At the present moment, certainly, we have no intention to import gold at all for this purpose. The present policy, which is operative under the Gold Control Act, will continue. But the Committee that has been appointed will go into

all these questions and try to find out a policy which is most suitable to the conditions in our country taking all these factors into account.

I would once again like to point out that this feeling that the number of people who were able to get gold at these auctions was small and limited only to Bombay is not correct. The people who bade at these auctions were spread throughout the country and it also depends on the gold markets and the strength of the markets. For instance, the No. 2 position went to Madras. These are the sort of different areas as they exist in the country.

Secondly, these gold dealers could not sell it to anybody else. Either they could convert it into ornaments themselves or sell it to other goldsmiths.

Thirdly, the quantities for which they were allowed to bid at auctions were also limited both the maximum and the minimum were fixed. The suggestion that a syndicate operated is also not correct because every single person who bid at the auction carried a number, a certificate, etc., and all that gold he has held as a dealer will have to be produced for check.

The reference that this has enabled them to convert their black money into white is also not operative because all payments for gold purchased have to be made by cheques.

Finally, the Gold Control Administrator and his officers have searched and examined the books of account of all these persons to see to what use they put this gold. This I have already said but I wanted to clarify that this feeling that all these things existed is not correct. Speculative forces certainly were there.

18.17½ hrs.

PAPERS LAID ON THE TABLE—
Contd.

NOTIFICATION *re.* EXEMPTION TO ZINC ASH FROM COUNTERVAILING DUTY OF CUSTOMS

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI ZULFIQUARULLAH): I beg to lay on the Table a copy of Notification No. 238-Customs/78 (Hindi and English versions) published in Gazette of India dated the 22nd December, 1978 together with an explanatory memorandum regarding exemption to zinc ash from countervailing duty of customs as is in excess of Rs. 1250 per metric tonne, under section 159 of the Customs Act, 1962. [*Placed in Library.* See No. LT-3213/78].

MR. DEPUTY-SPEAKER: Now, the House stands adjourned till 10 a.m. tomorrow.

18.18 hrs.

The Lok Sabha then adjourned till Ten of the Clock on Saturday, December 23, 1978/Pausa 2, 1900 (Saka).