Gold monetisation: Make your metal work for you and the economy

Rama Bijapurkar and Rajesh Shukla | The Indian Express | March 16, 2015 1:19 am

Explaining Indians' love of gold to foreigners is hard. We are the world's biggest gold consumer, pipping China to the post, and consuming 842 tonnes of gold in 2014, 75 per cent of which was in the form of jewellery. It is very hard to explain to puzzled foreigners the psychological and emotional feelings of well being and security that comes from owning or wearing gold.

Whenever I buy gold jewellery, my friends from the cold analytical world of finance give me an estimate of the likely rate of return I would get over a period of time and demonstrate how it is a foolish investment more so after the jeweller applies his weight discount for the solder and wastage. But such rationality cannot overcome millennia of the positive symbolism for gold. While my domestic help scrimps and saves to buy gold for her own social signaling, her daughter's wedding and her family insurance for tough times in the future; I buy jewellery with my surplus money with upper class variants of the same logic.

Gold is not an investment in our minds that must compete with other forms of investment. It is an asset which is of financially high value, expected to remain so, and can be converted to cash easily when needed. But in reality, things don't work so smoothly.

There are no standards that are ubiquitous, and no 'official' assayers that are acceptable to all jewellers — the only place where you can sell your jewellery. Those of us who have tried this know that if you go anywhere other than where you bought it from, you will be told that you have been cheated and your gold is less valuable than you thought. And if you go back to the same jeweller, the outcome varies depending on who you are.

A FICCI World Gold Council survey showed that 72 per cent of people sell gold in the jewellery shop; and when asked what action they took when the price of gold increased, and only 6 per cent said they sold gold. Not surprising.

The finance minister has recognized the importance of making the estimated 20,000 tonnes of gold that we hold, work for us in reality and to make it work for the economy as well. This is a far better direction than getting us to consume less gold by raising tariffs. The proposed measures include encouraging people to buy "paper gold", a sovereign gold bond, which will give us a fixed rate of return as well as the cash equivalent of the gold when we want to redeem it.

He also said that he would facilitate buying and selling of gold for those who don't want paper gold or ready to wear jewellery by providing a standard government guaranteed coin that would be as good as currency anywhere we take it.

And best of all, he proposes a way for us to make our jewellery earn money for us and not languish in the locker. We should soon be able to take it to bank, they will get it melted and valued, and let us earn interest on it while using it for loans and earning a spread on it. And then return to us the same quantity of gold when we want to use it.

Today, the existing gold deposit schemes have been able to monetise only 15 to 18 tonnes of the large quantity of gold held by people. This is partly because there is a minimum 500 gms of gold that you must deposit and partly because banks and potential depositors are not too enthusiastic about the time taken for the gold to be sent to the RBI mint to be melted and valued. Here's where a standard guaranteed coin would make life much easier.

As for gold loans that exist, the jewellery is merely kept as collateral for the loan and does not help the bank to earn anything on it. In Turkey, apparently, on every birthday a child gets a standard government mint coin and that is how they build the gold asset for a person to use.

Any policy works best when it goes with the grain of whatever it is that drives people's behavior and helps them fulfill their needs better. It is from that perspective that a household map of their behaviour and attitude to gold becomes a valuable guide for the policy maker.

The authors are co-founders of People Research on India's Consumer Economy & Citizen Environment.