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Mission Impossible: India has to Sell Gold to Become Rich Faster

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ABSTRACT:

In 1990 China and India had almost same per capita gdp. Thirty two years later, China's per capita gdp is 5 times that of India. The reason is that China grew at a faster rate than India. And China grew at faster rate than India because China's saving rate was substantially higher than India. And according to Harod-Domar model of Economic development, growth rate is proportional to /saving rate. India has gold reserves with its citizens amounting to 60% of India' GDP. Very obviously if India has to increase its growth rate then it has to sell Gold. Except this that in India, Gold is considered as matter of honour and selling gold is considered unacceptable humiliation, never mind that in other 200 nations of the world there isn't any such value attached to Gold.

Introduction

In India there is a great attachment to Gold. In other nations of the world Gold is another form of wealth. In India Gold is a religion. The world has around 250,000 tonnes of Gold out of which India has 25,000 tonnes. India imports almost 800 tonnes of gold every year. The world produces around 4000 tonnes of gold every year.

Thus India has almost 10% of Gold in the World. India purchases almost 20% of the Gold in the World. India's GDP is just 3% of Global GDP. Additionally India is extremely poor even in 21st century. So India should not be able to buy Gold, since Gold is a luxury and in India even necessities are difficult to meet. Thus, after accounting for poverty, India is purchasing almost 15 to 20 times as much gold as its economy permits and has almost 7-8 times as much gold as its economy would suggest.

Of course Gold is a saving, but not an investment. In the sense, it does not create jobs, or output or reduce poverty as savings in banks would. Hence it is dead savings. But if this gold were sold and converted to bank deposits, it becomes an investment, as in it can create output and jobs and reduce poverty.

However selling Gold in India, is considered a humiliation and done only as a last resort. Hence to suggest that Gold be sold to increase growth rate is a blasphemy, a sacrilege and a heresy. But that is what needs to be done if India has to increase growth rate and thus eradicate poverty faster by becoming richer soon.

However selling Gold in India is Mission Impossible.

India vs China : Who will be the World' next Sole Superpower?

That China is almost a Superpower is known and accepted. About India, it is said that India is a nation with potential. At best that is disguised insult. Now India and China were head to head just 30 odd years ago. And today China is already a Superpower competing with United States head to head. However India is seen is nowhere in the race for global power.

What happened? Well China grew at a faster pace. Whereas India grew fast but not fast enough. Hence China outpaced India. The table below shows the size of GDP of China and India from 1990 to 2020. As can be seen, in 1990, India and China has almost same GDP but 30 years hence Chinese GDP is at least 5 times India' GDP.

Source : University of South California

Year	India GDP in billion dollars	China GDP in billion dollars
1990	320	360
1995	360	734
2000	468	1211
2005	820	2285
2010	1675	6087
2015	2103	11233
2020	2622	14722

Source: Wikipedia

In fact while in 1990 both India and China has almost same GDP, just within 5 years Chinese GDP was twice that of India and within a decade Chinese GDP was 3 times that of India and after 20 years Chinese GDP was almost 4 times that of India. And in 2020 Chinese GDP was 5 times that of India.

It is also interesting to see that as far as per capita nominal GDP is concerned, India and China has almost same per capita nominal GDP from 1960 to 1990. However after 1990, as has been explained previously China's per capita GDP grew much faster. And as can be seen in above graph by 2020 China's per capita GDP was 5 times that of India.

How did this happen? Well simply because China grew at much faster pace than India? Why ?

Blame it on Harrod-Domar

Why did China grow at faster pace than India?

To understand this we need to understand the Harrod-Domar model of economic development.

The simple formula of Harrod-Domar Economic model of Development is as follows:

GDP Growth Rate = (Domestic Savings(%) – Net Exports(%))/Incremental Capital Output Ratio

Domestic Saving (%) = Domestic Savings/ Size of GDP *100

Net Exports(%) = Exports – Imports/Size of GDP * 100

Basically the negative of Net Exports is Net Foreign Investment.

Net Foreign Investment = Investment Coming In – Investment Going Out.

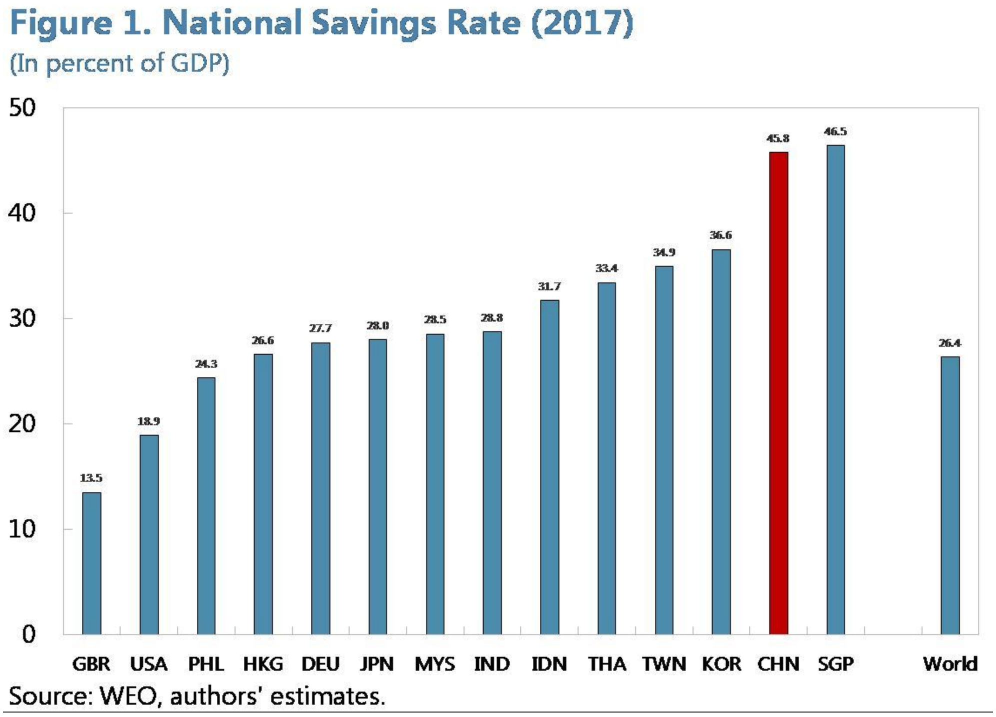
So if Net Export is positive, Net Foreign Investment is negative and that means more is invested outside the nation in foreign countries and less is invested by foreign countries in the nation.

Net Export is not very significant part of Economy.

And Incremental Capital Output Ratio is similar for economies at similar levels of development.

Hence the factor that most influences the growth rate is the domestic saving rate.

China grew at an average rate of around 12% and India grew at an average of 7% because Chinese domestic saving rate was around 48% on an average whereas Indian domestic saving rate was around 28% on an average.



As the above figure shows China has Saving rate higher than most nations of the world except perhaps Singapore. While China's saving rate in 2017, was around 45.8, India's saving rate was around 28.8. Great Britain's saving rate in 2017 was around 13.5, saving rate of USA was 18.9, Japan's saving rate was around 28.0, Indonesia' saving rate was around 31.7, Thailand's saving ate was around 34.9 and Korean saving rate was around 36.6.

Of course it could be argued that this was just saving rate in 2017. Well the saving rate does not vary much from year to year unless there is economic boom or bust or there are significant structural changes in economy.

India' saving rate is not too low. In fact India's saving rate is similar to average World saving rate of around 26.4. But it is Chinese saving rate at 46% that is around 20% more than India's and average World saving rate. It is due to this high saving rate that China grew much faster than India.

Can India increase saving rate?

Well India can increase its growth rate substantially from 28% to 48% by monetizing Gold. India has almost 25000 tonnes of Gold. This amounts to almost 1.5 crore crore rupees(1 crore = 10 million).

India's GDP is around 2.5 crore crore rupees. So the gold deposits are 60 % of India's GDP. If this gold is slowly monetized into fixed deposits in banks, to ensure that monetization does not drastically bring down to price of gold, then India can most certainly increase its saving rate from 28% to 48% and this will mean an increase in growth rate from 7% to 12%.

If India grows at an average of 10% over 50 years, then its economy will double 7 times in 50 years, since if economy grows at 10% it doubles every 7 years. That means economy will be 128 times its present size or increase from roughly 4 trillion dollars to 500 trillion dollars in real terms of constant prices. At that size, India's GDP could be bigger than Chinese, American, European, Japanese and Russian economy put together.

Women's Wealth

So the trick lies in monetizing Gold. But why does India hold so much Gold in first place. The reason India holds gold is because of the concept of Women's Wealth. Traditionally Gold was the only form in which women could hold wealth. However 1956, Hindu succession act changed all that. By single act of law, women were entitled to hold all forms of wealth.

Hence if women are convinced to convert gold hoardings into bank fixed deposits, India can increase its saving rate and thus growth rate and thus the size of economy. India at any rate holds too much gold. As discussed earlier India holds almost 10 times the gold that its poor economy struggling at subsistence level can sustain and what is worse is that India imports almost 20 times the gold that its underdeveloped economy can afford. In fact India imports almost 100 times the gold on per capita basis than neighbouring Pakistan, though both India and Pakistan are at similar levels of development and per capita gdp.

If the trick lies in convincing women to convert gold hoarding into fixed deposits, can it be done?

Mission Impossible

It is easier said than done.

In 1991, when India was facing a balance of payment problem, then the only way out of the balance of payment problem was to pledge gold. Basically India had just 5 billion dollars of foreign reserves against foreign loan of 80 billion dollars. The only way out was for India to pledge around 50 tonnes of gold with Bank of England and Bank of Japan between 4th July 1991 and 8th July 1991.

However while this was done, it was seen as a national humiliation. In fact the government obviously had this option from 1990 to 1991. The reason government did not take this step is because of the shame that it entails.

As stated earlier Gold is not just wealth in India. Gold is wealth and religion. And you cannot mess with religion.

Now remember in 1991 we had to just pledge, not sell, 50 tonnes of gold. And that was seen as national shame. Now we are discussing selling, not pledging almost 25000 tonnes of gold, which is 500 times as much.

Now isn't that Mission Impossible?

India can change

India is something of a miracle.

When in 17th century India was almost entirely under Mughal rule, Shivaji Maharaj was born in Maharashtra and he overthrew the Mughal empire and established Maratha empire all over India.

Similarly in 19th century when almost entire India was under British rule, Mahatma Gandhiji was born and with a pinch of salt in a non violent way he brought end of British empire and Indian independence.

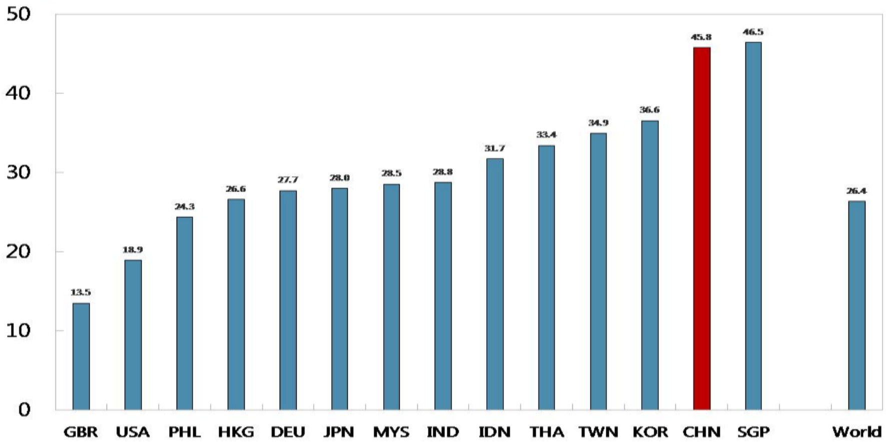
You need that kind of miracle for India to be able to sell 25000 tonnes of Gold. Can some leader make impossible to possible? Will India see another Shivaji Maharaj? Will India see another Mahatma Gandhiji?

Conclusion

While in 1990, India and China had GDP of almost same size, by 2020, Chinese economy was almost 5 times as big as Indian economy. The reason this happened was because Chinese economy grew at much faster rate than Indian economy. The reason Chinese economy grew faster is because China's saving rate was almost 20% more than India. India can also grow faster by increasing its saving rate by monetizing 25000 tonnes of Gold which forms 60% of Indian GDP. And that is possible because the Hindu succession act of 1956 made it possible for women to own all kinds of wealth, which was impossible earlier because of concept of Women's Wealth which was restricted to Gold. Hence it is possible to convince Women of India to convert their Gold hoardings into fixed deposits in bank. However while this is theoretically possible, in practical terms selling gold is seen as humiliation. But if a leader with vision of Mahatma Gandhiji and valour of Shivaji Maharaj is born this is possible. Such a leader has to take entire nation into confidence and explain the intricacies and extricacies of economy and convince them that India can become rich super power only by monetizing gold. Is a it possible to have a miracle of achieving mission impossible?

Figure 1. National Savings Rate (2017)

(In percent of GDP)



Source: WEO, authors' estimates.