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Ambedkar's Perspective on Monetary Economics: A Critical Analysis

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Abstract

Dr B.R. Ambedkar was a prominent Indian economist, social reformer, and political leader who played a significant role in the drafting of the Indian Constitution. This paper critically analyses Ambedkar's perspective on monetary economics, focusing on the evolution of the Indian rupee and the monetary standard in British India. The paper examines Ambedkar's recommendation to the Royal Commission on Indian Currency and Finance for currency reform and its impact on the Indian economy. The study also evaluates the effectiveness of Ambedkar's monetary policy suggestions in addressing the challenges of the time.

Keywords: - Rupee, Gold, Silver, Banking, Standards, Exchange, Finance, and Currency.

Introduction

Ambedkar's doctoral thesis, "The Problem of the Rupee-Its Origin and its Solution," presented the perspective on the issues surrounding the Indian currency. Submitted to the University of London in 1922 under the supervision of Prof. Edwin Cannan, the thesis examined the historical origins of the currency crisis and proposed potential solutions. However, the British imperialist examiners were displeased with the thesis's concise presentation and asked Ambedkar to rewrite it without altering the conclusions.

In 1923, after resubmitting the thesis, Ambedkar was awarded the D.Sc. degree. The thesis was published in December of the same year by P.S. King Son, Ltd London, and later became part one of the 'History of Indian Currency and Banging.' The book delves into the circumstances that led to the establishment of the exchange standard and provides a theoretical basis for its examination.

Ambedkar believed that an adequate understanding of the events leading to the reforms of 1893 was necessary for comprehending the existing treatises on Indian currency. He intended to provide readers with a perspective enabling them to assess the issues involved in the currency crisis and the proposed solutions. He proposed that the Government of India initially intended the gross standard. The most intriguing aspect of Indian currency was how the gold standard transformed into a gold exchange standard.

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Ambedkar's thesis was groundbreaking in many ways. He challenged the prevailing view that the currency crisis was caused by the lack of silver, proposing instead that it resulted from the government's failure to establish a consistent policy on the currency. He also argued that adopting the gold standard had caused widespread economic dislocation, particularly among rural farmers and small-scale traders.

Ambedkar's analysis of the currency crisis was significant for his critical appraisal of British economic policy in India. He argued that the British government had deliberately kept the Indian rupee undervalued concerning the British pound to maintain the trade balance in its favour. As a result, the Indian economy suffered, and the Indian people had been subjected to economic exploitation.

In conclusion, Ambedkar's doctoral thesis on the problems of Indian currency was a seminal work that challenged the prevailing economic orthodoxy of the time. His analysis of the currency crisis critically appraised British economic policy in India and its impact on the Indian economy and people. His work remains essential to understanding Indian economic history and continues to be studied and debated by economists and historians.

The Evolution of The Indian Rupee

The Indian Rupee has a rich history dating back to ancient times. It was initially introduced in the 6th century BCE by the Mahajanapadas, the ancient kingdoms of India. Over the centuries, the Indian Rupee has undergone numerous changes and transformations, reflecting the country's economic, social, and political developments.

Ambedkar, the architect of the Indian Constitution, was a keen observer of the Indian economy and currency system. He wrote extensively on the history and evolution of the Indian Rupee, tracing its origins to the ancient period and its development through the medieval and modern eras.

According to Ambedkar, the earliest Indian coins were made of silver, and the Mauryan Empire standardised their weight and purity in the 3rd century BCE. The Gupta Empire, which ruled India from the 4th to the 6th century CE, introduced gold coins known as dinars.

During the medieval period, the Indian subcontinent was ruled by various dynasties, including the Mughals, the Rajputs, and the Marathas. Each kingdom had their currency systems, with the Mughal Empire being the most influential. The Mughals introduced the Rupiya as a currency unit, which the British later anglicised into the Rupee.

The arrival of the British East India Company in the 17th century marked a significant turning point in the history of the Indian Rupee. The Company began to issue its own coins and paper money, eventually becoming India's dominant currency system. In 1835, the British Government passed a law that made the rupee the official currency of India, and it remained so until India gained independence in 1947.

After independence, the Indian Rupee underwent several changes and reforms. In 1957, the Indian Government introduced the decimal system, which replaced the old system of annas and paise with a new system of paisa and naya paisa. In 1991, India faced a severe economic crisis, leading to economic reforms and liberalisation measures. One of these measures was the rupee devaluation, which made Indian exports more competitive in the global market.

Today, the Indian Rupee is one of the most widely used currencies in the world, with many countries using it for trade and investment. Despite its rich history and cultural significance, the Indian Rupee has faced many challenges, including inflation, currency fluctuations, and international economic pressures. Nevertheless, it remains a symbol of India's economic growth and cultural heritage and a testament to the resilience and strength of the Indian people.

Monetary Standard in British India

Ambedkar was a vocal critic of the British Indian Monetary Standard, which he believed was unfair and detrimental to the Indian economy. For Ambedkar, the fixed exchange rate between the Indian rupee and the British pound sterling, which remained unchanged from 1898 to 1931, was inappropriate for India. He argued that this exchange rate overvalued the Indian rupee, making Indian exports more expensive and less competitive in international markets. This, in turn, led to a loss of wealth and resources for the Indian economy.

In his book "The Problem of the Rupee: Its Origin and Its Solution," Ambedkar proposed a new monetary system for India based on sound economic principles free from political interference. He believed that establishing a central bank was necessary and that the issuance of a new currency backed by a reserve of gold and other precious metals was essential for the Indian economy. He also suggested that the Indian rupee should be made freely convertible to be used in international trade.

Ambedkar's criticism of the British Indian Monetary standard was based on his belief in economic justice for the Indian people. He believed that the Indian economy needed a monetary system that reflected the true value of the Indian rupee relative to other currencies. The fixed exchange rate, according to Ambedkar, did not do this, and instead, it hurt the Indian economy. Ambedkar believed the Indian economy needed a monetary system based on sound economic principles and was free from political interference.

One of Ambedkar's criticisms of the British Indian Monetary standard was the policy of maintaining the gold standard. The gold standard required countries to hold gold reserves to back their currencies. This was difficult for India because it needed large gold reserves. The British Indian government relied on borrowing and taxation to maintain the gold standard, which burdened the Indian people. Ambedkar believed that this policy was impractical for India and that a new monetary system was needed.

Ambedkar's proposed new monetary system was based on the principle of sound economics. He believed that the Indian economy needed a central bank that could regulate the supply of money and credit. The central bank would also be responsible for maintaining the currency's stability. Ambedkar also believed that a reserve of gold and other precious metals should back the new currency. This would provide stability to the currency and prevent inflation. Finally, Ambedkar believed the Indian rupee should be freely convertible for international trade. This would make Indian exports more competitive in international markets.

Ambedkar's views on the British Indian monetary standard reflected his commitment to economic justice for the Indian people. He believed the Indian economy needed a monetary system based on sound economic principles and free from political interference. Ambedkar's proposed new monetary system was designed to stabilise the Indian economy and prevent inflation. His proposal for a central bank, a gold-backed currency, and a freely convertible Indian rupee aimed to provide the Indian economy with the stability it needed to grow and prosper.

Ambedkar was a vocal critic of the British Indian Monetary Standard, which he believed was unfair and detrimental to the Indian economy. His criticism was based on his belief in economic justice for the Indian people. Ambedkar proposed a new monetary system for India based on sound economic principles free from political interference. Ambedkar's views on the British Indian monetary standard were critical and reflected his commitment to economic justice for the Indian people.

Ambedkar's Recommendations to the Royal Commission

Dr B.R. Ambedkar was invited to present his views to the Royal Commission on Indian Currency and Finance in 1926. This commission was established to investigate the Indian monetary system and recommend its reform. Ambedkar's recommendations to the commission were based on his extensive research and analysis of the Indian economy and aimed to promote economic growth and stability. Ambedkar's recommendations to the Royal Commission included the establishment of a Central Bank of India, the creation of a currency board, the adoption of a gold exchange standard, the creation of a gold reserve, and the abolition of the Silver Standard.

Establishing a Central Bank of India was one of Ambedkar's primary recommendations. He suggested that the Central Bank should control the country's currency, credit, and exchange issues. The Central Bank would act as a lender of last resort to commercial banks and maintain the stability of the Indian currency. This recommendation was based on the belief that a centralised banking system would promote economic stability and growth in India.

Ambedkar also recommended the creation of a currency board. The currency board would issue and control the Indian currency independently of the government and operate on a self-balancing mechanism to maintain the currency's stability. This recommendation was based on the belief that an independent currency board would more effectively control inflation and promote economic stability than a government-controlled central bank. Another significant recommendation made by Ambedkar was the adoption of a gold exchange standard. Under this system, the Indian currency would be pegged to a fixed amount of gold or a foreign currency. The gold exchange standard would help India maintain a stable exchange rate and facilitate international trade. Ambedkar believed this system would help promote India's economic growth and stability and recommended it to the commission. Ambedkar also recommended the creation of a gold reserve. He suggested India establish a gold reserve to back its currency and maintain its convertibility. This would help stabilise the Indian currency and maintain confidence in it. Establishing a gold reserve was essential for maintaining the credibility of the Indian currency and ensuring its stability in the face of external shocks.

Finally, Ambedkar recommended the abolition of the Silver Standard in India and its replacement with a gold standard or a gold exchange standard. The Silver Standard had been used in India since the colonial era, and Ambedkar believed it was a barrier to India's economic growth and development. He argued that adopting a gold or gold exchange standard would help promote India's integration into the global economy and facilitate international trade.

Ambedkar's recommendations to the Royal Commission on Indian Currency and Finance were significant for several reasons.

First, they reflected his vision for a modern and stable monetary system in India to promote economic growth and development.

Second, they were based on his extensive research and analysis of the Indian economy, making them a valuable contribution to the debate on Indian monetary policy.

Finally, some of Ambedkar's recommendations, such as the adoption of a gold exchange standard,were eventually implemented and helped shape India's monetary policy for decades to come.

Ambedkar's recommendations to the Royal Commission on Indian Currency and Finance in 1926 significantly contributed to the debate on Indian monetary policy. His proposals, which included the establishment of a Central Bank of India, the creation of a currency board, the adoption of a gold exchange standard, the creation of a gold reserve, and the abolition of the Silver Standard, reflected his vision for a modern and stable monetary system in India.

Ambedkar's Vision for Currency Reform

Ambedkar proposed a currency reform plan for India to create a uniform and stable monetary system. He believed that a stable and reliable currency was essential for promoting economic growth and development in the country. Ambedkar's plan included the creation of a central bank, which would be responsible for managing the currency and setting monetary policy. He also proposed the introduction of a new national currency, which would replace the various regional currencies in circulation at the time. This new currency would be backed by gold, ensuring its stability and value.

Ambedkar's plan also included measures to address inflation, a significant problem in India then. He proposed implementing a sound monetary policy, including controlling the money supply, regulating interest rates, and maintaining a stable exchange rate.

Overall, Ambedkar's currency reform plan aimed to create a stable and reliable monetary system that would promote economic growth and development in India. While some of his proposals were implemented after India gained independence, the country's monetary system has undergone several changes since then, including the liberalisation of the currency in the 1990s.

Ambedkar did not comment directly on demonetisation, as it was not a significant issue during his lifetime. Demonetisation refers to invalidating existing currency and replacing it with new notes or coins.

However, Ambedkar did write extensively on the importance of a stable and reliable currency system. He believed that a sound monetary policy was essential for promoting economic growth and development in India. In his book, "The Problem of the Rupee: Its Origin and Its Solution," he discussed the need for a central bank and a uniform currency system to promote economic stability.

Ambedkar believed a stable currency system was critical for protecting the interests of society's poor and marginalised sections. He argued that a stable currency system would prevent inflation, disproportionately affecting the poor, who had limited means to protect themselves against rising prices.

While Ambedkar did not directly comment on demonetisation, his views on the importance of a stable and reliable currency system suggest that he would have been in favour of measures to ensure the currency's stability. However, the specific details of any such measures would depend on the specific circumstances and context of the time.

Conclusion

Ambedkar's contribution to the Indian monetary issue cannot be overlooked. He was one of the first Indian economists to voice his concerns about the British management of Indian currency. His research primarily focused on the history of the rupee, tracing it from 1835 to the early 1920s. Ambedkar believed that the standard of value should be based on gold, and the currency's elasticity should stem from this source.

One of the major issues with the Indian rupee was its link to the silver standard until 1893. As the price of silver declined from 1872 to 1893, the rupee was automatically devalued, which was good for Indian exports but harmful to the country's economy as gold was the currency used in England. In 1906, England established the gold standard, but it broke down in 1916 when the price of silver skyrocketed, causing the system to become the silver standard.

Ambedkar argued that this system gave the government tremendous power to increase the money supply, and its focus on maintaining exchange stability over internal stability was different for India. He believed that a low exchange rate increased exports and boosted internal prices, favouring the trading classes at the expense of the poor. Ambedkar's solution was conservative and automatic monetary management that aimed to maintain price stability. His work on the Indian currency issue was groundbreaking and still relevant today.

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