



ECONOMIC THOUGHTS OF AMBEDKAR

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ABSTRACT:

This paper deals with the economic ideas which were proposed by the father of Indian constitution Dr. Bhim Rao Ambedkar. His economic contributions in public finance, agriculture economics, state management system, problems of labours, Indian caste system & economic development are few which are discussed in this paper. Economic thoughts of Babasaheb did not gain so much of popularity in the main stream economics, the reason being that he was more popular as a dalit leader rather than a trained economist. But this does not reduce the importance of his thoughts. The significance of his economic thoughts can be judged by their adoption at various level of India's economic development.

KEYWORDS:

State socialism, Caste system, Gold standard, Public finance.

I. INTRODUCTION

Dr. Bhim Rao Ambedkar is known as the father of Indian constitution as he was the foremost draftsman of Indian constitution which was adopted on 26th November 1949 and got implemented on 26th January 1950. Because of his noteworthy works and contributions in the various fields he is also known as a great leader of freedom movement, a high-calibre lawyer, a great dalit leader and a distinguished economist. Babasaheb was a highly intellectual person of his time. He was the first person to pursue PhD in economics from abroad. He was the first South Asian to have double doctorate degree in economics from London School of Economics and Columbia University. With such a strong background in economics still Babasaheb contributions in the field of economics are not so popular. The possible reason may be that his extraordinary work in sociology, law, religion and politics has overshadowed his contributions in economics. But this does not mean that his contributions in economics were diminished. The important contributions of Dr. B.R. Ambedkar in the form of thesis, dissertations and papers are "The present problem in Indian Currency", "The Problem of Rupee: Its Origin and Its Solution", "Ancient India Commerce", "The Evolution of Provincial Finance in British India: A Study in the Provincial Decentralisation of Imperial Finance", "Administration and Finance of the East India Company", "Small Holdings in India and their remedies". The Department of Education, Government of Maharashtra has published many speeches and writings of Babasaheb in different volumes.

This paper discuss about the contributions of Bharat Ratna awardee Dr. B.R. Ambedkar in the field of economics. The major contribution of Babasaheb in the sub fields of economics like public finance, agricultural economics, problem of caste system in economic development, idea about new water and power policy are the few which is discussed in this paper. These remarkable contributions by Dr. B.R. Ambedkar are discussed under the following heads:



1. Problem of Rupee: Gold Standard versus Gold Exchange Standard
2. Contributions in Public Finance
 - a. Evolution of Provincial Finance in British India
 - b. Abolition of Khoti System
 - c. Ambekar's Canons of Public Expenditure
3. Contribution in Agriculture Economics: Problem of Small Holdings in India
4. Caste system as the major hurdle in economic development of India
5. Other Contribution in the Economic Development of India
 - a. New water and power policy
 - b. Contributions in labour laws
 - c. State Socialism

1.PROBLEM OF RUPEE: GOLD STANDARD VERSUS GOLD EXCHANGE STANDARDS:

Before 1835 in India multiple coins were in circulation and this was quite confusing. East India Company (EIC) tried to solve this problem by unifying all the currencies. An act was passed to introduce the bimetallism (Gold & Silver). Due to the discovery of gold in various parts of Australia and California gold coins (Bad currency) were overvalued and drove the silver coins (Good currency) out of the market. In 1853, EIC stopped receiving any gold coins and tried to demonetise the gold currency. This led to liquidity crisis and at the same time demand for silver coins aggravated. Government of India was not in favour of introducing gold currency and preferred paper currency to improve the situation. So, in 1861 paper currency act was passed and paper currency was made the legal tender. But these paper currency and silver currencies were not enough to cope up with the increasing monetary demand. In 1870's silver metal was discovered in South America and Mexico, due to this in 1873 the value of silver drastically fell down in terms of gold. Consequently there was a fall in the exchange rate and British imports got expensive. Large scale minting of rupee at that time gave rise to high inflation. Suggestion was made to adopt the gold standard and stop minting of silver coins. In 1893, minting of silver coins was stopped and Indian rupee was adopted as the legal tender. In the period 1898 to 1916, gold exchange standard were adopted and more emphasis was given to the external stability i.e. exchange rate stability. In 1914-15, the exchange rate got weak and India was running out of gold to pay back its remittances. Leading to an increase in the demand of rupee, as a result government of India started minting rupee to tackle the situation. This created inflationary pressure in the economy at that period of time.

Dr. B.R. Ambedkar studied this matter in depth and commented on whether the gold standard or gold exchange standard would be better for curb the inflation in a country like India. In his doctoral thesis he has mentioned that excess importance was given to exchange rate stability rather than price stability. According to him exchange rate stability will benefit only the trading class not the poor's in the economy. Poor's will be benefitted only when there is an internal stability. Ambedkar asked a very relevant question, what is the purpose of money? Is it how much gold we can purchase or how much commodities we can purchase out of it. The obvious answer to this is how much commodities and services we can purchase out of it. According to Babasaheb currency should be stable in terms of commodities not in terms of gold. He was against the concept of linking money supply with gold. He



pointed out that Government under gold exchange standard tries to manipulate the currency to keep it at par with the gold value which is not a good idea. Ambedkar was a strong believer of quantity theory of money. He did not like the idea that government should manage the flow of the currency. He was afraid that government will not be able to manage it properly. He was not in favour of giving the power to the government to expand the money supply without expanding the production of goods and services; since it can lead to an unstable currency value. So he strongly opposed the managed currency system and supported gold standards with some modification.

2.CONTRIBUTIONS IN PUBLIC FINANCE:

2.1 Evolution of Provincial Finance in British India:

In 1925, Dr. B.R. Ambedkar wrote a book on “The Evolution of Provincial Finance in British India”. In this book he has discussed about the origin, development and mechanism of provincial finance. He has also mentioned about the provincial finance under government of India act 1919. The period which he has covered in this book is from 1833 to 1921. Babasaheb has talked about the problem with the centralization of government finance in India from 1833 to 1871. He showed that in this period the fiscal system was defective with destructive taxes and the expenditure done by the government was unproductive. After 1858, it was noticed that imperial government as the law maker did not administer the country whereas provincial government who administered the country did not have the power to make the laws. Provincial government used to make the budgets and imperial government had the right to finance these budgets. Practically speaking provincial government did not have power to raise its own funds and to create appointments in services. This gave the opportunity to the government of India to interfere in the provincial administrative works. By this Government of India started misusing its expenditures, as a result they came under a terrible financial strain.

Ultimately, in 1871, it was decided that provincial government should prepare its own revenue and expenditure budget. There onwards from 1871 to 1876 provincial finance was introduced in the form of a budget. Under this Diarchy system financial responsibilities were divided among the provincial government and the centre. Ambedkar analysed that this kind of scheme led to high taxation which was more dangerous. Period from 1877 to 1881 was considered as the second phase of provincial finance. In this period the provincial government used to produce the budget based on the assigned revenue. In the third phase of the provincial finance the budget was based on the shared revenue. According to Babasaheb earlier style of budgeting had a very little room for the expansion of revenue, but this new style of budgeting based on shared revenue does not possess this kind of drawback. The revenue collected by either imperial government or provinces was shared among them. This scheme lasted for 38 years and after that in 1921 major fiscal reform was introduced. This book summarizes the history of the financial relation between the province and government of India. Students who are studying the financial relation between state and the centre still find this book as an important text. This book was referred as an important source by the Financial Commission of India.



2.2 Abolition of Khoti System:

Ambedkar moved a bill against the Khoti system in 1937 which was popularly known as “The Khoti Abolition Act”. British government used to appoint some powerful persons known as Khots. They were middlemen between the tax collector (British Government) and tax payer (Inferior land holders). Khots were responsible to hand over the tax revenue collected for the entire empire to the British government, for this they used to freely exploit and abuse the inferior land holders. This kind of system was more prominent in the Ratnagiri district, Kolaba district and Thana district. Ambedkar wanted that this anti Khoti bill should be enacted in the complete Bombay Presidency.

2.3 Ambedkar’s Canons of Public Expenditure:

In 1945, while discussing about the functions of Comptroller and Auditor General of India Ambedkar pointed out that government should responsibly spend the public funds. The revenue which is collected from the public should be spend according to rules & regulations and due respect should be given to faithfulness, wisdom and economy. These principles of spending the public fund are known as Ambedkar’s Canon of Public Expenditure. The dictionary meanings of faith are duty, commitment and promise. It’s the duty of the government to provide the basic amenities to the tax payers. We know that it is easy to deceive the public as the public investment has a long gestation lag period. So, every government should keep in mind that public has an immense faith in them and they should be committed to provide roads, medical facilities, law and order to its citizens. Ambedker pointed out that even though the intention of spending the public funds may be correct but still if it is not used wisely then also the planning fails. In this context he has talked about wisdom of Government to spend the public money. By wisdom he was indicating about the knowledge and experience which should be used while spending the public funds in a better way. Another important principle of Ambedkar’s canon was economy. By economy he didn’t mean less public spending, it basically means how the government should spend the public funds so that they are used optimally.

3.CONTRIBUTION IN AGRICULTURE ECONOMICS: PROBLEM OF SMALL HOLDINGS IN INDIA:

The major problem of Indian agriculture is low productivity of land. One of the main reasons of low productivity is the small land holdings by the farmers. In 1917, a committee was formed to give suggestions on the problem of small holding in the Baroda state. The committee gave a suggestion to consolidate the holding which can be cultivated by an individual farmer under the administrative measures. Dr.B.R.Ambedkar was in favour of consolidation of land holdings but according to him it should be state owned. State should acquire all the agricultural land from the private players, owners, tenants or mortgagers and pay them the right compensation, after consolidating the acquired land it should allocate this land in a standard size to the original cultivators without any discrimination based on caste, creed and religion. Ambedkar questioned about what could be the right size of the land holding to increase the land productivity. He pointed out that land is only one factor of production, in order to increase the farm productivity other factors like capital and labour should be rightly mix with the land. Every factor is responsible for the low productivity of land. Because of insufficient capital, surplus



labour, and deficient irrigation there is low agriculture productivity in India.

Ambedkar in his paper on “Small Holdings in India and their Remedies (1918)” has suggested state owned cooperative farming and industrialisation as the remedial measures. Cooperative farming is a consolidation of land holdings by the farmers who collectively are willing to cultivate the land, but it should be under the rule and regulation of the government. This kind of practice not only increases the productivity it will also reduce the cost of production. According to Ambedkar, industrialisation can be an alternate solution for the vast disguised unemployment in Indian agricultural sector. Surplus labour in the agriculture sector can be transferred to manufacturing sector. This will not only increase the productivity in agricultural sector it will also increase the production of the capital goods. This will indirectly help in the reduction of poverty and inequality. In 1950’s, Noble Laureate Prof. Arthur Lewis formulated a dual economy model in which he tried to explain the same concept of shifting the idle labour from one sector (capitalist) to another (non-capitalist) which Babasaheb had already discovered as a solution for the idle labour in agriculture sector in the year 1918.

4. CASTE SYSTEM AS THE MAJOR HURDLE IN ECONOMIC DEVELOPMENT OF INDIA:

In 1936, Ambedkar wrote a speech titled “Annihilation of Caste” unfortunately this remained undelivered. This speech was later on published in 1937. In this speech he had talked about what was implied by the caste system. He pointed out that caste system is not only about division of labour but also the division of labours. His main claim was that caste system in India is hindering the mobility of the labour and capital which indeed impacts the economic development of India. Due to this caste hierarchy, employment in India is fixed by birth which leads to reduction in the mobility of the labour in other sectors.

Dr.B.R.Ambedkar introduced a bill in the Bombay Legislative council on 1937 to abolish “Mahar Watan”, which has made the Mahar communities in Maharashtra slaves of the feudal lords. These communities used to live outside the villages and perform duties like village watchman; track the thieves and messengers, sweepers and remove the dead bodies of animals. To carry out these duties they get “Watan” a small piece of land for cultivation. This made them dependent on the mercy of the villagers and feudal lords.

5. OTHER CONTRIBUTIONS IN THE ECONOMIC DEVELOPMENT OF INDIA:

5.1 New water and power policy:

Ambedkar’s role as a Minister of public works has totally been forgotten. In 1942-46, Dr.B.R. Ambedkar initiated new water and power policy. The main purpose of this policy was to utilise the water resources of the country in an optimal way. Ambedkar had a vision about the projects keeping in mind the Tennessee Valley Scheme of USA. He was a great visionary and rightly perceived that it is only the multipurpose projects which can solve the problems of floods, famines, power shortage, and irrigation. For the development of the country Babasaheb initiated the idea of building the first multipurpose river valley project known as Damodar Valley Project in Bengal and Bihar. As a part of national water policy the objectives of this project was to control the floods in the surrounded regions, to help the farmers through irrigation, to control the famines and to solve the problem of power supply. This is not the single river valley project which was architected by Dr. B.R.Ambedkar the other projects were Bhakra-Nagal Dam (Highest gravity dam), Hirakud Dam (Longest major earthen dam) and Sone river valley project. Dr.B.R.Ambedkar wanted that water resources and their



management should be controlled by the centre, so that the problem of water disputes, water starving etc could be resolved. To deal with the interstate river disputes he urged the provinces to cooperate with each other and purposed “Inter-State Water Disputes Act” with “River Boards Act” in 1956. The first one was to settle the dispute between the states and the second one is all about how to regulate and develop the interstate valley projects.

When he was the member of an executive council of Viceroy for the period 1942 to 1946 he established two organisations “Central Water Commission” and “Central Electricity Authority”. These two organisations have largely contributed to irrigation and power supply in the country. He proposed the interlinking of major south Indian rivers. Dr. B.R.Ambedkar was the person behind the development of the National Power Grid, which is still proudly working.

5.2 Contributions in labour laws:

Ambedkar has brought several labour reforms during his time. In the 7th session of the Indian labour conference in 1942, he initiated to reduce the factory working hours from 12 to 8. In the same year, at the Tripartite Labour Conference Babasaheb was involved in building Plenary Conference and Standing Advisory Committee to settle the industrial disputes between employees and employers. He also propounded to establish employment exchanges and to collect the statistical data under Industrial Statistics Act. Ambedkar has also worked for the upliftment of women’s in the society. He has framed laws like “Mines Maternity Benefit Act” and “Women and Child Labour Protection Act”. He tried removing the ban on women employment in the coal mines. He also established “Women Labour Welfare Fund” and fought to give maternity benefits to the women labourers.

In 1943, Dr. B.R.Ambedkar framed the amendment in the Trade Union Act of 1926. In the amendment he put forth the compulsory recognition of the trade union by the employers. India was the first nation to think about the employees insurance and the credit goes to the great visionary Dr. Ambedkar. This Employees State Insurance insured the employees against the medical, physical disability and injuries during the work. In 1944, Babasaheb enacted a bill for the safety of the employees working in the coal mines. This bill was known as Coal Safety Amendment Bill. In 1945, he introduced Mica Mines Labour Fund which helped the employees in the coal mines to get housing, water, education, entertainment, transport facilities, medical facilities and better health and sanitation.

5.3 State Socialism:

Dr. B.R.Ambedkar was not in support of what father of economics Adam Smith has written in his book “Wealth of Nation” in 1776 about the markets. Adam Smith was a great supporter of laissez fair policy (free markets), markets with no government interventions. Some has argued that this will give more liberty for the economic development of a country. But contrary to this Babasaheb has



pointed out that this kind of liberty from the state may give rise to private capitalism, which may be dictators of their own kind. Babasaheb was not against the private enterprises but he was more concerned about the equitable distribution of wealth. In the memorandum submitted to the British government titled “states and minorities” in 1947, Dr. Ambedkar placed a strategy “an obligation on the state to plan the economic life of the people on lines which would lead to highest point of productivity without closing every avenue to private enterprises and also provide for the equitable distribution of wealth”. He wanted that the public sector should play an active role in the economic development of India whereas private sector should be treated as the passive player. While discussing about industrialisation in India, consolidation of small land holdings and building of water projects he stated that these should be state owned and should be managed by the state.

II. CONCLUSION

Dr. B.R.Ambedkar with double doctorate degrees was the highest intellectual person of his time. He was a highly trained economist but his contributions in the economics were not recognised in the main stream economics. The reason behind this was that Babasaheb stopped practicing economics after India got independence and devoted most of his time in politics and law. Therefore he was more popular as a political leader rather than an economist. But whatever he has contributed to the field of economics is remarkable.

This paper has discussed the important contributions made by Ambedkar in the field of economics. Babasaheb supported modified gold standard to curb the inflationary pressure in India. He discussed about the evolution of provincial finance under the British rule. While discussing about how to spend the public funds he said that the spending should be based on the rules and regulations. Public has an immense faith on government thus it should wisely use these funds in order to achieve the optimal results. Babasaheb was in favour of consolidation of small land holding in India by the state and without any discrimination it should distribute this consolidated land into a standard size to the original cultivators. He pointed out the land is only one factor of production, it the mix of all the factors which is responsible for the low production of land. He wanted that heavy industries should be owned by the public sector and private sector should only fill the gaps. He was a strong supporter of State Socialism. Caste system according to him acts as a barrier to the labour mobility from one sector to another. This hindrance in the mobility of labour due to caste system directly impacts the economic development of India. Other contributions of Babsaheb whether it was the development of multipurpose water and power projects, restructuring the labour laws, women empowerment, all are imperative in the economic development of India.

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