Dr B.R. Ambedkar's Thoughts on Currency Reforms in India

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Abstract:

Dr B.R. Ambedkar was a distinguished Indian economist, social reformer, and political leader. He was instrumental in the formulation of the Indian Constitution. This paper rigorously examines Ambedkar's viewpoint on monetary economics, emphasizing the development of the Indian rupee and the monetary system in British India. The document analyzes Ambedkar's proposal to the Royal Commission on Indian Currency and Finance regarding currency reform and its effects on the Indian economy. The research assesses the efficacy of Ambedkar's monetary policy recommendations in tackling contemporary challenges.

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

Introduction

Ambedkar examined the issues related to the Indian currency in his thesis for his D.Sc. degree from the London School of Economics entitled "The Problem of the Rupee: Its Origin and Its Solution" submitted in October 1922. Professor Edwin Cannan from the School of Economics at the University of London served as his supervisor. Reviewers from the British imperialist government disapproved of the brevity of his thesis explanation, instructing him to revise it without altering the conclusions. He resubmitted the thesis in 1923, at which point he obtained the degree. Initially, composed the thesis. On December 19, 1923, P.S. King Son, Limited. Subsequently, it functioned as the inaugural segment of the "History of Indian Currency and Banking." The book elucidates the events that culminated in the establishment of the exchange standard and analyzes its theoretical foundation.

The Evolution of the Indian Rupee

India's money has mostly been made of gold and silver since the time of Ambedkar, who planned the Mughal Empire's economy. The gold mohur and the silver rupee, which were both 175 grains in weight, were the main types of money used in India. They always had the same value compared to the dam, which was the Mughal Empire's copper coin, so they could always be exchanged for each other. People in southern India, where the Mughals did not rule, did not know what silver was used for in their money. Gold was important to the Hindu emperors. The pagoda, which was used as money by ancient Hindu kings, was both a measure of value and a way to trade until the East India Company came along.

Throughout the empire's history, coins of the Mughal Emperors were made at different mints, but they all had the same weight: 175 grams of pure metal. The Mughal Empire was broken up into separate kingdoms, which led to the creation of separate minting facilities in different places to make money. The right to make coins was abused. The mints were running at full speed, which led to a huge number of different coins that made it hard to find money to exchange across the country. The greedy sovereigns made their coins less valuable without changing their values, which meant that the money lost its main feature of being instantly and widely

accepted. As soon as the coins' real value didn't match their stated denomination, they stopped being useful as money and became just things that could be bought and sold.

People who were poor and didn't know what was going on were fooled because, after the empire ended, there was no longer any imperial legal tender in circulation in India. Due to the circumstances, trade by barter had to be brought back. No one had the same idea of what was going on. It was even more difficult because, even though they had the same denomination, the metals they were made of were very different. Consequently, this coin was either cheaper or more expensive than other coins of the same denomination. People preferred to accept a coin of the type they were used to seeing around because they didn't know about the premium or discount. This got in the way of the country's trade and business. The community's useful resources were being taken without permission. For this reason, Ambedkar says that the English East India Company, which had taken over India from the Mughal Empire, is responsible for changing bad money into good money.

Consolidation of the Indian Currency

In the important Dispatch dated April 25, 1806, the company's Directors told the Indian authorities that they agreed that monometallism was the best standard for the Indian currency. They said that the new rupee should have a gross weight of 180 troy grams, which is equal to 165 grams of fine silver. The decision was made with good sense. They chose a 180-gram rupee because they wanted to stay as close as possible to the original rupee coin made by the Mughals. The main coin that had to be made had to weigh more or less than 180 grams, Troy. As a result, people were afraid of going against the established tradition that used the weight of the coin as the basis for all other weights and measures.

The court of Directors of the East India Company wisely chose a monometallic standard as the basis for India's future currency system based on what they had learned in the past. Ambedkar said that the recommendations of the courts of directors were given to different Indian governments to carry out however they saw fit, including choosing when and how to do it. The current units of currency were lowered to those suggested by the court first in Madras, and then six years later in Bombay. The Government of Bengal had to deal with a much bigger problem. It had three different main units of silver money that had to be changed to match the standard that the court had suggested. As a result, big steps were taken to reach the ideal unit suggested by the Court without getting rid of the bimetallic system.

The part of the directors' plan that dealt with standardizing money was finished by the end of 1833. The only coins left out were the sicca rupee and the gold mohur of Bengal. It was planned to get rid of only the sicca rupee. The court of directors and the three Indian governments—Madras, Bombay, and Bengal—began to disagree with each other at this point.

An Act of the British Parliament in 1833 set up an imperial administrative system that put all of India's legislative and executive power in one place. The imperial government was excited to make money with its name on it. As a result, an early chance was taken, and by the Act of 1835, India was set on a silver monometallic standard. The rupee, which weighs 180 grams of troy and contains 165 grams of fine silver, became the country's official currency.

Implementing silver monometallism, even though it had strong support in the Act of 1835, soon after proved to not be enough for the country's needs. Ambedkar said this was because the economy changed structure, going from a "kind economy" to a "cash economy," and trade with other countries grew quickly.

The British system of taxation and finance was the main force behind this change. When natives were in charge, most government workers were paid in kind. When the British came, they replaced this with cash. Since the government promised to accept cash payments, it had to collect all taxes in cash. There was a big implication when each citizen agreed to receive only cash because they had to pay in cash. The change from an economy based on trade to one based on money.

Even though more precious metals were being made after 1850, silver still wasn't enough to meet global demand, especially since a lot of the world used a silver standard. Because of this, India was in a tough spot because of its currency laws: trade was growing while the amount of currency available was decreasing. Additionally, India has a long history of being a place where valuable metals are stored. A lot of silver coins have been used for things other than money.

Because silver was hard to come by and there was no credit money, trade was seriously slowed down. This caused people to change their minds about the Currency Act of 1835 and wonder if gold mono-metalism would have been a better choice than silver mono-metalism. As more and more gold was made and circulated, there was a greater need for it to be recognized as a legal currency in India.

Ambedkar was upset that the first push against the silver standard did not lead to the creation of a gold standard. Instead, it led to the creation of government-issued paper money to go along with the silver standard that was already in place. India had a mixed currency system, and paper money was only a small part of the whole. Ambedkar said it was because of two main things:

1. The smallest amount, Rs. 0, was too big to replace metal money in a country where most transactions were worth less than Rs. 1, with amounts as little as one anna or even less. Because of this, it seems likely that paper money would not play a big role in people's regular transactions. Also, Rs. 5 notes, which were first issued in 1871, were too expensive for people to use in their everyday transactions.
2. Another thing that led to more paper money was that it was hard to put notes in envelopes, so the country was split into several circles of issuing money. Notes issued within a circle were not legal

tender outside of that circle, nor were they allowed to be used outside of that circle. People couldn't get excited about the notes in the same way, which made them less popular.

Ambedkar said that the system of money that was based on the silver standard and added paper money was a failure because it did not keep the value of the money stable. He says that the Indian money market was prone to fast decisions and changes. The discount rate changed in strange ways. Because of this, the Indian money market was shaky because credit instruments were not flexible and the country had its own treasury system. These were the main things that affected the country's money supply.

Indian Currency Reforms

A lot of different plans to change the Indian currency system are looked at by Ambedkar, including the Temple Plan (1872), the Smith Plan (1876), the Government of India Scheme (1886), the Herschel Committee (1892), and the Flower Committee (1898), among others. "The Government did not initiate the establishment of a gold-exchange standard," he said. It was also thinking about putting in place a real gold standard, but in the end it chose the gold exchange standard because some people "didn't understand" the real gold standard well enough.

After that, he gives a smart analysis of the pros and cons of the gold standard compared to the gold exchange standard. Gold, especially in the form of coins, is used as a medium of exchange under the pure gold standard. In a type of it called the gold-convertible standard, paper money is given out along with gold coins and can always be exchanged for gold. On the other hand, under the gold exchange standard, there is only paper money that can be exchanged for gold at set rates. This paper money is backed by foreign currency reserves from countries that follow the gold standard.

Ambedkar and Keynes had a disagreement about how well these different currency standards worked in India. Keynes argued for the gold exchange standard in his book Indian Currency and Finance (1909), saying that it is the best standard for the future because it includes a fundamental part. Keynes and other supporters of the gold exchange standard were harshly criticized by Ambedkar. He pushed for a modified version of the gold standard instead.

Ambedkar said that the gold exchange standard is not as stable as the gold standard itself. Under the gold standard, there aren't many changes to the amount of money in circulation, which keeps things stable. On the other hand, under the gold exchange standard, increases depending on the issuer's choice and could be made so big that they threaten stability. In the case of India, he showed statistical evidence that prices changed much less under the gold standard than under the gold exchange standard. Keynes said that the gold exchange standard allows for freedom from this rigidity. As Ambedkar put it, there needs to be a way for the issuer's freedom of choice to be regulated.

The gold exchange standard gives the issuer a lot of freedom, which is not good because it means there are no rules to follow. In response to the claim that the gold exchange standard protects gold, Ambedkar said that the economization of gold increases its supply, which lowers its value. Since it has lost value, it can't be used as a standard of value anymore.

In 1924 and 1925, the Royal Commission on Indian Currency and Finance went to India to look at the country's finances and make suggestions for changes to the Indian currency. In the Statement that he sent in response to the commission's questionnaire, Ambedkar explained his views. He came up with the next plan for changing the Indian currency.

1. Stop making rupees by making it impossible for anyone, including the government, to get to the mints.
2. Open a gold mint so that the right kind of gold coins can be made.
3. Set a fixed exchange rate for the rupee and the gold coin.

Both the rupee and gold will be legal tender, but they will not be able to be changed into each other. The ratio between the two will be set by law. After looking at the above ideas, it's clear that Ambedkar's points of view are very relevant now that there are big budget deficits and they are automatically turned into money. It seems like there needs to be an effective limit on the creation of liquidity through an automatic mechanism. We don't have a gold standard or a way to exchange gold right now. Everything about the point of view has changed in a big way. Even so, his economic philosophy can still teach us something. As an example, the rupee lost a lot of value against major currencies in the late 1980s, throughout the 1990s, and into the early 2000s, which hurt India's credit rating. Prices have also gone up during this time.

Because of this, it is clear that too much money was printed, which made the rupee less valuable in India and less valuable around the world. This is a perfect example of what Ambedkar had in mind. Back in his time, Ambedkar pushed for a step-by-step control on currency issues, which is exactly what is needed now. Ambedkar's work in this book, which was praised by his contemporaries as a deep look into the currency problem in the Indian subcontinent, showed great scholarship and hard work.

Conclusion

Therefore, we can argue that the printing of too much money reduced the value of the rupee both in India and abroad. This is exactly what Ambedkar saw happening. In those days, Ambedkar called for step-by-step control over the printing of money, which is exactly the need of the hour. Ambedkar invested significant thought and effort into this book, garnering praise from his contemporaries for its insightful analysis of the currency crisis in the Indian subcontinent.

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