Dr. B.R. Ambedkar on the Development of Currency System During British India: Problems and Suggestions

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ABSTRACT

Dr. B.R. Ambedkar's approach to economics was significant and founded on his expertise in comprehending issues at their most fundamental level. He had a profound awareness of both the British financial system and the pattern of the Indian rupee's exchange value. He explains the importance of the "medium of exchange" in stabilising any currency through its supply and demand networks. He was a first-generation Indian economist who earned degrees from the London School of Economics and Columbia University in the United States. He was the first to advocate for monetary and fiscal reform in India. In my paper, I will try to understand his analysis of the growth of Indian modern currency and the financial weaknesses during British India.

Keywords: Price stability, Drain of Wealth, Silver Exchange Standard, Gold Standard, Gold Exchange Standard.

As an economist, Dr. Ambedkar did a great job relating to the Indian monetary system, British fiscal policies in India, and their impact on poor Indians. Indian currency rose at different periods. The Mughal era was the last time period when centralization of imperial coins ended. In the 18th century, India gained diversity in its coinage. It became regional, and uniformity and purity became big issues. There was no fixed exchange rate between these currencies. The fluctuation of the price of metal affected the market system and trade. In the early British period, the Bengali coins were just like the Mughal style, but the coins of the Madras Presidency were based on the South Indian style. After some time, Britishers made policies for the Indian currency system. With the Act of 1773, currency management became an important issue, and the first time John Princip introduced currency reform was with the introduction of new copper coins. Regular copper coinage was established in 1795 as legal tender. The dispatch of April 25, 1806 presented the document that observes that the coins of gold and silver cannot circulate as legal tenders by fixed relative values because of the fluctuating value of both metals.1

The government decided to keep the weight of the rupee at 180 grammes of gold and silver coins within the bimetallic system. Later on, by Regulation XXV of 1817, the circulation of Calcutta copper coins was extended to all areas under the presidency of Fort William (with the replacement of cowries). The period of last decay in the 18th century was an experimental period when bimetallism was also tried. With time, the percentage of gold metallic coins decreased steadily. After the Act of 1833, the British political approach became more imperial and centralised, and then the currency system was changed to achieve uniformity in the administration of British India. The rupee was introduced by the ‘regulation of 1833’ on the silver standard, and mints were fully equipped in Calcutta, Bombay, and Madras. ‘The Currency Act of 1835’ (Act of the Imperial Government, XVII of 1835) presented uniformity in coinage. After the act, no gold coin was permitted as legal tender. For now, silver coins are the only legal tender throughout British India. It was clearly a symbol of the sovereignty and expansion of British rule over India. Later on, it created problems for trade stability because of the insufficiency of silver on the international market.

Over the period, paper currency was adopted. For the first time, the general bank of Bengal and Bihar (1773–75) had the right to print paper. The state-
sponsored institution set up by the company, in which the participation of local expertise became important, they were categorised into three broad series, like the United Series, the Commercial Series, and the Britannia Series. In 1861, the financial establishment collapsed, and the control of paper money also shifted to the British government (the Department of Paper Currency), and the monopoly was also taken over by the government. Individual banks could no longer print legal tender. When the British government had control over the economy, the coin’s native images were replaced by portraits of the Monarch of Great Britain. The control of paper money was shifted to the British Government in 1867, and the image on paper currency was replaced by the Victoria Portrait.

Dr. Ambedkar worked on the problems of the Indian rupee during his PhD thesis. He analyses all the standards for the currency exchange system and criticises the British’s selfish approach towards the Indian money market. In his book ‘The Problem of the Rupee: Its Origin and Its Solution’ (1923), he raised the following important questions: First, should India stabilise its exchange rate? And second, what should be the ratio at which India should stabilise its exchange rate? On the question of coinage in the 18th century, Dr. Ambedkar explains that the Mughals followed gold (Muhar) and silver (Rupaya) coins, and the Hindu kings of that time followed only gold coins. But most of the Muhammadan emperors followed the silver coins. And even in the few places in the south where the Mughals have political supremacy, the gold coinage Dr. Ambedkar quoted Professor Jevons with his theory of a "parallel standard" for the exchange value of Mughal gold and silver coins. Due to the decline of the central empire, the problems of local coinage became huge, resulting in the downfall of trade because of a lack of unified standard coinage. According to Dr. Ambedkar, it was worse for the economy. He says that, “Diseased money is worse than want of money. The latter at least saves the cost. But society must have money, and it must be good money, too”. After 1835, when the silver standard was accepted by the Indian government, they didn’t shut down the gold mints because of their greed for revenue. The crisis of silver was an international question, and later on it occurred, and many countries suspended the free coinage of silver in the decade of 1870 because, during the period of 1841–70, the production of gold reached its peak while silver lagged behind.3 When India adopted the silver standard, over a period of time, the problem of exchange arose. England was a gold standard country. During the period of 1873, the exchange ratio between the rupee and sterling was 1:15.5, but later on, due to demonetization, the value of the Indian rupee fell. The problem was that India was a silver-standard country, but it was bound by a gold-standard country (England). Due to this, the exchange value should have changed from time to time, but in reality, it was approximately the same. Dr. Ambedkar says, “India was a silver-standard country intimately bound to a gold-standard country, so that her economic and financial life was at the mercy of blind forces operating upon the relative values of gold and silver which governed the rupee-sterling exchange.” 4 He also exposed that, “because of that situation the home charges were increased because they were cleared by the gold value not in silver value and the gold value was much higher than silver. This led to a fiscal policy of high taxation and rigid economic policies in the finance system of British Indian government.”5 The analyzable, India paid her payments, like interest on debt on the stock of the railway, pensions and non-effective allowances, the cost of the home administration, and other allowances, to England as a “double levy”.6 So, we can say that due to the higher exchange value of gold, India had to pay a higher amount in gold to England, and it became the way of “drain of wealth” from India to England.

There was another problem with the silver standard because India didn’t produce much silver, so the dependency upon export was high, and all the imports of silver were used for coins or currency purposes, leaving very little or nothing left over for industrial and social consumption. The government adopted silver monometalism, but due to the insufficiency of silver, it changed its plan and moved to a bimetallic currency system. On this situation, Dr. Ambedkar argued and compared it with different situations, especially in the fluctuation period of silver at the world level, for maintaining the standard of currency. On bimetallism, he says, “to give an uncompromising affirmative as the bimetallists did is to suppose that bimetallism can work under all conditions. As a matter of fact, though it is workable under certain conditions it is not workable under other condition”.7 He also raised a question that, on the situation of increasing of silver production, could bimetallism maintain equilibrium?

After rapid industrialization, British investors want to invest in India for big profits. India was selected as a raw material-producing country and also as a big market for manufacturing goods. India has always attracted investors, and most of the industries in India were started with British capital and for British profits. It resulted in the establishment of new cotton, jute, and other industries in India. After industrialization, Britishers wanted to expend their investment because most European countries imposed different tariffs and customs on imports for their own security of trade. So, that’s why Britain controlled the Indian colonial economy with her own interests and developed India as a British market. Most of the investors invested their money in India, But they also want security about their money. On this matter, Dr. Ambedkar says that due to the fluctuation in the relative value of silver with gold, it was feared that once the capital spread out in a silver country, every fall in the price of silver would not only increase the uncertainty of their returns when it was
drawn in gold, and this check on the free inflow of capital was undoubtedly the most serious evil arising out of the break in the balance of exchange. Dr. Ambedkar discussed the falling value of the exchange rate, and according to him, it was all because of two reasons created by the British government:
- falling purchasing value of the rupee,
- The adverse balance of trade

Sir R. Temple (finance minister) and Colonel J. T. Smith (mint master) supported gold coinage for India. Smith's plan was based on the remedy for the falling exchange introduced in the brochure "Silver and the Indian Exchanges". Smith's plan was also supported by the trading community in a letter dated July 15, 1876, with particular obligations. In a dispatch dated November 9, 1878, the Government of India decided to take a British Indian gold coin in payment for any demands until the exchange had settled itself sufficiently to enable it to fix the rupee's value in relation to the pound sterling. But they also continue with the silver coins. Due to coinage trouble, the Government of India passed an Act (No. 11) of 1898 permitting the issue of currency notes in India against gold tendered in London to the Secretary of State. The Fowler Committee was established for currency reformation, and it recommended the British sovereign as a legal tender and a current coin in India. Dr. Ambedkar said that the government did not want to spread gold from reserves, so she gave the argument that the public did not want gold, and he was against the argument. He analysed the truth that, "the government was anxious to coined rupee not because the people did not want gold but because government was anxious to build gold reserve out of the profits of additional coinage of rupee".

He argued that the gold exchange standard economises on gold because this economising raises its supply by lowering its value, and as a depreciating commodity, it becomes unfit to that extent to function as a standard of value. He discusses the purchasing power of the Indian rupee and British currency with the "Exchange Ratio Theory" and correlates it with the Cause-and-Effect Theory (between exchange ratio, trade, and purchasing power). That’s why he suggested that the coins of silver and gold can’t circulate at a fixed relative value as legal tenders due to the fluctuating tendency of the metals. Up until August 1915, the gold-standard reserve was also held partly in gold and partly in rupees. [7] Act II of 1898 became permanent, and it authorised the issue of notes in India against gold tendered to the Secretary of State in London. According to Dr. Ambedkar, the convertibility of currency affects every aspect of the economy, and from an Indian perspective, it is a deferred, delegalized, delocalized, and therefore devitalized kind of convertibility. In his words, "the gold exchange standard is an impairment of the original plan of an inconvertible rupee with a fixed limit of issue supplemented by gold." For the making of modern Indian currency, Dr. Ambedkar gave a series of solutions. He connected monetary policy with demand and supply theory and the impact of purchasing power. He questioned the government's poor explanation for the rupee's fall in value against the pound. He suggested two aspects for the economic stability of the countries based on the gold exchange:
1. Since we can’t control the currencies of other countries, we must be prepared to manipulate our currency in sympathy with theirs and be ready to appreciate it when they depreciate theirs.
2. Without manipulating the whole of our currency, we should be prepared to sell and buy foreign exchange at a fixed ratio.

In front of the Royal Commission, Dr. Ambedkar gave the following suggestions for currency reform:
1. Stop the coinage of rupees by closing the mints to the government,
2. open a gold mint for the coinage of suitable gold coins,
3. fix a ratio between the gold coin and the rupee,
4. rupee not to be convertible in gold and gold not to be convertible in rupees, but both to circulate as ultimate legal tender at the ratio fixed by the law.

Dr. Ambedkar made a connection between the effects of purchasing power, demand-supply theory, and monetary policy. He criticised the inadequate justification provided by the administration for the rupee's depreciation against the pound. His theory served as the foundation for a number of economic and financial institutions, including the Reserve Bank of India (Indian Bankers Bank) and the Indian Finance Commission. Before the Royal Commission on Indian Currency and Finance (1925), he made his statement. The commission also drew inspiration from his article "The Problem of the Rupee: Its Origin and Its Solution" when formulating the rules for the Act of 1935 for the R.B.I. As the chairman of the Indian Constitution's Drafting Commission, he also established the legal framework for the country's financial system.

2 Ibid, p. 8
3 Dr. Babasaheb Ambedkar: Writing and Speeches, Maharashtra Government, Education Department, vol. 6, 1989, p. 424
4Ibid, p-415
7 Dr. Babasaheb Ambedkar: Writing and Speeches, Maharashtra Government, Education Department, vol.6, p. 424, p-411,
8 Ibid, p.424
10 Ibid, p.152
11 Dr. Babasaheb Ambedkar; Writing and Speeches, Maharashtra Government, Education Department, vol.6, p. 424, pp.594
12 Dr Krishnan Gopal, Dr Jagadeesh Lal, Sarabjit s Sharma. Thoughts & Ideas of Gandhi, Nehru, Tagore and Ambedkar, p-224, Jawaharlal Publisher and Distributers, New Delhi,1994.
13 Dr. Babasaheb Ambedkar: Writing and Speeches, Maharashtra Government, Education Department, vol.6, p.165
14 Ibid, p.166
15 Ibid, p.175
16 Ibid, p.178
17 Ibid, pp. 675-76
18 The Royal Commission Currency and Finance Statemen (1926), vol. ii, p.237