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Ambedkar's Analysis of Indian Currency and Banking: A Historical and Economic Study

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Abstract:
B.R. Ambedkar's contribution to the study of monetary and financial systems in India remains one of the most significant intellectual achievements in the country's economic history. His pioneering work, *The Problem of the Rupee: Its Origin and Its Solution*, presented a comprehensive analysis of the Indian currency system from the Mughal era to the early 20th century. This paper reviews Ambedkar's critical observations on the evolution of currency, the silver monometallic standard, the introduction of paper currency and the transition to the gold exchange standard under British rule. It highlights Ambedkar's opposition to the gold exchange standard and his advocacy for a managed, inconvertible currency to ensure monetary stability. By examining historical developments, institutional practices and debates—including Ambedkar's critique of Keynes—the paper underscores the continued relevance of his views in understanding currency depreciation, exchange rate fluctuations and the need for robust monetary governance. The analysis also reflects on how Ambedkar's recommendations, such as tighter control over currency issuance and mechanisms for price stability, remain pertinent in today's context of fiscal deficits and inflationary pressures.

Keywords: Ambedkar; Indian currency; history of the rupee; silver monometallism; gold exchange standard; Keynes; monetary reform; paper currency; managed currency.

Introduction:

Ambedkar was the first economist to study the monetary standard of British India comprehensively. His primary area of research was on the history of the rupee from 1835 to the early 1920s. His research work was the most voluminous of his avowed and appreciated study viz, History of Indian Currey and Banking. He opposed the gold exchange standard pervading in India and strongly argued against linking the rupee with gold. He recommended the establishment of a fully-managed inconvertible currency with a fixed limit of issue. Introducing a currency system that will do away with the exchange and gold standard reserve is much better.

The Evolution of the Indian Rupee

Since the time of Ambedkar, the founder of the economic system of the Mughal Empire in India, the money in India consisted primarily of gold and silver–the gold mohur and the silver Rupee, identical in Weight, i.e. 175 grams. The two bore a fixed ratio to the dam (the Mughal Empire copper coin) and circulated at a fixed percentage at the exchange between them. In southern India, to which part the influence of the Mughal was not extended, silver, as a part of the currency, guided unknown. Under the Hindu emperors, emphasis was laid on gold. The pagoda, the coin of the ancient Hindu kings, was the standard of value and the medium of exchange and continued to be so until the time of the East Indian Company (Moon, Vasant). The coins of the Mughal Emperors were issued from the various mints, situated even in the most distant past of the empire, did not materially deviate from the standard and, throughout the empire, adhered red to the standard Weight of 175 grams pure.

With the disruption of the Mughal Empire into separate kingdoms, these branches of imperial mint located at different centres became independent factories for coinage purposes. The right of coinage came to be most wantonly abused. Everywhere the mints were kept in full swing and soon the country was filled with diverse coins, which presented bewildering media of exchange. The money-mongering sovereigns debased their coinage without altering the denominations. Thus, the currency lost its primary quality of general and ready acceptability. When the contents of the coins belied the value indicated by their denomination, they became merchandise and there was no more a currency to act as a ready means of exchange.

Thus, the poor and ignorant were defrauded by the vanishing of the empire there ceased to be such a thing as an imperial legal tender current all through India. The situation was such that trade was reduced to barter. There was no common medium of the problem. It was further complicated by the fact that although the denomination of the same, their metallic contents differed considerably. Due to this, one coin bore a discount or a premium over another of the same name. Without knowledge about the amount of compensation or value, everyone cared to receive cash for the species known to him and current in his territory. This hindered the trade and commerce of the country. The productive resources of the community were being misused. Therefore, according to Ambedkar, the task of "evolving good money out of lousy money fall upon the shoulders, of the English East Indian company, who had in the meanwhile succeeded to the Empire of the Mughal in India"

British Consolidation of the Currency System

The Directors of the company, in their famous Dispatch dated 25th April 1806 to the authorities administering their territories in India, declared themselves in favour of monometallic as the ideal for the Indian currency and prescribed that the new Rupee should be of the gross Weight of 180 troy gram containing 165-gram fine silver. The choice was a well-reasoned one. The choice of a rupee weighing 180 grams emanated from the desire to make it as little of a departure as possible from the rupee coin initially issued by the Mughals. The Weight of the principal coin to be established differed from 180 grams troy.

It was believed there would be an unhappy deviation from the ancient practice, which made the coin's Weight the basis of other weights and measures. The choke also had in its favour the added

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convenience of assimilating the Indian with the English units of weight. The following comparative statement may be seen from that time:

In light of the experience before them, the Court of Directors of the East India Company did well in fixing a monometallic standard as the basis of the future currency system of India.

According to Ambedkar, the recommendations of the courts of Directors were left to the different Governments in India to be carried into effect at their discretion regarding the time and manner of doing it. The task of reducing the existing units of currency to that proposed by the Court was first accomplished in Madras and was followed by Bombay six years later. The Government of Bengal had a much bigger problem to handle. It had three central units of silver currency to be reduced to the standard proposed by the Court. Thus, without abolishing the bimetallic system, substantial steps were taken in realising the ideal unit submitted by the Court, as seen from the Furrukabad following table:

At the end of 1833, that part of the directors' scheme, which pertained to the uniformity of coinage, was accomplished except for the sicca rupee and gold mohur of Bangal. Only the sicca rupee was to be discontinued. But at this point, a conflict arose between the Court of directors and the three Governments in India (Madras, Bombay and, Bangal).

In. 1833, however, by the Act of the British Parliament, an imperial administrative system was set up with the centralisation of all legislative and executive authority over the whole of India. The imperial Government, Thus, established was anxious to issue an imperial coinage in its name. Accordingly, an early opportunity was taken. By the Act of 1835, India was placed on a silver mono-metallic basis, with a rupee weighing 180 grams troy and containing 165-gram fine silver as the common currency and the legal tender throughout the country.

The adoption of silver mono-metallism, though well supported in the act of 1835, proved to be a measure quite inadequate for the needs of the country soon after. According to Ambedkar, this was because of structural changes in the economy, such as the transition from a ‘kind economy’ to a ‘cash economy and a rapid increase in external trade.The chief cause for this transformation was the British system of revenue and finance. Under the native rulers, most payments to Government employees were made in kind, which the British replaced with currency. The Government, having undertaken to pay in cash, was compelled to collect all its taxes in cash. Each citizen was bound to pay in cash, in turn, stipulated to receive nothing but cash, so there was a very significant—transformation of a barter economy into a cash economy. Moreover, India’s external trade, restrained earlier on account of the British's discriminatory tariffs and unjust navigation laws, received a boost with the tariff reforms of 1842 and the repeal of the navigation laws.The abolition of the navigation laws gave further impetus to expanding Indian Commerce; the demand for Indian produce had also been growing.

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As a result, there was an increased demand for currency. Unfortunately, it so happened that after 1850. However, the total Production of the precious metals had increased, that silver had not kept pace with the needs of the world, a more significant part of which was then on a silver basis; as a result of their currency law, India found herself in an embracing position of expanding trade with a contracting currency. Moreover, India has long been notoriously the sink of precious metals and a large part of the coined silver had been abstracted from monetary to non-monetary purposes.

Thus, the insufficiency of silver and the want of credit money caused so much inconvenience to trade that there grew up a change in the attitude towards the currency Act of 1835 and people, for once, began to ask whether it would not have been better to have preferred gold mono-metallism to silver mono-metalism. As more and more gold was imposed and coined, the stronger grew the demand for giving it a legal status in the existing system of Indian currency. According to Ambedkar, it was unfortunate that this first attempt against the silver standard resulted not in establishing a gold standard but in introducing a Government paper currency to supplement the existing silver standard.

In the mixed currency organisation in India, the paper currency only assumed a small proportion of the total. Ambedkar attributed it to the following two reasons:(i) the lowers denomination was too large to displace the metallic currency in a country where the average range of transaction did not exceed Rupee 1 and low as one anna or even lower, it is possible to expect that paper currency could not, to any great extent, figure on the dealings of the people.; Even Rs. 5 notes, the issue of which was first sanctioned in the year 1871, were not low enough to penetrate the economic life of the people. (ii) the other implement of the increase of paper currency was the difficulty of encashing notes; for the money, the country was divided into several circles of issue. Notes issued in a process were neither legal tender outside the issuing circle nor excusable outside the ring. This want of universal acceptability proved to be a great hindrance to the popularity of the note.

According to Ambedkar, the currency system based on the silver standard augmented by paper currency was a failure, for it did not lead to the stability of the currency's value. He points out that the Indian money market was subject to conclusions and sudden transitions. Indeed, the rate of discount exhibited abnormal fluctuations. Thus, the causes that convulsed the Indian money market were the inelasticity of the credit market and the working of the independent treasury system. These were the prime factors affecting the money supply of the country. These were the adverse effects of such convulsions in the form of price swings and the promotion of speculation. No serious attempts were made, according to Ambedkar, to alleviate the sufferings of the trading community.

While discussing the relation of part of an exchange between the two currencies, such as England and India, Ambedkar says there could be no possibility for a stable interaction between them because of the difference in their metallic standards. However, the average rate between England

and India seldom deviated. After 1873 however, the rupee sterling exchange suddenly broke loose from this average parity and the dislocation caused was great and disorderly.

For disturbances in this average rate, two factors have been appealed to as affording sufficient explanation, the demonetisation of silver as the standard money medium by the principal countries and the significant increase in the Production of silver as compared to gold. However, there was a controversy. There were parties to whom one of these two factors was a sufficient cause. One side argued that the suspension or demonetisation of silver not taken place and its value could never have fallen. This position was vehement of silver not taking place; its worth could never have been. This lost position was vehemently challenged by the other side, which believed in the oversupply of silver as the primary cause of its depreciation.

It gives historical facts and data. Ambedkar draws two conclusions; the first is that the supposed enormous increase in the relative production of silver was an assumption which had no foundation in reality. On the contrary, the comparative production figures disclose that silver production has been falling proportionately instead of rising. The second conclusion was that the value of silver in terms of gold did not move in symmetry with its supply relative to gold.

Facts showed that the supply of silver was falling and its value was also sinking. According to Ambedkar, such being the facts of history, it was contended that they gave no support to those who rested their case on over-supply rather than on demonetisation as a sufficient explanation for the depreciation of silver. Those who argued that the value of silver fell after 1873 because of its oversupply were faced with the problem of why the value of gold did not fall when its supply had become so abundant before 1873. Comparing the situation in 1848 to 1870 and 1870 to 1893, Ambedkar observed that the first period was characterised by the prevalence of bimetallism, under which the two metals could be used interchangeably at a fixed given ratio. They could not be used in the second period because the fixed percentage necessary for interchange had been abrogated.

Thus, the two metals, which were substitutes for each other during the first period were not so during the second period. In the case of commodities which are substitutes, the relative scarcity of one can be given more excellent value in terms of the other than that defined by their ratio of exchange because the freedom of substitution on the shortage can be made good by the abundance of the other. On the other hand, the relative lot of one cannot depreciate its value in terms of the other below the ratio of exchange because its superfluity can be absorbed by the void created as a consequence of a lack of the other. Ambedkar concludes it is safe to argue that if there had been no demonetisation of silver after 1873, the ratio between gold and silver would have probably been preserved.

This rupture of the exchange parity had far-reaching economic consequences. India was a silver-standard economy intimately bound to a gold-standard country, so gold and silver's economic and financial values governed the rupee-sterling exchange. Ambedkar presents a detailed discussion of the consequent needs of the dislocation of the exchange parity.

The fall in the value of the Rupee increased the burden on the Government of India; England being a gold-standard country, the Government of India's payments to England on maintenance of European troops, Interest on debt and the like had to be made in gold. However, the revenues of the Government of India, out of which these payments were received in silver. As such, the burden on the Government of India increased 'part passu' with the fall in the gold value of silver. The situation was exacerbated further by even growing gold payments. As a result, the rupee cost of the gold charges grew both because of their magnitude and the repatriation of the medium, i.e. the appreciation of gold in which they were payable. The figure in the table gives a convincing testimony of how greatly this double levy diminished India's revenues.

This led to a fiscal policy of high taxation and a rigid economy in the finances of the Government, Owings to its financial difference in finding money for available public works. Like all governments of poor people, the Government of India had to turn to weal their countries with surplus capital to lend. All these countries, unfortunately, happened to be on the gold standard.

As long as it was possible to say that so much gold was equal to so much silver, the English investor was indifferent to whether the securities of the Government of India were rupee securities or Sterling securities. However, the fall in the gold value of silver was once a secure investment that ceased to be so anymore. This placed the Government in a different position in financing its public works. Consequently, ordinary people had to suffer.

The Figures in the table are worth studying. The fall in the value of the Rupee had quite a different effect on trade and industry in India. The foreign exchange showed a significant buoyancy of there 1870. Show in the figure.

The industrial composition was also significantly altered, reversing the earlier trend; India once again began to assume the role of a manufacturing country.

These developments were widely attributed to two factors: first, the Rupee depreciation stimulated exports and hindered imports; second, it exposed English producers more than others to compete with their rivals in silver-using countries (on account of the overvalued sterling). Ambedkar did not accept this reasoning entirely.

He argued that the fall in the gold price of silver was a reflection of more sweeping changes in the general price level of the two countries, the fall of the English prices, which were measured in gold and the rise of Indian prices in gold silver. The conclusion, therefore, is that a falling exchange (rate) would not have disturbed established trade relations or displaced those commodities that entered into international trade.

It could almost be attributed to it is its incidence in economic incentive. Such financial incentive to Indians was said to provide by bringing about changes in the social distribution of wealth. In

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the case of England, where prices were falling, it was the employer who suffered; in the case of India, where prices were rising, it was the wage earner who suffered. In both cases, an injustice was done to a part of the community and an easy matter for the reform of currency was made out. Ambedkar points out that the need for a currency reform was recognised in England, but many people seemed overage to it in India. To some, the stability of the silver standard had made a powerful appeal, for they failed to find any evidence that Indian prices had risen above the level of 1873. To others, the bounty of the falling exchange was too great a boon to be easily given away by stabilising the business. The falsity of both views is apparent. Ambedkar points out that prices in India did rise that too considerably. Bounty, perhaps there was, but it was a penalty on the wage corner.

Thus, as viewed, the need for the reform of Indian currency was more urgent than could have been saying of the English money from the point of view of its evidence on the distribution of wealth; very little can be displayed in favour of a standard which exchanges its value and which becomes the via media of transferring wealth from the relatively poor to the rather.

Besides, private trade became more or less a matter of speculation. Fluctuations in exchange are, of course, were outcomes of incident of international trade. However, if they are not to produce, a discontinuity in business and industry, there must be definite limits to such fluctuations. If the boundaries are ascertainable, the trading world be reasonably confident in its calculation and exchange speculation would be limited within the known limitations of deviations from an established par whereas, on the other hand, the limits are unknown, all calculations of trade get distrubed and speculation in exchange takes the place of legitimate trading.

According to Ambedkar, with the rupture of fixed par of exchange and the resultant fluctuations in the value of the standard measure, trade advanced by rushes and pauses and speculation became feverishly active.

Ambedkar traces the history of the agitation for reforming the Indian currency during the last decades of the nineteenth century. The frenzy aimed to restore a common standard of value and its accomplishment was by no means an easy matter. There are two ways to carry it out in practice. One was to adopt a common metal as currency; it meant abandoning the silver standard and adopting the gold standard. The other was to let the gold and silver standard countries stick to their coins and establish a fixed ratio of exchange between them to make the two metals into a common standard of value. However, the movement from introducing a gold standard was the first to occupy the field.

Ambedkar provides a detailed and critical account of various proposals submitted for the reform of the Indian currency system, the Temple Plan (1872), the Smith Plan (1876), The Government of India Scheme (1886), Herschel Committee (1892), Flower committee 1898 and so on. According to him, "The Government did not start to establish a gold-exchange standard. Further, it was contemplating the establishment of a true gold standard", but it ended up establishing the gold exchange standard at the hands of men who 'inadequately understand' the proper gold standard. He then went on to provide an insightful discussion of the relative merits and demerits of the gold standard via a vis the gold exchange standard.

The pure gold standard comprises using gold in some form, especially coins, as a medium of exchange. In its variant called gold- convertible standard paper money is also issued in addition to gold coin and is pledged to be redeemable in gold. In contrast, under the gold exchange standard, the medium of exchange comprises only paper money, which is kept exchangeable at fixed rates with gold and authorities back it up with foreign currency reserves of such countries as are on the gold standard.

In the controversy regarding the relative effectiveness of these currency standards in the Indian context, Ambedkar crossed swords with Keynes. In his treatise, Indian Currency and Finance (1909), Keynes favoured the gold exchange standard and maintained that the gold exchange standard contains an essential element as the ideal future standard. Ambedkar vehemently criticised Keynes and other supporters of the gold exchange standard and argued in a modified form in favour of the gold standard.

Ambedkar argued that the gold exchange standard does not have the stability of the gold standard. Under the gold standard, additions to the currency supply are so small that strength is not affected. On the other hand, under the gold exchange standard, additions are dependent upon the will of the issuer. They can be augmented to such an extent that stability could be jeopardised. He provided statistical evidence to show that in the Indian context, prices varied much less under the gold standard than under the gold-exchange standard; like Keynes, had argued that the gold-exchange standard allows an escape from this frigidity.

Ambedkar's counter-argument was that there must be some regulator by which the discretion left to the issuer is regulated. Under the gold-exchange standard, the choice left to the issuer is unregulated and is, therefore, undesirable. To the argument that the gold exchange standard economies on gold, Ambedkar reasoned that economising gold raises its supply, thereby lowering its value and, as a depreciating commodity, it becomes unfit to that extent to function as a standard of value.

The Royal Commission on Indian currency and finance visited India in 1924-25 to exchange the financial system and suggest reforming the Indian currency. Ambedkar explained his views in the Statement submitted in reply to the questionnaire issued by the commission. He has told the following plan for reforming the Indian currency.

i. Stop the Rupee's coinage by closing the mints to the Government as they are to the public.
ii. Open a gold mint for the coinage of a suitable gold coin
iii. Fix the ratio between the gold coin and the Rupee.

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iv. Rupee not to be convertible in gold and gold not to be convertible in Rupee, but both to circulate as unlimited legal tender at the ratio fixed by law.

Based on the above suggestions, Ambedkar’s views are highly relevant because of massive budget deficits and their automatic monetisation. We could do with an effective restraint on liquidity creation through an automatic mechanism. Today we have no gold or gold exchange standard. The whole perspective has undergone a sea change. However, we can still take lessons from his economic philosophy. For instance, during the later years of the 1980s, 1990s and even in the early 2000s, the Rupee depreciated about major currencies so much that it seriously affected India's credit rating. This is also the period of high prices.

Thus, we find that currency was issued in excess, resulting in a fall in the purchasing power of the Rupee locally and the depreciation of the Rupee internationally. This is precisely the situation visualised by Ambedkar. A strict control on the issue of currency was what Ambedkar advised in those days, which is exactly what we need today. Ambedkar had shown excellent scholarship and hard work in this book which received wide acclaim from his contemporaries, as an intelligent study of the currency problem of the Indian subcontinent.

Conclusion:

Ambedkar’s study of the Indian currency system is a landmark in economic thought, combining historical analysis with sharp policy insight. He traced the journey of Indian coinage from gold and silver standards under the Mughals to the British consolidation of a silver-based monetary system and its eventual challenges in an era of global trade and fluctuating precious metal supplies. Ambedkar identified how the rigidity of the silver standard, the inadequacy of paper money circulation and the volatility caused by demonetization of silver destabilized India’s economy, increasing fiscal burdens and distorting trade. His criticism of the gold exchange standard, especially its discretionary and inflationary potential, emphasized the need for disciplined currency management. By advocating for a controlled, inconvertible currency backed by statutory limits, Ambedkar anticipated concerns of liquidity, credit and price stability that are still relevant today. The lessons from his work—prudence in money supply, the importance of stable exchange mechanisms and the need for policy autonomy—remain critical for a developing economy seeking resilience in global markets. Ambedkar’s scholarship demonstrates that monetary systems are not merely technical constructs but are deeply tied to social justice, governance and national progress.

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