THE INDIAN ECONOMIC ASSOCIATION

SEVENTY SIXTH ANNUAL CONFERENCE

19-21 FEBRUARY 1994

BOMBAY

Platinum Jubilee Year
1993-1994

CONFERENCE VOLUME

A PROFILE OF DR. B.R. AMBEDKAR'S VIEW ON THE CONCEPT OF CONVERTIBILITY OF RUPEE

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Introduction

Dr. B.R. Ambedkar was recognised as an eminent economist with a multifarious brilliance and was considered to be an authority on currency and public finance. He enriched the process of Indian Economic Thoughts in the different field of economic problems of India. In his Ph.D. thesis, "The Evolution of provincial finance in British India", he tried to find out the sources of revenue, items of expenditure and restrictive trade practices and their unjust and inequitous nature. His pioneering contribution "The problem of Rupee: its origin and solution (later published as "History of Indian currency and Banking". Vol-1) in his D.Sc. dissertation in 1923, was glancing through the history of Indian Currency from the beginning upto the establishment of gold exchange standard. He bitterly criticised the anti-Indian British currency policy. This work brought him international reputation in the field of economics. Besides, he suggested Indian Government to give priorities to key and basic industries alongwith agriculture. He also suggested that the state should provide capital and implement for cultivating the farm on collective basis. He was dead against on land-tax, transit-tax and octroi duties imposed by the British Government.

In this paper, I shall try to endeavour to analyse his concept of rupee convertibility and find out any relevance of present rupee convertibility.

Ambedkar's concept of convertibility of Rupee

Dr. Ambedkar in his "The Problem of Rupee", pointed out that it must be an error if we think that the convertible currency is an automatic and an inconvertible currency is a managed currency. Because a convertible currency may be managed if it depends upon the decretion of the issuer. In the management of a convertible currency the discretion as the issue is regulated, while in an inconvertible currency it is unregulated. Convertibility is a brake on the power of issue but it may convertible due to mismanagement resulting in over issue.

To explain the character of the convertibility of the rupee in India, Ambedkar argued that it was a deferred, delegalized, delocalised, and therefore a devitalised kind of convertibility. Indeed, really it was not a convertibility, but rather it was a moratorium which was a negation of convertibility in practice. It simply meant that until a full of exchange takes place there was moratorium as long as exchange did not fall, but there was no guarantee that the moratorium would be lifted when a fall did occur. It might not be lifted, for it was a matter of conscience and not that of law.

For the scrutinisation of the above conception, Ambedkar analysed the Indian Currency system vividly in practise. He differed with Keynes who believed that the European currency system was analogous to the Indian currency system during the Bank Suspension period (1979-1821). Under the Indian Currency System, the gold sovereign and the silver rupee were full legal tender and the rupee was an inconvertible currency unlimited in issue. On the other hand, in the English system of currency, the gold sovereign and Bank of England's notes were full legal tender and the notes were an inconvertible currency unlimited in issue. In this case, Indian government converted the rupee into gold at a fixed rate for foreign remittances if the exchange falls below par but Bank of England did not do so. Again, England was in Gold standard but India was in Silver Standard during the suspension period.

Then, Ambedkar analysed what had happened when England moved from Gold Standard to Gold Exchange Standard and to what extent this could affect in Indian monetary system.

The Coinage Act of 26 June, 1983 abandoned the Silver Standard and free coinage of silver. In 1989, Fowler Committee was on the opinion that India should adopt the gold standard with gold currency, but silver should continue to circulate as a token coin, rupee should be freely convertible into gold externally but not internally. Lindsay advoced the adoption of Gold Standard without gold currency and Messers. Probyn Proposed gold standard with a gold currency. Also the Bengal Chamber of Commerce, Indian Currency Association urged the Government to introduce the gold standard, in 1982. But the Currency Committee (1898) did not approve such plans. The Act of 1898 authorised the issue of paper currency against gold deposited in London and was made parmanent in 1902 with a corresponding transfer of silver from Government balances to the paper currency reserve in India. Fowler Committee wanted to keep the gold reserve in India, but the imperial Government decided to keep it in London. Thus was created the Gold Standard Reserve in the name of Gold Exchange Standard where reserve was kept in the form of sterling securities. This system was in vogue in 1913 by the Royal Commission on Indian Finance and currency. The sterling securities would serve as 'currency reserve' and 'banking reserve' prescribed by Keynes. This Gold-Standard-reserve or sterling exchange-standard served admirably the imperial interest and stabilised the British Money Market. When the exchange value of the rupee became subject to a downward pressure, an external drain from the reserve would have to be allowed from ensuring exchange stability. The facility for conversion of Indian currency into gold in India would not be subject to a simultaneous internal crain. (N.Sen, 1992).

Ambedkar argued that under both Bank charter Act and Bank Suspension Act, England was mixed currency, partly gold and partly paper. Under Bank Suspension Act, the issue of gold became limited and that paper unlimited but under Bank Charter Act the process was reversed. "In the same manner; under the original scheme of the Government of India, the issue of rupee was to be limited and that of gold unlimited. Under the present system (i.e. gold standard reserve) the issue of gold has become limited while that of

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rupee has become unlimited". (Ambedkar, 1947 page 164). Hence the rupee was inconvertible which had a powerful effect on the supply of currency. Ambedkar had in mind then, whether gold-standard with gold currency or gold exchange-standard with paper currency inconvertible with gold could stabilise more than standard of value in Indian monetary system. Convertible paper money has the provision of reserve for check on its expansion whereas convertible paper money has not but can cause depreciation or rise in prices. Since the rupee is a debased coin (according to B.K. Madan), inconvertible and unlimited legal tender, it has the potentiality of indefinite expansion which cause depreciation and rise in prices (Ambedkar 1947 page 166).

Ambedkar pointed out that the stability of the exchange standard was threatened by several reasons, such as, the rupee fell twice below its gold par (1 Rupee = 7.53344 troy grams of fine gold) between January 1988-1917, the gold value of silver was falling, rupee had lost its general purchasing power because currency issued in excess, during 1893-98, 1900-1908, 1909-1914 (although moderate), Government sold reserve councils on a large scale, inadequency of gold reserve and the depreciation of currency etc.

On the question of purchasing power parity of rupee, Keynes and Kemmerer argued that if the gold value of the rupee was maintained because gold prices and rupee prices were equal inside and outside India in the Gold Standard Reserve, then gold exchange standard can be treated as gold standard.

But this explanation was challenged by Ambedkar showing statistical proof that prices in India, not only rose as much as gold prices, but also rose more than gold prices during 1893-1922 (page 232, 234): It was true that the maintenance of the exchange standard implied a purchasing power parity of the rupee with gold, it was not a purchasing power parity of the two currencies with respect to all commodities. "The rupee maintained its gold value does not preclude the possibility of Indian prices being, on the whole, higher than gold prices, thereby vitialing the prior view that the exchange standard is as good as the gold standard (Ambedkar 1947, page 237).

Ambedkar also proposed that India should adopt Gold Standard with gold currency (like mohar) because of more stability of the currency system, in context of supply and management of the currency. But the Chamberlin Commission argued against it. The arguments are i) Indian people will heard gold and will not make it available in a crisis ii) India is too poor to maintain such expensive money material as gold iii) transaction of Indians are too small to permit of a gold circulation and iv) paper convertible to rupees is the best form of currency.

Ambedkar recountered the arguements as follows:

(1) The arguement of hoarding can be used against any people and not particularly against the Indians. "If they hoard gold that means they do not cease to spend it on currency purchases or that they have another form of currency which is inferior to gold". If people hoard exportable currency then it is the fault of the currency system, not the fault of people.

(2) If gold disappears from the circulation, then its cause should be over issue of another kind of money. Any country can maintain a gold currency provided it does not issue a cheaper substitute.

(3) "The difficulties of circulation raises a problem of coinage. But the considerations in respect of coinage cannot be allowed to rule the question as to what should be the standard of value".

(4) The commission did not want Indian Rupee should be protected. Because paper currency is a danger to the value of the rupee if it is inconvertible and faces competition with convertible money. The danger will be equal in both cases if the unit of account is not protected against being driven below the metal of ultimate redemtion by free convertibility into that metal.

The Fowler Committee observed that U.S.A. and France have gold standard with gold currency and have external and internal convertibility and gold for international exchange. India should have same facilities. But, in India, gold at fixed par in exchange will be complicated in operation and unstable with easy mints of silver coinage in practice. The committee rejected and noted that what was sufficient for U.S.A. and France, was not sufficient for India.

Ambedkar argued that "Limitation of legal tender or convertibility can be said to be essential only because they are the means of bringing about a limitation of issue, if the requitate limitation of issue was provided for in other ways, the purpose for which convertibility or limitation of legal tender was asked for was accomplished". (Ambedkar 1947, page 269).

Present day relevance of Ambedkar's view on the concept of Rupee convertibility

Indian Rupee is deemed convertible to dollar fully on trade account in 1993-94 budget and it will also be convertible on both current and capital account within two years. Hence, Indian monetary system is now following the managed floating exchange rate mechanism in the international monetary system.

Is there any relevant concept of convertibility as advocated by Dr. Ambedkar on the recent rupee convertibility?

The answer is no, but a part of his concept is still relevant and a sufficient impact in the Indian monetary system as well as in the international monetary system.

The classical gold standard is now obsolete and in operative in the world. Since, the stability in the international monetary system has halted after the Bretton Woods and the world has been, facing multiple currency standard and the eminent U.S. Economists suggested to go back to Gold Standard mechanism for stability with a single international money. Ambedkar's view is nearer to this concept. Yet the countries of present world have confronted with managed/freely floating exchange rate either inconvertible or convertible with hard currencies/single dominant currency/S.DR/a basket of currencies. In this context, the concept of convertibility of Rupee given by Ambedkar has no relation in Indian Currency System. Besides rupee is now only convertible in trade account only. Moreover, a question arises, will the rupee convertibility with dollar with managed floating stabilise the Indian monetary system? or will this system stabilise B.O.P. of India? The answers are no, but hopeful. In the first case, the currency management is weak and subject to unlimited expansion. Out flow of foreign exchange will go up if there are decreasing rate of exports and increasing rate of imports. This ultimately induce the minimum reserve requirement which will distort currency system.

In the later case, Indian exports are inelastic, non-competitive as well as India's world export share has been declining whareas, imports are elastic and its share has been increasing. Naturally balance of payments stability becomes divergent with increasing the trade gap. For correction of such gap, the exchange rate depreciation of Rupee in the long run Exchange Rate Management System has been applied. But this will be inflationary and happens to be further successive depreciation. This notion has already forecasted by Ambedkar in the inconvertible currency during the gold exchange standard regime in India. In 1920, Indian Government depreciated Rupee, exported gold and circulated gold "Mohar" to check the war time inflation. Before that, external value of rupee fell to 16.73 pence in 1991-92 from 21.63 pence in 1875-76. Presently, the effectiveness index of depreciation of Rupee is .5598 (as on Jan.'93) which is too short for the range of two years to get the benefit of depreciation. Thus, the policy of rupee convertibility (although incomplete) with depreciation is weak to achieve B.O.P. stability and export competitiveness.

In the management of currency, convertibile rupee produces, security scam, weak performances in foreign currency swaps, etc. destabilise the external value of rupee, increase burden of debt and shortage of international liquidity.

Ambedkar's view could be relapse in te sense that convertible currency system with a single key currency throughout the world with free float, can stabilise the monetary system with minimum reserve of gold with or without gold currency in circulation.

But this possibility of the mechanism will become narrow because world consist of several blocs with their key currencies or common currency competiting with each other to be a prominent international money in the world payments mechanism.

Moreover, management of currency will be feasible and viable if convertible currency produces foreign capital inflow and stability of home market both in capital and money leading to curing in B.O.P. deficit. Since, dollar is not as good as gold, world interest structure is not favourable to convertible rupee, India's exports distributions in various blocs may destabilise rupee-dollar convertibility in the Indian monetary system. Again, Sterling Exchange Standard with convertible rupee helped British emperialism to expand. Cann't we say that the convertible rupee to dollar may gear up U.S. emperialism? Ambedkar is synonymous with this concept.

Conclusion

Dr. B.R. Ambedkar was the advocate of Gold Standard with gold currency with/without convertible paper currency. He tried to show the British exploitation in the regime of sterling-exchange standard or Gold-Standard reserve. According to him, Indian Currency System was served for emperial interest. He showed that the British could not introduce Gold Standard at will, although world was in the Gold Standard. His ideas on convertibility were based in three themes, i) Efficient Currency Management, ii) Stability is monetary system at home, iii) Stability in the international standard.

If Indian monetary system introducing rupee convertible to dollar can achieve these objectives, the essence of Ambedkar's monetary theory will imply a sufficient reality in practice, even after the advancement of the half century.

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B.R. AMBEDKAR'S CONTRIBUTION TO THE HISTORY OF PROVINCIAL DECENTRALIZATION OF IMPERIAL FINANCE

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Introduction

One of the importent topics of the economic history of India, the origine, development and organisation of provincial finance during the British rule, has surprisingly enough escaped the attention of the most of the writers on the subject. With the possible exemption of M.G. Ranade, who presented a fragmentary sketch of 'provincial decentralization' in 1887, the subject remained untrodden till Dr. B.R. Ambedkar published has path breaking pioneering work *'The Evolution of Provincial Finance in British India'* in 1925.[1] Expressing the difficulties besetting his task, Ambedkar himself mentions that "no spade work has been done in the field of Indian Finance".[2] The book is divided into four parts, each one dealing with the origine, development and organisation of provincial finance and the final form in which it was cast by the constitutional change of 1919.

The present paper aims to study and evaluate Dr. Ambedkar's pioneering contribution to the origine and development of provincial finance during the British period. It will discuss his opining regarding different stages of decentralization, and compare it with that of M.G. Ranade, one of the earliest writers on the subject. Towards the end, an effort will be made to investigate the main cause in Ambedkar's opinion that led to the enactment of the Reform Act of 1919 which marked the beginning of the modern history of public finance in India. It will also examine Dr. Ambedkar's view on financial relationship between the centre and the provinces.

Imperial Finance[3] Between 1833 to 1871

A progressive centralization of fiscal power was the stricking feature of the East India Company. The three presidencies were completely independent of each other, till 1773 when Bombay and Madras were subordinate to Bengal, under a governor general, but it was not until 1833 that a central government was established, separate from the government of Bengal and with complete powers over the three presidencies. Likening the several presidencies with separate clock each with own mainspring in itself, Dr Ambedkar says: "Each possessed the powers of sovereignty, such as the legislative, the penal, and the tax powers. They were independent in their finance. Each was responsible for the maintenance of services essential for peace, order and good government within its jurisdiction and was free to find money by altering or levying taxation or borrowing on credit to meet its obligations.[4] The Act of 1833 put an end to this situation, and the financial system which was roughly analogous to the system of separation of sources and contribution from the yield was changed into a system of aggregation of sources and distribution of the yield.[5] Thus with the Imperial system of the government in India in 1833, the system of Imperial Finance started and very soon it became so comprehensive that when in 1858 the Crown took over from the East India Company the government of India, it was found that no province had any separate power of legislation, any separate financial resources, or practically any power of creating or modifying any appointments in the service; and the references to the Government of India which this last restriction involved gave that government the opportunity of interference with all the details of provincial administration".[6]

From its very start the Imperial system of government suffered from the fatal disease of financial inadequacy, and it was only occasionally that the efforts of the finance ministers were successful in restoring an equilibrium and staving off the hours of crisis.[7]

Ambedkar's Criticism of Imperial Finance

According to Dr. Ambedkar, 'the inadequacy of Imperial finance was mainly due to an unsound fiscal policy'. The land tax was the heaviest impost of the imperial revenue system in operation, which prevented the prosperity of the agricultural industry. Another source of income was the custom duty which hampered the manufacturers of the country. There were internal customs and external customs and both were equally injurious to trade and industry.[8] Salt tax and other oppressive taxes continued to harass the industrious poor. 'Under the injurious revenue system of the Imperial government, the taxing capacity of people decayed so that notwithstanding the numerous resources from which it derived its revenue, the Imperial government was unable to make both ends meet.[9] As far expenditure is concerned, the military invariably consumed more than one half of the total revenue of the country.'[10] To this should be added the internal charges on war debts. In short, 'the bulk of the money raised by injurious taxes were spent in unproductive ways'.[11] 'Education formed no part of the expenditure incurred, and useful public works were lamentably few'.[12]

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