CHAPTER - V
CHAPTER-V

THE PROBLEM OF THE RUPEE - ITS ORIGIN & ITS SOLUTION

5.1. Introduction

In this chapter, the study aims at portraying an outstanding world famous scholarly dissertation work of Dr. Ambedkar i.e. *The problem of the Rupee - its origin and its solution*. It was submitted for the degree of Doctor of Science to the London School of Economics in 1921. This work was first published in London in 1923 and ever since its publication, the demand for the book increased. In fact, to quote Dr. Ambedkar, "It has had a great demand: So great that within a year or two the book went out of print. The demand for the book continued," (Moon 1989:323). But unfortunately, he could not bring out the second edition and says "the reason for that maybe that the change-over from Economics to Law and Politics left me no time to under take such a task" (Moon 1989:323).

In order to fulfill the demands of the book for the public, he designed another plan of bring out an up to date edition of the History of Indian currency and Banking in two volumes. *The problem of the Rupee* forming volume one, and the *History of Indian Currency and Banking*, covering the period from 1923 onwards forming Volume two. After twenty-four years, on 7th May 1947, he brings out a mere re-print of the problem of the Rupee under a different title, *History of Indian currency and Banking*, and hopes that this may satisfy the public partially though not wholly. He further assures to the public to bringing out the second volume soon. But due to the his appointment as a Law Minister and finally his being chosen by the Constituent Assembly as the him as the Chairman of the drafting committee for drafting the Indian Constitution left him no time to complete this task.
Dr. Ambedkar, in this volume, gives a detailed account of an exposition of the events that led to the establishment of the exchange standard and an examination on the basis of theoretical analysis. He takes a wider and detailed side of the historical analysis of the matter, than that of any other writer has taken of that period. He, however, finds no treatises on Indian Currency that provide an adequate idea about the circumstances leading to the reforms of 1893. Therefore he deems the treatment of the early history is quite essential in order to furnish the reader with a reasoned perspective so as to enable him to judge for himself the issues involved in the currency crisis and also of the solutions offered. Hence, he delves deeply into that period of the history of Indian currency which was most neglected i.e., the period from 1800 to 1893. Further he observes that the story of exchange standard was abruptly begun by other writers who popularized the notion of the exchange standard being the standard originally contemplated by the Government of India. Dr. Ambedkar finds that it was a gross error. He proposes to expose the error and point out the way in which gold standard came to be transformed into a gold exchange standard. Dr. Ambedkar notes, "But the conclusion he has arrived at are in sharp conflict with those of mine. Over differences extended to almost every proposition he has advanced in favour of the exchange standard. This difference proceeds from the fundamental fact, which seem to be quite overlooked by Prof. Keneyes, that nothing will stabilize the rupee unless we stabilize its general purchasing power that the exchange standard does not do the standard concerns itself only with systems and does not go to the disease; indeed, on my showing, if anything, it aggravates the disease" (Moon 1989:328).

Along with Dr. Ambedkar, other writers who also opposed to the exchange standard and as far as providing an alternative remedy was concerned opined that the best way for stabilizing rupee was for effective convertibility into gold. Here, dr. Ambedkar does not deny that this was
only way of doing it, but he thinks that, "a far better way would be to 
have an inconvertible rupee with a fixed limit of issue" (Moon 1989:328). 
Further he says that, if he had any say in the matter he "...would propose 
that the Government of India should melt the rupees, sell them as a 
bullion and use the proceeds for revenue purposes and fill the void by an 
inconvertible paper." (Moon 1989:328). But, this he thinks was too 
drastic a view and therefore would not press for it, although he regards it 
as essentially a sound system. Further he opines, "the vital point is to 
close the mints, not merely to the public, as they have been, but to the 
Government as well, once that is done, I venture to say that the Indian 
Currency, based on gold as legal tender with a rupee currency fixed in 
issue, will conform to the principles embodied in the English currency 

This book The Problem of the Rupee is divided into seven chapters 
covering two hundred and seventy nine pages. These chapters are (i) 
From a Double standard to a silver standard (ii) The silver standard and 
the dislocation of its parity (iii) The silver standard and evils of its 
instability, (iv) Towards a gold standard (v) From a gold standard to a 
Gold Exchange standard, (vi) Stability of the exchange standard and (vii) 
A return to the gold standard.

CHAPTER I

5.2 From a Double Standard to Silver Standard

In this first chapter, Dr. Ambedkar gives a detailed description of 
the history of Indian currency till 1870, which includes the prevailing 
conditions of currency in Moghul Empire, princely states and British 
presidencies. In the introduction of the chapter he analyses the 
importance of money, as a necessary medium of exchange in a trading
society. To quote Dr. Ambedkar, "...money therefore necessarily becomes the pivot on which everything revolves with money as the focusing-point of all human efforts, interests, desires and ambitions, a trading society is bound to function in a regime of price, where successes and failures are results of nice calculations of price-outlay as against price products...It is therefore evident that if a trading society is not to be out of gear and is not to forego the measureless advantages of its automatic adjustments in the great give-and-take of specialized industry, it must provide itself with a sound system of money." (Moon 1989:335).

Dr. Ambedkar describes the Indian Economy at the close of the Moghul Empire in India to have been economically advanced, with large trade, well-developed banking institutions and good credit facilities. But during the middle of the eighteenth century under the influence of British, there was no medium of exchange and common standard of value in the economy of the Indian people. But before this event came into being, the money in India constitutes both gold and silver. Gold was prominently used in Hindu emperors' regime whereas, silver constituted a large part of the circulating media during regimes of the Muslim rulers. During the time of Akbar who laid the foundation of the economic system of Moghul Empire in India, the currency consisted of the gold mohur and the silver rupee, both of which were identical in weight and were in circulation without any fixed ratio of exchange between them. Dr. Ambedkar explained this situation as, "There existed an alleviating circumstances in the curious contrivance by which the mohur and the rupee, though unrelated to each other, bore a fixed ratio to the dam, the copper coin of the empire. So that is permissible to hold that, as a consequence of being fixed to the same thing, the two, the mohur and the rupee, circulated at a fixed ratio." (Moon 1989:337).
In South India, where there was no extension of the Moghuls' influence, silver did not form the part of the currency system, as it was unknown to them. The golden coin called "pagoda" was in circulation till the establishment of East India Company in India. The Moghuls exercised the right of coinage in a more responsible manner and maintained the material standard of the coinage inspite of the imperfect technology of coinage and issue of coins from different mints. It has been analyzed through a table showing that the coinage was maintained to the standard weight of 175 qrs pure throughout the period of the Moghul empire. Because of the single authority of Moghuls Empire, it could maintain material standard in coinage even though there existed plurality of mints. But due to the break down of Moghul empire into separate kingdoms, those branches of the imperial mind became independent for the purpose of coinage. To quote Dr. Ambedkar, "Everywhere the mints were kept in full swing and soon the country was filled with diverse coins which, while the proclaimed the incessant rise and fall of dynasties, also presented bewildering media of exchange... They could do what they liked with their own and proceeded to debase their coinage to the extent each chore without altering the denominations. Given the different degrees of debasement, the currency necessarily last its primary quality of general and ready acceptability" (Moon 1989:338-339). As a result of this evil effect there was no currency that could be readily accepted as a means of exchange. When the Moghul Empire disappeared completely, there ceased to be anything-imperial league tender money in use throughout India. This led to the local tender money in use to grow up within the different principalities limiting to their respective boundaries. There was a total confusion regarding common medium of exchange. Therefore the society nearly sank into a state of barter. This was further complicated by the fact that the metallic contents of the coins differed considerably even for the same denomination. As a result, one coin bore an extra sum of money against another of the same name. Therefore, according to Dr. Ambedkar, "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" (Moon 1989:341). When the East India Company succeeded the Moghul empire, the task of developing good money out of the bad money gradually fell upon it.

The directors of the East India Company took the first step in referring the Indian currency by dispatching a document on 25th April 1806 to the administrators of the British India. In this famous historic document, they observed that because of the function in the values of gold and silver coins metals, their relative values cannot be fixed, without the loss. Therefore the gold and silver coins cannot be circulated as legal tenders of payment. Hence, the directors of the East India Company declared themselves that mono-metallism was to be the ideal form of currency; in the future, for India, silver was prescribed as the universal money of account in India. Further, the accounts were to be kept in rupees, annas and pice denominations. The rupee which was in circulation during Moghul period was prescribed to change in weight and fineness. So the prescribed new rupee's gross weight was to be 180 Troy grains and was to contain 165 fine silver troy grs as the unit for the currency. But the situation in three presidencies was different; they made a great advancement in selecting their own gold and silver coins out of innumerable coin which were in circulation, the details of the weights and fineness of the coins of the respective presidencies adopted can be seen in a summary table - I(Moon 1989:344). Also in table - II(Moon 1989:345). it has been given to show that, the proposed standard weight of the principal unit of currency at 180 grs troy would not cause little disturbances in the existing arrangements adopted by different presidencies in India. Further, in table III(Moon 1989:351). It has been shown that without repealing the bimetallic system, considerable steps were taken in realizing the ideal unit proposed by the Court of Directors.
When the Court of Directors decided at the end of the 1833, of discontinuing the sicca rupee and demonetisations of gold, it was at this point, the conflict aroused between the Court of Directors and the three presidencies and they showed considerable reluctance to the scheme of demonetisations of gold. The Madras Government insisted for the continuation of the coinage of gold along with rupee also. This was to the surprise of the Court of Directors as the Madras Government was to the first to implement the currency reforms as per the plan of the court. However, on the contrary, it not only insisted for the continuation of gold coinage along with the rupee, but was also strongly not ready to deviate from the double standard of legal tender money with a fixed ratio system, which was prevalent in its territories. On the other hand, the Government of Bengal too stuck very firmly to the bimetallic standard instead of demonetizing the gold mohur. As a result of this uniform currency system, each of the presidencies developed their own fiscal system, under which, each coined its own money, with interdependencies in the supply of finance between themselves. But this resource operation has been hampered greatly, due to the absence of the common currency in the country. In a nutshell, the Court planned to have a uniform currency with a single standard of silver, whereas these three presidencies wanted to have a common currency with a bimetallic standard. However this controversy did not last long. A sea change could be found in the monetary system of India, when the Act of Parliament brought an imperial system of administration for the whole of India. Further, this brought a change in the prevailing monetary systems. Under this situation, the local coinages were to be replaced by the imperial coinage by an Act of the Imperial Government – (XVII of 1835).
Thus, a common currency system as a sole legal tender was introduced for the whole of India and on the other hand, the imperial Government banned the use of Gold coins as a legal tender of payment in the East India Company's territories. As an approval to this step Dr. Ambedkar said, "It marked the culminating point of a long and arduous process of monetary reform and placed India on a silver mono-metallic basis". (Moon 1989:354). But this British Indian legislation has brought a lot of discontent and criticisms than any of its act. However, according to Dr. Ambedkar, "In so far as the Act abrogated the bimetallic system, it has been viewed with a surprising degree of equanimity" (Moon 1989:355).

In this background of abrogation of bi-metallism in India, Dr. Ambedkar gives a vivid account of the position of relative value of gold and silver coins in relation of their production in the different countries like Australia, California (due to gold discoveries) in the United States, France, Belgium, Switzerland and Italy. Further, he narrates that the Government of India also was in trouble due to the disturbance in the relative value of gold and silver, as the currency law of 1835 could not close the mints for free coinage of gold. It was probably to collect the seignorage (Mint tax), which constituted as one of the sources of revenue to the Governments. Since gold was not a legal tender, therefore, it was not brought to the mint for coinage, as a result, the revenue of the Government from the sources of seignorage reduced. In order to reduce this loss of revenue, the Government encouraged the coinage of gold by reducing the seignorage from 2 percent to 1 percent in 1837. Even this step did not sufficiently attract people to bring gold for coinage to mint. This brought a further reduction in the seignorage sources of revenue of the Government. So, the government as another step in the same direction issued a proclamation in 1841, authorizing the officers who are in charge of the public treasuries to receive the gold coins at the ratio fixed by the government i.e. one gold mohur equal to 15
silver rupees. At this ratio, the public did not come forward to exchange their gold coins against silver rupees, since the gold was under valued. But due to the gold discoveries in Australia and California, the situation changed entirely, and this resulted in the gold mohur being over valued than 15 silver rupees. Therefore, the Government promptly issued a proclamation in 1852, withdrawing 1841 proclamation. Now the question arises as to why the Court of Directors favoured silver standard for India than Gold. This was especially when England was on the mono-metallic standard since 1816 and also when the strong advocate of mono-metallism like Liverpool was in favour of gold. To quote Dr. Ambedkar, "the choice of the Court according to the opinion of the time, was undoubtedly a better one than that of Lord Liverpool. Not only were all theorists, such as Locke, Harris and Petty, in favour of silver as the standard of value but the practice of the whole world was also in favour of silver" (Moon 1989:357-358).

Further, Dr. Ambedkar opined, it was, "not stability but popular preference (that) should be the deciding factor in the choice of a standard metal" (Moon 1989:359). Though the Court of Directors placed India on silver mono-metallism by passing an Act, this did not prove to be an adequate measure for the needs of the country. This was because of the fact that during this period great changes were taking place in the economy of Indian people. Such one change was transformation of kind economy to cash economy, due to the British system of revenue and finance. Under this system, the Government introduced a policy of making payments in cash to the army, police and other officials, hitherto they were receiving in the form of kinds by the native governments. Further, to quote Dr. Ambedkar, "The state, having undertaken to pay in cash, was compelled to realize all its taxes in cash, and as each citizen was bound to pay in cash, he in his turn stipulated to receive nothing but cash, so that the entire structure of the society underwent a complete transformation" (Moon 1989:361). The second change was the
enormous increase of trade. For a long period, the expansion of Indian trade was restricted by the British tariff and the navigation laws. Under this system, British forced India to buy her cotton and other manufactured goods at a nominal 2½ percent duties whereas she prohibited the entry of Indian cotton and other manufactured goods as they competed with hers in England by imposing prohibitory duties varying from 50 to 500 percent. This unfair treatment led to agitations being carried on. The Indian manufactured goods were admitted low duties by Sir. Robert Poel, with the introduction of tariff reform of 1842. In the same way, the repealed navigation laws boosted the expansion of Indian commerce. Both these changes required cash, and therefore, the demand for the cash increased. But in India cash was the one thing, which was difficult to obtain, because she did not produced precious metals in a big quantity. On the contrary, she depended on trade for getting them. Regarding the position of India, to quote Dr. Ambedkar, “the Act of 1835 had placed India on an exclusive silver basis. But unfortunately, it so happened that after 1850, though the total production of the precious metals had increased that of silver had not kept pace with the needs of the world, so that as a result of her currency law India found herself in an embarrassing position of an expanding trade with a contracting currency” (Moon 1989:363).

Further Dr. Ambedkar when he goes into the deeper side of the problem, questions the monetary stringency that existed in India, when the both import and coinage of silver was large. If silver coins remained in circulation the question of stringency would not have arisen more so as “India has long been notoriously the sink of the precious metals” (Moon 1989:363). Dr. Ambedkar, while interpreting this phenomenon, quotes the views of Mr. Cassels that the silver coinage in India not only has to act as a medium of exchange, but also as a supplier of silver coins as a material to the silversmith and the jeweler. This resulted into a diversion of large part of the coined silver from monetary to non-
monetary purposes, thereby, obviously creating monetary stringency in the economy. To meet this demand for silver, the Government could have imported silver, "...but the import of silver was probably already at their highest". (Moon 1989:365). In order to reduce the severe effect of contraction of currency and fulfill at least the currency needs, there should have been an availability of credit money and development of banking facilities. It was noticed that the main obstacle to the growth of the banking system was the attitude of the court. It was largely acting as a commercial body dealing in exchange. Therefore it was, "averse to the development of banking institutions lest they should prove rivals". (Moon 1989:366). Even though the court ceased its existence, there was no growth of the banks along with the growth of the trade. There were few banks which were established between 1809 and 1846 with their small issues, as has been shown in the Table V (Moon 1989:367).

As a result of the scanty supply of the silver and the demand for the credit currency, the trade suffered a lot. Therefore, there grew a change in the attitude of the people towards the currency Act of 1835 who started advocating in favour of gold mono-metallism. Further, to quote Dr. Ambedkar, "As more and more of gold was imported and coined, the stronger grew the demand for giving it a legal status in the existing system of Indian Currency". (Moon 1989:368). At this time, the Government was willing to consider the following projects namely; "(1) to introduce the "sovereign" or some other gold coin and to let it circulate at its market price from day to day as measured in silver; (2) to issue a new gold coin, bearing an exact value of a given number of rupees, and make it a legal tender for the limited period when it might be readjusted and again valued, and made a legal tender for a similar period, at the new rate; (3) to introduce the English sovereign as a legal tender for Rs.10, but limited in legal tender to the amount of Rs. 20, or two sovereign, or (4) to substitute a gold standard for the silver standard". Vol.-6, P-368). Of these four projects, the first three were obviously considered as safe
for the currency expedients. Therefore, the only option would be to consider the fourth project of adopting a gold standard with silver as a subsidiary currency. On the contrary, although the Government did not oppose completely to the gold currency system, it maintained all the way that gold would prove uneconomical and inconvenient and favoured silver backed paper currency for India. To this Dr. Ambedkar remarked, "This first attempt against the silver standard resulted not in the establishment of a gold standard, but in the introduction of a Government paper currency to supplement the existing silver standard". (Moon 1989:369). However, the paper currency did not prove any remedy for supply of currency problem as it was expected to and therefore it did not give any relief. As a result, the entire burden fell upon silver. The production of silver did not move faster than it did previously. Therefore, the inadequacy of supply of currency of medium felt as acutely as before. Although gold was not a legal tender currency, still it was imported in a large quantity and was used for monetary purposes.

Therefore, the desire for the gold currency in India continued, and in this direction, the Bombay chamber of Commerce in their memorial prayer, brought to the notice of the Government of India the introduction of a gold currency in India. Further, the currency situation continued to be as acute as ever. Therefore, the Bengal chamber of commerce in 1866, moved to the Government of India to take steps to make the circulation of gold more effective, and also insisted for the institution of a communism of inquiry for quick introduction of gold in to the monetary system in India. Therefore, the commission was appointed and after an exhaustive investigation, the communism came to the conclusion, "Owing to several causes the paper currency had failed to establish itself among the circulating media of the country, but that gold was finding the larger place in the transaction of the people". (Moon 1989:376). Therefore, the communism urged the Government for introduction of gold as a legal tender currency in India. But strangely, instead of making gold as the
legal tender, it simply altered the rate of the sovereign to Rs.10-8 by a way of notification on October 28, 1868, without doing anything further. However, to the surprise of the Government, even this altered rate of the sovereign did not bring even a small amount of gold into the circulation of the country. By this time the problem of currency stringency has eased by the natural course of time. Taking the support of Prof. J.E. Cairnes, Dr. Ambedkar opines, "as subsequent events showed, the change to a gold standard would have been better for India" (Moon 1989:377). The Government of India by riding the forces of change could have replaced the silver standard by a gold standard. Instead it took note of the situation in a casual manner, and allowed the silver standard of 1835 to continue in its pure form without spoiling it by ingredient like gold. To quote Dr. Ambedkar “Alas those, who then said that they were not called upon to take more than a "Juridical" view of the Indian currency question, knew very little what was in store for them” (Moon 1989).

CHAPTER II

5.3 The Silver Standard and the Dislocation of its Parity

In this second chapter of the book, Dr. Ambedkar has depicted briefly the nature of silver standard framework.

Although, the Act XXIII of 1870 regulates the metallic part of the currency, it makes no innovation either with regard to the number of coins issued by the mints or their legal tender powers. Though the earlier enactment were identical in the matter of coins, but designing of juridical provision with perfect matching of monetary law of the country which was not done before, was provided by this Act. Another important useful provision made by this Act was with regard to the recognition of the principle of free coinage. To quote Dr. Ambedkar, “ the principle,
though it has not received the attention it deserves, is the very basis of a sound currency in that it has an important bearing on the cardinal question of the quantity of currency necessary for the transactions of the community” (Moon 1989:380). This cardinal quantity can be regulated by two ways. Firstly, to close the mint and leave it to the Government to decide the issuing of currency, and secondly, to keep the mint open and leave it to the individuals self interest for determining the issuing of currency according to their requirements of the two plans. The open mint principle as a matter of agreement has been regarded as the superior one. Under this principle there was a facility of obtaining coin for bullion and converting coin into bullion, thereby the quality of currency was regulated automatically. As a matter of fact, the Government did not follow the principle of free coinage in the matter of paper currency. Before 1861, there prevailed the free banking system in India where every bank had the freedom to issue its notes. Here, the notes of three presidency banks of India enjoyed a status slightly superior to that of enjoyed by the notes other banks. Moreover, they were received by the Government to some extent in payment of revenue to this privilege they were working under the stringent legislative control of the Government. This was not there in the case of other banks. However, this rarely used the right of note issue of other banks and was taken away from the presidency banks in 1861.

Then the issue of notes was entrusted to the Government department called the department of paper currency for the whole of India. Unlike in metallic currency where the private interest were determining the quality of its issue and where mint master was having discretionary to mint the currency, in the case of paper currency, the Government department of paper currency did not have any discretionary in the regulation of the paper currency. There existed in India the mixed currency of system of organization before it went over a tremendous change by the end of the 19th century. Under this system,
the portion of paper currency was small, it was because of two reasons. Firstly, the notes of lowest denomination were too large to displace the metallic currency for example, the denomination of notes were ranging upward from Rs.10, 20, 50, 100, 500, and 1000, whereas the average range of people's transaction never exceeded Rs. One and even some time as low as 1 anna and below. Hence, the paper currency was of little use in the economic life of the people at large. Secondly, these notes were made a legal tender everywhere within a circle but they were encashable only at the office of their issue. It lacked the quality of universal encashability. Therefore, it did not become a popular currency.

As far as the functioning of the good currency system is concerned, according to Dr. Ambedkar, "Stability of value is one of the prime requisites of a good currency system. But if we judge the Indian currency from this point of view, we find that there existed such variations in its value that it is difficult to escape the conclusion that the system was a failure" (Moon 1989:387). Further, variation in the value of currency is attributed to the fluctuation in the rate of discount. Dr. Ambedkar quotes the opinion of a high financial authority Mr. Van Den Berg, regarding the nature of money market in India. Mr. Van Den Berg says that in India, due to the seasonal variations, one could find a variation in the people's activity also. For example, in mid summer the activity of the people diminishes and in autumn there is a renewed vigour in all activities of social and economic life of the people. Therefore it is not only productions, which is affected by seasonal variations. On the side of the consumption, it is also because of the changes in the seasons that the social life is dependant such as, marriage, holiday and holy seasons. Further, the distribution also depends on the seasonal variations, for example, habit of paying rents, wages, dividends and setting accounts of defined intervals. This is because of the contact with western economic organizations. Their activities generate a kind of
rhythm in the social demand for money i.e. in some period of the year it rises and in other period it falls. So it can be said that it is due to the seasonal character of the economic and social life, the discount rate rises and falls irregularly. In other words, it rises high during busy months (instead it should have been low to liquidate the transactions), and it falls during slack month (instead it should have been high to prevent the market from being losing the hope). These are unavoidable in Indian money market. Further, it is due to the irregularity in the supply of money, which resulted in the abnormality of fluctuation in the discount rate. In order to have money at a uniform price its supply must be regulated according to the variations in the demand for it. It is to be recognized that demand for money is not fixed forever. The demand for money arises due to two reasons: firstly, yearly changes in the growth of population, trade etc. and secondly, seasonal influences within the course of a year. The demand for currency in any well-regulated market depends on the steadiness and expandability and elasticity. To quote Dr. Ambedkar, "on a comparative view it seems more than plausible that a metallic money is as especially adapted to furnish this element of steadiness and stability as paper money is to furnish that of elasticity." (Moon 1989:389). In order to constitute an ideal system of money market it should have a purchasing medium of both money and credit. This applies to India where the currency is also a compound of money and credit. It is also supposed that it contains the provision of expandability and elasticity. But when we analyze the situation, it should seen that no provision for elasticity is present, apart from allowing the credit part of its expansion and contraction according to the seasonal demands. But in the case of paper currency due to the legislation, there is rigidity in the volume of its issue even though there is a change in the volume of demand. This is considered as the main cause behind the convulsion in the rate of discount in the money market. It must be noted that a similar Act had worked very well in England compared to the fact that it had
worked badly in India. To this Dr. Ambedkar gives the reasons, "...whereas English banks have succeeded in implanting in order to cheque system of using credit in place of note system, Indian banks have unfortunately failed that they should have failed was however inevitable. a cheque system pre-supposes a literate population, and a banking system which conducts its business in the vernacular of the people" (Moon 1989:391). But, it must be seen that both conditions were not fulfilled in India. Further, it pre-supposes a growth of the change system in a widespread network of banks, which was also not there in India. Therefore, in the absence of all these conditions, if change is not presented within a given time, it may become non-performing and valueless, and as a result, it becomes inferior to note. This certainly cannot become as a good store of wealth. With such conditions in India, the cheque system could not replace the inelasticity of notes in India. Thus, when there was no cheque system in India, this led to the withdrawal of more cash, and this necessitated that more cash reserve is maintained. Apart from this, when the cash is withdrawn from the bank, it was not speedily return to them. As a result of this, the Indian banks curtailed their discounts to the greater extent compared to that of the English Banks. The absence of branch banking which was considered essential was also an important in this regard. The operation of money that was locked up in Government treasuries ran counter to the needs of the business. Dr. Ambedkar observes, "The causes that 'convulsed' the Indian money market had therefore been the inelasticity of the credit media and the working of the independent Treasury system in so far as they were the prime factors affecting the money supply of the country" (Moon 1989:393). These causes further led to changes in prices and speculation. Dr. Ambedkar points out that no attempts were made to alleviate the sufferings of the trading community. A greater evil with its pervasive effect developed which affected its the metallic counterpart nearly destroying its stability of value.
Dr. Ambedkar discusses the relation of par of exchange between India and England and observes that there could be no possibility for a stable par of exchange between them due to the difference in their metallic standards. In that case, their exchange is governed by the relative values of gold and silvers, and must necessarily fluctuate with changes in their value relation. But, he further observes that, despite the difference in their metallic standards, the rate of exchange in between the two countries never deviated. After 1873, however the rupee-sterling exchange suddenly broke loose from the normal parity causing a great disorder and dislocation.

Dr. Ambedkar observes that the rupee-sterling exchange was a reflection was the gold-silver exchange. He inquires into the reasons for the disturbance in the ratio of exchange between gold and silver only after 1873. He observes that the major reason was the de-monetization of silver and the standard of money medium by many important countries of the world, which was an outcome of concern of uniformity of weight measures and coinages. Though beneficial, however, it left behind an evil legacy that is later discussed by Dr. Ambedkar. This issue of international uniformity was discussed by the various scientific assemblies gathered at the Great exhibition held in London in 1851. Subsequently, the International Statistical Congress held at Paris, Vienna and at Berlin considered this issue and the resolution was passed in the Congress held later in 1863. Dr. Ambedkar observes, it "...was a departure. It should not have been fraught with serious consequences if the reform had been confined to the question of uniformity of coinage. But there occurred a circumstance which extended its application to the question of currency" (Moon 1989:400). Considering this development in world economy, Dr. Ambedkar shows as to how France, wishing its coinage system to be taken as a model, was maneuvered by England in the conference at Paris, in 1867, managed to get the resolution passed to the effect that "for uniform international coinage it was necessary that
gold alone should be the principle currency of the world” (Moon 1989). He notes that “…those who passed the resolution served not to have noticed what sacrifice they were called upon to make for its achievement,” (Moon 1989). and that they were in fact effecting by their decision the currency system of the world. “The resulting disaster was that the real end of the conference was lost sight of when the different countries assembled come to act upon the resolution, namely uniformity of coinage and the proposed means eventually become the virtual end. The ball once set rolling, the work of demonetizing silver began to grow apace,” (Moon 1989:401). Dr. Ambedkar discusses the matter from historical perspective. He provides tables in support of his observation (Moon 1989:402-403) of the history of the production of gold and silver from 1493 to 1893.

Two groups argued over the reasons for the dislocation and decline in the value of silver in terms of gold. If one group argued that the demonetization was the reason, another held that it was the oversupply of gold. Dr. Ambedkar by giving a table, (Moon 1989). Shocking the relative production and relative value of gold and silver from 1681 to 1895 and a group to this effect, (Moon 1989:405). observes that the supposed enormous increase in the relative production of silver was baseless assumptions. On the contrary, he states that there had been a decline in the proportion since the beginning of 18th Century. Instead of any close correlation between them, Dr. Ambedkar, hence, arrives at the opinion that “such being the facts of history, it was contended that they gave no support to those who rested their ease on oversupply rather than on demonetizations as a sufficient explanation for the depreciation of silver” (Moon 1989:407). He holds that apart from such minor points, “the issue was further restricted to the situation twenty years preceding and following the year 1873. After giving details of events during the period Dr. Ambedkar observes that the first period was characterized by the prevalence of by metalism under which two metals could be used
interchangeably at a fixed given ratio. In the second period they could not be so used owing to the fact that the fixed ratio necessary for interchange had been abrogated" (Moon 1989). Considering another prevalent view that gold and silver were considered substitutes, as one commodity of two different strengths, and that the conditions of supply had no effect upon the ratio of exchange as in a case of a commodity without substitute, Dr. Ambedkar observes the ratio of bimetallic value and production during the period. He held that "... it is certain that the diverges between the mind ratio and the market ratio under a bimetallic system must be smaller than may be the case where there is no bimetallic system...the market ratio between the two metals could not have diverged from the mint ratio to the extent it actually rich" (Moon 1989:413). A concerned analyst Dr. Ambedkar observes that, "It is therefore a sad commentary on the monetary legislation of the (eighteen) servants that it did not actually hold to create, for no purpose, a problem unknown before, it certainly helped to make worse a bad situation... a matter of indifference became a matter of supreme concern... every country was faced with a crisis in which the choice lay between sacrificing its currency to securing a common standard or hugging its currency and foregoing the benefits of a common standard". (Moon 1989:414).

CHAPTER III

5.4 The Silver Standard and the Evils of its Instability

In this third chapter of the book, Dr. Ambedkar has dealt about the economic consequences of this dislocation of the par of exchange between the gold and the silver and its consequential effect in the money market. This could divide the whole commercial world into two groups, countries using the gold and the other countries using the silver as their standard money. Before 1873, the par between gold and silver was fixed and it did not matter much in the international transactions whether a
particular country was on the gold standard or on the silver standard. But with the dislocation of the fixed par, therefore, it was found difficult in defining the relative values of each gold and silver from time to time. This very precision of value was considered as the very soul of pecuniary exchange was gone and uncertainties of gamble prevailed. Though this did not affect all the countries in the same degree and to the same extent, but it was impossible for any country to escape from this effect, which had participated in the international commerce. Unfortunately, India was most affected by this rupture of the par of exchange. In the words of Dr. Ambedkar that, “She 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” (Moon 1989:415).

When there was a fall in the value of silver in relation to gold, the burden increased on the part of those who were under an obligation of making gold payments. Among them, the most heavily changed was Indian Government. It had to make certain payments in England to meet: “(1) interest on debt and on the stock of the guaranteed railway companies; (2) expenses on account of the European troops maintained in India; (3) pensions and non-effective allowance payable in England; (4) cost of the home administration; and stores purchased in England for use or consumption in India”. (Moon 1989:416).

Since England being a gold-standard country, even though India received its revenue in silver, it was obliged to make payments in England in gold. It is clear that even though gold payments were at a fixed quantity, the increase in their burden would be as it is with the fall in the gold value of silver. But it was a matter of fact that gold payments were never at a fixed quantity, on the contrary they were ever been on increasing side. Therefore, to quote Dr. Ambedkar, “the rupee cost of the gold payments grew both by reason of the growth in their magnitude, and also by reason on the contraction of the medium”. (Moon 1989:416).
As a result of this double levy, the revenues of India diminished to a great extent. Therefore, as a desperate step, the government imposed a policy of high taxation and rigid economy in the finances. It imposed higher duties on spirits, opium, salt, non-illuminating petroleum etc; income tax was also raised. Along with this increase of resources, the Government of India took steps to reduce the cost of the administration. To quote Dr. Ambedkar, "the Government turned to the alternative of employing the comparatively cheaper agency of the natives of the country in place of the imported Englishmen". (Mocn 1989:418). But even with such very brave efforts to increase the revenue and reduce the expenditure, the finances of the Government was never in a flourishing state, during the period of the falling exchange.

Owing to the financial difficulties of the Government, it was not in a position to provide money for useful public works. On the contrary, the people did not have the necessary boldness of enterprise in them. Therefore, the task of providing two prime requisites of a sustained economic life namely, transport and a network of irrigation had fallen upon the Government of India. The Government, with this object in view inaugurated a policy of development, called "Extraordinary Public Works" financed by capital borrowings. As Indian people were too poor and their savings too scanty, therefore, like all governments of poor peoples the Government of India turned towards rich countries for surplus capital to lend. Unfortunately, all these countries were on gold standard when there was no possibility of saying that so much gold was equal to so much of silver. Therefore, the British investors were indifferent to investment in India, for the fall in the gold value of silver was also a fall in the gold value of the rupee securities, and so the investments what was once secure ceased to be so.
As a result, the government became helpless in the matter of financing its extraordinary public works. Further, the effects of this financial disruption, because of the fall of the exchange, were also felt by the municipalities and other local bodies whose financial position depended upon the Government. Due to the reduction in the cash balances of the Central Government because of continued losses by exchange, the financial aid facilities were curtailed severely at a time when these institutions needed all the help to take off their growth and strengthening their very foundations. Apart from this, India required foreign capital for diversification of industries in order to escape from the ravages of recurring famines at frequent intervals. But as a matter of fact, the English investors did not come forward to invest capital in India, for they feared that it was a risky proposition. In the words of Dr. Ambedkar, "...this check to the inflow of capital was undoubtedly the most serious evil arising out of the rupture of the par of exchange". (Moon 1989:424).

The fall of exchange has affected a group of people composed of the European members of the civil service in India, who naturally received their salaries in silver and had been making gold remittances in order to support their families staying in England. Whenever there was a fall in the value of silver, they were supposed to pay more rupees out of their fixed salaries in order to get the same amount of gold. Though some relief was given to them in remittances, this relief was really no relief to them and they demanded adequate compensation from the government for their losses on exchange.

Further, the fall of exchange had a different effect on the trade and industry of the country. Compared to England it was in a flourishing condition and it continued to be so throughout the falling exchange period even with more speed. Again within a short period of twenty years the magnitude of the total imports and exports of the country had more
than doubled. Dr. Ambedkar's detailed analysis gives not only an increase in trade but also shows the contrast in the nature of industrial pursuits in England and India by their respective exports as can be seen in Table XV. (Moon 1989:428).

After 1870, for twenty years, India once again assumed the role of a manufacturing country and as a result, it marked the growth of two principal manufactures namely, the cotton and the jute. This increasing trend of growth changed the course of Indian agriculture; earlier the Indian farmer had never looked at farming on commercial basis. As a result of this change, the English traders could not compete with the Indian traders. To this the English traders have attributed to the falling exchange. The causes which led to the trade disturbances was a matter of heated controversy. The point of controversy was, whether the change in the international trade is due to the monetary disturbances at that time. Those who held the affirmative view explained that, it was because of the falling exchange, which brought profit to the Indian producers and loss to the English producers. In the words of Dr. Ambedkar, "If the gold value of silver fell the Indian exporter got more rupees for his produce and was therefore better off, while by reason of the same fact the English producer got fewer sovereigns and was therefore worse off" (Moon 1989:433). But on the contrary, those who held the negative view about the falling exchange argued that the international trade is governed by the relative advantages of one country over the other, and that the terms of trade is regulated by the comparative costs of articles which enter the international market.

It is further argued that, how the monetary disturbance caused by falling exchange cannot reduce, one trade more than another if the falling or rising exchange was as simply an expression of the level of general prices, then it should affect all the articles. But there was no reason as
to why the articles like cotton and jute were affected by the fall of exchange than the other articles. To quote Dr. Ambedkar, "the falling exchange could not have disturbed established trade relations or displaced the commodities that entered into international trade. The utmost that could be attributed to it is its incidence in economic incidence, but in so far as it supplied a motive force or took away the incentive, it did so by bringing about changes in the social distribution of wealth. In 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 there was an injustice done to a part of the community". (Moon 1989:439).

As a result, the currency reform was needed in both countries. This was recognized by England whereas in India many people were unwilling. But for some, the stability of silver was well sounded. However, it was felt that the need for the reform of the Indian currency was far more urgent than the English currency. To quote Dr. Ambedkar, "the prosperity of Indian trade and industry, far from being evidence of a sound currency, was sustained by the reason of the fact that the currency was a diseased currency". Further he said, "The fall of exchange, in so far as it was a gain, registered a loss to a large section of the Indian people with fixed incomes who suffered from the instability of the silver standard equally with the government and its European officers". (Moon 1989:439).

Further, the fall in the exchange value brought fluctuation in the relative value of gold and silver which greatly embarrassed the government, for no rate could be assumed in the annual budget, which is supposed to be the true market rate. This brought uncertainties in the government finances, and resulted in speculation in the private trade.
Therefore, the necessity of preserving stability in its measure of value fell on the shoulders of government. Lastly, it was felt and agreed by all the trading countries that the currency system must be kept on a common measure.

CHAPTER IV

5.5 Towards a Gold Standard

In this fourth chapter of the book, Dr. Ambedkar analyses about the history of Indian currency reform and the aim of establishing the stable monetary system through the restoration of a common standard of value. However, as it was not an easy task of carrying out practically, it was felt that in order to accomplish this aim, there were two ways: one, was of adopting common metal as currency. Since, all the important countries of the world had adopted gold; therefore, silver standard countries should also follow them by abandoning their standard. Second, was to keep gold and silver standard countries themselves their currencies and set up a fixed ratio of exchange between them, in order to establish a common standard of value between the two metals.

The history of the agitation for the reform of the Indian currency can be traced back to the last decades of the nineteenth century. Out of the two gold and silver movements, however, the gold standard occupies the field first. Though the gold movement started in sixties, it was revived by Sir Richard Temple in May 1872. His predecessors favoured the British sovereign to be the principal unit of the gold currency in India, whereas he desired to place the Indian coin, the “mohur” as the unit of currency in place of the sovereign. This was the first proposal for a gold currency in India. To quote Dr. Ambedkar, “It was projected before the fall in the value of silver had commenced, and was therefore more a culmination of the past policy than a remedy against the ensuing depreciation of silver” (Moon 1989:447). But, due to some reason, no action was taken by the Government of India on the proposal.
The second plan was presented by Colonel J.T. Smith, the able mint master of India. His plan was declared as a remedy for the falling exchange. The plan had begun in the first essay in the brochure entitled, 'Silver and the Indian exchanges'. Here, it was principally suggested that a stop be put to the coinage of silver on private account, and measures to discourage the import of and the least degree of circulation of foreign made silver coins. On the other hand, he made a suggestion for opening of the mints in order to receive the gold bullion for coinage at the mint rate of 38 rupees 14 annas per standard ounce. Further, it is to be coined in different denominations into sovereigns and half sovereigns, ten, and five rupee-pieces of the same value. It is to be declared as legal tender and not a demandable one. A suggestion was also made for the continuation as before of the present silver rupees as legal tender. This plan was supported by Bengal Chamber of Commerce and Calcutta Trade Associations. But the government did not show any interest in the plan. To quote Dr. Ambedkar, "The Government not only failed to take any initiative, but showed, when pressed by the Bengal Chamber of Commerce to act upon the foregoing resolution, a surprising degree of academic somnolence only to be expected from an uninterested spectator" (Moon 1989:450).

On the contrary, the government raised objection to the Bengal Chamber, which did not suggest the opening of the mints for the coinage of gold in their resolutions. Further, the government gave different possibilities for the disturbance in the equilibrium of the precious metals. Out of these possibilities one showed that the value of the gold has risen from March 1872. Therefore, it is up to the gold standard countries to take up the reforms, and not the silver standard countries. Therefore, the Government of India had dispatched in 1876, to the Secretary to State, conveying its decision of wait and watch. To quote Dr. Ambedkar, "But for a silver-standard country to refuse to undertake the reform of
her currency system on the plea that it was gold that had appreciated was no doubt a tactical error" (Moon 1989:451).

But this attitude of inaction on the part of Government of India, soon was realized as unwise. It, therefore, obliged to reconsider its position taken in 1876 and submitted a plan in a dispatch in 1878, for the adoption of the gold standard, with a condition that silver would be admitted for coinage, at the fixed gold rate. While depending upon the scope and profitability the use of gold coin was to be introduced. Because of this reason of scheme outlined by Government of India, the Smith plan was rejected. To quote Dr. Ambedkar, “Although it was simple, economical, and secure, it was because it contemplated a demand by India on the world's dwindling stock of gold. Now, in the circumstances then existing, this was a fatal defect, and the powers-that-be had already decided that at all cost India must be kept out of what was called the "scramble for gold" (Moon 1989:455).

Apart from this, the Government of India's proposals were a mild and a diluted edition of the gold standard, therefore, even this timid attempt did not get on well at the hands of the committee appointed jointly be the Secretary of State and the Chancellor of the Exchequer for examining the reporting of the proposals. As a result, the members of the committee unanimously rejected the proposals and kept it confidential. However, it was revealed by Sir Robert Giffen, who was a member of this committee, before the Indian Currency Committee in 1898, as evidence, to quote Dr. Ambedkar, “…it seems that the committee declared against the proposal because it thought they were calculated to make the Indian currency a 'managed currency"(Moon 1989:456). When the committee pronounced its opinion, all the acknowledged writers on currency
expressed their opposition to the artificially regulated system and proposed a naturally automatic currency as their ideal system.

Apart from these prejudicial misleading views, the committee also felt convinced about the economic forces operating naturally will bring the situation at ease itself soon without necessitating a reform of the Indian currency. The committee also believed that the monetary disturbance was a temporary phenomenon. Further, this was maintained considering the committee's natural preference to an artificial system of currency and in rejecting the government proposal, hoping that the silver would recover. In other words, as it was imagined by Walter Bagehot, the high authority of the committee, that the depreciation of silver would encourage export from India and discourage imports, and this would naturally induce a flow of silver to India. But the committee was grossly deceived. To quote Dr. Ambedkar, "the basic assumptions on which the committee was led to act failed to come true. To the surprise of everybody India refused to absorb this "white dirt" (Moon 1989:456).

Hence, India under ordinary circumstances would have sent its silver to Europe back with large quantity, because of general depreciation which prevented her of not going. To quote Dr. Ambedkar, "...if the committee was deceived in one part of its assumptions, it was also disappointed in others" (Moon 1989:457). This was because, those countries which were on paper basis had expected of making coin payments in terms of silver and all the countries demonetized silver to the great disappointment of all those who advocated the policy of 'wait & see'.

Therefore, this led to a change in the angle of vision of most of the European countries to the notion of waiting period, which they felt more painful. This led to an agitation across Europe for taking necessary steps in currency reform so as to avoid the depreciation of silver. In the words of Dr. Ambedkar, "Far from being sentimental, the agitation was real and derived its force from the evils which arose out of the existing currency conditions" (Moon 1989:458).

These countries were Germany, Latin Union and United States, due to unhealthy monetary conditions their effective gold standard with silver as token currency schemes were arrested in the midst of their progress.

In a gold standard country like England, the continued fall of prices and due to an involuntary increase in the value of gold led to a depression in the trade and industry of the country a shad never occurred previously its history. Moreover, these monetary disturbances affected the gain on capital investment, which was the chief support of her people, thereby reducing the scope for its employment.

To improve the situation, three monetary conferences were held one after another. The first conference was convened at the initiative of the United States in the year 1878 at Paris. The second conference in the same place in 1881 and in 1892 a third conference at Brussels was held. However, no agreement could be reached at these conferences and the deliberations proved to be entirely futile. The reason was that the opposite parties saw the subject with different objectives. For one, it was the maintenance of a stable exchange ratio between gold and silver without observing whether one or both were in circulation. For another, it was maintenance of two metals together in circulation. As a result of
this difference, an agreement on bimetallic plan became nearly impossible. In all these conference debates, it was revealed that, if England was ready to adopt herself a bimetallic system, in the words of Dr. Ambedkar, "others, like sheep, would have followed suit. But she was too much wedded to her system to make a change, with the result that bimetallism, as a way out of the currency difficulties, became a dead project. This brought a terrible blow to the hopes of India to adopt a bimetallic system." (Moon 1989).

It was a true fact that in the beginning of bimetallic discussions, the behaviour of the Government of India was not enthusiastic. It was also revealed that, the Government of that time was divided in its opinion regarding the merits of bimetallic system. Moreover, at the international conference, the Government of India was treated with suspicion and injustice. Again, the very admission of the India to the bimetallic union was not liked by any powers, including the England. In the opinion of Dr. Ambedkar, "It is not too severe to say that the part played by the British authorities in causing this disappointment was highly irresponsible - one might almost say wicked”. (Moon 1989:466).

On the contrary, India was made to keep to the silver standard against her declared wishes. Therefore, the Government of India at the end of 1893 could find her position on the same, as it was at the beginning of 1878. However, the Government of India had agreed to place India on a gold basis without the use of gold in circulation not like existing rupees. Therefore, with this strew in mind, it agreed for the revival and adoption of Colonel Smith's plan, which was a simpler and a more scientific one. The proposals that were submitted consequently to a Departmental Committee came to be commonly known as the Herschell Committee. The recommendations were that the Indian mints should be
closed to the unlimited coinage of silver, the exchange ratio between gold and silver must be based on the average price of silver before the mints were closed for a limited period of time. At this ratio, the coinage of gold depends in the mints. However, though it was satisfied with the proposal, it modified the proposal so the extent that though the mints were closed to the public, they would be used by the government for the coinage of rupees in exchange for gold, the ratio which was fixed i.e. 1 shilling 4 dollars per rupee. These recommendations were executed on June 26, 1893, which was hailed as a great landmark in the history of Indian currency like the year 1835. On this day it promulgated one legislative enactment and three executive notifications. But to the surprise of everyone, as Dr. Ambedkar puts it, "...before the policy adumbrates by these measures was carried to completion there came up a move for the undoing of it." (Moon 1989:473).

This was because of the failure of the International Monetary Conference of 1892; the United States and France were burdened most heavily with an overvalued stock of silver. Therefore, both the countries opened negotiation with Government of British agreeing for certain conditions on the grant so that they could open their mints to the free coinage of silver for 15½ to 1 ratios. However, the negotiations failed because of the firm stand taken by the Government of India. To this Dr. Ambedkar stated, "... nor did it see any reason why it should be called upon to pull the chestnuts of the fire for the benefits of France and the United States." (Moon 1989:474).

But soon after this refusal, the Government of India was faced with a very important problem regarding its existing monetary arrangements. Since 1893, though there was no addition to the rupee stock. It was in a position to meet the needs of the people for some considerable time. In the beginning of the few years of the closure of the mints, the rupee currency was not only plentiful but was also superfluous. But soon it
discontinued being superfluous, and really by the end of 1893 it became scarce, to the extent that, the discount rate in the Indian money market rose to 16 percent, this phenomenon continued for a larger part of the year. As a result of this, there came a strong protest against, what was called the policy of 'starving' currency. Therefore, the Government of India passed an Act (No.11) of 1898 for permitting the issue of currency notes in India against gold tendered in London to the Secretary of State. Though the new Act did not make gold general tender, but it allowed to be used as a backing for the issue of currency notes, which were general legal tender on behalf of the general public. This Act could help the then starved condition of the Indian money market. However, a sound system of currency should be capable of expansion as well as contraction. When the government closed the mints in 1893, the currency had contracted till the point of danger. On the other hand, it expanded in 1898, after providing measures for its expansion. In order to bring a desired result in the currency system, there are two ways suggested, one was to keep the mints closed and to give permission for additions to currency through the use of the gold by making the sovereign as the general legal tender and another was to increase the currency by government through the coining rupees whenever there was a need for increased additional currency. Of the two plans, the first one was proposed by the Government of India and another one was advocated by Mr. Probyn and Mr. A.M. Lindsay. Both claimed that their plan i.e., the second one, was superior to that of Government of India’s plan on the ground that they provide the facility of conversion of rupee currency on certain terms. But they materially differed in the mode of conversion. In the words of Dr. Ambedkar, “The principal point of difference between the scheme of currency advocated by the Government of India on the one hand and that put forth by Messrs. Probyn and Lindsay consisted in the fact that the former proposed to establish a gold standard with a gold currency, while the latter proposed to establish a gold standard without a gold currency.” (Moon 1989:479).
In order to decide the relative merits of a gold standard with or without a gold currency, a committee was appointed under the chairmanship of Sir Henry Fowler in 1898. The committee approved the Government of India’s plan by favouring the British sovereign a legal tender and a current coin in India and at the same time it considered the Indian mints should be thrown open to the unrestricted coinage of gold on terms and conditions governed by the three Australian branches of the Royal Branch. Further, it recommended the sovereign to be coined and circulated in Britain and India under identical conditions. Thus it wanted to establish in India a gold standard and currency with a principle of free inflow and outflow of gold. The recommendations of the committee were accepted by the Secretary of State and decided to keep the Indian mints closed to the free coinage of silver and making the British sovereign a legal tender and a current coin in India, and further to make preparation for the coinage of gold as per the committee’s conditions.

As a first step in implementing the committee’s recommendations, the government passed an Act commonly known as “The Indian Coinage and paper Currency Act (XXII) of 1899”. This Act provided the sovereign and half-sovereign legal tender throughout India at the rate of Rs.15 and Rs.7½ respectively. It also authorized the issue of currency notes in exchange for British sovereign. The Government of India was eager to own a mint for the free coinage of gold, apart from putting Indian currency on gold standard. But this power of issue of coins from the mint was vested with the English “sovereign” and the British Treasury was controlling the Government of India’s monetary affairs. As a result, though the Government of India waited for the announcement of proclamation simultaneously with the Indian Coinage and Paper Currency Act, the proclamation, however, was delayed on the ground of
legal and technical objection raised by Treasury and finally the Treasury turned round and raised the question whether it was necessary to have a mint for gold coinage in India. But the Government of India gracefully consented to drop the proposal of mint. However, to this Dr. Ambedkar remarked, “the Treasury acted “in a spirit of scarcely veiled hostility to the whole proposal” is unmistakable. But it cannot be denied that the Treasury used arguments that were perfectly sound. It was inconsequential to the working of the gold standard whence the coined sovereigns came. So long as a mind was open to the free coinage of sovereign, the Indian gold standard would have been complete irrespective of the location of the mind. Indeed, to have obtained coined sovereign from London would have not only sufficed, but would have been economical.” (Moon 1989:483).

It was because of the necessity to have gold mint, that’s why the Government of India displayed its anxiety. But when the Treasury opposed to it, gracefully and willing agreed to drop the proposal. What more worrying was about the strange position of the rupee in the new system of currency. The Government of India was not in a position to demonetize the rupee and absorb Indian currency into one, which was prevailing in England. The Government of India thought that their system was the best model and believed that within their reach there was no better system. Further, the assimilation of the Indian currency to that of France and the United States, the Government of India did not feel happy, for the currency systems of these two countries i.e. five-Franc piece and the silver dollar had always been very inconsistent. In this system of currency, their intrinsic value is less than their nominal value and is inconvertible unlimited legal tender. Whereas in the case of England, since 1816, it was on mono-metallic gold standard, in which gold is the only metal freely coined and it was having full legal tender.
power and called as the standard coin under the same system, though silver was coined. It was coined only on Government account in a limited quantity. Its intrinsic value was less than its nominal value, with a limited legal tender and called as subsidiary coins. Therefore, in a scheme of this type, it was felt difficult to fit in the dollar or the five-Franc piece. Further, it was because of the distinctive feature of the system i.e. although their intrinsic value was less than their nominal value, they were inconvertible and unlimited legal tender. To quote Dr. Ambedkar, “It is owing to this anomaly that the title of gold standard has been refused to the American and French currency systems.” (Moon 1989:484).

This system what is called as the limping standard, in which somehow the silver coin, though its intrinsic value is less than gold, limps along and maintains its equality because of its association with a stronger work partner. But it was however observed that, whatever may be the differences between the French and the English system of currency, if one looks at closer analysis, it shows that they are fundamentally identical. This can be seen from the fact that both are subjected to a fixed limit of issue. To quote Dr. Ambedkar, “the French limping standard and the English gold standard are nothing but two different illustrations of the “currency principles” in so far as a fixed limit of issue on a fiduciary currency is a cardinal feature of that principle.” (Moon 1989:486).

Further, the French and English monetary systems were identical in their organisation and design. To show this, the Bank Charter Act of 1844, when Lord Overstone came to the conclusion that, for keeping gold in circulation, the only remedy was to put a limit on the issue of notes. The same was in France, because of the fall in the value of silver after
1873, the gold was disappearing from circulation, and so the French adopted the same remedy as it was adopted by Lord Overstone and by suspending their silver coinage prevented gold from going out of circulation.

In nutshell to quote Dr. Ambedkar, “It would not, therefore, be amiss to argue that the plan contemplated by the Government of India, and approved of by the Fowler Committee in being similar to the French system, was based on the same principles as governed by the English currency system, which according to Jevons, were a “monuments of sound financial legislation".(Moon 1989:486).

CHAPTER V

5.6 From a Gold Standard to a Gold Exchange Standard

In this Chapter V, of the book Dr. Ambedkar describes, about the occurrence of an unkind turn of events, the system originally intended failed to come into existence; instead there grew up a system of currency in India which was completely opposite of it. So, after thirteen years of legislative sanction given to the recommendation of the Fowler Committee, the Chamberlain Commission gave its report on Indian finance and currency saying that the Indian currency system of that day was different considerably from that intended by the Fowler Committee of 1898 for maintaining the exchange. What Mr. A.M. Lindsay had suggested to the committee has some important features in common of that day in India. To recall the scheme suggested by Mr. Lindsay was that Indian currency entirely should be a rupee currency, in which, the government has to give rupees in every case in return for gold on the other hand, gold for rupees in the case of foreign remittances only. This scheme was to work through the arrangement of two offices, one at London and other in India. When rupees were wanted, the former had to
sell drafts on the latter and when gold was wanted, the latter had to sell drafts on the former. To quote Dr. Ambedkar, “Surprisingly similar is the system is prevailing in India today.” (Moon 1989:487). As the study shows in the preceding chapter, Mr. Lindsay’s proposal had been rejected by the Fowler Committee in 1898. At that time, the Government of India had built up two reserves, one was gold and the other was rupees, out of cash balances, which consisted of the paper currency and the gold reserve. Here, by the nature of the currency system is, each are blended. This cash balances consists of net rupees and sovereigns both being legal tender collected out of revenue receipts. In this system, notes are being issued against the paper currency reserves which always both contains i.e. sovereign and rupees. Moreover, the location of these funds was also as designed by Mr. Lindsay. The cash balances, which Dr. Ambedkar calls it as ‘till money’, of the government was necessarily distributed between the Government of India and the Secretary of State i.e. silver and gold respectively. Further, the gold standard reserve like the cash reserves was not a statutory reserve. Therefore, its location was within the control of the executive. Hence, it was arranged in such a way that, the gold portion of the fund was to be held by the Secretary of State in London and the rupee portion as long as it was to be maintained by the Government of India in India. Regarding the paper currency reserve, since it disposition and location was governed by, therefore, the legal power has been taken on behalf of that, to alter the location of the gold part of that reserve passing a temporary Act 11 of 1898, which provided the provisions of issuing the notes in India against gold offered to the Secretary of State in London. Thus under new system of currency, the Secretary of State and the Government of India held gold located in London and rupees in India respectively. However, the similarity between the existing system and that of Mr. Lindsay was not confined only to the maintenance of funds and location but also it extends to the modes of operations. According to Mr. Lindsay, whenever rupees were required in India, the Secretary of State in London sold it under the
name, "Council Bills" which could be encashed into rupees at the Government of India Treasuries, and consequently rupee currency were provided in India. In the same way, whenever the gold was wanted, the Government of India sold it under the name, "Reverse Councils" on the home Treasury in London, which were encashable by the Secretary of State, and consequently gold was provided for foreign remittances. This system of sale of "Council Bills" and of the "Reverse Bills" facilitated the transformation of Indian currency from gold stand with a gold currency as desired by the Fowler Committee, into a gold standard without a gold currency as wished by Mr. Lindsay.

So the system which grew up in place of the system originally intended by the Government of India is known as the Gold Exchange Standard. To this departure, Dr. Ambedkar remarks, "How the departure came about we shall deal with another place. Here, it is enough to state – one may also say necessary, for many writers seem to have fallen into an error on this point – that the government did not start to establish a gold-exchange standard. Rather, it was contemplating the establishing of a true gold standard, which, however inadequately understood by the men who framed it." (Moon 1989:489).

Dr. Ambedkar makes a comparison between the system which came into force and the one proposed by the Government of India in 1878 and points out the only one difference, i.e. under the latter, the mints were open to the public, whereas under the former, they are open to the government alone. Here, it cannot be assumed that the plan of the Government of India closing the mints to the public was not thought of, but on the other hand, it then considered the feasibility of taking over the coinage of rupees into its hands; but it had rejected on some pre-eminent grounds. Outlining the schemes in their dispatch, the government of the day observed that, if the mints were wholly closed to the public for the coins of silver, then the government has to take the responsibility of
supplying the silver demand of the public; to meet this demand the present position of the market for gold and silver bullion in India will not be accepted for such a duty. Moreover, it would not be expedient to enter in the complicated transactions of purchase and storing of bullion by the government.

Now, the question is whether the mode of issue would make any vital difference to an effective limitation on the volume of rupees. It is generally believed that, by closing of the mints, the monopoly of issue of notes vests with government, this may prevent the over-issue of currency, as a result, the value of the rupees in terms of good may be sustained. To this Dr. Ambedkar remarks, "The closing of the mints, it must be admitted, has given the government the position of a monopolist. But how a monopoly prevents an over-issue is not easy to grasp." (Moon 1989:492). As far as, limiting the issue of notes are concerned, it depends upon the will of the Government of India as a monopolist and its desire to see that its currency is not depreciated. But the position of the Government of India in this respect is regrettably weak. On the contrary, it is bound to issue whenever the currency is asked for, and has no escape from the pecuniary obligation to issue currency. Hence, this monopoly of issue, instead of strengthening the position of the government, has notably weakened it. Therefore, it is rightly pointed out by Dr. Ambedkar that, "the present standard is different from the standard proposed in 1878 only in name." (Ibid. P. 493). Therefore, Dr. Ambedkar concludes that, "The arguments that are valid against the former are also valid against the latter." (Moon 1989:493).

Apart from advocating exchange standard for India by Chamberlain Commission, it has sought to inspire sense of certainty in that standard by stretching forth that the present Indian system has a close relationship with other currency systems in some of the great European countries of the world. In order to know what these relationships are or
rather were Dr. Ambedkar suggests looking into Chapter II of Mr. Keynes interesting treatise on Indian currency and Finance. According to Dr. Ambedkar, Mr. Keynes in his treatise attempts to show that there is a basic likeness between the operations of the Indian currency system and the operations of the central banks of some of the European countries. These banks used to hold foreign bills of exchange in order to make remittances to foreign countries. Between the selling of those foreign bills of European banks and selling of reverse councils by the Government of India, Mr. Keynes observes a close basic likeness, to the extent that as both entailed. Here, Dr. Ambedkar quotes the opinion of Prof. Kemmerer about the observation of Mr. Keynes. So, according to Prof. Kemmerer, "It is difficult to see what likeness there is between the Government of India selling reverse councils and the European banks holding foreign bills. Far from being alike, the two practices must be regarded as the opposite of each other." (Moon 1989:494).

Hence, Dr. Ambedkar remarks that, "The Indian currency system therefore bears no analogy to the European currency systems, as Mr. Keynes would have us believe." (Moon 1989:494). But if comparison is needed of Indian system of currency, then the true comparison can be given with the system which prevailed in England during the bank suspension period (1797-1821).

Dr. Ambedkar compares the existing currency system in India with that of system outlined by the government in 1898 and passed by the Fowler Committee. Both were opposites of each other, like the Bank Charter Act was the opposite of the Bank Suspension Act in England. In England, under both the Acts, the currency was a mixed currency, consisting partly gold and partly paper. Under the Bank Suspension Act, the issue of gold became limited, whereas the issue of paper became
unlimited. While under the Bank Charter Act, the process was reversed, i.e. the issue of gold became unlimited. In the same way, under the original scheme of the Government of India, the issue of paper was limited, whereas the issue of gold was unlimited. While under the existing system, the issue of gold was limited whereas the issue of rupee was unlimited.

The only objection to the plan originally intended by the Government of India was that it made the rupee an inconvertible rupee. First of all, the idea that convertibility is a necessary condition for maintaining the value of a currency is utterly an illogical idea. Dr. Ambedkar explains through an example, “No one wants the conversion of bananas into apples to maintain the value of bananas. Bananas maintain their value by reason of the fact that there is a demand for them and their supply is limited. There is no reason to suppose that currency forms an exception to this rule. Only we are more concerned to maintain the value of currency at a stable level than we are of bananas because currency forms a common measure of value.” (Moon 1989:499). Therefore, it is clear that, to maintain the value of currency, it is an effective limit of its supply, not the convertibility. Thus, according to Dr. Ambedkar, “the better plan was no doubt the one originally designed, namely of putting a limit on the issue of rupees, so as to make the Indian currency system analogous to the English system governed by the Bank Charter Act of 1844.” (Moon 1989:500). It can be seen that Dr. Ambedkar did not agree with the opinion entertained by the Chamberlain Commission of the exchange standard. Further, he wanted to examine the foundation of the exchange standard from a fresh point of view, which we can see in the next chapter.
CHAPTER VI
5.7 Stability of the Exchange Standard

In this sixth chapter, of the book Dr. Ambedkar makes a critical examination of the stability of the exchange standard.

It can be remembered that, in the country when mints were closed for the free coinage of silver, there existed two parties in India, one in favour of and the other opposing to the closure of the mints. Having placed in an encumbering position, because of the fall of the rupee, therefore, the government of that day was eager to close the mints and raise the value of the rupee with a view to get relief from the burden of making its gold payments. On the other hand, on behalf of the producing interest of the country it was pressed that a rise in the value of the rupee would cause a failure to Indian trade and industry. One of the reasons put forth was that the Indian industry had advanced progress rapidly during the period of 1873-1893 because of the bounty given to the Indian export trade by the falling exchange. Therefore, it was feared that, if the fall of the rupee was stopped by the mint closure, as a result of this, it would reduce Indian trade both ways. To quote Dr. Ambedkar, “It would give the silver-using countries a bounty as over against India, and would deprive India of the bounty which it obtained from the falling exchange as over against gold-using countries.” (Moon 1989:502).

Dr. Ambedkar illustrates through the table that an arrest in the fall of the rupee did not suffer a setback to Indian trade with a gold-standard country like England or a silver-standard country like China. Further, it is also argued that the arrest in the fall of the rupee would have lifted the burden from Indian finances just as it was expected to follow from the mints closure.
It is also opined that though trade no doubt depends on good money, but growth of trade need not be good because money is good. To given an example, during the periods of depreciated coinages, due to this, there was a social misery and nuisance, which are intolerable, yet during the same period many countries were able to make great progress in trade. It is also true that Indian trade made rapid progress in the trade, when Indian currency was not good in that period i.e. between 1873 and 1893. On the other hand, it is also held the view that, trade is good it may be because the currency is bad. And so, trade of India during 1873 to 1893 flourished because a bounty was received. To quote Dr. Ambedkar, “But the bounty was a mulcting of the Indian labourer, whose wages did not rise as fast as prices, so that the Indian prosperity of that period was founded not upon production, but upon depredation made possible by the inflation of currency.” (Moon 1989:505-507). In the same way, the new currency system has been regarded as good, because it has made unnecessary the burden of the gold payments and Indian tax payers have been given relief. Such a view involves a misunderstanding of the exact source of the burden of India’s gold payments during the period of falling exchange. Again it has been considerably held fact that the burden of gold payments were caused by the fall in the gold value of silver, it is a view which carries with it the necessary implications that if India has been a gold standard country from the heavy burden she would have escaped. Dr. Ambedkar quotes the views of Prof. Marshall that, “That it is an erroneous view hardly needs demonstration.” (Moon 1989:507).

Though there was an increase in trade and buoyancy of government finances under the exchange standard the Chamberlain Commission instead of depending on this argument, relied on the point that the currency system maintains the exchange value of the rupee at a fixed par with gold. Dr. Ambedkar with the help of the data reveals that from the day one of the mint closure up to the 1898, the rupee was far
below the par. The depreciation of the rupee, measured in terms of the 
exchange, somewhere ranged between 25 to 30 percent when the rupee 
was not fixed to gold. To quote Dr. Ambedkar, "So great was the 
depreciation that it redoubled the difficulties confronting the government 
when the rupee was not fixed to gold." (Moon 1989:509). It was almost 
impossible to finance the Home Treasury by usual means of selling 
Council Bills. Therefore, the Secretary of State consented to reduce his 
drawings so as not to unduly lower the exchange rate.

The reduction of drawings to save the rate of exchange from being 
lowered was not absolute good. Hence, in order to finance the Home 
Treasury, it imposed the necessity of sterling borrowings and interest on 
the drawings, which also added to the burden of the gold payments that 
was already over heavy. Therefore, the Secretary of State instead of 
attempting to dominate the market, he preferred to follow it. But this let 
go policy was not free from cost. The drop in the exchange below 15.4d. 
became addition to burden of remittances to the Home Treasury and also 
the government was forced to grant exchange compensation allowances 
to its civil and military European officers. All these expenditure added to 
the cost of the government was very considerable sum. Thus, in October 
1896, the financial member of the Council had come to the conclusion to 
substitute 15d. for 16d. as the par of exchange between the rupee and 
gold. But, however his suggestion was dropped, since the rupee showed 
signs of reaching the gold par, in January 1898, after a period of full five 
years of depreciation from the established par this happened. But after 
between January 1898 and January 1917, two times the rupee fell below 
its gold par. The year 1907-1908 witnessed the second in occasion 
breaking down of the parity of rupee under the exchange standard. 
However, the rupee recovered to its old gold par, after a crisis eating over 
a year and remained fixed for seven years, but suffered another fall from 
its parity during the year 1914-1915, which has been illustrated in a 
After 1916, due to the rise in the price of silver, the stability of the exchange standard was threatened. It was of the view that based upon the Indian exchange standard that the gold value of the silver was certain to fall or at least not likely to rise to a level at which the rupees intrinsic value becomes higher than its nominal value. The silver price at which the rupees intrinsic value equals its nominal value was 43d. per ounce so long as the rupees intrinsic value remains below its nominal value. For example, if the price of the silver do not rise above 43d. then there was no danger to the rupee as a circulating currency. If the price of the silver rose above that point, then the danger of the rupee passing from currency to the meeting point imminent. To show this, "On February 10, 1914, the cash price in London of silver per ounce of standard fineness was 26 5/8d. It fell to 22 11/16d. on February 10, 1915, and though it jumped to 27d. on the same date in 1916, yet was below the rupee melting-point. After the last mentioned date its rise was meteoric. On February 9, 1917, it rose to 37 5/8; on February 8, 1918, to 43d; and on the same date in 1919 to 48 7/6d., thereby quite overshooting the rupee melting-point. But the price of silver broke all record when on February 11, 1920, it reached the colossal figure of 89 1/2d. per standard ounce." (Moon 1989:513).

Once the problem arose as to how the rupee could be preserved in circulation, then there was a rise in the intrinsic value of the rupee above the nominal value. Two ways suggested for solving the problem. One was to reduce the fineness of the rupee, and the other to raise the parity of the gold. Those countries who have confronted similar problem have adopted the former method of dealing with their silver coinage, but the Secretary of State for India could adopt the latter method and went on altering the rupee par whenever there was a rise in the price of the silver. For two years, the alteration game of the rupee par went on though it had not involved any social consequences. On May 30, 1919, the Secretary of
State, appointed Mr. Babington Smith as the Chairman and other members to a new committee called Currency Committee for recommending measures for ensuring a "stable gold exchange standard."

The majority of the committee, after half a year, reported on February 2, 1920, the recommendations of the majority of the committee were accepted by the Secretary of State and also by the Government of India, gave up completely the old parity of 7.53344 grs. per rupee for the new parity of 11.30016 grs. Troy. The question was whether the rupee would maintain its new parity with gold now. In this matter of finding out the fact, to quote Dr. Ambedkar, "The exchange quotation on London is no guide; for the value of the rupee was 2s gold and not 2s sterling... the exchange quotation on New York is therefore more directly helpful in measuring the gold value on the rupee than is the sterling quotation on London. We can also employ the actual rupee-sterling quotation as a measure by comparing it with the amount of sterling the rupee should have purchased, as an equivalent of 11, 300.16 grs. Of gold, when corrected by the prevailing cross-rate between New York and London. Compared with the par of exchange, the actual exchange, either on New York or on London, indicates a fall of the rupee which simply staggering." (Moon 1989:514-515).

Thus Dr. Ambedkar points out that the system could not maintain rupees value in terms of gold. The rupee either fell or it went rather below par in 1893, until 1900, it did not reach its parity to any degree of firmness. After seven years of an interval, the rupee again fell below par in 1907. In 1914, the rupee witnessed another fall. Though there was a meteoric rise since 1917 the rupee fell again after 1920. Therefore, Dr. Ambedkar raises the question as to why the rupee failed to maintain its gold parity on several occasions. So, he analyses the various answers to the question. In the opinion of Dr. Ambedkar, "The only scientific explanation sufficient to account for the fall of the rupee would be to say
that the rupee had lost its general purchasing power." (Moon 1989:577). Further, it is an established proposition that a currency or unit of account will be valued in relation to another currency or unit for how much it is worth. Dr. Ambedkar concludes that the gold value of the rupee improved during 1893-1898, because there was a steady improvement in its general purchasing power. Again in 1908, 1914 and 1920, when the exchange fell simply because those were the years when market peak in the rising price level in India, or to put it in other way, those were the years in which there was the greatest depreciation in the general purchasing power of the rupee. However, these were not the views shared by the Government of India. To quote Dr. Ambedkar, "The official explanation is that a fall in the gold value of the rupee is due to an adverse balance of trade. Such is also the view of eminent supporters of the exchange standard like Mr. Keynes and Mr. Shirras." (Moon 1989:520).

In the opinion of Dr. Ambedkar, the argument regarding an adverse balance of trade as an explanation of the fall of exchange was something new to official literature in India. Though there was a fall of exchange between 1873 and 1893, but no official raised the adverse balance of trade as an explanation. He questions regarding the doctrine of adverse balance of trade, and as to whether it could furnish an ultimate explanation for the fall that happened in 1907, 1914 and 1920. As per the report of the Indian Paper Currency which admits that all Indian exports were paid for by the imports, there was no such thing as drain. This showed that there was no official explanation for what causes an adverse balance of trade. To quote Dr. Ambedkar, "If an adverse balance of trade is the cause of the fall of exchange, and if the adverse balance of trade is caused by internal prices being higher than external prices, then it follows that the fall of exchange is nothing but the currency's fall in purchasing power, which is the same thing as the rise of prices." (Moon 1989:528).
Now, the question regarding the cause of the fall in the purchasing power of the rupee is to be answered. In reply to this question, Dr. Ambedkar examines the Report of Price Inquiry Committee which mentions the decline in supplies relatively to population as one of the causes for the rise of prices in India. Generally, it was more or less accepted view that the theory of quantity of a currency as the chief determinant of its value, but the line of reasoning chosen by the committee was somewhat surprising. This was to pardon the Government of India from any blame that otherwise might be cast upon it. In the views of Dr. Ambedkar, “The rupee fell in purchasing power because of currency being issued in excess, and there is scarcely any doubt that there has been a profuse of money in India since the closing of the mints in 1893.” (Moon 1989:530).

Dr. Ambedkar gives an elaborate description as to how the currency expansion took place during different periods. In the first period between 1893-1898 was perhaps the only period which was marked by a rather halting and cautious policy in respect of currency expansion; at that time the mints were closed and the currency was already redundant. As a result of the closure of the mints, the silver bullion depreciated and its value fell. Therefore, the government proposed to the Secretary of State, to allow the sale of the silver even at a loss, rather than coin and make addition to the already redundant volume of currency. But the Secretary refused, hence the silver added to the currency. Due to the stoppage of council Bills in 1893-1894, a large number of rupees, had temporarily accumulated in their treasuries, resulting in a contraction of currency. But the government later planned to spend them on railway construction, a policy equivalent to an addition to currency. After 1894, even though Council Bills were resumed, they had the same effect
because bills selling involved an addition to the currency. In addition to this, there was an increase in the fiduciary portion of the paper-currency reserve from 8 to 10 crores, as a result of this: in the circulation 2 crores of coined rupees were put.

In the second period 1900-1908 there was a remarkable increase in the volume of currency poured by the government into circulation. During this period, regarding the coinage of rupees, Dr. Ambedkar quotes Mr. Keynes an unfriendly critic of the government policy thus, "Having once started on a career of furious coinage, they continued to do so with little regard to considerations of ordinary prudence." (Moon 1989:537). By an Act III of 1905, the fiduciary portion of the paper currency reserve was increased to Rs.12 crores.

The third period, 1909-1914 was comparatively a moderate but by no means a negligent period from the standpoint of currency expansion in India. The first three years of the period were less intense emotively about the rupee coinage by an Act VII of 1911; the fiduciary limits were raised from Rs.12 crores to Rs.14 crores, thus putting 2 crores of additional rupees into circulation.

During the fourth period 1915-1920, all discretional constraints were over thrown. This period coincided with Great War, which created a great demand for Indian produce, and necessitated the government to meet the large expenditure. As a result of these two events, the current means of purchase increased. Finally, the Government of India adopted a destructive and a conveniently easier procedure and within four years between 1915 and 1919, it could pass one after another eight Acts, increasing the volume of notes that could be issued against securities.
Thus, if the gold value of the rupee falls on account of the power of the government to issue unlimited inconvertible currency. Dr. Ambedkar observes, is true of all such exercises in history; but an exception must be made in the case of the rupee currency, and therefore, the government should also have resources to counteract the effect of a fall in the rupee currency. Hence, he examines at length these resources: “The basis of the reasoning is that the rupee is a token currency, and that if the value of a token currency is maintained at par with gold by applying to it the principle of redemption into gold, it should be possible to maintain the value of the rupee at par with gold by adopting a similar mechanism. What is wanted is an adequate gold fund, and so long as the government has it, we are assured that we need have no anxiety on the score of a possible fall in the value of the rupee. Such a fund the Government of India has, and on all the three occasions when the gold value of the rupee fell below par, that fund was operated upon. The process of redemption is carried on chiefly in three ways: (1) The role of what are called reverse councils, by which the government receives rupees in India in return for gold in London; (2) The release of gold internally in receipt for rupees in India; and (3) The stoppage of the Secretary of State's Council Bills to prevent future rupees from going into circulation. The cumulative effect of these, it is said, is to contract the currency and raise its value to par. Although all the three may be employed, the first is by fact the most important means adopted by the government in carrying through this process of redemption.” (Moon 1989:537).

He, further observed that it is necessary to premise from the beginning that redemption may result in mere substitution of one form of currency by another or the currency may result into retirement. Substitution of currency is not a shrinkage of currency, therefore it has no consequence at all. To restore the value of currency, it is necessary that it should shrinkage; it is also meant as retirement or cancellation.
The Government of India’s gold resources are distributed among the followings: (1) The paper-currency reserve, (2) The gold standard reserve and (3) The cash balances of the Secretary of State. The above three determine the magnitude of gold resources. If any one goes to 1 or 3 reserve in charges, for want of gold in exchange for rupees, he gets the gold but there will be no shrinkage of currency. It is the only gold standard reserve resource of the government, which can retire the currency. This is the only reserve resource of which is not unappropriated for any particular use and to that extent it is possible for the government to restore the rupee currency when a fall in its gold value eventuates. By this way also the currency can be made retire. To quote Dr. Ambedkar, “Although there was redemption, there was no retirement, and so much gold was merely wasted, for it produced no effect on prices or the exchange.” (Moon 1989:546). Citing the examples of European banks, it was concluded that the reserve resources may not lend any strength to the gold exchange standard.

On the contrary to it, Dr. Ambedkar argues that, if the origin of the reserve required into it and is found that is being is a very huge source of weakness to the standard. Now the question arises, from where the government gets the gold standard reserve and is also a fact that, it does not increase its reserve, in the same manner as the banks do i.e. by reducing their issues. The composition of Indian gold reserve is such that, without an increase in the rupee currency, the reserve cannot increase. Therefore, the reserve can increase only when there is an increase in the rupee coinage. Thus, it can be said that, smaller the gold the better the reserve, because there will be no inflation and consequently, there will be no fall in the purchasing power of the rupee and there is no necessity for its retirement. Dr. Ambedkar opines that it
is the general purchasing power of a currency that will ultimately determine its exchange value, this fact being ignored by the proponents of the gold exchange standard. Its interest is to stabilize exchange and allow the problem of purchasing power to go large. Whereas, the true policy should be to stabilize the purchasing power of the currency and exchange for taking care of it.

However, from the above discussions it is revealed that the discussion only pertains to the breaking down of the gold exchange standard. Then, what about the years in which stability were maintained? As we could see that, the system maintained the gold value of the rupee from 1901 to 1907 or from 1909 to 1914. The ratification of this position depends upon some assumptions. Firstly, it is assumed that, the depreciation of a currency cannot take place unless it has depreciated in terms of gold. Proper care has to be taken regarding the distinction between specific depreciation of a currency in terms of gold and its general depreciation in terms of commodities. It is a lesson that when the general depreciation of currency has taken place the occurrence of a specific depreciation other things being equal, was only a matter of time. For example, if the general depreciation stretches beyond a certain limit, then duration of the interval before the specific depreciation occurs upon general depreciation rests on a variety of circumstances. In case of India, specific depreciation inclined to appear at different intervals, thereby fully demonstrating that there is greater necessity to consider general depreciation of currency in order to avoid the specific depreciation.

It can easily be admitted that the exchange standard is a stable standard considering the fact that the rupee has maintained its gold value over periods of some duration as supported by theory and history. Dr. Ambedkar ensures that in the long general depreciation will bring
about its specific depreciation of currency in terms of gold. Further, even in the absence of specific depreciation of the rupee, the best currency system is provided by a break on the general depreciation of the unit of account.

To quote Dr. Ambedkar, “The exchange standard provides no such controlling influence; indeed, its gold reserve, the instrument which controls the depreciation, is the direct cause of such depreciation. The absence of a specific depreciation for the time being is not more than a noteworthy and an interesting incident. To read into it an evidence of the security of the exchange standard is to expose oneself, sooner or later, to the consequences that befall all those who choose to live, in a fool’s paradise.” (Moon 1989:562).

CHAPTER VII

5.8 A Return to the Gold Standard

In this seventh and final chapter of the book, Dr. Ambedkar having examined the exchange standard in the light of its capacity of maintaining the gold parity of the rupee, the criterion that was laid down by the Chamberlain Commission; he questions the adequacy of the criterion as a fitting one by which to judge the merits or demerits of that standard. His argument is that money is not important enough for the amount of gold to be procured. To quote Dr. Ambedkar, “what really concerns those who use money is not how much gold that money is worth, but how much of things in general (of which gold is an infinitesimal part) that money is worth. Everywhere, therefore, the attempt is to keep money stable in terms of commodities in general, and that is but proper, for what ministers to the welfare of people is not so much the precious metals as commodities and services of more direct
utility.” (Moon 1989:563). If stability of money in terms of gold is important to the dealers in gold, its stability in terms of commodities in general affects all, including the bullion-dealers. Dr. Ambedkar supports his observation with similar views expressed by Prof. Keynes in his testimony before the Indian Currency Committee of 1919. Thus, Dr. Ambedkar quotes Prof. Keynes, “I should aim always... at keeping Indian prices stable in relation to commodities rather than in relation to any particular metallic or particular foreign currency. That seems to me of far greater importance to India.” (Moon 1989:563). But the remedy of high exchange which Keynes supported was controverted by Dr. Ambedkar, who observes, “Mr. Keynes seems to have overlooked the fact that exchange was only an index of the price-level, and to control it, it was necessary to control the price-level and not merely give it another name which it cannot bear and will not endure, as was proved in 1920 when the rupee was given in law the value of 2s. (gold) when in practice it could not fetch even 1s. 4d. sterling, with the result that the rupee exchange sank to the level determined by its purchasing power.” (Moon 1989:563).

Since the mint closure in 1893, about the course of price in India none among the many who have praised the goodness of the exchange standard have paid any attention to this primary question. Without result one may search the pages of Prof. Keynes, Prof. Kemmerer or Mr. Shirras about the exchange standard, for which they have to say from this point of view. Dr. Ambedkar further remarks that, the Chamberlain Commission or the Smith Committee on Indian currency never experienced about the problem of prices in India and without being satisfied yet on that score, how any one can give an opinion of any value as to the soundness or otherwise of that standard, really difficult to understand.
From the standpoint of prices, while considering the exchange standard, it may be said that the Indian mints were closed to the free coinage of silver because the rupee was depreciating currency resulting in high prices. Dr. Ambedkar, therefore argues that, the closing of mints must have been followed by a fall of prices in India, and he quotes the phraseology of Prof. Fisher, “the pipe-connection between the money reservoir and the reservoir of the silver bullion was due to the mint closure cut off or stopped, thereby preventing the passage of silver from the bullion reservoir to the money reservoir.” As stated earlier, actually the rise of prices in India since the mint closure has been quite novel in the history of the country. The mint closure has turned out to be a curse with regard to the prices, rather than blessing. Therefore, life in India has rendered quite unbearable due to an ever-rising price level. However, it may be argued that, had the mints not closed, the rise of prices in India would have been greater and India would have remained a silver standard country. Further, silver was being discarded universally and therefore it has become unfit to function as a standard of value.

Dr. Ambedkar to this extent, remarks that, “An exchange standard is better than a pure-silver standard. But is it as good as a gold standard?” (Moon 1989:563).

According to Dr. Ambedkar, the reply to this question can be in the affirmative on the basis of the doctrine of purchasing power parities as an explanation of actual exchange rates. It may be argued that it is because gold prices and rupee prices were equal, therefore the gold value of the rupee was maintained. In order to show the comparative price levels, Dr. Ambedkar prepared a graph and showed that, they revealed a surprising occurrence that prices in India not only rose as much as a gold prices, but rose more than gold prices. In order to give a
comparative picture with other countries, Dr. Ambedkar quotes Prof. Keynes, "A comparison with Sauerbeck's index number for the United Kingdom shows that the change in India is much greater than can be accounted for by changes occurring elsewhere." (Moon 1989:566). It can also be said that, the actual exchange rate correspond to the purchasing power parities of the two currencies not with regard to all commodities, but with regard some only or to such commodities as are internationally traded. But the two categories of goods traded and not traded internationally, in the long run influence each other and move together. All that indicates that, the purchasing power of the rupee over such commodities which are internationally traded was on a par with gold, therefore it may not offer wise the necessity of using all gold reserves when there was an equality of prices among the internationally traded goods were concerned, it meant only preservation of gold reserve. Thus, interpreted the fact that the rupee maintained its gold value does not exclude the possibility of Indian prices being on the whole higher than gold prices thereby infusing with the view that the exchange standard and gold standard are equally good.

Dr. Ambedkar opines, "it is strange that Prof. Keynes, in his treatise on Indian currency and finance, should have maintained that the exchange standard contained an essential element in the ideal standard of the future – a view subsequently endorsed by the Chamberlain Commission. If stability of purchasing power in terms of commodities in general is the criterion for judging a system of currency, then few students of Economics will be found to agree with Prof. Keynes. Perhaps, it is not too sanguine to say that even the Prof. Keynes of 1920 will prefer a gold standard to a gold-exchange standard, for under the former prices have varied much less than has been the case under the latter." (Moon 1989:570).
Further, Dr. Ambedkar clears the prevalent misconception that India was a gold standard country. It is to be admitted and noted that whether any two countries are of the same standard of value is to be found in the character and movements in their prices. In this regard, Dr. Ambedkar quotes Prof. Mitchell, "when two countries have a similar monetary system and important business relations with each other, the movements of their price levels as represented by index numbers are found to agree rather closely." (Moon 1989:570).

It is a matter of fact that, before the war, the England was a gold-standard country and between Indian and England there was no close correspondence in the contemporary movements of the price levels.

But it was a known fact that before war, England was a gold-standard country, and that there was no close correspondence between the contemporary movements of the price levels of India and England. The conclusion was that India was not a gold standard country. Further, it was observed by Dr. Ambedkar that, it was an error when Prof. Fisher attributed the "extra ordinary rise of prices in India to the existence of a gold standard where, as a matter of fact, it should have attributed to the want of gold standard." (Moon 1989:570-571). Further, Dr. Ambedkar opines that, "How can she become a gold standard country? The obvious answer is, by introducing a gold-standard currency. Prof. Keynes scoffs at the view that there cannot be a good standard without a gold currency as pure nonsense. He seems to hold that a currency and a standard of value are two different things. Surely there he is wrong. Because a society needs a medium of exchange, a standard of value, and a store of value to sustain its economic life, it is positively erroneous to argue that these three functions can be performed by different instrumentalities." (Moon 1989:571).
Dr. Ambedkar thus, further analyses that the rupee by reason of being the currency, therefore it is also a standard of value. In India if we wish to make gold the standard of value, it is necessary that we must introduce it into the currency of India.

Dr. Ambedkar further raises the question that if gold was made a part of Indian currency, what difference will it make to the price levels in India. The answer to this question was, since the gold is expandable as well as contractible whereas the rupee was only expansible but not contractible and this was the main reason for price rise in India. Hence, Dr. Ambedkar was very critical against the arguments it made. The first was that the Indian people will hoard gold and will not make it in crises. To this Dr. Ambedkar says that the hoarding was due to lack of knowledge of law, people treat money as a store of value therefore they continually hoard. If people know its present use is more than the future use, then they will not hoard it. There are examples that, precious metals have been exported from India when the occasion rose. Moreover, this argument can be used against any people not necessarily against the people of India.

The second in series, the argument was that India is a poor country therefore it cannot maintain an expensive money i.e. gold. This argument has been termed as less forceful than the first one. If the gold is disappearing from circulation, it means that there is an over issue of another type of money, as it has happened in case of Italy and Austrian Empire. If any country is maintaining a gold currency then it should not maintain substitute cheaper money.
The third argument was regarding small transaction of the Indian people, where gold is not permitted. For this Dr. Ambedkar says that first of all the unit of currency should be small, only then it can meet the situation. If the sovereign cannot circulate, it means that India must not have a gold currency. It also means that, the sovereign is too large for circulation. If at all, any case there is, it is against the sovereign as a unit, and not against the rules of gold currency system.

The fourth argument of the Commission was that the paper convertible into rupees is the best form of currency and therefore it suits to the people of India, and also more economical in nature. If the gold currency is introduced, it may face the resentment of the people, because of the popularity of notes and rupees. To this Dr. Ambedkar says that it is one of fact and therefore it can be in either way i.e. proved and disposed, except by an appeal to the evidence whether or not gold currency has the tendency ascribed to it. Dr. Ambedkar counter questions, is no danger in a system of currency composed of paper convertible into rupees? Whether this paper will have no effect on the value of money? The Commission perhaps was in a view that, the paper currency which is convertible, cannot affect the value or purchasing power of the rupee. To this Dr. Ambedkar remarks, “In holding this view it was wrong; for, the convertibility of paper currency to the extent it is uncovered does not prevent it from covering the value of the unit of account into which it is convertible. Because by competition it reduces the demand for the unit for account and thus brings about a fall in its value. Thus the paper, although economical as a currency, is a danger to the value of the rupee. This danger would have been of a limited character if the rupee had been freely convertible into gold.” (Moon 1989:575). Dr. Ambedkar is of the opinion that, a far better would be to have an inconvertible rupee with fixed limits of issue.
Further, Dr. Ambedkar argues about a gold currency, is not a mere matter of 'sentiment' and a 'costly luxury', but a necessity dictated by the supreme interest of steadying the Indian standard of value, so that to some extent, however slight, safeguarding the welfare of the people of India from the later consequences of rising price level.

Therefore, Dr. Ambedkar finally proposes the Government of India for melting the rupees, selling them as bullion and using the proceeds for revenue purposes and fills the gap by an inconvertible paper. The very important point is about the closing the mints, not only to the public but also to the government. Once this is done, the Indian currency based on gold as legal tender with a rupee currency fixed in issue, will ensure to the rules embodied in the English currency system.

However, about the recommendations of the Fowler Committee, Dr. Ambedkar does not share the views that everything would have been alright, if the recommendations of the Committee were carried out by the government. Against this, he believes that the Indian currency underwent that transformation because the government carried out those recommendations. Some people will regard the report as classical for its wisdom, whereas Dr. Ambedkar regarded it as classical for its nonsense, because the committee while recommending a gold standard also recommended that government should coin rupees on its own account according to that most foolish of currency principles. If the Indian currency is to be placed on a stable basis, the principles of the Fowler Committee must be given up for the requirements of the public.

Dr. Ambedkar, views the doctrines of the government regarding the coinage of currency to meet the demands skeptically. He fears the over-issue of currency. He recalls the instances from history and observes that ever since the closure of the mint it is the rupee currency which is
the chief source of danger to the welfare of Indians. The principle which governs the issue i.e. the issuing of currency in response to trade demand, to Dr. Ambedkar’s surprise, had the support of such eminent authorities as Prof. Keynes, Mr. Shirras and the Chamberlain Commission and that perhaps is because of the peculiar nature of money. Inspite of its instability, it is always wanted because it has the purchasing power. Another advantage which money has over other goods is its sale-ability. Therefore, Dr. Ambedkar observes, “All money is required in response to trade or services, but all money is not retained in currency.” (Moon 1989:613). Moreover, money has the option to be used for non-monetary purposes. But in case of the rupee, it is not true; it remains in currency always and tends to depreciate in value. The possibility of depreciation is the cause of increase of the gold reserves. Added to the indiscretion of the government was the rebuke of Indian statesmen for not making profits on rupees coinage available that endangers the rupee currency. Observing that, “In 1907 the profits on rupees were actually employed in the extension of railways”, he dreads the consequences that certainly arise “from the manipulation of currency for such ends.” (Moon 1989:614). He cautions against the power of the government in managing the rupee currency. He feels that even convertibility cannot bring about the deprivation of government power in this respect because, “with convertibility the rupee will still remain a managed rupee.” (Moon 1989:614). He holds that only by stopping coinage this can be achieved. Hence, he emphasizes that “Queer it may seem, safety lies in an incontrovertible Rupee with a fixed limit of issue.” (Moon 1989:614).

Thus, to conclude the thought of Dr. B.R. Ambedkar on the currency debates of 19th Century, in the words of Dr. P. R. Brahmananda (2001:341) the first RBI Professor of Monitory economics;
"B.R. Ambedkar presented his own original angle on the currency developments in his book titled "History of Indian Currency and Banking", in 1947 which earlier (1923) had the titled of “The Problem of the Rupee”. He thought that Silver monometallism as adopted by India in 1835 saved India from the adverse consequences of the fall in Gold price which occurred thereafter. Ambedkar was strongly for the policy of the Government of India to keep the exchange rate high. He thought that the low exchange rate adversely affected the conditions of the labouring classes as wages would be rising at a lower rate than prices. He also thought that the distributional effects of a low exchange rates were adverse to the poor. He did not believe that he falling exchange rate had benefited the Indian economy. He supported Sir David Barbour’s experiment to reduce the relative amount of Silver rupees in relation to growth of output. But Ambedkar was critical of the Gold exchange standard. He developed the viewpoint that the Gold exchange standard gave discretion to the British Government to augments Silver rupees to an unlimited extent and thus cause inflation. He also criticized the use of the seigniorage profits for railway development. It was not proper to aim at profits in currency management. He was critical of the Lindsay scheme as also so Keynes’ support gold coins was not an important issue. The exchange rate could be kept stable by placing a cap on Silver rupees. This would also help the country to keep the price level low. In other words prices depended on the relation between the quantity of money and output. If the former could be limited the price level would be lower than otherwise. The gold standard of the gold exchange standard were not solutions so long as in either of them the expansion of Silver rupees in circulation was unbounded. The same viewpoint was retained by Ambedkar in the ratio controversy of the 20’s and 30’s."
Reference:
