



# RELEVANCE AND IMPACT OF DR. B R. AMBEDKAR'S IDEAS ON INDIAN ECONOMY AND PROBLEMS OF RUPEE

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## ABSTRACT

Whenever any country faces difficult situations, challenges, whether it is a political or economic, the intellectuals and politicians at some point or another need to search their own country's history for the solutions. The historical events, its people and their thoughts, that has shaped the country and its people future, proves to be the vital elements for the solving the current challenges the country. Dr. Babasaheb Ambedkar is one such great thinker, leader and intellectual of its time in India who has not only changed the life of millions of untouchables but shaped India as a biggest democratic nation by writing its constitution. What is well known about Dr. Ambedkar is his fights against Caste system in India, but what is not known is how Dr. Babasaheb Ambedkar had also Impacted the Indian economy. Dr. B.R Ambedkar was among the most outstanding intellectuals of India in the 20th century. His work in economics is noteworthy. His views deal with public finance and agriculture are landmark in the economics. Ambedkar's commitment was internal stability and he was convinced that only an automatic system based on gold standard with gold currency could achieve this desirable end. He was of view that governments should spend the resources garnered from the public not only as per rules, laws and regulations, but also to see that "faithfulness, wisdom and economy". Intervening in a discussion in the Bombay Legislative Council on October 10, 1927, Dr. Ambedkar argued that the solution to the agrarian question "lies not in increasing the size of farms, but in having intensive cultivation that is employing more capital and more labour on the farms such as we have." Further on, he says: "The better method is to introduce cooperative agriculture and to compel owners of small strips to join in cultivation." Thus Ambedkar thought on public Finance and agriculture has vital

relevance and still applicable in current situation of India. In order to enhance productivity of agriculture sector, government is needed to take measures on the basis of Dr. Ambedkar's thought.

**Keywords:** *internal stability, administrative policies, financial arrangement, cooperative agriculture, Free market, Inflation, Problems of Rupee. Monetary policy.*

## INTRODUCTION

Dr. B.R Ambedkar was among the most outstanding intellectuals of India in the 20th century in the best sense of the word. Paul Baran, an eminent Marxist economist, had made a distinction in one of his essays between an "intellect worker" and an intellectual. The former, according to him, is one who uses his intellect for making a living whereas the latter is one who uses it for critical analysis and social transformation. Dr. Ambedkar fits Baran's definition of an intellectual very well. Dr. Ambedkar is also an outstanding example of what Antonio Gramsci called an organic intellectual, that is, one who represents and articulates the interests of an entire social class. It is proved by a recently conducted survey by „History TV 18 and CNN IBN“ in June 2012. „Who is the greatest Indian after Mahatma Gandhi? “ is the question asked from the people of India. The contestants include, First PM Jawahar Lal Nehru, Singer LataMangeshkar, Industrialist J.R.D.Tata, A.P.J.AbdulKalam, Indira Gandhi and Vallbhbhai Patel etc. The final cumulative ranking was conducted following the three ways poll; ranking by jury (online and on ground), ranking by popular votes and ranking by market research. Finally, Dr. B.R.Ambedkar declared as winner. Historian RamchandraGuha stated on the declaration of results “Dr. Ambedkar’s legacy has been distorted to suit particular interests. He was a great scholar, institution builder and economic theorist” Prof. A. K. Sen has also said, “Ambedkar is my Father in Economics.

This paper discusses about the contributions of Bharat Ratna awardee Dr. B.R. Ambedkar in the field of economics. The major contribution of Babasaheb in the sub fields of economics like public finance, agricultural economics, problem of caste system in economic development, idea about new water and power policy are the few which is discussed in this paper. These remarkable contributions by Dr. B.R. Ambedkar are discussed under the following heads:

- a) **Agriculture and land reforms.**
- b) **Views of Taxation policy.**
- c) **Nationalisation of Industries.**
- d) **Strategy for economic development.**
- e) **Democratic state Socialism.**
- f) **Free Enterprises Economy.**
- g) **Population Control - Family Planning**
- h) **Economic Upliftment of Indian Women.**
- i) **Water Resource Policy.**
- j) **Concept of Human Capital.**
- k) **Abolition of Khoti System.**

- l) Ambedkar, rupee and our current troubles.**
- m) Dr. B. R. Ambedkar on Indian currency and RBI.**
- n) Dr. Ambedkar's Role in the Formation of Reserve Bank of India.**
- o) India's Currency Problems.**
- p) The Problem of the Rupee.**
- q) Discusses and conclusions.**

### **Agriculture and land reforms.**

Dr. Babasaheb Ambedkar had made in-depth study of Indian Agriculture, wrote research articles, organised Seminars and Conferences in order to Solve the problems of agriculture and farmers, also led farmer's movement. His thoughts on agriculture are found in his article "Small Holdings in Indian and their remedies"(1917) and also in "Status and minorities"(1947). He mentioned that holdings of lands by few people is an acute problem of Indian agriculture which has various disadvantages, like difficulties in cultivation and utilization and resources, increasing cost, low productivity, inadequate income and low standard of living.

According to Dr. Ambedkar Productivity of agriculture is related to not only with the size of holdings of land but also with other factors such as capital, labour and other inputs. Therefore, if capital, or labour are not available in adequate quantity and quality, then even a large size land can become unproductive. On the other hand, small size land become productive if these resources are available in plenty. With this thought the 'Land Ceiling Act' is passed after Independence. He also mentioned about the slavery and exploitation of Labour bounded under caste system is extremely bad for economic development and fought for its abolition. His other suggestion for solving agriculture problem are collective farming, economic holding of land or equal distribution of land, Large scale Industrialization, Provision of money, water, seeds and fertilizers by the government, cultivation of waste land by allotting waste land to landless labour, minimum wages to labours, control and regulation of private lenders of loan to farmers.

### **Views of Taxation policy.**

Dr. Ambedkar expressed his views on taxation in the manifesto of 'Swatantra Majdur Party' in 1936. He opposed Land Revenue and its system and their taxes as the burden of these taxes are significant on the poor sections of the society. He suggested some taxes as follows.

- A) Tax should be imposed on payers capacity and not on income.
- B) Tax should be less on poor and more on rich.
- C) Tax exemption should be given upto certain limit.
- D) There should be equality between different section in tax imposition.
- E) Tax should not lead to lowering the standard of life of the people.
- F) Land Revenue tax should be more flexible and should not levy on agricultural land.
- G) He suggested that Indian tax system at that time was based on discrimination and inequality.

## **Nationalisation of Industries.**

Dr. Babasaheb Ambedkar thought that fast development of India is impossible without Industrialization. According to him creating large scale employment produces essential goods for mass consumption. It utilizes raw materials, reduces foreign dependence and increasing security to labour, ultimately leads to the overall economic development of the country. The private sector industries cannot make big industries for want of large scale investments. So, government should come forward to start large scale industries. The smaller industries should be kept in private sector. The insurance and transport companies should be nationalized. Rights to strike should be given to labourers. After the independence the industrial policy of the Indian government is in keeping with Dr. Ambedkar's expectations.

## **Strategy for economic development.**

Dr. Ambedkar believed that the strategy for India's Economic development should be based on Eradication of property elimination of inequities and ending exploitation of masses. He emphasized exploitation has many dimensions in fact in the India, social or religious exploitation is no less Oppressive than economic exploitation and it should be eliminated.

## **Democratic state Socialism.**

Dr. Babasaheb Ambedkar has presented a Democratic State Socialism to the constitution committee. The main points of it are

- 1) All basic industries should be owned and run by the state.
- 2) Insurance and agriculture should be nationalized and managed by the state.
- 3) Maintenance of Productive resources by state.
- 4) Just Distribution of Common produce.
- 5) Provision for compensation of land or industry acquisition in the form of bonds.
- 6) The distribution of village and among the families in a village for collective farming
- 7) No discrimination as landlord, tenants and agriculture labours.
- 8) All agriculture input like capital, seeds fertilizers etc would be provided to collective farming by the government.
- 9) Distribution of agriculture income only after payment of land revenue tax.
- 10) Punishment according to rules who do not follow

Dr. Ambedkar wanted this state socialism to be included in the constitution so that no legislature could change or reject it. But it could not come into existence as the constitution committee rejected it. It suggests that the conditions of labour, farmers and poor people would have different if this has not been rejected.

## **Free Enterprises Economy.**

Surprising enough Dr. Ambedkar had already suggested free economy, globalization, liberalization and privatization as early as in 1923, Recently Indian government has adopted this policy. In this respect Dr.



Ambedkar was a century ahead. He had stressed that the value (Price) of a rupee must be kept stable if the policy of free economy is to be successful.

### **Population Control / Family Planning**

Dr. Babasaheb Ambedkar said that the control of the country's economy is impossible if the population is not controlled. Hence he forcefully argued for population control and family planning in India. Later on in keeping with his views the government of India has adopted family planning as a national policy.

### **Economic Upliftment of Indian Women.**

Dr. Babasaheb Ambedkar's contribution to economic development and progress of women is significant. According to him, participation of women in the economic development is impossible without developing their social status and equality. But due to bad economic conditions of women in India, India's economic progress is hampered. So, it is important to improve the economic condition of women and give them equal rights and freedom of occupation.

### **Water Resource Policy.**

Dr. Ambedkar was a President of Policy Committee on Irrigation and Electric Power. He was also closely associated with "official Committee" in the Labour Department. The main task of the Committee was to formulate the water and power policy. Dr. Ambedkar had influenced the nature of water and power policy and strategy for their planned development. Damodar Valley Project, Hirakud River Project, Sone River like all big projects construction made regarding to Dr. B. R. Ambedkar's recommendation. Dr. Ambedkar suggested solution about the Inter-State Water disputes and conflicts.

### **Concept of Human Capital.**

Dr. Ambedkar argued that concept of human capital in India is useless if the poorer and down trodden untouchable dalits are not recognized by other classes as human being with equal social prestige and religious basis. It is therefore impossible to use this human capital in the economic development of India.

### **Abolition of Khoti System**

Ambedkar moved a bill against the Khoti system in 1937 which was popularly known as "The Khoti Abolition Act". British government used to appoint some powerful persons known as Khots. They were middlemen between the tax collector (British Government) and tax payer (Inferior land holders). Khots were responsible to hand over the tax revenue collected for the entire empire to the British government, for this they used to freely exploit and abuse the inferior land holders. This kind of system was more prominent in the Ratnagiri district, Kolaba district and Thana district. Ambedkar wanted that this anti Khoti bill should be enacted in the complete Bombay Presidency.

## Ambedkar, rupee and our current troubles

Ambedkar initially made a name for himself as a monetary economist, B.R. Ambedkar's London doctoral thesis was on the problem of the rupee, which was published as a book in 1923. A hundred years ago, a young Indian economist reached New York in the third week of July. His name was B.R. Ambedkar.

Ambedkar later became famous as a relentless critic of the pernicious caste system, an inspiring political leader and the moving spirit of the Indian Constitution, but his early training was as an economist. He had come to Columbia University to study under Edwin Seligman, who also happened to be a friend of LalaLajpat Rai.

The young scholar would sit for hours in the university library. In his three years at Columbia, Ambedkar took 29 courses in economics, 11 in history, six in sociology, five in philosophy, four in anthropology, three in politics and one each in elementary French and German, according to the Columbia website.

Ambedkar was one of the first generation of professionally trained economists in India. He was also the first Indian political leader with formal training in economics, with research papers published in noted academic journals. He came back from the US in 1916, taught economics at a Mumbai college for three years, and then went to London to do his doctorate at the London School of Economics under Edwin Canaan. The London doctorate was awarded in 1923 and the Columbia one in 1927. He also became a lawyer during his stay in London.

The centenary of his forgotten voyage to New York comes at a time when the fall in the Indian rupee has grabbed headlines. It is interesting that Ambedkar initially made a name for himself as a monetary economist. His London doctoral thesis was on the problem of the rupee, which was published as a book in 1923. Some of his insights are worth taking a look at, given the current troubles.

Ambedkar looked into the problem of the rupee at a time when there was a clash between the colonial administration and Indian business interests on its value. The latter argued that the government was maintaining an overvalued exchange rate to help British exporters who sold their goods in India.

The Congress backed Indian business in calling for a devaluation. London eventually agreed to set up a royal commission in 1925 to examine the matter.

The main focus of the doctoral thesis was on how Indian monetary affairs should be arranged. Ambedkar argued in favour of a gold standard as opposed to the suggestion by John Maynard Keynes that India should embrace a gold exchange standard. His interest in economics, however, was never purely theoretical—it also lay in what implications it had for public policy, as economic historian S. Ambirajan pointed out in a 2001 speech on Ambedkar's contributions to Indian economics.

In his statement to the royal commission on the rupee, Ambedkar defined the controversy in a way that is relevant today as well: “At the outset, it is necessary to realize that this controversy involves two distinct questions: (i) Should we stabilize our exchange and (ii) What should be the ratio at which we should stabilize?”

The current context is very different, but the way Ambedkar framed the problem is still relevant today: Should the Reserve Bank of India try to defend the rupee and what value should it defend?

Ambedkar eventually argued in favour of a limited devaluation of the rupee, somewhere between the exchange rates that the two competing groups were in favour of: the colonial government representing British business interests that wanted to maintain the existing exchange rate and the Congress speaking for Indian business interests that wanted a cheaper rupee. A cheaper rupee at the end of the 19th century had helped Indian exporters.

His reasoning for such a compromise settlement was fascinating, because it looked at the distributional consequences of exchange rate management.

Ambedkar said that a limited devaluation would help the business class as well as the earning class. A very steep devaluation would harm the latter since they would be hit by high inflation if the fall in the rupee was too steep. In effect, he said that the interests of these two groups should be balanced while thinking of the value of the rupee, because a very steep devaluation would reduce real wages of the earning class because of inflation.

In his statement to the Royal Commission on Indian Currency and Finance, Ambedkar said: “The more important point is, supposing that there is a gain arising from low exchange, whence does this gain arise? It is held by most businessmen that it is a gain to the export trade and so many people have blindly believed in it that it must be said to have become an article of faith common to all that a low exchange is a source of gain to the nation as a whole. Now if it realized that low exchange means high internal prices, it will at once become clear that this gain is not a gain coming to the nation from outside, but is a gain from one class at the cost of another class in the country.”

Ambedkar also knew that the problem of the rupee is eventually linked to the problem of domestic inflation. In the preface to the book version of his thesis, he pointed out: “...nothing will stabilize the rupee unless we stabilize its general purchasing power”. Ambedkar also pointed out that Ambedkar was clearly in favour of price stability and automatic monetary management (or what may today be termed as rule-based monetary policy).

Much has changed in the Indian economy since Ambedkar did his academic work in monetary economics. But some of his general approach to the problem of the rupee is still relevant: the benefits of depreciation in an open economy, the need to take the distributional consequences into account, the need to maintain price stability in the domestic economy, and the preference for rules over discretion in monetary management.

Ambedkar was very much an economist of his time, firmly wedded to the quantity theory of money and the gold standard.

His views too changed as the years went by, and as he moved closer to socialism. It is unfortunate that he almost abandoned economics after the mid-1920s, though an early paper published in 1918 on the problem of small holdings in Indian agriculture is almost prophetic in its anticipation of several themes in later

development economics, including the existence of disguised unemployment in farming. He showed why India needs to industrialize to absorb this surplus labour, in stark contrast to the pastoral vision of his political opponent, M.K. Gandhi.

Unfortunately, Ambedkar never came back to economic research. But he later looked back at his years in the US and the UK with pleasure: “My five years of staying in Europe and America has completely wiped out of mind any consciousness that I was an untouchable, and that an untouchable wherever he went in India was a problem to himself and to others.”

### **Dr. B. R. Ambedkar on Indian currency and RBI**

Today, I got stumbled upon icons for Indian currency. The name of Dr. B R Ambedkar has been recommended for Indian currency. It reminded me of the time of my childhood, when first time in my life I had seen the Rs. 1 coin with Dr. Ambedkar's photo on it. I was filled with the joy and kept that coin in the closet, never to lose it. I know this is not only with me but millions other Dalits also want to see Dr. Ambedkar on Indian currency and experience same joy. Few years back, I even came in contact with family who had actually provided RBI the picture of Dr Ambedkar for Rs. 1 coin. It was wonderful feeling knowing the journey and I'm sure almost same feeling evokes in Dalits when they see picture of Dr. Ambedkar on coins. I'll say if any person deserves to be on Indian currency then that person should be Dr. Ambedkar. Nobody else deserves that place on Indian currency. We must make sure RBI don't forget Dr. Ambedkar's name in later stage. So, I request everyone in capacity to make our voice reach higher authorities that we love Dr. Ambedkar more than any other icon in India so we want Dr Ambedkar's picture on Indian currency.

### **Dr. Ambedkar's Role in the Formation of Reserve Bank of India**

Did you know Reserve Bank of India (RBI) came into picture according to the guidelines laid down by Dr Ambedkar? RBI was conceptualized as per the guidelines, working style and outlook presented by Dr Ambedkar in front of the Hilton Young Commission. When this commission came to India under the name of “Royal Commission on Indian Currency & Finance”, each and every member of this commission were holding Dr Ambedkar's book named *“The Problem of the Rupee – Its origin and its solution.”*

(The legislative assembly passed this under the name of RBI act 1934, its need, working style and its outlook was presented by Dr Ambedkar in-front of Hilton Young Commission. Read, “Evidence before the Royal Commission on Indian Currency and Finance” and “The Problem of the Rupee – Its origin and its solution.”)

Now, walking through the streets of India, on most of the “State Bank of India's” (SBI's) street hoardings it shows Rabindranath Tagore as “The banker to this nation”, as if Rabindranath Tagore is the brand ambassador of SBI!

What hurts many of us is the picture of Mr. Gandhi on the Indian currency. We need to ask everyone what's the contribution of these two leaders (Rabindranath Tagore and Mr. Gandhi) towards Indian currency, finance and economics, and who deserves to be there on the signposts or on Indian currency?



Caste system as the major hurdle in economic development of India in 1936, Ambedkar wrote a speech titled “Annihilation of Caste” unfortunately this remained undelivered. This speech was later on published in 1937. In this speech he had talked about what was implied by the caste system. He pointed out that caste system is not only about division of labour but also the division of labours. His main claim was that caste system in India is hindering the mobility of the labour and capital which indeed impacts the economic development of India. Due to this caste hierarchy, employment in India is fixed by birth which leads to reduction in the mobility of the labour in other sectors. Dr.B.R. Ambedkar introduced a bill in the Bombay Legislative council on 1937 to abolish “Mahar Watan”, which has made the Mahar communities in Maharashtra slaves of the feudal lords. These communities used to live outside the villages and perform duties like village watchman; track the thieves and messengers, sweepers and remove the dead bodies of animals. To carry out these duties they get “Watan” a small piece of land for cultivation. This made them dependent on the mercy of the villagers and feudal lords.

### **B.R. Ambedkar, the Greatest Free Market Economist of India**

Before Ambedkar became a lawyer, social reformer and Constitution maker, he was a professional economist. Strangely, he is now known more as a Dalit leader than as an economist in the Dalit community as well as in the society at large.

**Socialistic Myth:** when people do talk about his economics, but it is about his opposition to capitalism and socialist leanings. This is a myth forwarded by dalits to further their own agenda. In fact, Ambedkar did not oppose free-markets but was himself an advocate of free-markets!!

**Dalit politics:** his economics is ignored by the mainstream and misrepresented by the dalits community because it is contrary to the socialist politics in India.

### **India's Currency Problems.**

Dr. Babasaheb Ambedkar's thoughts has a great impact on current Indian currency system. Under British rule when India Govt. was struggling with falling value of Indian Rupee, Dr. Babasaheb Ambedkar In 1923 wrote "The problem of Rupee, its origin and solution. He focused his studies and research on the condition of Indian currency during British India. He wrote research thesis on it. In his thesis, he argued that the gold exchange standard does not have stability. The developing countries like India cannot afford gold exchange standards, and besides this, it also increases the risk of inflation and price rise. He proved with statistics data and reasons how the Indian Rupee has lost its value and hence the purchasing power of Rupee is falling. He suggested that govt. deficit should be regulated and money should have a circular flow. He also suggested more attention should be given on price stability than exchange rate stability.

**The Problem of the Rupee** is an authoritative book on Indian currency and finance. In fact, this book was carried by all Members of the Royal Commission on Indian Currency and Finance Chaired by Hilton Young in 1924–25. While defending before the Commission the idea of multiple or competing currencies issued by individual banks instead of the government’s monopoly of legal tender, Ambedkar said

(1926): One of the evils of the Exchange Standard is that it is subject to management. Now a convertible system is also a managed system. Therefore, by adopting the convertible system we do not get rid of the evil of management which is really the bane of the present system. Besides, a managed currency is to be altogether avoided when the management is to be in the hands of the Government. When the management is by a bank there is less chance of mismanagement. For the penalty for imprudent issue, or mismanagement is visited by disaster directly upon the property of the issuer. But the chance of mismanagement is greater when it is issued by Government because the issue of government money is authorised and conducted by men who are never under any present responsibility for private loss in case of bad judgement or mismanagement.

As Ambirajan says (1999: 3282): [Ambedkar was] afraid that government will tend to artificially increase money in circulation... Ambedkar's conclusion is clearly towards price stability through conservative and automotive monetary management. This is of such current relevance that in these days of burgeoning budget deficits and their automatic monetisation, it would appear that we could do with an effective restraint on liquidity creation through an automatic mechanism.

### Conclusion

Dr. B.R. Ambedkar was the first economist in India who contributed a lot of ideas on economic development as an economist and was the highest intellectual person of his time and forever. He was a highly trained economist but his contributions in the economics were not recognised in the main stream of economics. The reason behind this was that Babasaheb stopped practicing economics after India got independence and devoted most of his time in politics, law, and social reform. Therefore, he was more popular as a political leader rather than an economist. But whatever he has contributed to the field of economics is remarkable and unforgettable.

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