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B. R. AMBEDKAR'S CURRENCY INSIGHTS: A ROADMAP FOR STRENGTHENING THE RUPEE

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Abstract:

India's current economic landscape is characterized by persistent inflation, external vulnerabilities, and currency instability. In this context, revisiting Dr. B.R. Ambedkar's economic thought offers valuable insights. Ambedkar's contributions to monetary economics, particularly his ideas on currency and monetary policy, were both visionary and pragmatic, addressing the structural issues of an underdeveloped economy under colonial rule. His nuanced understanding of currency and exchange stability remains highly relevant today, especially in addressing the challenges of inflation and economic imbalance. Ambedkar's broader economic philosophy was rooted in the ideals of social justice, inclusivity, and sustainable development. He strongly advocated for democratic state socialism, emphasizing state ownership of key industries, cooperative farming, the regulation of productive resources, and workers' welfare. His economic ideology leaned toward pro-poor and pro-state development rather than aligning with capitalist interests. In light of the current economic challenges facing India, Ambedkar's vision presents a compelling case for a more state-regulated, inclusive economic framework. This paper aims to explore the relevance of Ambedkar's monetary thought and its potential to address contemporary currency-related issues in India.

Keywords: *Flexible Inflation Targeting, Problem of Rupee, Price stability, Monetary management, India.*

Introduction:

The Indian rupee (INR) has faced significant volatility in recent years, depreciating by over 20% against the US dollar since 2018 due to rising oil prices, global interest rate hikes, and geopolitical tensions. Aggressive monetary tightening by the US Federal Reserve triggered capital outflows from emerging markets like India, weakening the rupee and increasing external vulnerability. In 2022, global inflationary pressures pushed the rupee to an all-time low of ₹83.29 per USD. Persistent inflation, driven by rising food and fuel prices, challenges India's monetary policy. Additionally, geopolitical tensions, such as the Russia-Ukraine conflict and global supply chain disruptions, have further exacerbated inflation and currency volatility. India's heavy dependence on oil imports and a widening current account deficit (CAD)—which reached 3.3% of GDP in FY2022–23—have added to external pressures. Managing inflation while maintaining exchange rate stability remains a key policy challenge for the Reserve Bank of India (RBI), as forex interventions drain reserves while monetary tightening slows growth.

In response to persistent inflationary challenges, India formally adopted a Flexible Inflation-Targeting (FIT) framework in 2016, shifting from the RBI's previous dual mandate of controlling inflation while promoting economic growth. The Finance Act of 2016 amended the RBI Act, making price stability the primary objective of monetary policy, with the Consumer Price Index (CPI) as the nominal anchor. A Monetary Policy Committee (MPC) set policy rates to achieve an inflation target of 4% (±2% tolerance band). While the FIT framework has contributed to more excellent macroeconomic stability, its impact on exchange rate stability remains mixed.

Notably, B.R. Ambedkar's seminal doctoral thesis, The Problem of the Rupee (1923), critically examined India's monetary system under British rule, highlighting currency instability, inflation, and external vulnerability. His insights into monetary autonomy and exchange rate stability continue to offer valuable lessons for contemporary economic policy, particularly in emerging economies like India.

In light of the above context, the research objectives are:

1. To critically analyze Dr. B.R. Ambedkar's economic perspectives on currency and monetary stability.
2. To evaluate the relevance and application of Ambedkar's monetary theories—particularly those concerning currency stability—in contemporary Indian economic conditions.

Research Methodology:

This research article is exploratory and descriptive by nature. This article is based on secondary sources of information, online and offline research journals, newspapers, magazines, etc. This article attempts to study the economic perspectives of Ambedkar and their underlying objectives. Thus, it is based on Ambedkar's contributions in the field of economics.

Literature Review:

The literature review has been divided into three parts. They are as follows:

1. A. Dr. B.R. Ambedkar's Contributions to Monetary Economics

Dr. B.R. Ambedkar's doctoral dissertation, *The Problem of the Rupee: Its Origin and Its Solution* (1923), is regarded as a foundational text in Indian monetary thought. In this work, he critically examined the evolution of India's currency system and analyzed the transition from the silver standard to the gold exchange standard. Ambedkar emphasized price stability over exchange rate stability, arguing that domestic economic health depended more on the rupee's internal purchasing power than its external parity. As he famously stated, "nothing will stabilize the rupee unless we stabilize its general purchasing power" (Ambedkar, 1923), highlighting his focus on maintaining stable domestic prices rather than merely fixing exchange rates.

The studies conducted by Ambirajan (1999) and Rodrigues (2002) reflect Dr. B.R. Ambedkar's preference for automatic or rule-based monetary systems over discretionary interventions. Ambedkar consistently emphasized the importance of a disciplined monetary framework as part of his broader commitment to economic justice, particularly for the working and earning classes, who are most vulnerable to the adverse effects of inflation.

2. Currency Stability and the Role of Monetary Policy.

The primary objective of modern macroeconomic management in the Indian economy over the past decades has been to achieve currency and price stability. Economists such as Friedman (1968) and Taylor (1993) have emphasized the importance of rule-based monetary policy to ensure effective inflation targeting and policy credibility. Dr. B.R. Ambedkar's monetary philosophy closely aligns with these frameworks, particularly in his advocacy for maintaining economic stability through a disciplined, predictable, and rule-governed monetary regime.

In India, the adoption of the Flexible Inflation Targeting (FIT) framework in 2016 under the *Monetary Policy Framework Agreement* between the RBI and the Government of India reflects a move toward a rule-based system. The establishment of the Monetary Policy Committee (MPC) institutionalized collective, data-driven decision-making, minimizing ad hoc interventions and enhancing transparency—principles that echo Ambedkar's vision.

3. Comparative Perspectives: Ambedkar vs. RBI's Current Framework

India's present-day monetary policy reflects a close alignment with Dr. B.R. Ambedkar's emphasis on price stability and monetary discipline. Inflation control has consistently remained the primary objective of the Reserve Bank of India's (RBI) monetary policy framework, as highlighted in its annual reports. Even during the COVID-19 pandemic and the global inflationary surge of 2022, the RBI adopted a calibrated approach to currency depreciation—balancing the need to support exports with the imperative of maintaining overall macroeconomic stability (RBI, 2021–22). This approach mirrors Ambedkar's vision of a disciplined monetary regime aimed at protecting the broader economy, especially the most vulnerable sections of society.

According to scholars like Reddy (2017) and Patra and Kapur (2012), the Reserve Bank of India's transition toward inflation targeting and greater exchange rate flexibility signifies the evolution of India's monetary policy framework. This shift not only reflects convergence with global best practices but also resonates with several core ideas proposed by Dr. Ambedkar almost a hundred years ago.

Dr. B.R. Ambedkar's Contributions to Monetary Economics: A Vision for Stability, Sovereignty, and Justice:

Dr. B.R. Ambedkar's seminal work, *The Problem of the Rupee: Its Origin and Its Solution* (1923), marks a landmark contribution to Indian monetary thought and policy. Written as part of his doctoral research at the London School of Economics, this study offers a sharp critique of India's colonial monetary system and proposes a visionary framework for a sovereign and stable currency system. Ambedkar's recommendations were not only technically sound but also deeply rooted in the principles of social equity and economic justice.

1. Critique of the Gold Exchange Standard

Ambedkar strongly opposed the gold exchange standard, under which the Indian rupee was pegged to gold-linked foreign currencies such as the British pound and the U.S. dollar. He argued that this system prioritized exchange rate stability over domestic economic equilibrium, ultimately facilitating the drain of wealth from India to Britain.

This externally imposed standard, according to Ambedkar, distorted India's monetary autonomy, leading to systemic underdevelopment and economic subjugation. The rigidity of this system hindered India's ability to respond to domestic price instability and growing poverty.

2. Theoretical Foundations and Monetary Policy Proposals

Ambedkar's analysis extended beyond critique. He proposed a comprehensive and structured framework for a managed currency system, emphasizing the following core principles:

a. ***Price Stability over Exchange Rate Stability***

Ambedkar believed that the primary objective of a currency system should be stability in the purchasing power of money, rather than its value in terms of gold or foreign currency. He argued that in a country like India, where the majority lived in poverty, internal price stability was essential to protect real incomes and promote economic confidence.

"Nothing will stabilize the rupee unless we stabilize its general purchasing power."
— *Ambedkar, 1923*

b. ***Monetary Autonomy and Inconvertible Paper Currency***

He advocated the adoption of a **managed, inconvertible paper currency** system. Ambedkar suggested replacing metallic currency with paper currency issued under strict controls, decoupled from gold reserves:

"I would propose that the Government of India should melt the rupees, sell them as bullion and use the proceeds for revenue purposes and fill the void by an inconvertible paper... The vital point is to close the mints, not merely to the public, but to the Government as well."

This approach reflected his commitment to monetary sovereignty, enabling the Indian government to align currency issuance with domestic economic needs.

c. ***Rule-Based and Automatic Monetary Management***

Ambedkar emphasized the need for conservative, rule-based monetary management rather than discretionary interventions. As a firm believer in the quantity theory of money, he maintained that:

- The money supply should expand or contract in proportion to changes in economic activity.
- Automatic mechanisms should guide monetary policy, ensuring price stability without frequent government interference.
- Currency value must remain stable in terms of commodities, not gold or foreign currencies.

This framework closely aligns with modern rule-based monetary policies, which prioritize credibility and discipline in managing inflation and growth.

3. ***Pragmatic Approach to Devaluation and Exchange Rate Determination***

Ambedkar advocated for a limited and controlled devaluation of the rupee, guided by agreement among economic stakeholders. He recognized that:

- Moderate devaluation could enhance export competitiveness and benefit the business sector.
- Simultaneously, it could protect the earning classes from the abrupt losses in real income caused by inflation.

He warned against unchecked inflation, which disproportionately harms the poor by eroding purchasing power and widening income inequality. In examining external value determination, Ambedkar rejected the gold standard. He posited that exchange rates should reflect internal purchasing power, determined by purchasing power parity (PPP) concerning selected commodities, not all goods or arbitrary metallic standards.

4. ***Influence on Indian Monetary Policy***

Ambedkar's monetary insights gained institutional recognition when he testified before the Royal Commission on Indian Currency and Finance (Hilton Young Commission) in 1925. His views played a significant role in shaping the monetary reforms that culminated in the establishment of the Reserve Bank of India (RBI) in 1935—a milestone in India's financial independence.

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5. Academic Legacy and Unfinished Work

In addition to *The Problem of the Rupee*, Ambedkar envisioned a two-volume study on Indian currency and banking. While the **first volume**—detailing the evolution of currency from 1800 to 1923—was published, the **second volume**, *The History of Indian Currency and Banking from 1923 Onwards*, remained incomplete due to his increasing socio-political engagements.

6. A Currency System for Social and Economic Justice

Unlike contemporaries like John Maynard Keynes, Ambedkar grounded his monetary theory in the realities of a colonized and impoverished society. His proposals were guided by:

- The need for monetary discipline to achieve long-term stability.
- A deep concern for distributive justice, ensuring the working class and poor were not victims of inflation or deflation.
- The vision of an inclusive financial system that encouraged confidence in borrowing, lending, and economic participation.

Ambedkar viewed money not merely as a medium of exchange, but as a social instrument of value, which, when managed wisely, could support a just and equitable economic order.

Dr. B.R. Ambedkar's contributions to monetary economics were visionary, nuanced, and deeply relevant to the needs of an underdeveloped economy under colonial rule. His critique of the gold exchange standard, his proposal for a managed currency regime, and his emphasis on price stability, monetary autonomy, and social justice constitute a comprehensive framework that resonates with modern monetary thought. Ambedkar's economic legacy remains a guiding force in debates on monetary policy, central banking, and inclusive growth in India and beyond. His critiques of colonial monetary policy, along with his visionary proposals for a managed currency system, demonstrate a profound understanding of economic principles applied in the context of India's socio-political realities. His legacy continues to inspire economists and policymakers committed to equitable and inclusive economic development.

Relevance of Ambedkar's Economic Thought in Contemporary India

Dr. B.R. Ambedkar, the principal architect of the Indian Constitution and an eminent economist, continues to influence India's economic and monetary discourse decades after his passing. His contributions are commemorated not only through symbolic gestures—such as featuring his image on Indian currency and the issuance of ₹10 and ₹125 commemorative coins on his 125th birth anniversary by Prime Minister Narendra Modi—but also through the continued relevance of his monetary ideas in contemporary policy frameworks.

1. ***Ambedkar and the Case for Currency Reform***

   Ambedkar believed in the periodic revision of currency systems to prevent hoarding, control inflation, and maintain monetary discipline. In this light, the demonetization policy of November 2016—where ₹500 and ₹1,000 notes were withdrawn from circulation—echoes his vision of a currency system that evolves to meet economic challenges. While modern demonetization was a policy response to issues like black money and counterfeit currency, it indirectly aligns with Ambedkar's emphasis on regulating currency to achieve macroeconomic stability.

2. ***Legacy in Modern Monetary Institutions and Practices***

   Ambedkar's advocacy for a centralized monetary authority culminated in the establishment of the Reserve Bank of India (RBI) in 1935. His proposal for a managed paper currency system laid the intellectual groundwork for India's transition from a metallic currency regime to a fiat-based monetary system. Today, the RBI operates as an independent institution with a mandate to control inflation, ensure exchange rate stability, and foster monetary autonomy—all core tenets of Ambedkar's economic vision.

3. ***Inflation Targeting and Monetary Management***

Ambedkar's emphasis on price stability over exchange rate stability finds a modern parallel in India's adoption of the Flexible Inflation Targeting (FIT) framework in 2016. Under this system, the RBI targets a Consumer Price Index (CPI) inflation rate of 4% with a tolerance band of ±2%. A six-member Monetary Policy Committee (MPC), comprising RBI officials and government nominees, is tasked with achieving this mandate.

The FIT framework reflects Ambedkar's belief in rule-based monetary management. He cautioned against discretionary interventions and advocated for automatic monetary adjustments tied to economic fundamentals. His concern for the economically vulnerable resonates with FIT's goal of ensuring long-term price stability, which protects real incomes and reduces uncertainty for consumers and investors alike.

4. ***From the Gold Standard to Modern Reserve Management***

Ambedkar was an early and vocal critic of the gold exchange standard, arguing that it undermined domestic economic priorities in favor of maintaining external exchange rate parity. He proposed instead a system where the internal purchasing power of the currency, especially with essential commodities, was prioritized.

Although India abandoned the gold standard long ago, the RBI continues to maintain substantial gold reserves as part of its broader monetary toolkit. These reserves serve as a hedge against external shocks, bolster confidence in the rupee, and act as a buffer during currency volatility—echoing Ambedkar's insistence on a resilient and autonomous monetary framework.

5. ***Demonetization and Monetary Discipline***

Ambedkar also recognized the utility of demonetization and currency replacement in managing inflation and encouraging financial discipline. His writings suggest that periodically refreshing the currency stock can curb unproductive hoarding and ensure a healthy circulation of money—principles that were implicitly reflected in India's 2016 demonetization initiative.

6. ***A Vision Rooted in Economic Justice***

Unlike many contemporary economists of his time, Ambedkar grounded his economic thought in the realities of a developing, colonized society. His proposals for price stability, regulated currency issuance, and exchange rate control were not merely technical recommendations—they were deeply embedded in a broader philosophy of social justice. His economic ideas sought to empower the poor and the working class by stabilizing their purchasing power and protecting them from the shocks of inflation and economic mismanagement.

7. ***Enduring Legacy***

Today, the essence of Ambedkar's economic thought remains embedded in India's monetary governance. His vision of a self-regulating, autonomous, and equitable monetary system continues to inform contemporary debates on inflation control, financial inclusion, and macroeconomic stability. Works such as *The Problem of the Rupee* and recent analyses like *The Rupee Saga: Relevance of Ambedkar's Economic Thought after 100 Years* underscore the enduring relevance of his ideas in shaping a stable and inclusive Indian economy.

Conclusion:

Several decades have passed since Dr. B.R. Ambedkar's foundational work in monetary economics, yet many aspects of his approach remain highly relevant in today's economic landscape. His emphasis on price stability is central to the Reserve Bank of India's (RBI) current policy framework. In 2016, the RBI adopted an inflation-targeting regime under the *Monetary Policy Framework Agreement* with the Government of India, setting a medium-term target of 4% Consumer Price Index (CPI) inflation, with a tolerance band of ±2% (RBI, 2016). This formal commitment reflects Ambedkar's belief that "nothing will stabilize the rupee unless we stabilize its general purchasing power." Ambedkar's recognition of the benefits of controlled currency depreciation in an open economy is evident in the RBI's exchange rate management policies. For instance, during the COVID-19 pandemic and again amid the global inflationary pressures of 2022, the RBI allowed a calibrated depreciation of the rupee while actively intervening to avoid excessive volatility—thereby protecting both external competitiveness and macroeconomic stability (RBI Annual Report, 2021–22, pp. 156–160). Furthermore, his advocacy for rule-based and automatic monetary management resonates with the functioning of the Monetary Policy Committee (MPC), established under the RBI Act (Amendment), 2016. The MPC uses forward-looking, data-driven tools to set the repo rate, ensuring monetary decisions are predictable and transparent—qualities Ambedkar considered vital for sustaining economic trust and stability (RBI, 2020; MPC Resolutions Archive).

These examples demonstrate how Ambedkar's foundational insights continue to shape India's modern monetary policy framework, providing both theoretical and practical relevance in addressing current economic challenges.

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