BLOCK 4 FINANCIAL INSTITUTIONS AND MANAGEMENT

Unit 13 Reserve Bank of India
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UNIT 13  RESERVE BANK OF INDIA (RBI)

Structure
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13.3 Role of Ambedkar in the Formation of Reserve Bank of India
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Suggested Readings

13.1 OBJECTIVES

This unit would enable you to understand:

- RBI’s formation and Ambedkar’s role in it;
- RBI’s management and organisation;
- RBI’s main functions; and
- RBI’s Monetary Policy.

13.2 INTRODUCTION

In this unit we will discuss about the formations of Reserve Bank of India (RBI) and Ambedkar’s role in it. A central bank occupies an important place in the monetary and banking system of a country. The Reserve Bank of India (RBI) is India’s central bank. It acts as a guide, regulator, controller and promoter of the financial system in our country. The origin of the Reserve Bank can be traced back to 1926, when the Royal Commission on Indian Currency and Finance, also known as the Hilton Young Commission, recommended the creation of a central bank to separate the control of currency and credit from the government and to augment banking facilities throughout the country.\(^1\)

Ambedkar played a key role in establishing the RBI. He argued that a government is more likely to mismanage the currency issued by itself, while there is less risk of monetary mismanagement by a private bank. Ambedkar reasoned that a government may tend to artificially increase money in circulation. Thus, his conclusion is clearly towards price stability through conservative and automotive monetary management.\(^2\) Consequently, the RBI was established on 1 April 1935 (under the RBI Act 1934) on the recommendations of the Hilton Young Commission to respond to economic troubles after the First World War and to augment banking facilities throughout the country.\(^3\)
The guidelines, working style and outlook of central banking authority was presented by Ambedkar before the Hilton Young Commission in 1925. Ambedkar’s book *The Problem of the Rupee* was widely referred to during the formation of the RBI. The Central Legislative Assembly passed these guidelines under the name of the RBI Act 1934.\(^4\)

The original share capital of the RBI was Rs.5 crore divided into 5 lakh shares of Rs.100 each, fully paid, which were initially owned entirely by private shareholders.\(^5\) After Independence on 15 August 1947, the nationalist government decided to initiate the process of planned economic development. It was realised that a state-owned central bank was better suited to the requirements of the country. Hence, the RBI was nationalised on 1 January 1949. The shares of private individuals were purchased by the government at the rate of Rs.118 and annas 10 for every share of Rs.100 and the ownership of the RBI was transferred to the Government of India.

In addition to regulating the financial system of the country, the RBI was assigned a developmental role. It is a banker to the banks and to the Government and regulates the activities of banking, non-banking finance companies and financial institutions of our country. Moreover, the RBI was also the banker for Government of Burma (now Myanmar) until 1947 and offered central banking service to Pakistan until 1948.\(^6\)

**13.3 ROLE OF AMBEDKAR IN THE FORMATION OF RBI**

Ambedkar’s legacy and contribution to India as a scholar, journalist, economist, activist, legal luminary, social reformer, and political leader can be seen in many fields. Though Ambedkar is known popularly for his biggest and most important contribution as the chairman of the Drafting Committee of the Constitution of India, he has also contributed extensively to various economic and financial issues of India. Ambedkar was a trained economist of his time and wrote many books on economics. He was the first Indian to pursue doctorate in economics abroad.\(^7\) Noble laureate Amartya Sen regarded Ambedkar as his father in economics. His observations and recommendations are quite significant in the context of present day economic problems of India. Ambedkar’s three scholarly works in the field of economics are as under:

- Administration and Finance of the East India Company (1915).
- The Evolution of Provincial Finance in British India: A Study in the Provincial Decentralization of Imperial Finance (1923).
- The Problem of the Rupee: Its Origin and Its Solution (History of Indian currency and banking) 1923.\(^8\)

Ambedkar’s Ph. D thesis, *The Evolution of Provincial Finance in British India*, provided academic basis for the Finance Commission of India, which was subsequently established through Article 280 of the Constitution of India to address problems of vertical and horizontal imbalances in finances.\(^9\) He opposed income-tax for low income groups. He contributed towards policies on land revenue tax and excise duty to stabilise the economy.\(^10\) He also played an important role in land reforms and the state economic development.\(^11\)

Similarly, the RBI was conceptualised based on the guidelines presented by Ambedkar to the Royal Commission on Indian Currency and Finance in 1925. The Commission
members found Ambedkar’s book *The Problem of the Rupee: Its Problems and Its Solution* an invaluable reference tool. In this authoritative book on Indian currency and finance, Ambedkar emphasized the need for a sound monetary and central banking system. The book was found so valuable and relevant that when the Hilton Young Commission came to India each of its members was holding Ambedkar’s book. The Central Legislative Assembly eventually passed these guidelines as the RBI Act 1934.12

Ambedkar’s thoughts have a great impact on the current Indian currency system. Under the British rule when the Indian Government was struggling with the problem of falling value of Indian Rupee, Ambedkar examined the causes for the Rupee’s fall in value in his Doctor of Science (D. Sc) thesis, *The Problem of Rupee* (1923). Using statistical data and reasoning, he showed that the Indian Rupee was losing its value and hence the purchasing power of the Rupee was falling. He proved the importance of price stability over exchange stability. In his thesis, he argued that the gold exchange standard does not have stability and also increases the risk of inflation and price rise. Developing countries such as India can’t afford gold exchange standards. He suggested that government deficit should be regulated and money should have a circular flow.13 He also suggested giving more attention to price stability rather than exchange rate stability. Thus, this book paved the way for the establishment of the Reserve Bank of India.

### 13.4 MANAGEMENT AND ORGANISATION OF RBI

The RBI is managed by the Central Board of Directors having 21 members. The members include:

- A governor and four deputy governors.
- Four directors to be nominated by the Central government one each from the four local boards (Delhi, Mumbai, Kolkata and Chennai).
- Ten directors to be nominated by the Central government having expertise in various segments of the economy.
- Two representatives from the Ministry of Finance, Government of India.

To perform various functions, the RBI has different departments and sub-departments, which are discussed below.

**Structure of RBI**

The RBI has 26 departments for policy issues in the functional areas and internal operations. To manage different functional areas various departments are created as mentioned below:

**Markets**

- Internal Debt Management Department
- Department of External Investments and Operations
- Monetary Policy Department
- Financial Markets Department
Regulation, Supervision and Financial Stability
- Department of Non-Banking Supervision
- Department of Banking Supervision
- Department of Banking Operations and Development
- Urban Banks Department
- Foreign Exchange Department
- Rural Planning and Credit Department
- Financial Stability Unit

Research
- Department of Economic and Policy Research
- Department of Statistics and Information Management

Services
- Department of Government and Bank Accounts
- Department of Currency Management
- Department of Payment and Settlement System
- Customer Service Department

Support
- Human Resource Management Department
- Department of Communication
- Department of Information Technology
- Department of Expenditure and Budgetary Control
- Premises Department
- Secretary’s Department
- Rajbhasha Department
- Inspection Department
- Legal Department.

13.5 FUNCTIONS OF RESERVE BANK OF INDIA

The basic function of the RBI, described by the preamble, is to:

…regulate the issue of bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage.
The main functions of the RBI can be divided into two parts:

- Basic or primary functions
- Promotional and other functions

**Basic or primary functions**: The basic or primary functions are related to the supply of money and maintenance of exchange value of the currency. These functions are as follows:

1) **Issue of Currency Notes**: Under Section 22 of the Reserve Bank of India Act, RBI has the sole right to issue currency notes of all denominations in India. As an act of central bank it issues notes of all denominations except one rupee and coins. There are two separate departments for issuing notes and for general banking functions, which are Issue Department and the Banking Department respectively. At present, the RBI issues notes of Rs. 5, 10, 20, 50, 100, 500 and 1,000 denominations through its Issue Department. The Ministry of Finance issues Rs. 1, 2, 5 and 10 rupee coins, but these are also distributed to the public by the Issue Department of RBI. Since 1957, the currency notes are issued by the RBI according to Minimum Reserve System (that replaced the previous Proportional Reserve System), according to which the RBI is required to maintain gold and foreign exchange reserves of Rs. 200 crore, of which at least Rs. 115 crore should be in gold.

2) **Banker to the Central as well as the State governments**: As a banker, agent and advisor, the RBI conducts banking and financial operations of the Central as well as State governments of the Indian Union. It maintains and operates the current account deposits of the governments. As a banker, the RBI arranges short-term credit to the government. According to the Reserve Bank of India Act, the Central government can borrow any amount from RBI, but a State government can borrow up to a sanctioned limit. In brief, it renders following services to the government:
   a) It maintains and operates cash balances of the Central and State governments.
   b) It advises the government on all banking and financial operations.
   c) It receives and makes payments on behalf of the government.
   d) It buys and sells government securities in the market.
   e) It manages public debt on behalf of the government by issuing government loans or paying interest and principal.
   f) It also acts as an agent of the government in dealing with international financial institutions such as IMF, World Bank and IFC.

3) **Bankers’ Bank and Lender of Last Resort**: Managing the governments’ banking transactions is a key role of RBI. Additionally, it is RBI’s core responsibility to control and manage the working of all banks in India in order to maintain economic and financial stability. The RBI has the power to
   - issue licenses for opening new branches
   - inspect books and accounts
• approve appointment of their chairman and directors
• approve merger of banks.

All scheduled banks are under statutory obligation to maintain a certain minimum of cash reserve with the RBI against their demand and time liabilities.

As per Banking Regulation Act 1949, amend 1962, the RBI is empowered to determine:

• Cash Reserve Ratio between 3% to 15% of their aggregate demand and time liabilities (DTL).
• Statutory Liquidity Ratio between 25% and 33.75% with effect from 16 May, 1994.

Scheduled banks are required to submit weekly statements of their transactions to the RBI. As lender of the last resort, the RBI provides liquidity to banks unable to raise short-term liquid resources from the inter-bank market.

4) **Regulator and Supervisor of Indian Financial System:** The Banking (Companies) Regulation Act, 1949, empowers the Reserve Bank of India to regulate the banking system through the following:

• licensing of bank branch expansions,
• management of reserves and assets regarding amalgamation, reconstructions and liquidation.

The RBI has extensive powers of supervision and control over commercial banks and co-operative banks. It also has powers to give directions to non-banking finance institutions.

5) **Foreign Exchange Management and Control:** Ambedkar advocated strongly for stability in the external value of currency. Accordingly foreign exchange control in India was imposed in September 1939. As per the Foreign Exchange Regulation Act 1947 (now Foreign Exchange Management Act, FEMA), RBI manages and controls the country’s foreign exchange reserves and controls the receipts and payments of foreign currencies and foreign securities. The main purpose of the control is to regulate the demand of foreign exchange according to the supply of foreign currency.

6) **Controller of Credit:** One of the principal functions of RBI is to control money supply and to ensure the price stability in the economy. Ambedkar in his book *The Problem of the Rupee: Its Origin and its Solution* proved the importance of price stability over exchange rate stability. This function includes estimating the credit needs of the economy in relation to supply of credit to different sectors of the economy. For this purpose, RBI has the power to use a variety of credit control measures, for instance

• open market operations,
• changes in interest rates,
• variations in Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).
These measures are used frequently by RBI to regulate money supply in the economy.

7) **Collection and Publication of Monetary Data and Reports:** The RBI’s Department of Economics Analysis and Policy collects, compiles and disseminates statistical information. This department collects data on various economic aspects such as the following:

- supply of money,
- inflation,
- balance of payments,
- foreign exchange,
- credit operations,
- agricultural and industrial production.

The RBI publishes data regularly through weekly statements, monthly bulletins and annual reports such as report on trends and progress of banking in India, annual report on currency and finance.

**Promotional and Other Functions:** The Reserve Bank of India now also performs a variety of promotional functions for the development and regulation of the banking system in India. Some of these functions are discussed as under:

1) **Agricultural Finance:** The RBI since its inception in 1935 recognised a social responsibility for providing institutional credit to agriculture and allied activities. For this purpose, it has an Agricultural Credit Department for providing medium-term and long-term finance. In 1982, the establishment of National Bank for Agricultural and Rural Development (NABARD) was a major step of RBI for the development of this sector.

2) **Promotion of Export Credit:** To encourage exports, RBI provides refinance facilities to banks against export credit under various schemes such as the following:

- Export Bill Credit Scheme
- Bill Market Scheme
- Shipment Credit Scheme.

In 1982, the Government of India established Export Import Bank (EXIM) for financing the foreign trade.

3) **Promotion of Industrial Credit:** To achieve industrial growth, RBI set up an Industrial Credit Department in 1957 to advise and help banks to provide financial assistance to industries. For this purpose, RBI set up various financial institutions such as State financial institutions, IDBI, IFCI, ICICI and SIDBI.

4) **Promotion of Commercial and Co-operative Banking:** The RBI played an important role in strengthening the Indian banking system by spreading banking facilities to the remotest areas of the country through the Lead Bank Scheme and Regional Rural Banks. To promote banking habits it extended banking facilities to rural and semi-urban areas by establishing new specialized financing agencies.
5) **Other Functions:** The RBI performs other functions for developing the Indian banking system.

   i) **Loans and Advances for Banks:** The RBI provides short-term loans and advances to banks and financial institutions, when necessary. The RBI is the lender of the last resort for scheduled commercial banks in India. It provides liquidity to commercial banks when they are unable to raise short-term funds from the inter-bank market.

   ii) **Training Facilities of RBI:** RBI has set up bankers’ training colleges and centres to provide training to banking personnel at several places in the country. Some of the colleges are:

       - The Reserve Bank Staff College, Chennai, trains RBI officers.
       - The College of Agricultural Banking, Pune, trains the staff of co-operative and commercial banks including regional rural banks.
       - The Zonal Training Centres located at regional offices train the non-executive staff.

   iii) **Research Institute:** The RBI provides funds to research institutes to conduct research on various banking issues and arranges workshops, conferences and seminars. Following are some of the institutes:

       - Indira Gandhi Institute of Development Research (IGIDR), Mumbai
       - National Institute of Bank Management (NIBM), Pune
       - Institute for Development and Research in Banking Technology (IDRBT), Hyderabad.

**13.6 MONETARY POLICY OF RESERVE BANK OF INDIA**

The monetary policy refers to the use of instruments under the control of the central bank to regulate the availability, cost and use of money and credit. It is the process by which the Reserve Bank of India controls the supply of money in the economy by exercising its control over interest rates in order to maintain price stability and achieve higher economic growth. The monetary policy can be either expansionary or contractionary. It also helps in controlling various business cycles like inflation and deflation.

**Objectives of Monetary Policy of India**

The Indian monetary policy is prepared to attain the following objectives:

- To encourage economic growth.
- To ensure price stability (controlling inflation)
- To control expansion of bank credit to meet seasonal requirements of credit without adversely affecting the output
- To ensure stability of exchange rate of the rupee vis-à-vis US dollar, pound sterling and other foreign currencies
- To ensure adequate lending to priority sectors
To promote the saving and investment pattern of the country

To promote efficiency in the banking and financial system

To reduce rigidity and to bring flexibility in operations

To help generate employment opportunities.

**Features of Indian Monetary Policy**

i) an active policy because it is prepared by RBI each year and reviewed quarterly.

ii) RBI is able to maintain control over the supply of money in the economy.

iii) Flexible as RBI can change it according to market conditions by changing the various rates.

iv) Encourages the saving and investment pattern of the country.

v) Various tools and techniques are available with RBI to control the credit.

**Tools of Monetary Policy of India**

With the help of the monetary policy, RBI can control the credit in the economy. It enables the RBI to increase or decrease the supply of money in the economy. Two types of tools are available under the monetary policy for controlling the credit in the country.

- Quantitative or General Measures,
- Qualitative or Selective Measures.

a) **Quantitative or General Measures:** are adopted by the RBI to influence the total quantity of credit and lendable resources of commercial banks. Various quantitative tools are as under:

1) **Bank Rate:** The rate charged by the RBI for providing funds or loans to commercial banks for the long run. It is also known as discount rate. This rate directly affects the supply of money in the country. For example, if the RBI increases bank rate, commercial banks will get loans from RBI at a higher cost. Consequently commercial banks will sanction loans at a higher rate to the public. This will lead to the public taking fewer loans from banks. Thus it will create a situation of contraction of credit in the country. On the other hand, in order to increase the supply of money, the RBI reduces the bank rate.

2) **Open Market Operations:** Involves buying and selling of government securities in the open market with the aim of expansion and contraction of credit. Whenever, RBI wants to expand the money supply, it purchases securities from the market and vice-versa.

3) **Statutory Liquidity Ratio (SLR):** Every financial institution has to maintain a certain per centage of its total time and demand liabilities with itself. This per cent is called Statutory Liquidity Ratio. The main motive behind this ratio is to enable banks to pay to the depositors the amount deposited by them, as and when demanded. The changes in SLR often influence the availability of funds in the banking system for lending to private sector. Statutory Liquidity Ratio may vary from 25% to 33.75%.
4) **Cash Reserve Ratio (CRR):** The percentage of total deposits that a commercial bank has to maintain with RBI. This ratio is used by RBI for expansion or contraction of credit. Higher the CRR with RBI, lower will be the liquidity in the economy and vice versa. The RBI is empowered to vary CRR between 3 to 15 per cent.

5) **Repo Rate:** Whenever banks have a shortage of funds they borrow from the RBI. The rate at which RBI lends to commercial banks, generally against government securities, is called the repo rate. Reduction in repo rate helps banks to get money at a cheaper rate which increases money supply. As a tool to control inflation, RBI increases the repo rate making it more expensive for commercial banks to borrow from RBI, which restricts the availability of money. RBI uses repo rate to fight inflation and stimulate growth.

6) **Reverse Repo Rate:** The rate at which RBI borrows money from commercial banks. If RBI increases the reverse repo rate, commercial banks will prefer to park their money with the RBI as it involves higher safety. As a result, commercial banks will demand higher rate of interest from their customers for lending money to them.

7) **Market Stabilisation Scheme (MSS):** Under this scheme, surplus liquidity arising from large capital inflows is absorbed through sale of short-dated government securities and treasury bills. The mobilized cash is held in a separate government account with RBI. This instrument for monetary management was introduced in 2004.

b) **Qualitative or Selective Measures:** are related to the regulation or controlling of credit related to specific schemes, areas or commodities. The measures are as follows:

1) **Margin Requirement on Loan:** is the difference between the value of loan and value of security against which the loan is to be sanctioned. For example, if the margin requirement on loan is 20%, then commercial banks can sanction a loan of maximum 80% of the market value of a security. Thus if any person wants to get a loan of Rs. 80,000 then he or she will have to submit a security of Rs. 1,00,000 (market value). So when RBI increases this margin, public will be able to get loans of lower amount against a security of same value.

2) **Credit Monitoring:** RBI investigates all loans of Rs. 5 crore or more sanctioned by commercial banks to any single party.

3) **Directives:** Under the Banking Regulation Act 1949, RBI is authorised to give directives to commercial banks to guide them in framing their lending policy. Through directives, the central bank can influence the credit structure and the supply of credit to a certain limit for a specific purpose, for example, it can instruct banks to not lend to a speculative sector, such as securities, beyond a certain limit.

4) **Credit Ceiling:** RBI can issue directions that loans to commercial banks will be given up to a certain limit. In this case commercial banks will be tight in advancing loans to the public. The banks will allocate loans to limited sectors, for example, agriculture sector and priority sectors.

5) **Moral Suasion:** Sometimes RBI requests and convinces commercial banks not to give loans for unproductive purposes, which increase inflation and do not add to economic growth, that is, it urges banks to reduce credit supply for speculative purposes.
6) **Direct Action:** The RBI can take action against a bank for not adhering to its directives. The RBI may refuse to rediscount their bills and securities. The central bank can even put a ban on a particular bank if it does not follow its directives and works against the objectives of monetary policy.

### 13.7 LET US SUM UP

From the above discussion we conclude that Ambedkar played a key role in the formation of RBI. He emphasized the need for a sound monetary and a central banking system. He argued that currency management should lie with a private bank rather than the government as the government may artificially increase money in circulation, indicating that Ambedkar believed in price stability through conservative and automotive monetary management. He contended that the gold standard does not have stability and increases the risk of inflation and price rise, hence developing countries like India can’t afford gold exchange standards.

RBI, being the central banking authority of India, performs a host of functions. It defines the monetary policy that enables it to use various quantitative and qualitative credit control measures to achieve price stability and higher economic growth.

### 13.8 QUESTIONS TO CHECK YOUR PROGRESS

1) What is the Reserve Bank of India? Discuss the role of Ambedkar in its formation.

2) Discuss the management and organisation of RBI.

3) Explain various functions performed by RBI as the central banking authority of India.

4) What is monetary policy? State its objectives and features.

5) Explain various quantitative and qualitative measures used by the Reserve Bank of India for regulating money supply in the economy.

### SUGGESTED READINGS


Reserve Bank of India Act. 1934.

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### End Notes

1. www.rbi.org.in
6. www.topyaps.com


9 Ibid.4


12 Ibid. 4


14 www.rbi.org.in
UNIT 14  FINANCE AND COMPTROLLER AND AUDITOR GENERAL (CAG)

Structure
14.1 Objectives
14.2 Introduction
14.3 Ambedkar and Provincial Finance
14.4 History of CAG
14.5 Definition and Terms of Appointment
14.6 Duties and Functions of CAG
14.7 Powers of the CAG
14.8 Let Us Sum Up
14.9 Questions to Check Your Progress

Suggested Readings

14.1 OBJECTIVES

This unit would enable you to understand:

- Provincial financial system in British India and Ambedkar’s views on this system;
- The role of CAG in regulating the financial system;
- The functions performed by CAG and the duties undertaken by it; and
- Ambedkar’s views on the CAG.

14.2 INTRODUCTION

Ambedkar’s contribution to the formation of India’s central bank (RBI) has been discussed in the previous unit. Now we will study his views on the Indian financial system and the Comptroller and Auditor-General of India (CAG).

Ambedkar had studied in depth the provincial system and analysed how it had changed under the new regime of provincial independence. Now the provincial budget was no more passed by the finance department of the Government of India; rather it was framed by the finance department constituted in each province. The provincial budget was voted item by item by the provincial legislature.

But the accounts of the provinces still continued to be supervised and audited by the officers of the Government of India. The provincial accounts were supervised by the Accountant-General and audited by the Comptroller and Auditor-General of the Government of India and appropriation reports submitted to the finance department of the Government of India.

Thus, having a thorough knowledge of the roles and responsibilities of the offices of the Accountant-General and the Comptroller and Auditor-General, Ambedkar, while draftingw
the Constitution, ensured that special position and powers were given to the office of the Comptroller and Auditor General (CAG) of India. The role that the CAG plays along with the duties and responsibilities that need to be handled by it are discussed in this unit.

14.3 AMBEDKAR AND PROVINCIAL FINANCE

Babasaheb Bhimrao Ambedkar was a pioneer in the field of Indian public finance, having studied its financial system in detail. His theses from Columbia University were on India’s financial system:

- Administration and Finance of East India Company and
- The Evolution of Provincial Finance in British India: A Study in the Provincial Decentralisation of Imperial Finance.

In his research work, especially his thesis, we can see that he has tried to demonstrate how centralization of government finances, which prevailed in India from 1833 to 1871 was a failure on account of a faulty fiscal system marked by injurious taxes and unproductive or extravagant expenditure.

In 1833 the system of Imperial finance was started in India, which was elaborated in 1858 when the British Crown took over the East India Company. At that time, no province had the power to legislate on financial resources. Provincial governments prepared budgets and administered the country but had no responsibility of finding ways of financing the budget. They had no power either to create or modify any appointment in service. All these restrictions provided the Government of India with an opportunity to interfere in provincial administration. In absence of a proper machinery to appraise demands and control expenditure, government finances came under severe strain. Thus it was realized that the provincial governments must draw up their own revenue and expenditure budgets, for which the regime of provincial budgets was introduced in 1871.

Ambedkar divided the evolution of the provincial financial system in British India into three phases:

1) Budget by Assignment (1871-72 to 1876-77)
2) Budget by Assigned Revenues (1877-78 to 1881-82)
3) Budget by Shared Revenues (1882-83 to 1921)

**Budget by Assignment:** in this scheme the financial responsibilities of some departments of administration were delegated to the provinces and the receipts accruing from the imperial from those services were handed over to them with fixed lump sum assignment from the treasury.

Ambedkar was of the opinion that it would be equally unjust not to protest against the kind of taxation resorted to. As this scheme led to high taxes, but more than that, what mattered was not the increase in taxation but the inequality of taxation.

**Budget by Assigned Revenue:** In this scheme, instead of fixed Assignment the provinces were given certain sources of revenue, the yield of which largely depended upon good management. This was done to make better and more elastic provisions for the growing needs of the provincialised services. These services yielded increased revenue under the direct case of the provinces as compared to remote control of the Imperial government. The results of this scheme of provincial finance on the basis of assigned
revenues was successful from the standpoint of provincial and Imperial government and thus, it was decided to move ahead in the development of the scheme which constitutes its third stage i.e. budget by Shared Revenues.

**Budget by Shared Revenues:** For the purpose of giving a liberal treatment to the provinces, the heads of accounts under revenue and expenditure were grouped under three categories:

- **Wholly imperial,**
- **Wholly provincial,**
- **Jointly imperial and provincial.**

The third category of Jointly Imperial and Provincial – certain revenues and charges were marked off from the rest and were Shared between the Imperial and Provincial is some definitely fixed proposition.

Ambedkar was of the view that earlier schemes had certain deficiencies, as the sources of revenues assigned to provinces didn’t give them room for increasing their revenues over time. The scheme of shared revenues was better as each, the imperial government of and the provinces, collected specific revenues and allotted a portion of the proceeds to the other. This scheme of shared revenues was most successful and lasted for 38 years.

Major fiscal reforms were introduced only in 1921 which, in the opinion of Ambedkar, were not induced by any inherent defects in the system. Thus Ambedkar had an exhaustive insight into the mechanism of finance between the imperial and the provincial governments under the old phase (old regime from 1871 – 1921).

### 14.4 HISTORY OF CAG

Ambedkar believed that if the system of provincial finance established by the British was independent in then the provinces should possess financial powers, such as the following:

- Independently making budget based on the services provided according to the needs of the country.
- Raising funds through taxation or loan.
- Preparing accounts and submitting them to independent audits.

Instead the budget system introduced in India with regard to different provinces was accompanied by most stringent limitations. They were given a budget *without its powers,* and they bore the obligations of accounts and audit just because they were left free within the limits of their budgets. The changes in the system of Provincial Finance introduced in consequence of the Reforms Act 1919 were not, caused by any inherent defects in the system, as it stood at that date. On the other hand the system was eminently workable, as discussed by Ambedkar. According to him under this new regime lay the path to the provincial independence, through a satisfactory division of functions and finances between the Provincial and central government.

The Auditor General of India was ‘originally called the Accountant General to the Government of India in 1858, and later, designated as the Auditor General of India in 1860, the Comptroller General of Accounts in 1866, the Comptroller and Auditor General in 1844, the Auditor General in India under the Government of India Act 1935. He was entrusted with the responsibility for the accounting and audit of the Government of India.
and eleven provincial governments and performed his duties and functions through the Indian Audit and Accounts department.

In the opinion of Ambedkar the Auditor General should have full independent powers of his office staff and functions should be independently regulated by law and not merely by ordinance, orders, byelaw, rule and regulations etc. made by the Governor-General under power conferred upon him by the Government of India Act 1935.

Ambedkar had made an in-depth study of the provincial finance system and how it changed in the new regime of provincial independence.

Under the old regime the provincial budgets had to be passed by the Finance Department of the Government of India, the provincial accounts were supervised by the Accountant-General and audited by the Controller and Auditor-General of the Government of India and appropriation reports submitted to the finance department of the Government of India. All this was changed under the new regime. The provincial budget, instead of being passed by the Finance Department of the Government of India, was framed by the finance department constituted in each province under the Reforms Act, and was voted item by item by the provincial legislature. The accounts of the provinces still continued to be supervised and audited by the officers of the Government of India, but the important point under the new regime which was the hallmark of provincial independence was that the appropriation reports, instead of being sent to the Government of India for action, were sent to the Committee of Public Accounts constituted from amongst the members of the provincial legislature which sanctioned the budget for report that the money voted by the legislature was spent within the scope of the grants made by the legislature. Thus is effected the demarcation of the field for the governance of India into central and provincial. Such a demarcation of administrative and financial matters was the dream of many an Indian politician and statesman.3

It was also urged by the late Mr. Gokhale in his political testament which he left before he died. But all these projects were ill timed and could not be given effect to, until the law of the Indian Constitution had been altered.

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<td>Provincial budgets were passed by the Finance Department of the Government of India.</td>
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<td>Appropriation reports submitted to the finance department of the Government of India.</td>
<td>Appropriation reports were sent to the Committee of Public Accounts constituted from amongst the members of the provincial legislature which sanctioned the budget for report that the money voted by the legislature was spent within the scope of the grants made by the legislature.</td>
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that the money voted by the legislature was spent within the scope of the grants made by the legislature.

That Ambedkar kept this background in mind while drafting the Constitution is quite evident from his views that he presented while discussing the Draft Constitution.

While debating in the Constituent Assembly on 30 May 1949, he said:

Presently speaking for myself, I am of opinion that this dignitary of officer is probably the most important officer in the Constitution of India. He is the one man who is going to see that the expenses voted by Parliament are not exceeded, or varied from what has been laid down by Parliament in what is called the Appropriation Act. If this functionary is to carry out the duties - and his duties, I submit, are far more important than the duties even of the judiciary appointment of officers and servants of the Supreme Court... he should have been certainly as independent as the Judiciary. But, comparing the articles about the Supreme Court and the articles relating to the Auditor-General, I cannot help saying that we are not giving him the same independence which we have given to the Judiciary, although I personally, feel that he ought to have far greater independence than the Judiciary itself.

We can see from his statement that Ambedkar wanted the Auditor General, like the judiciary, to be independent. He was of the view that the Auditor-General be vested with the powers as defined in the original draft, as the absence of such powers meant that the staff of the Auditor-General would be appointed by the executive. If the staff was appointed by the executive, the staff would be subject to the executive for disciplinary action. In this regard the view expressed by him is:

I have not the slightest doubt in my mind that if an officer does not possess the power of disciplinary control over his immediate subordinates, his administration is going to be thoroughly demoralised. From the point of view, I should have thought that it would have been proper in the interest of the people that such a power should have been given to the Auditor-General. But, sentiment seems to be opposed to investing the Auditor-General with such a power.

While debating on the issue of expenses of the Auditor-General, he refuted the suggestion that these should not be charged to the Consolidated Fund of India, but should be treated as ordinary supplies and services which should be voted upon by Parliament. Ambedkar explained his stand on this issue in Parliament thus:

...what is meant by charging certain expenses on the revenues of India... although certain expenses may be charged upon the revenues of India the mere fact that this has been done does not deprive Parliament of the right to discuss those charges. The right to discuss is there. The only thing is that the right to vote is not given. It is a non-votable item. The reason why it is made non-votable is a very good reason because just as we do not want the Executive to interfere too much in the necessities as determined by the Auditor-General with regard to his own requirements, we do not want a lot of legislators who might have been discontented or some reason or other or because they may have some kind of a fad for economy, to interfere with the good and efficient administration of the Auditor-General. That is why this provision has been made.
With the passing of amendment No. 1,975, the ‘Auditor-General’ was now known as the ‘Comptroller and Auditor-General’:

That with reference to amendment No. 1,975 of the List of Amendment, in Chapter V, of Part V for the word ‘Auditor-General’ wherever it occurs, (including the heading) the words ‘Comptroller and Auditor-General’ be substituted.

That with reference to amendment No. 1,975 of the List of Amendments, after clause (1) of article124, the following new clause be inserted:

(a) Every person appointed to be the Comptroller and Auditor-General of India shall, before he enters upon his office, make and subscribe before the President or some person appointed in that behalf by him an affirmation or oath according to the form set out for the purpose in the Third Schedule.

The amendment was adopted.

Role of CAG evolved during British India through practice and tradition. As per the Government of India Act 1858, the first Auditor General, Sir Edward Drummond, was appointed in 1860. Under the Montford reforms, the Auditor General became independent of the government in 1919. Further the position of the Auditor General was strengthened by the Government of India Act of 1935. The Government of India (Audit and Accounts) order of 1936 provided the conditions of service, powers and duties of the Auditor General in relation to audit and accounts.

When the Constitution of India was drafted, certain drawbacks in the system prevalent at that time were done away with.

- Article 148 of the Constitution gave the Comptroller and Auditor General (CAG) independence from the executive, mandating the CAG as the auditor to the nation.
- Article 149 and 150 specifies the powers and duties of the CAG.
- Article 151 states that the CAG’s reports relating to the union are to be submitted to the President who shall cause them to be laid before each house of Parliament and reports related to the accounts of the State are to be submitted to the Governor who shall cause them to be laid before the Legislature of the State.

The Comptroller and Auditor General (Conditions of Service) Act 1953 defines the conditions of service.

The Comptroller and Auditor General’s (Duties, Powers and Conditions of Service) Act 1971 elaborates the powers and duties. This act repeals the earlier CAG’s Conditions of Service Act 1953 and the Government of India (Audit and Accounts) order 1936.

### 14.5 DEFINITION AND TERMS OF APPOINTMENT

The Comptroller and Auditor-General’s (Duties, Powers and Condition of Service) Act 1971 defines CAG, unless the context otherwise requires, as:”Comptroller and Auditor-General” means the Comptroller and Auditor-General of India appointed under Article 148 of the Constitution.

The CAG is the guardian or caretaker of the national purse, appointed by the President of India for a tenure of six years. The role, function and duties of the Comptroller and Auditor General (CAG) are elaborated by an Act of the Parliament passed in 1971.
The terms of appointment of CAG as laid down in the Constitution (Article 148-Comptroller and Auditor-General of India) are as follows:

1) there shall be a Comptroller and Auditor-General of India who shall be appointed by the President by warrant under his hand and seal and shall only be removed from office in like manner and on the like grounds as a Judge of the Supreme Court.

2) every person appointed to be the Comptroller and Auditor-General of India shall, before he enters upon his office, make and subscribe before the President, or some person appointed in that behalf by him, an oath or affirmation according to the form set out for the purpose in the Third Schedule.

3) the salary and other conditions of service of the Comptroller and Auditor-General shall be such as may be determined by Parliament by law and, until they are so determined, shall be as specified in the Second Schedule: Provided that neither the salary of a Comptroller and Auditor-General nor his rights in respect of leave of absence, pension or age of retirement shall be varied to his disadvantage after his appointment.

4) the Comptroller and Auditor-General shall not be eligible for further office either under the Government of India or under the Government of any State after he has ceased to hold his office.

5) subject to the provisions of this Constitution and of any law made by Parliament, the conditions of service of persons serving in the Indian Audit and Accounts Department and the administrative powers of the Comptroller and Auditor-General shall be such as may be prescribed by rules made by the President after consultation with the Comptroller and Auditor-General.

6) the Administrative expenses of the office of the Comptroller and Auditor-General, including all salaries, allowances and pensions payable to or in respect of persons serving in that office, shall be charged upon the Consolidated Fund of India.

### 14.6 DUTIES AND FUNCTIONS OF CAG

Ambedkar considered the Comptroller and Auditor-General of India as the most important officer under the Constitution of India. Articles 148 to 151 of the Indian Constitution create and regulate the office of the Comptroller and Auditor-General of India. The office of the CAG is an independent authority to examine and scrutinize the financial transactions of the government. The Government of India Act of 1935 made the Auditor-General of India irremovable except on the grounds and manner as a judge of the federal court.

CAG performs the task of greatest public utility by properly accounting for every rupee that we spend and thus it is in the interest of nation that carries its functions without fear and favour. Since it plays an important role of being an impartial head of the audit and accounts system of India, the Constitution keeps the CAG independent of executive control. The CAG has the responsibility to see that neither the union government nor the state government spends any money from the Consolidated Fund without legislative appropriation.

The role and duties of the Comptroller and Auditor-General are elaborated by an Act of Parliament passed in 1971. An amendment to this Act in 1976 relieved the CAG from preparing the accounts of the government. But, however it has an important duty to
compile the accounts of Union and State. Some of the duties undertaken by the CAG area as follows:

1) To compile the accounts of the Union and of each state from the initial and subsidiary accounts rendered to the audit and accounts offices under his control by treasuries, offices or departments responsible for keeping of such accounts.

2) The CAG audits the accounts of the union government and reports to the President. The annual report relating to the accounts of the central government is submitted to the President. The President lays the report before both the Houses of the Parliament for consideration.

3) It shall in so far as the accounts compiled or maintained by it, give to the Union Government of Union Territories having legislative assemblies, as the case may be, such information as they may require from time to time.

4) It is the duty of the CAG to ensure that proper approval of Parliament has been taken prior to spending the public money from the Consolidated Fund of India.

5) To ascertain whether the moneys shown in the accounts as having been disbursed were legally available for and applicable to the services or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it.

6) To audit all transaction of the Union and of the States relating to Contingency Funds and Public Accounts.

7) To audit all trading, manufacturing, profit and loss accounts and balance sheets and others subsidiary accounts kept in any department of the Union or of a State, and in each case to report on the expenditure, transactions or accounts so audited by it.

To know about the duties of CAG you may refer to the CAG’s DPC Act.

Functioning of the CAG in India is exposed to criticisms, as the emphasis is exclusively on audit rather than on control of expenditures, since the CAG comes into picture only at the audit stage, that is, after the expenditure has already been made.

14.7 POWERS OF THE CAG

The Comptroller and Auditor-General, apart from performing duties under the CAG’s DPC Act 1971, has authority to do the following:

- To inspect any office of accounts under the control of the union or of the state, including treasuries and such offices responsible for the keeping of initial or subsidiary accounts.

- To require that, any accounts, books, papers and other documents which deal with or form the basis of or are otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may appoint for his inspection.

- To put such questions or make such observations as he may consider necessary, to the person in-charge of the office and to call for such information as he may require for the preparation of any account or report which it is his duty to prepare.
To make regulations for carrying into effect the provision of this Act in so far as they relate to the scope and extent of audit, including laying down for the guidance of the Government Departments the general principles in regard to audit of receipts and expenditure.

To get the person—in-charge of any officer or department the accounts of which have to be inspected and audited by it, to afford all facilities for such inspection and comply with request for information in as complete a form as possible and with all reasonable expedition.

The CAG shall perform the audit of the accounts of government companies in accordance with the provisions of the Companies Act 1956. The CAG shall perform the audit of corporations (not being companies) established by or under law made by Parliament in accordance with the provisions of the respective legislations.

14.8 LET US SUM UP

In this unit we have seen how in absence of a proper machinery for appraising demands and controlling expenditure, British government finances came under severe strain which led to the advent of the regime of provincial budgets. The provinces were given a budget without its powers, and they bore the obligations of accounts and audit just because they were left free within the limits of their budgets.

In the next phase, provinces were given certain sources, yield of which depended more on good management for increasing needs of the provincial services. This scheme of provincial finance (budget by assigned revenue) was followed by the scheme of budget by shared revenues.

Even under the scheme of provincial finance, the accounts of the provinces still continued to be supervised and audited by the officers of the Government of India. However the important point under the new regime which was the hallmark of provincial independence was that the appropriation reports, instead of being sent to the Government of India for action, were sent to the Committee of Public Accounts constituted from amongst the members of the provincial legislature which sanctioned the budget, for report that the money voted by the legislature was spent within the scope of the grants made by the legislature.

We have also discussed as to the position envisaged by Ambedkar, which the Comptroller and Auditor-General of India should hold. How the Constitution of India makes CAG, who is the custodian of the Indian purse, independent of executive control so that he can freely play an important role of being an impartial head of the audit and accounts system of India.

We learnt about CAG’s duties and how it shoulders the responsibility to see that neither the union government nor the state government spends any money from the Consolidated Fund without legislative appropriation.

14.9 QUESTIONS TO CHECK YOUR PROGRESS

1) Describe the various phases of the Indian financial system.

2) Explain the significance of the Comptroller and Auditor General of India? Differentiate the role of CAG from that of the Supreme Court judge.
3) What are the terms and conditions of service laid down for the CAG in the constitution?

4) Discuss the views of B. R. Ambedkar on the role and functioning of the CAG.

5) Explain in detail the powers of the Comptroller and Auditor-General?

6) Describe the role of the CAG in managing the smooth functioning of the financial system of the country.

7) In what way, do you think, were the contributions of Ambedkar important in framing the present day financial system of India?

SUGGESTED READINGS


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UNIT 15  FINANCIAL ACCOUNT COMMITTEE

Structure

15.1 Objectives

15.2 Introduction

15.3 The Evolution of Provincial Finance in British India

15.4 Origin of Provincial Finance

15.5 Development of Provincial Finance
   15.5.1 Budget by Assignments
   15.5.2 Budget by Assigned Revenues
   15.5.3 Budget by Share Revenues

15.6 Organisation of Provincial Finance

15.7 Impact of the Reforms Act of 1919

15.8 Financial Relationship under the Old Scheme between Central and Provincial Government
   15.8.1 The New Phase in Provincial Finance

15.9 Let Us Sum Up

15.10 Questions to Check Your Progress

Suggested Readings

15.1 OBJECTIVES

This unit would enable you to understand:

- The evolution of provincial finance in British India;
- Origin and development of provincial finance;
- Organisation of provincial finance;
- Impact of the Reforms Act of 1919;
- Financial relationship under the old scheme between the Central and provincial Governments; and
- The new phase in provincial finance.

15.2 INTRODUCTION

In this unit we will discuss about the evolution of provincial finance in British India and Origin and development of provincial finance. One of the important topics of the economic history of India, the origin, development and organisation of provincial finance during the British rule has surprisingly enough escaped the attention of most writers on the subject. With the possible exemption of Justice M.G. Ranade, who presented a fragmentary
sketch of provincial decentralization in 1887, the subject remained un-trodden till B. R. Ambedkar (1891-1956) published his path-breaking pioneering work *The Evolution of Provincial Finance in British India* in 1925. Expressing the difficulties besetting his task, Ambedkar himself mentions that “no spade work has been done in the field of Indian Finance.” The book is divided into four parts. The first three parts deal with the origin, development and organisation of provincial finance, and the fourth part discusses the constitutional change of 1919.

Finance and Revenue Accounts are classified under four different categories (Chablani 1925):

- Imperial
- Provincial
- Incorporated Local
- Excluded Local.

But this is by no means uniformly so. A beginner is very likely to be confused by emergence of new and disappearance of old categories of accounts. For instance, a volume of the same series:

- Before 1863 will not contain accounts called Local.
- Before 1870 will not contain accounts called Provincial.

A volume of financial statements:

- Before 1870 will divide financial transactions into Imperial and Local.
- After 1908 will divide financial transactions into Imperial and Provincial (not Imperial and Local).
- After 1921 will only contain Imperial transactions.

Ambedkar’s legacy and contribution to India can be seen in many fields. His Ph. D. thesis of 1923 titled *The Evolution of Provincial Finance in British India* provided an academic basis for the Finance Commission of India which was established through Article 280 of the Constitution to address the problems of vertical and horizontal imbalances in finances. Similarly, the Reserve Bank of India was conceptualized based on the guidelines presented by Ambedkar to the Royal Commission on Indian Currency & Finance in 1925. Commission members found Ambedkar’s book *The Problem of the Rupee: Its Problems and Its Solution* an invaluable reference tool and the Central Legislative Assembly eventually passed these guidelines as the RBI Act 1934.

### 15.3 THE EVOLUTION OF PROVINCIAL FINANCE IN BRITISH INDIA

‘The Evolution of Provincial Finance in British India’ was Ambedkar’s thesis for the degree of Ph.D. from Columbia University, U.S.A. The thesis was completed in 1917 and was first published in book form in 1925. The thesis dealt extensively with a very important problem of centre-state financial relations, covering a wide period of about 88 years, from 1833 to 1921. Although most part of the thesis has been devoted to historical
accounts, the pioneering nature of this work is quite evident. As pointed out by Ambedkar himself, prior to his study, no spadework had been done in the field of Indian finance.

Ambedkar believed that the setting of the problem was a familiar one. The expanded role of government calls for large revenue collection by way of taxation; yet in a poor country like India there are obvious limits to taxation. As a result, the problem of equitable distribution of burden among various forms of governments such as the central government, provincial and local governments assumes significance. He provides a detailed and insightful perspective on the financial relationship between the central government and the provincial governments in British India during the period 1833 through 1921. In doing so, he presents a pioneering study of the origin, development and mechanism of provincial finance in India.

15.4 ORIGIN OF PROVINCIAL FINANCE

In the first part of his study, Ambedkar writes about the origin of provincial finance in British India. With painstaking effort, he presents the historical background to explain the nature of the financial system which existed before the inauguration of provincial finance. He also enquires into the causes that necessitated a change in its organisation. During that period, the condition of imperial finance was not satisfactory, and it became precarious as a result of the cost of the mutiny of 1857. Experts began to doubt the efficiency of the imperial system, and many of them advocated for the adoption of a rival federal system. It was urged that the revenues of India should not be dealt with as one income; instead, each province should be allowed to keep its revenues and meet its challenges from them. Under the previous system, the consolidated imperial budget was divided into two parts, imperial and provincial; under the federal structure, it was intended to base two separate budgets, central and provincial, on a genuine division of services and allocation of revenues.

But this rival system of finance did not succeed in mobilizing wide support in its favour. Notwithstanding many defects which impaired the efficiency of the imperial system, people were quite reluctant to tamper with it. But as Ambedkar pointed out, “if statesmanship did not favour the system of federal finance as a means, financiers soon learnt that the system of imperial finance was doubtful as an end.”

In an analogous manner, the custom taxes hampered the manufacturers of the country. There were internal customs and external customs which “blockaded trade and smothered industry.”

Under such an injurious revenue system, the tax bearing capacity of the people decayed, with the result that the imperial government was unable to make both ends meet. According to Ambedkar, it ought to serve as an objective lesson to all financiers to show that when their revenue laws are harmful to the resources of the people, they must blame none but themselves for their empty treasury.

In the end they sought to have a compromise between the existing system of finance and of the rival one; and it was the compulsion of circumstances that forced its reception. It was left to Lord Mayo, who was convinced that there was something rotten in the system of imperial finance, to mend it by inaugurating the scheme of provincial finance.
15.5 DEVELOPMENT OF PROVINCIAL FINANCE

At the time when Ambedkar wrote this book, the only available writing on the subject of provincial finance was a ‘fragmentary sketch’ by Justice Mahadev Govind Ranade, which was published in 1887. It is true that the revenues and expenditures incorporated in the provincial budgets were revised every fifth year but every revision did not change the fundamentals. Ambedkar argued, if the history of development of provincial finance is to be divided into steps according to the changes in fundamental basis thereof, then emphasis has to be laid on features altogether different in character.

According to Ambedkar, the provincial financial system in British India (upto 1921) evolved through three distinct phases, each with its own characteristic arrangement of the centre’s financial support to provinces. He therefore finds it “more logical and instructive” to divide the stages in the growth of provincial finance in accordance with these fundamentals rather than following “the mechanical plan” of Justice Ranade. Ambedkar calls these stages:

- budget by assignment
- budget by assigned revenues
- budget by shared revenues.

15.5.1 Budget by Assignments

For a period of six years, from 1871-72 to 1876-77, the system of budget by assignment was in vogue, which marked the beginning of provincial finance in India. Under this arrangement, certain services (police, education, printing, roads, medical services, registration, jails, civil buildings and miscellaneous public improvements) were delegated to provincial budgets. However as the revenue from these services was meager as compared to the expenditure, the centre had no option but to provide financial assistance to provinces. But this could not be sustained, as the centre itself was hard-pressed to raise resources to meet widening budgetary deficits. The method of taxation resorted to for making up the deficit in the provincial budgets was imposition of rates and cesses on the already overburdened class of tax payers, namely the land holders. Ambedkar opined, “as a matter of justice we should have expected the continuance of the income tax to the relief of the state. But justice was for a long time absent from the financial secretariat of the government of India.”

15.5.2 Budget by Assigned Revenues

The scheme of budget by assigned revenues was operational for five years from 1877-78 through 1881-82. Under this scheme, certain revenues (besides the receipts from the delegated services) were assigned to the provinces and a special provision was made for what Ambedkar calls the “adjusting assignment.”

According to Ambedkar, the consent secured from the provinces to bear half the burden of a possible deficit in the normal estimate, directly put a premium on economical and judicious administration of the ceded revenues because the fear that their obligation to bear half the deficit might assume a large proportion, compelled them to bestow greater vigilance than they would otherwise have done.
15.5.3 Budget by Shared Revenues

The scheme of budget by shared revenues was introduced in 1882-83 and lasted for nearly four decades until major fiscal reforms were introduced in 1921.

According to Ambedkar, the earlier schemes of provincial finance were deficient in that they “fell short of the requirements of provincial finance from the standpoint of elasticity,” that is, the sources of revenue assigned to the provinces had little room for enlargement over time. Under this scheme, the heads of accounts under revenue and expenditure were grouped into three categories:

- wholly imperial,
- wholly provincial and
- jointly imperial and provincial.

In the third category, revenues and expenditure were shared between the imperial government and provinces in some definite proportion. Replacement of assignments by shares in the imperial revenues had the effect of reducing rigidity and making revenues more elastic for the provincial governments.

The settlement of 1882-83, while replacing fixed assignments by shared revenues, also differed in duration. Annual settlements were changed to quinquennial settlements. Ambedkar reviews this settlement in detail and concludes “beneficial as far as it went, this time-bar was found to exercise a most pernicious influence on provincial finance. Under (the five-yearly) system (the provincial governments)........ were parsimonious in the first few years lest their expenditure should prove too much for their revenues, and extravagant in the last few years lest their expenditure should shrink below the standard and leave large margins to be cancelled by the government of India.”

In order to obviate these evils of parsimony and extravagance, the principle of five-yearly revision was abandoned in 1903-04. A quasi-permanent revision was made in 1904-05. Later on, the subject of provincial-central finance was investigated by the royal commission on decentralization. Following its report submitted in 1909, the government of India decided to change the quasi-permanent settlements into permanent ones, from 1912. So far as the principle of allocation was concerned, the permanent settlements did not differ significantly from the earlier one. However, before this new arrangement could prove its merit, the provincial finance in British India entered into a new phase with economic reforms beginning from 1921 that had a far-reaching effect.

15.6 ORGANISATION OF PROVINCIAL FINANCE

After tracing the development of provincial finance stage by stage, Ambedkar deals with its organization in the third part of his thesis. Firstly, he brings out the fact that provincial finance was not independent in its organisation. According to him, “.... There were neither provincial revenues nor provincial services as separate from imperial revenues and imperial services, so that instead of federal in its organization, the system remained essentially imperial.”
15.7 IMPACT OF THE REFORMS ACT OF 1919

In the last part of his thesis, Ambedkar analysed the causes that led to constitutional changes of 1919. The Reforms Act of 1919 significantly altered the mechanism of provincial finance in British India. After elaborating on these changes, Ambedkar has attempted to give a critique of the reforms.

What was the reason behind these changes? According to Ambedkar, “they were affected because the system (of provincial finance) as a whole was inconsistent with the great revolution which that Act had sought to effect in the governmental system of that country.”

In the last part of his thesis, Ambedkar examined the provisions of the new arrangement. And showed that many of them were not adequate. For example, he pointed out that the government did not marshal two important sources of revenue properly. One of these sources was land revenue and the other was custom duties. Ambedkar was quite straightforward in his attack and said, that it was beyond dispute that the whole policy of India had been dictated by the interests of British manufacturers.

Advancing his argument further, Ambedkar forcefully advocated the need for a sound government in order to have a sound finance. The Reforms Act had established a dyarchical form of administration in the provinces. He emphasized that diarchy is a bad form of government because it is opposed to the principles of collective responsibility.

Hybrid executives, divided responsibility, division of functions, reservation of powers, cannot make for a good system of government, and where there is no good system of government there can be little hope for a sound system of finance. The primary solution is that there should be an undivided government with a collective responsibility.

*The Evolution of Provincial Finance in British India* has a great historical significance. It is a pioneering piece of work in which Ambedkar has presented an insightful account of fiscal developments in India during the period from 1833 to 1921, supported by painstakingly collected facts and figures.

This thesis on provincial finance was acclaimed by eminent personalities. Seligman rightly remarked:

> The value of Ambedkar’s contribution to this discussion lies in the objective recitation of the facts and the impartial analysis of the interesting development that has taken place in his native country. The lessons are applicable to other countries as well; nowhere, to my knowledge, has such a detailed study of the underlying principles been made.

Leaving apart the historical content of Ambedkar’s thesis, the main issue dealt with by him is a burning one even today. Under modern democracies, the functions of government have increased manifold. The pressure of taxation and development is increasing, and the problem of distribution of burden among various forms of government is becoming acute. Hence, the problem dealt with by Ambedkar is very much relevant even today.

15.8 FINANCIAL RELATIONSHIP BETWEEN CENTRAL AND PROVINCIAL GOVERNMENT

The question of financial relation between the centre and states has assumed great
importance today and we have a lot of work dealing with the subject at present. The issue fully existed during the British period as well, but it had not received that much attention as its importance demanded. Ambedkar is one of the few writers who addressed the matter. At the very outset he mentions the difficulty to grasp the exact nature of their financial relation, for what may appear on the surface may be very different from what it may really be. He presents many incidents that seem to support the view that the Indian system was based on a separation of sources between the provincial and the central governments and contributions from the yield of the former to the latter. But there are a number of objections to the said view. After analyzing both aspects of the problem, Ambedkar concludes “that the only theory of financial relationship between the two governments which accorded to facts and agreed with law was that of aggregation of sources and distribution of the yield.” This conclusion is justified in several pages. The entire study shows Ambedkar’s power of analysis and investigation.

15.8.1 The New Phase in Provincial Finance

Up to the early twentieth century, financial arrangements were looked upon as a matter that concerned the central and provincial governments. But the time came when “there arose a third party which now insisted on having a voice in the disposition of the financial resources of the country. It was the Indian taxpayer, and his clamour had grown so strong that it compelled the powers that be to alter the system so as to permit him to take the part he claimed to play”. The Indian system of government was parliamentary type, but the executive rarely felt any responsibility towards the legislature. The secret of its power lay in the fact that it sacrificed progress to order. In this effort, the executive turned a blind eye to most of the personal laws of the most pernicious character while governing the social relations of citizens. Its financial system was similarly characterised by the desire to preserve peace and order by taxing the masses and exempting the classes. All the revenue that was collected was spent on services such as police, military and administration, required to maintain order.

Such services as education and state aid to industries, hardly found any place in the scheme of public expenditure as managed by this irresponsible executive. Disappointed with the existing executive, Indian people demanded a real parliamentary government with a parliamentary executive. As a result an announcement was made on 20 August 1917, which stressed “the increasing association of Indians in every branch of the administration.” To Ambedkar, this formed a landmark in the annals of the development of the Indian Constitution ... and marked the end of one epoch and the beginning of a new one. According to him,

the adoption of such a change of policy in the basis of the political institutions of the country involved far-reaching changes in their relations with one another, administrative, legislative, and financial. The changes in the system of provincial finance introduced in consequence of the Reform Act of 1919 were not caused by any inherent defect in the system as it stood at that day. They were affected because the system as a whole was inconsistent with the great revolution which that Act had sought to effect in the governmental system of the country.

15.9 LET US SUM UP

In this unit you have learned about the evolution of provincial finance in British India and Origin and development of provincial finance. This unit is also elaborate the financial
relationship under the old scheme between the Central and provincial Governments. Ambedkar demonstrates how centralization of government finances which prevailed in India during 1833 through 1871 was a failure on account of faulty fiscal system marked by injurious taxes and unproductive or extravagant expenditure. The system of Imperial Finance was started in India in 1833. It became so elaborated in 1858 when the Crown took over from the East India Company that no province had any separate power for legislating any separate financial resources.

Under the British rule, revenue accounts of government of India were classified into four categories namely:

- Imperial,
- Provincial,
- Incorporated local and
- Excluded Local.

However, this classification was not a strict one, and there was scope for confusion. In his study, Ambedkar tried to trace the rise and growth of provincial finance. For a thorough understanding of the subject, he divided the study into four parts. He dealt with the origin, development and organization of provincial finance, and finally studied the impact of the constitutional changes of 1919 on the nature of provincial finance.

15.10 QUESTIONS TO CHECK YOUR PROGRESS

1) Write an essay on the evolution of provincial finance in British India.

2) What is the classification of Finance and Revenue Accounts?

3) Discuss the origin and development of provincial finance.

4) What is the organisation of provincial finance in British India?

5) What were the impacts of the Reforms Act of 1919?

6) Discuss financial relationship between the Central and provincial government under the old scheme.

7) Discuss the features of the new phase in provincial finance.

SUGGESTED READINGS


(Endnotes)


4 The term ‘Imperial Finance’ was used during British period for the finance of the central government. For the same idea the term ‘federal finance’ was used in U.S.A., and the ‘provincial finance’ is equivalent to state finance in post-Independence period.
UNIT 16  FOREIGN EXCHANGE

Structure
16.1 Objectives
16.2 Introduction
16.3 Ambedkar’s Thoughts on Foreign Exchange
16.4 Changes in Monetary System
16.5 Problems of Indian Currency
16.6 Supplementing Silver Currency by Paper Currency
16.7 Towards Gold Standard
16.8 Let Us Sum Up
16.9 Questions To Check your Progress

Suggested Readings

16.1 OBJECTIVES

This unit would enable you to understand:

- Ambedkar’s thought on foreign exchange;
- Changes in monetary system;
- Problems of Indian currency;
- Supplementing silver currency by paper currency; and
- Towards gold standard.

16.2 INTRODUCTION

In this unit we will discuss about Ambedkar’s thought on foreign exchange, changes in monetary system and problems of Indian currency. Before Ambedkar became a lawyer, a social reformer and the maker of the Constitution, he was a professional economist. It is strange that he is now known more as a Dalit leader than as an economist not only among the Dalit community but in society at large. Babasaheb Ambedkar’s thoughts have had a great impact on the current Indian currency system. Under British rule when the Indian government was struggling with the falling value of the Indian Rupee, Ambedkar wrote *The Problem of Rupee: Its Origin and Solution*. This book, published in 1923, eventually lead to the establishment of the Reserve Bank of India.

Ambedkar focused his studies and research on the condition of the Indian currency in British India. In his thesis, he argued the following:

- The gold exchange standard is not stable.
- Developing countries like India cannot afford it because it increases the risk of inflation and price rise.
The Indian Rupee had lost its value and hence its purchasing power was falling.

Government deficit should be regulated and money should have a circular flow.

More attention should be given to price stability than exchange rate stability.

Two pressure groups, namely British and Indian businessmen, had opposing views on the exchange rate of rupee vis-à-vis the pound.

<table>
<thead>
<tr>
<th>British business interests</th>
<th>Indian business interests</th>
</tr>
</thead>
<tbody>
<tr>
<td>Represented by the colonial government</td>
<td>Represented by the Congress</td>
</tr>
<tr>
<td>Wanted to maintain the existing exchange rate</td>
<td>Wanted a cheaper rupee through devaluation</td>
</tr>
</tbody>
</table>

Ambedkar eventually argued in favour of a limited devaluation of the rupee, somewhere between the views of the two competing groups. 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. In effect, he said that the interests of these two classes 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 knew that the problem of the rupee was eventually linked to the problem of domestic inflation. In the preface to the book version of his thesis, he pointed out that “...nothing will stabilize the rupee unless we stabilize its general purchasing power.” Ambirajan (1999) points 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 his general approach to the problem of the rupee is still relevant:

- depreciation benefits an open economy
- distributional consequences must be taken into account
- price stability must be maintained in domestic economy
- monetary management must be based on rules rather than on discretion.
16.3 AMBEDKAR THOUGHTS ON FOREIGN EXCHANGE

Ambedkar did not favour linking the rupee with gold and recommended establishing a fully managed in-convertible currency with fixed limit of issue. Ambedkar stated: “It is much better to introduce a currency system which will do away with the exchange standard and also the gold standard reserve.”

Ambedkar’s views on currency can be summarized in the form of the following table:

<table>
<thead>
<tr>
<th>Gold Standard</th>
<th>Gold Exchange Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold coins in some form of convertible standard and paper money are medium of exchange</td>
<td>Only paper money (which is kept exchangeable at fixed rates with gold and authorities back it up with foreign currency reserves of such countries) as medium of exchange</td>
</tr>
<tr>
<td>Pledged to be redeemable in gold</td>
<td>Pledged to be redeemable in gold (pl check?)</td>
</tr>
<tr>
<td>Supported by Ambedkar with some modifications</td>
<td>Supported by Keynes.</td>
</tr>
</tbody>
</table>

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

Ambedkar criticized Keynes and other supporters of the gold exchange standard and argued in favour of a modified gold standard. In his evidence before the Royal Commission on Indian Currency and Finance (1925), Ambedkar proposed the following steps to reform the Indian currency:

1) Stop the coinage of rupees by absolutely closing the mints to the government as they are to the public.

2) Open a gold mint for the coinage of a suitable gold coin.

3) Fix a ratio between the gold coin and the rupee.

4) Rupee not to be convertible in gold and gold not to be convertible in rupees, but both to circulate as unlimited legal tender at a ratio fixed by law.

Ambedkar favoured gold currency and wanted to close down the mints as that would eradicate money inflation and imbalances in internal payments. For flexibility in currency he considered gold to be a suitable measure.

16.4 CHANGES IN MONETARY SYSTEM

The Australian and Californian gold discoveries of 1848 and 1849 made gold cheaper than silver and the so-called Gresham’s law operated, the cheap metal driving out the dearer metal. The depreciated gold drove out silver from circulation. The American civil war was responsible for large amount of export of gold from America, part of which
found its way to India. This led to an agitation in India for the introduction of gold currency.

By 1874, a great change had begun in the monetary status of silver. Germany demonetized silver in 1873, and Sweden, Denmark, Norway and Latin Union followed it. The result was that huge quantities of silver were thrown in the market. The inflow of silver further increased at this time because of higher output due to improved processes and discovery of new mines. The demonetized silver began to take refuge in two prominent silver standard countries of that time – India and China, leading to heavy coinage of silver in these countries. Consequently, the price of silver fell considerably.

These circumstances led to the movement in India for introduction of the gold standard. Ambedkar analysed the period from 1800 to 1893 during which the gold standard came to be transformed into a gold exchange standard. The result was the book he wrote: The Problem of the Rupee.

16.5 PROBLEMS OF INDIAN CURRENCY

Ambedkar’s contribution to monetary economics is evident from his Doctor of Science thesis, The Problem of the Rupee: Its Origin and its Solution, and his subsequent statement and evidence before the Royal Commission on Indian Currency and Finance (which led to the establishment of the Reserve Bank of India). Ambedkar completed his thesis in 1921 and it was first published in 1923. The book was reprinted in 1947. In the preface to the second edition he wrote, “I could not bring out a second edition of the book for the reason that my change over from economics to law and politics left me no time to undertake such a task. I have, therefore, devised another plan: It is to bring out an up-to-date edition of the history of Indian currency and Banking in two volumes, of which the Problem of the Rupee forms volume one volume two will contain the history of Indian currency and Banking from 1923 onwards.” Unfortunately, Ambedkar could not find time to complete the second volume.

The Problem of the Rupee is a monumental book. It is a very bold attempt which shows sparks of originality. In this book Ambedkar offers an excellent exposition of the evolution of the Indian currency in terms of its form as a medium of exchange and its equivalence in terms of precious metals, such as gold and silver.

Unlike other treatises then available, Ambedkar goes into the most neglected period extending from 1806 to 1893. With the historical perspective brought up to the early 1920s, Ambedkar then focuses on one of the most perplexing problems of that time, the choice of an appropriate currency system for India.

So far as the exchange standard was concerned, he differed with John Maynard Keynes, an influential economic thinker, in almost every respect. Ambedkar maintained that the exchange standard was inadequate to stabilize the general purchasing power of the rupee, rather, it aggravated the disease. Unless the purchasing power of the rupee was stabilized, the rupee itself could not be made stable. This was a fundamental fact overlooked by Keynes.

Not only Ambedkar, but other writers were also opposed to the exchange standard, so far as the remedy was concerned. But while they advocated effective convertibility into gold for stabilization of the rupee, Ambedkar suggested an inconvertible rupee with a fixed
limit of issue. He had some radical steps in mind, but keeping practical difficulties in view, he wrote: “Close the mints, not merely to the public 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 system.”

For keeping the rupee stable, many experts wanted to implement the Fowler Committee’s recommendations in toto. Ambedkar, on the other hand, severely criticized the principles of Fowler Committee and remarked, “While some people regard that report as classical for its nonsense.”

In his thesis, Ambedkar has given a very detailed account of the nature of money in India, right from the Moghul period. Since the time of Akbar, the founder of the economic system of the Moghul Empire in India, money in India consisted primarily of gold and silver - the gold Mohur and the silver Rupee, identical in weight, that is, 175 grs troy. Both coins circulated without any fixed ratio of exchange between them; nonetheless, they bore a fixed ratio to the copper coin called Dam. But in south India, only the gold coin called Pagoda was in circulation and the use of silver for coinage was quite unknown. And the country was filled with diverse coins presenting a bewildering media of exchange.

When East India Company succeeded the Moghul empire in India, the task of evolving good money out of the ‘diseased’ money fell upon it. The company decided that the universal money of account in India should be silver. Ambedkar felt that it was a well-reasoned choice to make rupee (weighing 180 grs troy and containing 165 grs pure silver) the unit for future currency system.

Ambedkar explained in detail the circumstances that led to the substitution of bimetallism by monometallism in India vide Act XVII of 1835. A single standard for fixity was adopted. Ambedkar approved this step saying that a single standard better guarantees this fixity than does a double standard.

**16.6 SUPPLEMENTING SILVER CURRENCY BY PAPER CURRENCY**

The adoption of silver monometallism, though well supported in 1835, proved to be a measure quite inadequate for the needs of the country soon after. According to Ambedkar, this was on account of some structural changes in the economy, such as transition from a ‘kind economy’ to ‘cash economy’ and a rapid increase in external trade.

Trying to go deeper to the root of the crisis, Ambedkar questions why there was monetary stringency when the import as well as the coinage of silver was large. He explains that in India, the demand for silver was not only for coinage, but also for ornamental purposes. The government exhausted all the stock for coinage, leaving very little for industrial and social consumption. Hence, a large part of coined silver must have been diverted to non-monetary use. This was the real reason behind monetary stringency. The government could not step up the import of silver, as it was already at its highest. To make the situation worse, there was no credit money worth the name, nor was banking sufficiently developed so as to fulfill the currency needs of commerce.

Such was the gravity of the situation caused by the insufficiency of silver and want of credit currency that people began to plead in favour of gold monometallism. On its part
the government considered various options, one of them being the substitution of silver standard by gold standard. Silver could have been kept as a subsidiary currency. Although the government was not quite serious in its opposition to gold currency, it had all the way maintained that gold was not economical and convenient. This resulted in the introduction of a government paper currency to supplement the silver standard.

According to Ambedkar, it was unfortunate that this first attempt against the silver standard resulted not in the establishment of a gold standard, but in the introduction of a paper currency to supplement the existing silver standard. However, the paper currency did not give the required relief it was expected to, and the whole burden fell upon silver.

Prior to 1861, there prevailed a free banking system in India, every bank was at liberty to issue its notes. The status of notes issued by the three Presidency banks was slightly superior than that of other banks because the government accepted them to some extent in payment of revenue. However, this scarcely used right to issue notes was also taken away from banks in 1861 and given to the department of paper currency. Even then, under this mixed currency system, the paper portion formed a very small part of the total. This was first, because notes of even the lowest denomination were much too large a tender to displace the metallic currency. Second, these notes were a large tender everywhere within a circle, but they were encashable only at the office of issue. This absence of universal encashability was a big hindrance to the popularity of paper currency.

Ambedkar was of the opinion that the currency system based on the silver standard augmented by paper currency was a failure, for it did not lead to stability in the value of currency. He points out that the Indian money market was subject to ‘convulsions and sudden transitions’. Indeed the rate of discount exhibited abnormal fluctuations.

Ambedkar’s analysis of these fluctuations is remarkably illuminating even after 83 years of publication of the book. In order that money may be had at a uniform price, its supply should be regulated according to the variations in its demand. The explanation for the abnormal fluctuations in the discount rate, according to him, is to be sought in the irregularity of the money supply.

### 16.7 TOWARDS GOLD STANDARD

The instability of silver standard led to demands for immediate establishment of stable monetary conditions. Since all important countries had switched over to gold standard, according to Ambedkar, it would have been appropriate to abandon silver standard in favour of gold standard. But by an unkind turn of events, the currency system that grew up in place of gold standard was actually the so called gold exchange standard.

Ambedkar provides a detailed and critical account of various proposals submitted for the reform of the Indian currency system, such as the following:

- the Temple Plan (1872),
- the Smith Plan (1876),
- the government of India scheme (1886),
- Herschell Committee (1892),
- Fowler Committee (1898).
According to him, “The government did not start to establish a gold-exchange standard. Rather, it was contemplating the establishment of a true gold standard,” but it ended up establishing the gold exchange standard at the hands of men who “inadequately understood” the true gold standard.

Ambedkar states that both gold and fiduciary standards had failed to furnish a stable standard of value. However, when the standard of value is a standard metallic money, or when it is convertible paper money, there is a check on its expansion. But when the standard of value is inconvertible money with greater value than its cost, there is every possibility of indefinite expansion, leading in turn to rising prices. He summed up the situation thus “.... (the rupee) belongs to that order of money which has inherent in it the potentiality of indefinite expansion, that is depreciation and rise of prices.”

For Ambedkar, the gold currency was not merely a matter of sentiment and a costly luxury, but a necessity for making the standard of value firm, and safeguarding the people from the evil consequences of rising prices. It should be noted that Ambedkar was vehemently against giving power to the government to manage or rather manipulate the rupee currency. While deposing before the Hilton Commission, he forcefully argued for the establishment of an independent mechanism to control the currency issue. That later led to the establishment of the Reserve Bank of India in 1935.

Infect, today we have neither gold nor gold exchange standard. The whole perspective has undergone a sea change. Even then Ambedkar’s deep thoughts on Indian currency should not be treated as mere pages in the monetary history of India. We have neglected such economic thoughts so far, no doubt, but we can take lessons from them even now.

Ambedkar had many reasons for backing gold currency. But the major reason was that in India, the changes in general price level were quite high as compared to England. If a government is free to issue currency at will, as was the case under the elastic working of the exchange standard, then there can be nothing but rising prices, depreciation and inflation. Deficits and inflation are the major hurdles in our economic system and the rupee has depreciated a lot in relation to major currencies. This was the very circle with which Ambedkar explained the problem of the rupee. Ambedkar talked of “inconvertible rupee with a fixed limit of issue.” Today the policies of the government of India seem to be marching towards the said principles of Ambedkar.

### 16.8 LET US SUM UP

In this unit you have learned about Ambedkar’s thought on foreign exchange and changes in monetary system and problems of Indian currency. Ambedkar’s legacy and contribution to India can be seen in many fields. His Ph. D. thesis of 1923 titled *The Evolution of Provincial Finance in British India* provided an academic basis for the Finance Commission of India which was subsequently established through Article 280 of the Constitution to address problems of vertical and horizontal imbalances in finances. Similarly, the Reserve Bank of India was conceptualized based on the guidelines presented by Ambedkar to the Royal Commission on Indian Currency & Finance in 1925. Commission members found Ambedkar’s book *The Problem of the Rupee*: an invaluable reference tool and the Central Legislative Assembly eventually passed these guidelines as the RBI Act, 1934.

Ambedkar was not in favour of linking the rupee to gold and recommended establishment
of a fully managed in-convertible currency with fixed limit of issue. Ambedkar stated: “It is much better to introduce a currency system which will do away with the exchange standard and also the gold standard reserve.” According to Ambedkar, the pure gold standard comprises use of gold in some form of convertible standard, paper money is also issued in addition to gold coins and is pledged to be redeemable in gold.

In contrast, under the gold exchange standard, the medium of exchange comprises only paper money which is kept exchangeable at fixed rates with gold and authorities back it up with foreign currency reserves of such countries as on the gold standard. Ambedkar vehemently criticized Keynes and other supporters of the gold exchange standard and argued in favour of the gold standard of a modified form.

16.9 QUESTIONS TO CHECK YOUR PROGRESS

1) What were the steps for the reform of the Indian currency proposed by Ambedkar?
2) What is Gresham’s law?
3) Discuss the problems of Indian currency.
4) Discuss the changes in the monetary system of India.
5) Why did Ambedkar advocate for a gold currency in India?
6) Discuss the transition from a ‘kind economy’ to ‘cash economy’ in India.
7) Why was Ambedkar against giving power to the government to manage the rupee currency?

SUGGESTED READINGS


