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THE CONTRIBUTION OF DR. BABASAHEB AMBEDKAR TO INDIA'S FEDERAL FINANCE SYSTEM

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Abstract

Dr. Babasaheb Ambedkar was a complex individual who had a significant impact on India's social, political, and economic life at the time. Despite making significant contributions to India's socio-political-economic framework both under colonial rule and after independence, Dr. Babasaheb Ambedkar has mostly been disregarded by economists. In this context, this article looks at his enormous contribution to federal finance, a crucial area of economics, and makes an effort to comprehend and assess how it developed and what he contributed to it. He had played a major role in a new-born country like India. He had been one of the contributors to the Constitution of India and had contributed towards the formation of the federal financial system in independent India. His fundamental stress on the federal finance system was for the economic welfare of the people with the construction of such an economic system from the local to centre levels, which could steadily enhance their economic level without jeopardising their interests.

Keywords British colonialism, federal finance, prant (region), India

Introduction

Dr. Babasaheb Ambedkar chose to study economics at a time when upper middle-class individuals were returning to their native country after completing their law degrees to select a career as advocates under British rule. He was the first Indian to pursue conventional economics studies overseas. He earned degrees in law as well as an MA and Ph.D. from the prestigious Columbia University in the USA and the London School of Economics and Political Science. Ambedkar's knowledge extended beyond just economics; he was an expert in anthropology, sociology, and law as well. After returning from abroad, he engaged in a variety of jobs and pursuits. From working for the Baroda State government to giving lectures on economics and law, to being a member of the Bombay Prant and Royal Commission of the British regime, to playing a significant role in round table conferences, to serving as the law minister of independent India, he was actively involved in the drafting of the Constitution and even worked as a journalist, writer, researcher, and adviser.

In conclusion, Dr. Babasaheb Ambedkar was a complex individual who had a significant impact on the social, political, and economic life of India at the time.

His invaluable advice to the nation in terms of economics, particularly public economics, has not been given the proper consideration. According to Jadhav (1991, p. 980),

It is possible to assess Ambedkar's contributions to public economics on two key bases: first, like Professor Seligaman, who views Ambedkar's book on federal finance as basic research; and second, his direction in the crucial process of developing independent India's federal finance system.

Ambedkar, according to Parmar (1990), was a recognised expert in the field of public finance. Ambedkar's plan, according to Hegde (1998, p. 72), was what led to the Federal Finance Act of 1919, which ended British rule before India gained independence. Despite the fact that Ambedkar offered colonial India and independent India significant advice on the socio-political-economic framework, economists have mostly overlooked his contribution to India (Hegde, 1998, p. 71; Jadhav, 1991, p. 980). Tyagi (2010, p. 145) agreed with others when he stated that while Ambedkar's significant contribution has been overlooked, that of K. T. Shah, C. N. Vakil, M. H. Gopal, G. Findle Shiraj, G. K. Gokhale, and others has been extensively noticed and taken into account. In this context, this article looks at his significant contribution to federal finance, a crucial area of economics, and makes an effort to comprehend and assess how it developed and what he contributed to it.

India has embraced the Federal State System, in which the Constitution clearly expands the authority of both the states and the federal government. Each element in this system is sufficiently autonomous to carry out its consequent duties. This is a component of the decentralised administrative structure, whose ultimate goal is to broaden the scope of the state's economic development for the benefit of its people. The state's decentralised financial system includes public tax revenue, the potential for public spending and debt, and its limitations on the union (the central government), the state, as well as local self-government organisations (panchayats, municipalities), as well as its economic domain. Ambedkar studied the Indian Federal Finance System in depth, which is regarded as a basic study in India. Additionally, the foundation of federal finance in independent India was laid by its recommendations. As chairman of the drafting committee of the Constitution, his concept of federal finance was accepted for inclusion in the Constitution, which has been elaborated in the Seventh Schedule, demarcating rights and obligations between unions and states. In this perspective, the essential purpose of this article is to appraise Ambedkar’s contribution to federal finance.

Federal Finance and Dr. Babasaheb Ambedkar

In his academic work, The East India Company's Administration in India and Financial Matters, Ambedkar argued that both of these organisations—the East India Company and Colonial British Rule—had overexposed India economically. The firm had arrived for business, but it continued to plunder India's financial resources in an effort to gradually enslave it. Following the 1857 revolt, the British Crown took over control of the East India Company's management of India. With its discriminatory practises, the British government system maintained its economic exploitation. Ambedkar's independent study on the public finance system forms of public spending, and public debt in India under the Crown system, the region (prants) of the East India Company, and British colonialism between 1833 and 1919 served as a major and practical guide. Let's examine the development of the federal financial system in India prior to independence and the modifications that it underwent at the same time in light of Ambedkar's research.

Development Process of the Federal Finance System before Independence

Ambedkar offers excellent instruction in the centre-state financial relations of contemporary India, claims Jadhav (1991, p. 981). The British colonial economic interests (which were primarily focused on maximising profit) and the welfare of the populace engaged in a tug-of-war that eventually led to the development of the federal finance system. Ambedkar explained how the financial administrative systems in dependent India developed following the mutiny of 1857, with the intrusion of British control, and how this had an impact on residents' wellbeing. Ambedkar (1998, p. 209) claims that the establishment of a local finance system in 1870, later recognised as the Act of 1935 (Ambedkar, 1994, p. 62), marked the beginning of India's federal finance system. With the passage of legislation granting the Governor General of the British Council complete authority, the Crown Government of India was founded in 1833 (Ambedkar, 1998, p. 67). After 1857, there was some consideration given to having local governments be regular contributors to Hind's revenue investment so that they could safeguard their interests and work with the Indian government (Ambedkar, 1998, p. 89). Accordingly, each prant was an independent state, and the essential idea was to change centralised power into the power of union states in the federal system (Ambedkar, 1998, p. 80). There were numerous factors that led to the acceptance of this system, including

1. Following the 1857 revolt, the economic system of the Crown had collapsed;
2. Local governments' extravagant expenditure had a negative impact on the public coffers;
3. The revenue was negatively impacted by the intermediate brokers' (who were collecting taxes) uncooperative attitude;

4. As the revenue fell, it was necessary to raise it by adding more taxes;
5. The implementation of the economy in administrative costs was impending;
6. There was a need to establish equality and uniformity across diverse locations.

In accordance with this plan, each area was given the freedom to decide how much money to spend and how to raise it. A unique budget was created for this purpose, and it was divided into two parts: the centre and the services of prant and income; however, the federal finance system had not been embraced by the Crown system (Ambedkar, 1998, p. 100). Because of this system's requirements, prants must be given powers. For the most financial gain, the Crown system desired to have all the power centralised with them. However, the federal financial system had begun to be implemented, and James Wilson, the finance minister, made a commendable attempt. After that, this federal finance system was given a methodical form by his successor, Finance Minister Liege, whose efforts were commendable (Ambedkar, 1998, p. 113). Ambedkar's study comprises extensive accounts of British Colonialism's system of collection of revenue from various prants, provisions of expenditure, its limitations and subsequent reforms, and so on (Ambedkar, 1998, pp. 93–99).

An idea was laid out in a circular from 1870–1871 to gather money from local resources for local spending. This circular's purview was restricted to generating money from local resources for local public works expenditures (Ambedkar, 1998, p. 117). Budgets for regions-prants were given increased authority in 1870. According to the financial resolution passed on December 14th, 1870, the federal finance system was to be implemented starting in 1871–1872 (Ambedkar, 1998, p. 118); however, this rule only held true until 1876–1877 (Ambedkar, 1998, p. 28). British India was split between a royal (Crown) and local finance system, which became a component of local government starting in 1855 (Ambedkar, 1998, p. 136). The federal system had separated responsibilities for the collection of revenue income between the centre (the crown royal) and regions/prants (States), and this had persisted for a long time, which has to be investigated in detail. With the help of financial resources, the annual finance budget had provided for the Crown system's prants' development work.

John Stretchy's 1870 plan, according to Ambedkar, "started a new stage of the evolution of the local finance system, a procedure to provide financial resources for the development of prants, and a stage for the revenue budget came into existence." (Ambedkar, 1998, p. 145). The crown system profited from this (Ambedkar, 1998, p. 158). The Crown System introduced an amendment in 1882–1883 for an act that provided for the payment to prants on the basis of a percentage of revenue and not the disbursement of shortfalls to prants on specified conditions. However, this left the Crown system in poor financial shape. As a result, in 1882, with the pressure of octroi on prants, two distinct budget divisions were made: one regional and the other royal (or crown) (Ambedkar, 1998).

Detrimental Effects of a Five-Year Budget

Instead of using an annual budgeting system, a five-year budgeting system was implemented in 1881. Even if it was reformative in terms of stability and consistency, it was insufficient. Despite the fact that this approach was beneficial to the regions, it had terrible impacts (Ambedkar, 1998, p. 190). The Indian Government granted each region complete freedom to maintain balance between its income and the services it was assigned based on the recommendations of the Royal Commission for decentralisation; however, these regions began favouring some services (tasks) and began ignoring others that were indirectly beneficial to them but directly appeared beneficial for the centre and were in the interest of the country (Ambedkar, 1998, p. 200). In response, the Indian government used the grants-in-aid mechanism and took other actions that would help to keep the various regions' economies in balance (Ambedkar, 1998, p. 201).

When assessing the financial responsibility and authority of the regional financial system in India. According to Ambedkar, financial autonomy can be evaluated on the basis of its budgets. In addition to having the authority to levy taxes and collect revenue from various sources, maintaining accurate records and conducting audit analyses are responsibilities that are inextricably linked to financial autonomy (Ambedkar, 1998, p. 223). When it came to the division of financial authority between the regions and the federal government, the military, foreign policy, taxation system, currency, debt, excise, post and telegraph, railway, audit, and accounts were under the control of the states, while the central government was in charge of minor issues like police, education, health, irrigation, roads and buildings, forests, and local organisation administration (Ambedkar, 1998, p. 225).

Under the direction of Lord Mayo, a top-to-bottom decentralisation framework was outlined, emphasising the value of local decision-making. In relation to this law, Ambedkar states: There was no regional financial system as such when the Prants financial system was established in 1870. Civil and revenue services, among other things, were still imperial. With the Prants, there were no autonomous tax imposition and usage powers. There was a strong sense of central government control. (Ambedkar, 1998, p. 240).

Why did imperial powers have authority over the prant system? "The British had not come to India for public service," claims Ambedkar. Their obvious motivation was business and using power to advance their interests and rob the populace of their resources (Ambedkar, 1998, p. 268). Ambedkar breaks down the changes to the federal financial system into three phases:

Budget through Delegation (1871–1877)

The idea of local spending from local financial resources was embraced in this system. Imperialism in this system largely reduced financial support for significant public works. It was insisted that prant sarkars would pay for the costs associated with maintaining and repairing state and district roadways (Ambedkar, 1998, p. 117).

Budget through Division of Revenue (1877–1878)

The budgets of the imperial administration and the prant sarkars were established to be distinct from one another under that system. There were three divisions: (a) the complete imperial budget of income and expenditure; (b) the complete prant budget of income and expenditure; and (c) the joint budget of income and expenditure. According to this system, each person had separate areas for income and expenses, and they had the freedom to strike a balance between them (Ambedkar, 1998, p. 200). For the difference between a prant's income and expenses, an imperial system grant was provided (Ambedkar, 1997, p. 27).

Budget through Financial Provisions (1877–1878 to 1881–1882)

John Stretchy put into practise the standard of financial assistance based on the prant’s revenue income. As a result, the imperial system interfered more with prants' budgets. The financial distribution of expenses in this system was based on projections of various revenue sources. According to each region's unique and distinct budget, it received assistance. This was successful in establishing a regional imperial government and local financial planning system (Ambedkar, 1998, pp. 5, 161). Under the British government, this approach was designed to efficiently distribute resources while cutting back on the costs associated with the imperial system. As a result, the regional financial system in India began to operate in 1870. A local banking system existed before that. The local tax system first appeared in 1855.

Act of 1919

Article 45(C) of the Montague Chemsford Commission Act of 1919, which was based on their advice, gave the prants specific powers that fundamentally altered the way that prants were administered. In the unique powers granted to prants, they were given powers for local self-government, and hence they became responsible for the administrations of municipalities and their income and expenditures as well. Medical administration, public welfare, health, and collection of statistics; education; public works; land revenue; scarcity relief; animal husbandry; fisheries; cooperatives; forests; land acquisition; law and justice; publications of regional law reports;

administrators; stamps; registration of contracts; births, deaths, and marriages; property of religions and philanthropic organisations; government properties; industries and related matters; stores and stationery; control of food adulteration; weights and measures; all these matters and powers thereto were divided and decided (Ambedkar, 1998, p. 296).

The Act of 1919, which signalled the start of the decentralised financial system, was crucial because it clearly defined the boundary between prant and the centre in terms of rights and obligations. It was a significant change when the prant gained the authority to collect taxes and borrow money (Gopa Kumar, 2012, p. 35). However, in effect, the implementation was unsatisfactory because the central government's restrictions over the political situation in enslaved India were to be made in accordance with its own interests. The goal of British administrators was to continuously increase their economic advantages because, as the British became richer, they were more likely to show their patriotism. This was the cause of their intransigent tendencies to amend the constitution even after the decentralisation policy. Ambedkar was very explicit about this when he stated that Britishers were not in this country to serve in the public sector but rather for economic gain. Consequently, their plan was to exert control. Under the Act of 1919, the primary purpose of the liberalism displayed in areas of administration and financial relations was to advance their economic interests.

Act of 1935

The Royal Commission for Decentralisation, established in 1912, proposed federal reforms in 1920–1921, with the notion of full distribution of (financial) burden, primarily on states, at the forefront of attention. It had undergone an important review by Ambedkar (Tyagi, 2010, p. 154). In 1935, the Royal Commission turned in its final report. In order to protect the prants from suffering financial loss, grants were primarily recommended in the report (Gopa Kumar, 2012). Ambedkar expressed concern about the federal structure while analysing the Federal Act of 1935 in British India. He feared that it would pose a constant risk to free citizens, obstruct the path of the poor, and result in a regional autonomy that was only superficial in the absence of genuine central accountability (Ambedkar, 1994, p. 167). The Act anticipated that it would promote further national integration, rein in governmental authoritarianism, and foster state responsibility. Ambedkar was not entirely certain. He clarifies in his writing that, though I acknowledge that I am in favour of an undivided form of government and that I think India needs it, I do not oppose the federal system in its current shape. However, I am also aware that a federal government structure is essential for the formation of regional autonomy. However, I am really concerned about the federal system that is a part of the Indian Government Act (Ambedkar, 1994, p. 166).

Federal Finance System in Independent India

The federal financial system was introduced in January 1950 in the constitution of independent India, which was very essential. According to Rao (2005, p. 438), various historical circumstances played a role in this transformation. The federal system of the 1935 Act's Article 262 was included in the new constitution. Between the states and the centre, roles and responsibilities were established. Articles 262-293 of the Constitution defined the financial ties between the federal government and the states (Gupta, 1992, p. 3). The Constitution's Drafting Committee recommended that the Finance Commission split revenue between the States and the Centre, according to Ingole (2010, p. 159). The support structure for states was therefore chosen in accordance with the state government's income and expenditure tendencies as well as socio-geographical factors. According to Gupta (1992, p. 48), it was stipulated that the states must primarily obtain their financial resources from three sources:

1. From the recommendations of the constitutionally created Finance Commission.
2. As per the Planning Commission.

3. Special assistance from the Centre is needed for natural calamities, rehabilitation programmes for displaced people, and schemes of development for Dalits and Adivasis.

The seventh schedule of the Constitution specifies how legal, legislative, and financial matters are distributed among the states and the centre. A clause also calls for the Finance Commission to be established every five years. On the basis of public revenues (tax rates and revenue income), it has been given the authority to determine how grant-in-aid should be distributed among the states and the federal government. Following that, municipalities and panchayats (village, taluka, and district) were given the authority to levy a variety of taxes on their income. Additionally, the state will support them with its revenue income (Rao, 2005, pp. 440–441).

Ambedkar firmly believed that the welfare of the people should be the federal system's first priority. The Constitution has a provision for a financial system that will be used to monitor and oversee the authority of both the states and the federal government. Ambedkar adds, in this context, that there should be a clear delineation of the allocation of powers between the centre and state governments, and to preserve it is the job of the Finance Commission. These are fundamental aspects of the federal finance system. They will only be distinguished from the unitary government by this. In a nutshell, any federal system needs these two elements.

1. No one has the authority to alter the law of distribution or to restrict the scope of the powers granted to them by the Constitution.
2. If either of the above two violates a legislative, administrative, or executive act and a dispute arises regarding it, only the appropriate judicial tribunal will have the authority to make a decision (Ambedkar, 1994, pp. 75–76).

In his book The State of Minority, Ambedkar discussed the constitutional underpinnings of the relationship between the federal government and the states as well as their respective roles in the Indian Union. The primary or crucial goal of this exercise was to shed light on the state's and Indian Union's contributions to economic development. He had a sincere commitment to socialism and the creation of a just society. He thought that authoritarianism could be avoided by establishing a socialist state and properly managing the parliamentary system. Tyagi (2010, p. 154) notes that Ambedkar stressed three crucial principles: faith, wisdom, and economy while discussing the function of the Comptroller and Auditor General of India and public finance during the 1949 process of establishing the Indian Constitution. The administration is trusted by the populace, policies and programmes are chosen with objectivity and understanding, and the financial system supports national development, making it possible to achieve the goal of economic development.

Administration of British Colonialism and Dr. Babasaheb Ambedkar

In his research on the federal finance system, Ambedkar analysed the decentralisation process in India in great depth, including its steps, difficulties, and transition in imperial India since the days of the East India Company. He vehemently opposed all actions taken by the colonial state to further its own economic interests at the expense of the wellbeing of its citizens (also known as economic exploitation). Regarding the exploitation of Indians by the East India Company and British Colonialism, R. C. Dutt was quoted by the Ambedkar Foundation as saying, "The land revenue imposed by the British government was too much and unstable and uncertain in several regions." He quotes Colonel Bricks when he adds, "There is a land tax in India that can consume the landlord's entire income." No government in Asia or Europe levies a tax as high as this one (Ambedkar, 1998, p. 30).

He provides data to support his argument that the East India Company's exploitative policy was in place from 1772 to 1857, a period of 45 years, only 32 of which were balanced. A 32 million surplus was available to the government exchequer, but the East India Company chose to transfer it to England as a gift for its shareholders' dividend rather than investing it in a profitable venture (Ambedkar, 1998, p. 13). In addition, the Indian people had to pay for the costs associated with building the Crown Empire, paying off India's debt to the British government, and quelling the revolt of 1857 (Ambedkar, 1998, p. 45). No person had any legislative authority, appointment authority to name anyone, or financial or administrative authority to change until 1858, that is, under the British Company's reign (Ambedkar, 1998, p. 70).

He adds that England has not given India any additional silver or gold. India has instead been stripped of its riches and painted as a pitiful country in the eyes of the rest of the world. Therefore, the British colonial system did everything possible to economically exploit India. The country's taxation system and discriminatory import-export policy both negatively impacted the productivity of the productive process. He pointed out that other levies were also quite high and that the British state was making up its losses with land revenue from India. The flawed tax structure had prevented India from receiving foreign income and, as was already mentioned, had a severe impact on its production. The government had not made any efforts to improve the country's taxation system for the benefit of its citizens (Ambedkar, 1998, p. 78).

In recognition of its non-economic benefit to Indian society, he praises British colonialism. His own words are,

Its impact on non-economic issues is so great that it cannot be quantified in monetary terms. India has been greatly gifted with mankind, which is true peace. It established western education, gave highly regarded objective sanctity to legal provisions and the establishment of justice, and gave to ancient cultures and nations contemporary institutes that are tied to human life (Ambedkar, 1998, p. 50).

Ambedkar was regarded as one of India's foremost intellectuals during the British Empire. During colonialism, he was active in shaping policies and had a just worldview when it came to development. Because of this, he was able to expose the flaws in British colonialism as a system, and in his fight for the rights of the oppressed, he never shied away from conflict with the government.

Conclusion

Overall, it can be said that Ambedkar, an economist, conducted analytical research on the federal financial system of India and established, on the one hand, how British colonialism exploited the Indian people to further their own interests and, on the other hand, that the underprivileged classes could not advance under the rule of Kings and Sardars. Hence, he consistently prioritised people’s welfare through a decentralised form of administration. He remained eternally a votary of the federal finance system. His study made it very evident that people in authority rule just for economic benefits, which is not justified. The administration must assume and carry out its duties towards the populace and act in ways that promote their development. His fundamental justification for the development of a federal financial system was to provide the economic security of the populace through the establishment of an economic structure that could gradually enhance their economic status without endangering their interests.

Ambedkar valued revenue powers and developmental obligations, as well as their clear division between the state and local governments in a good and equitable state structure, according to Hegde (1998, p. 71). Ambedkar fully thought that the Panchayati Raj system would block the route to the rights and development of the disadvantaged. His concerns were quite true. Even today, the high and mighty classes are governing the panchayats after years of freedom. The decentralisation policy's reach is constrained, and it has concentrated and centralised power in the hands of a select group of affluent rural Indians. The federal financial system was invented by the USA, Australia, Canada, and France. Ambedkar is one person who contributes to that debate with his thorough thinking. Ambedkar's research was crucial at the time for the Royal Commission that was created to oversee the federal financial system under the British administration (Islahi, 2004). In the Constitution of independent India, he has made a priceless contribution to the development of a decentralised legal and economic system. British colonialism gave India a federal financial and state-level administrative framework. The diversity of regions, languages, and peoples is great. Due to the federal financial system's role in the creation of this diverse nation, meeting its development demands has proven to be extremely difficult. On the basis of India's tenacity, Ambedkar has made a special contribution to the British Federal System.

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