International Journal of Research in Social Sciences
Vol. 8 Issue 7,July 2018,
ISSN: 2249-2496 Impact Factor: 7.081
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

Ambedkar's Perspective on India's Fiscal Policy and Economic Development

Dr Surender Singh
Assistant Professor, Department of Commerce
Ramjas College, University of Delhi

Abstract:

Dr. B.R. Ambedkar, a prominent economist, significantly advanced India's fiscal economics. This paper outlines Ambedkar's contributions to public finance, specifically focusing on the relationship between the state government and centre government, during British rule from 1833 to 1921. This paper examines Ambedkar's work, highlighting the principal findings and contributions of the study while also aiming to deepen our understanding of financial economics and its implications for economic development and social welfare in India and beyond.

Key Words: Provincial Finance, taxation, revenue, expenditure

Introduction

Ambedkar authored two books and delivered speeches elucidating his perspectives on Indian fiscal economics. The title of his inaugural book was "Administration and Finance of the East Indian Company." In this book, Ambedkar chronicles the historical transformations in the administration and finances of the East India Company from 1792 to 1858. He also demonstrates how these alterations resulted in the suffering of the Indian populace under British governance. The title of his second book is "The Evolution of Provincial Finance in British India." This book discusses Ambedkar's contributions to public finance in British India from 1833 to 1921.

Administration and Finances of the East India Company

Ambedkar authored a dissertation titled 'Administration and Finances of the East India Company' as part of the requirements for his M.A. Degree from Columbia University, USA. His research work indicates that the East India Company was envious of its monopoly on Indian trade, while the British were resolute in maximizing their profits from granting that privilege. He delineated the administration of the East India Company, the revenue system, expenditure, the debt system, and their impacts on our indigenous economy through significant practical data and statistics. He noted thirteen revenue sources through which the East India Company generated income, considering the Government of India's balance sheet during its administration between the year 1792 and the year 1856.

Over this extended period, land revenue, which constitutes a substantial portion of the State's income, has remained relatively stable, while opium revenue has experienced significant growth; conversely, salt tax and other miscellaneous revenues have notably diminished. All revenue was collected on behalf of the Supreme Government of India and was subsequently transferred to and managed by the Supreme Treasury. Local fiscal autonomy was absent: deficits in one province were offset by surpluses in another, and the entire Indian revenue was accountable for the debts incurred for wars in a specific province; in summary, both finance and administration were completely centralised.

Analysing expenditures from 1809 to 1850 by selecting every tenth year as a representative year, it is noted from Ambedkar's analysis that over 50 per cent of India's total expenditure under the East India Company was allocated to military and naval expenses. Additionally, interest on debt, encompassing both domestic Bond debt in India and Home Bond debt in England, constituted a substantial portion of expenditures following military and naval costs.

Loans were acquired in England and India through two distinct methods. In India, when the Government required funds, it announced that the treasury was accepting loans at specified rates and conditions outlined in the advertisement. However, a distinct method was employed in England. The sole method, as mandated by parliament, through which the East India Company could secure loans was similar to that of other corporations, namely through Bonds, and all domestic debt was incurred via Bonds.

Ambedkar remarked that it is likely to be surprising to observe the insignificance of the Indian Home Bond debt in relation to the overall Indian debt. However, the element of surprise will dissipate upon realizing that the East India Company's borrowing capacity in England was rigorously constrained by parliamentary regulations. The Parliament was consistently keen to secure the benefits of the company's governance while avoiding its drawbacks. Consequently, the parliament imposed a stringent embargo on the company's ability to raise loans beyond a specified limit to prevent the company from losing its influence and endangering English capital, thereby risking ruin for England.

He asserted that prior to 1853, the administration was involved in military operations and not only failed to propose any new public works initiatives, but also permitted existing ones to deteriorate swiftly. In his critique of the fiscal and administrative framework of the East India Company in India, he referenced notable English scholars such as Mr. John

International Journal of Research in Social Sciences
Vol. 8 Issue 7,July 2018,
ISSN: 2249-2496 Impact Factor: 7.081
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

Bright, Dr. Spray, Mr. Hendricks, Mr. Bishop Heber, Colonel Briggs, Major Wingote, and others who ardently condemned the Company's systems. A primary assertion from their analyses is that the actual endeavours of the Indian Government, governed by the East India Company, constituted conquest and annexation rather than development for India. The 'Stanley Review,' a significant English newspaper, contended that Englishmen who traveled to India became autocrats, posing a threat to democracy. He also cited Prof. Romesh Chandra Dutt, who criticized the administrative and fiscal system of the East India Company.

Dr. Ambedkar, in his examination of the British Empire's balance sheet, noted that India's substantial contributions to England are as remarkable as the insignificance of England's contributions to India. Both statements are, however, accurate when examined from economic perspectives. England has contributed nothing to India's reserves of gold and silver; rather, she has diminished them, rendering India a repository for global resources. He acknowledged that the English had introduced Western education, connecting an ancient civilized nation with modern institutions, governance, prudent legislation, and judicial systems; however, he posited that the preference between mere animalistic peace and economic deprivation is a matter for individual determination. His initial contribution to economics transparently signifies the inception of his originality, depicting the economic destitution of India imposed by the East India Company, both globally and within India itself.

Provincial Finance in British India

This thesis examines 'The Evolution of Provincial Finance in British India.' Ambedkar articulated his perspectives on the decentralization of economic authority and its significance for public finances. Ambedkar analyzed the fiscal policy implemented by the Government of India and the financial relationship between the Imperial and Provincial Governments from 1833 to 1919. From the outset, India's fiscal system was afflicted by a critical deficiency in financial resources, evidenced by persistent budget deficits.

Undoubtedly, such imbalances require rectification; however, the solution extends beyond merely increasing the necessary revenue. The method of generating revenue is equally significant for the stability and productivity of the nation. Ambedkar asserts that wisdom necessitates that individuals responsible for the State's financial management must consider not only the immediate goals of revenue generation and expenditure but also the

International Journal of Research in Social Sciences
Vol. 8 Issue 7,July 2018,
ISSN: 2249-2496 Impact Factor: 7.081
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

methodologies of finance, which are crucial and cannot be disregarded without consequence. The wealth of society is the sole inheritance upon which the State can rely, and a State that undermines it inevitably jeopardizes its own existence. He asserted that this was exactly the issue with Indian fiscal management.

Due to the 'legal fiction of State landlordism' (i.e., the land is owned by the State, and the cultivator is not the proprietor but merely an occupier), land tax in India was excessively high, hindering agricultural prosperity. Ambedkar asserted that appropriating the entirety or nearly the entirety of its profits was detrimental and imprudent. It served as an effective barrier to the generation of that product, through which individual wealth and public revenue could have been augmented to an almost unimaginable degree. Similarly, the customs duties impeded the nation's manufacturing sector. Internal and external customs obstructed trade and stifled industry.

Ambedkar emphatically contends that justice in taxation was markedly lacking. It was a harsh satire or, at best, a trivial maxim, as the lancet was aimed not at the area of greatest bloodshed but at the segment of the body politic that, due to its frailty and destitution, most submissively endured the suffering. The landlords who indulged in ostentatious consumption or vicarious leisure at the expense of impoverished tenants, along with numerous European civil servants who profited from salaries and perks, were entirely exempt from contributing to the upkeep of the Government, which primarily focused on sustaining grandeur and privilege.

Conversely, the salt tax and other burdensome levies persist in afflicting the diligent impoverished. Under this detrimental revenue system, the tax-bearing capacity of the populace diminished, resulting in the imperial government's inability to balance its budget. Ambedkar posited that this should serve as a cautionary example for all financiers, illustrating that when their fiscal policies detrimentally impact the populace's resources, they must hold themselves accountable for their depleted treasury. The majority of revenue generated from detrimental taxes was allocated to unproductive expenditures.

Ambedkar examines the allocation of government expenditure from 1809 to 1857 and concludes that it is remarkable that a nation squandered between 52 to 80 percent of its limited financial resources on military endeavours. Education was not included in the expenditures, and the number of beneficial public works was regrettably limited. For an extended period, railways, canals for navigation or irrigation, and other facilitators of commerce and industry were absent from the Imperial budget.

The Royal Commission on Decentralization examined the issues of provincial and central finance. The Commission presented its report in 1909, which broadly supported the prevailing arrangements at that time. A permanent settlement became operational in 1912 with minor adjustments. Prior to the benefits of this settlement becoming apparent, provincial finance in British India transitioned into a new phase, initiating fiscal reforms in India.

On August 20, 1917, a significant announcement was made in which the British Government adopted a policy to enhance the involvement of Indians in all branches of administration and to gradually develop self-governing institutions, aiming for the progressive attainment of responsible government in India as a component of the British Empire.

Ambedkar posited that it signified the conclusion of one epoch and the inception of another. The objective of the new policy was to empower the Legislature to "make or unmake" the Government, ensuring it would be a Government of the people, for the people, and by the people. This entailed extensive modifications to the administrative, legislative, and financial structures of governance. The Reforms Act of 1919 established a responsible Government of a limited nature in the provinces.

The previous system was marked by the total subjugation of provincial governments to the central government. The Central Government exercised complete authority over revenues and expenditures via its Parliamentary status, which regarded India's revenues as unified and allocated them for the overall purposes of the Government of India. As the Government of India was accountable for provincial solvency, it was empowered by Statutes to regulate provincial expenditures.

Furthermore, regarding revenue, the Central Government's participation in the proceeds provided a compelling incentive to intervene not only in the provinces' budget estimates but also in administrative specifics. Ambedkar contends that the robust bonds of subordination linking the provinces to the Central Government constituted the primary impediments to provincial autonomy. He asserts that the route to provincial independence necessitates an equitable allocation of functions and finances between the Central Government and the provinces. The Act of 1919 delineated 'Devolution Rules' granting provinces 'recognized authority' over 52 services and administrative matters, including public works, education, public health, water supply, excise, agriculture, land revenue administration, famine relief, police, and the administration of justice.

Impact of Fiscal Economics

Ambedkar's extensive social philosophy has informed his principles regarding general government, as well as his ideas on the separation of powers and the delineation of financial authority and developmental responsibilities among central, provincial (state), and local governments. This overarching theme has significantly influenced the establishment of centrist financial relations in independent India. Considering the necessity for a robust central authority and the closeness of governments to the populace, Ambedkar articulated the principles of Centre-State financial relations in the Constitution of India.

In this context, Ambedkar's research on 'The Evolution of Provincial Finances in British India' has significantly aided him. Ambedkar advocated for a robust Central Government, considering the requirements of nation-building, as the distribution of revenue-raising authority and developmental responsibilities between the Union and State Governments in India has been inequitable since 1947. This is a significant issue regarding Centre-State financial relations in contemporary India.

Despite five decades, the financial relations between the Centre and the States remain somewhat strained. States are increasingly inclined to utilize overdrafts and continue to rely on the Centre for financial assistance to a certain degree. The cause is the States' incapacity to curtail spending on unproductive endeavours.

Ambedkar, having examined the development of public finances in provinces, consistently seized opportunities to critique the prevailing taxation policy and propose an alternative tax framework. Ambedkar's perspectives on taxation were incorporated in the election manifesto of his Independent Labour Party (1936).

In 1938, Ambedkar publicly criticized the Government of Bombay during a meeting in Ahmedabad for failing to lower land tax rates and for not imposing taxes on affluent individuals. The key elements of the taxation policy proposed by Ambedkar are as follows:

1. Personal taxation should be determined by the individual's taxable capacity rather than their gross income;
2. Tax rates must be progressive, imposing higher taxes on the affluent and lower taxes on the less affluent;

3. Taxpayers should be entitled to exemptions within a specified income limit;
4. Land revenue rates should exhibit flexibility. They ought to be elastic and adaptable.

Ambedkar recognized that tax compliance is contingent upon the attitudes of taxpayers. He stated that individuals ought to foster a culture of tax compliance. Ambedkar expressed significant apprehension regarding the utilization of taxation policy to mitigate income disparities among various demographic groups. He asserts that taxes should facilitate relative equity among various demographic groups. He has also contended that no taxation system should be altered to diminish the standard of living of individuals.

Ambedkar noted that the provinces had become dependent on grants-in-aid from the Central Government during British India. He regarded it as a financial discrepancy. Consequently, Ambedkar advocated for provincial governments to possess authority over their revenue, particularly regarding sales tax, as it constitutes a significant source of income. Consequently, Ambedkar contended during the Constituent Assembly. If we allow provinces to impose sales tax, they must have the autonomy to modify the tax rate according to their evolving circumstances; thus, a central ceiling would significantly hinder the effective implementation of the sales tax. The sales tax, by its intrinsic nature, must be a tax on consumption.

Ambedkar was one of the few distinguished economists who promoted taxation as a tool for capital formation. During a parliamentary discussion on the necessity of capital formation in India, Ambedkar stated that if we were a communist nation, which I believe we will soon become, the government's management of our economic life would render insignificant the amount we save or not save. However, until a communist regime assumes full responsibility for the welfare and education of the populace, it is imperative that our taxation system allows for adequate capital accumulation.

Good Governance

During the 1949 discussions on the functions of the Comptroller and Auditor General, Ambedkar articulated that the Government should allocate resources obtained from the public not solely in accordance with rules and regulations, but also to guarantee that "faithfulness, wisdom, and economy" are integral to the expenditure decisions made by public authorities.

The Government must acknowledge that the primary purpose of public finance is to allocate these resources towards the development of communal facilities and services, such as roads. The difficulty in conducting a cost-benefit analysis for such items will preclude the private sector from offering these facilities. The Government is obligated to provide facilities for the general populace. The Government is anticipated to make prudent decisions regarding such initiatives, aiming to maximize benefits for the greatest number of individuals. Attention must be given not only to the allocation of funds for communal facilities but also to the judicious expenditure of those funds, avoiding any squandering of superfluous costs.

Therefore, it is imperative for all governments to remain true to their original intentions. The expenditure must be undertaken with an awareness of the underlying complexities associated with public spending. It signifies not merely a reduction in public expenditure, but rather the astute allocation of resources to ensure that every paisa yields optimal returns. Officials responsible for public funds must endeavour to assess alternative strategies for achieving objectives and ensure that leakages are prevented. The Government must ensure that expenditure decisions are closely aligned with the defined objectives and available resources, while also guaranteeing economy, efficiency, and effectiveness in the execution of Government decisions.

In the current context of substantial fiscal deficits, stringent implementation of the principles articulated by Ambedkar can assist in moderating public expenditure and the allocation of limited resources in a needs-based and prudent manner.

References:

Abraham, P. (2002). Ambedkar's Contribution for Economic Planning and Development its relevance. New Delhi: Kanishka Publishers.

Ambirajan, S. (1999). Ambedkar's Contributions to Indian Economic, Economic and Political Weekly.

Bhagwandass (2002). ed. Thus Spoke Ambedkar. Bombay: Government of Maharastra.

Datta. Bhabatosh (1978) Indian Economy Thought. New Delhi.

Goel, M.M. (1996, May-June) Relevance of Ambedkar's Economic Framework. New Asia Economics.

Heggade, O.D. (1998). Economic thought of Dr. B.R. Ambedkar. New Delhi: Mohit Publication.

Jadhav, Narendra. (1993). Dr. Ambedkar Economic thought and Philosophy. Bombay: Popular Prakashan.

Jatav, D.R. (1996). Dr. B.R. Ambedkar Ka Artick. Vichar. Jaipur: Samta Shahit Sadan.

Kasare, M.L. (1996). Economic Philosophy of Dr. B.R Ambedkar.New Delhi: B.I. Publications Pvt. Ltd.

Keer, Dhananjay. (2005). Dr. Ambedkar's Life and Mission. Mumbai: Popular Prakashan.

Khimesara, Gyanchandra. (1995). Dr. Ambedkar Ka Arthik

Moon, Vasant. (1989). ed. Dr. Babasaheb Ambedkar: Writings and Speeches. Vol. 6. Bombay: Govt. of Maharastra.

Nagar, V.D & Nagar, K.P. (1992). Economic thought and policy of Ambedkar. New Delhi: Segment Books.

Parkash, Deo. (2004). Socio-Economic thought of B.R Ambedkar. Delhi: Mahak Publication.

Ramaiah, P. and Sateesh Reddy, K. (1994). ed. Ambedkar's Economic Philosophy. Section-II. Delhi: Delta Publication.

Ranga, M.L. (2000) ed. Ambedkar; Life, Works and Relevance. New Delhi: Mohonar Publication.