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Dr. B.R. AMBEDKAR AND THE EVOLUTION OF THE FEDERAL FINANCIAL SYSTEM PRIOR TO INDEPENDENCE IN INDIA - A THEORETICAL ASSESSMENT

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Abstract

Dr. B.R. Ambedkar was a complex individual who, during his lifetime, had a significant influence on India's social, political, and economic life. His contributions to India have mostly gone unnoticed by economists. This article examines his important contributions to federal finance, a crucial area of economics. The first Indian to study economics overseas was Babasaheb Ambedkar. He had a distinctive personality and significantly influenced social, political, and economic life in India. His work on federal finance and his leadership in the establishment of independent India's Federal Finance serve as two major axes on which his contribution to public economics may be evaluated.

Babasaheb Ambedkar's analysis of the country's public debt and tax structure between 1833 and 1919 had a significant impact on the evolution of India's financial system. Prior to independence, India's financial sector was dominated by a top-to-bottom decentralisation structure, emphasising the value of local decision-making. The process of cataloguing and comprehending how a topic interacts with its environment is known as describing a topic. It uses secondary sources that have pertinent data and knowledge for the subject at hand. Secondary research frequently makes use of the internet, libraries, archives, institutions, and other information sources. Ambedkar was able to highlight the shortcomings of British colonialism as a system and never shied away from confrontation. He had important policy positions during colonialism and had a just perspective when it came to development. He insisted on a federal financial system primarily for the benefit of the populace's economic health. The research article's theme is significant to the contemporary environment and relevant from a social and historical perspective.

Keywords: **Economic Life, Financial System, Financial Sector, Decision-Making, Contemporary Environment and Historical Perspective.**

The theme of the article

Dr.B.R.Ambedkar was a unique personality who had a significant impact on India's social, political, and economic life during his lifetime. Ambedkar was a multifaceted personality who had a profound impact on the social-political-economic life of India during his lifetime. Economists have largely overlooked his contributions to India. This article investigates his significant role in federal finance, a vital branch of economics. Despite the fact that Ambedkar's contributions to India have been mostly ignored by economists, he provided crucial guidance on the sociopolitical-economic system in both colonial and independent India. In this context, the article examines his significant contribution to economics and seeks to understand and evaluate both his place in the subject's development. He had an essential duty to accomplish in a developing country like India. He had helped to design the federal financial system in independent India and had been one of the architects of the Indian Constitution. His main justification for the federal financial system was the economic welfare of the people, with the establishment of a system that could gradually raise their economic level without compromising their interests, from the local to the national levels. Overall, his main assertion on the federal finance system was for the people's economic welfare, with the establishment of such an economic system from the local to the central levels, which could gradually raise their economic level without compromising their interests. This research paper uses secondary sources of information and statistical data to conduct a theoretical evaluation that primarily focuses on Dr. B.R. Ambedkar and the Evolution of the Federal Financial System Prior to Independence in India. The research article's theme is one that is both socially and historically pertinent and significant to the modern context.

Methodology

This descriptive study has theoretical underpinnings. In this study, the analysis of theories and points of view is organised. This type of research entails conceptualising and understanding the interactions between a topic and its environment as well as looking into or simulating the effects of such interactions. It only makes use of secondary sources that include data and information pertinent to the issue under study. From a theoretical perspective, it is both a descriptive and diagnostic design. It takes a range of reports, both published and unpublished Materials, to compile secondary data. Existing data is gathered and compiled to boost the study's overall effectiveness. In research reports and other writings of a similar sort, studies that have already been published and cited are referred to as secondary research. Secondary research frequently uses the internet, libraries, archives, universities, and other sources of information to gather information.

Objective of the Article

The article's primary goal is to provide a theoretical evaluation of Dr. B.R. Ambedkar and the development of the Indian Federal Financial System prior to Independence.

British imperialism, federal finances, the territory, and India

Babasaheb Ambedkar was the first Indian to study economics abroad. The prestigious London School of Economics and Columbia Universities in the United States are where he received his MA and PhD degrees. In addition to being an expert in economics, he was also knowledgeable in anthropology, political science, sociology, and law. He followed a variety of careers and pursuits after his return from overseas. From working in the Baroda State government to giving economics and legal lectures to continuously taking part in different social movements. Ambedkar had a unique personality and had a significant impact on India's social, political, and economic life. According to Jadhav (1991,p.980), Ambedkar's priceless counsel to the country regarding economics, particularly public economics, has not been properly taken into account. Ambedkar's contribution to public economics may be assessed on two key bases, firstly, like Professor Seligaman, who views his book on federal finance as a basic research, and secondly, his direction in the construction of independent India's Federal Finance, which is highly significant. Economics has typically ignored Ambedkar's impact to India. Laxman, M. (2019), Parmar (1990), Hegde (1998, p. 72), and Jadhav (1991, p. 980) emphasised his influence on the sociopolitical-economic platform in comparison to colonial India and independent India. This article explores Ambedkar's economics-related contributions. It makes an effort to comprehend and assess the development process and his role in it. India has embraced the federal state system, which greatly expands the authority of both the states and the federal government. Public tax revenue, the potential for public spending, and public debt are all included in the state's decentralised financial structure.

Ambedkar had a thorough understanding of Indian federal finance, which is regarded as a key subject in India. As the chairman of the Constitution's drafting committee, he proposed federal finance, which was approved for inclusion in the constitution. This idea is further explained in the Seventh Schedule, which sets out the rights and obligations of the central government and the states.

Ambedkar and Government finances

The East India Company's administration of India was transferred to the British Crown during the revolt of 1857. Although the company had arrived for business, it proceeded to exploit India's financial resources in an effort to gradually bind it to itself. According to Ambedkar, both Colonial British Rule and the East India Company economically overextracted India. The development of India's federal financial system was significantly influenced by Babasaheb Ambedkar's research on the public tax system and public debt in India between 1833 and 1919. On the basis of these studies, let's analyse how the Indian financial system developed prior to independence and how its structure changed at the same time.

The evolution of the federal financial system before independence

The British colonial economic interests, which were primarily concerned with maximising profit, engaged in a tug-of-war that eventually led to the development of the federal financial system. After the Mutiny of 1857, Ambedkar explained the formation of the decentralised system and its impact on citizen welfare resulting from financial administrative processes in dependent India (Jadhav, 1991, p. 981). The Local Finance Structure of 1870, which later became known as the Act of 1935, served as the foundation for India's federal financial system (Ambedkar, 1994, p. 62). With the grant of complete authority to the Governor General of the British Council, the Crown Government of India was founded in 1833. To defend their interests and work in tandem with the Indian Government, ideas for making local governments common participants in Hind's revenue investment emerged after 1857. (Ambedkar, 1998, p. 89). Accordingly, each region was an independent State, and the central idea was to convert centralised power into the central power of union states in the federal system (Ambedkar, 1998, p. 80). There were several justifications for this system's approval, including After the 1857 mutiny, the Crown system was economically broken; excessive local government spending had a negative impact on the public exchequer; intermediary brokers' unwillingness to cooperate when collecting taxes had a negative impact on the revenue; as the revenue decreased, it had become necessary to increase it with more taxes; the introduction of economy was imminent in the administrative expenses; and the need to establish uniformity and equality among all had arisen. Ambedkar researched British colonialism's methods for collecting taxes from different parties, as well as their shortcomings and subsequent improvements. According to this plan, each region was given the freedom to set its own revenue and expenditure priorities, and a separate budget was created for this purpose. The Crown system desired to have all power centralised with them in order to maximise financial gain. A principle was stated to obtain money from local resources for local spending in a circular dated 1870–1871. But this idea only persisted until 1876–1877. (Ambedkar, 1998, p. 28). Budgets for areas granted greater authority in 1870. British India was split into two distinct financial systems, such as the royal (Crown) and local, the latter of which became a component of local government, starting in 1855. The federal government has traditionally delegated the responsibility of tax collection to the regional, state, and local levels. The annual finance strategy, which allots money, includes plans for applicants to the Crown system. According to Ambedkar, a system to give financial resources for the construction of projects began with the scheme of John Stretchy of 1870, and a stage for a revenue budget came into existence. With the burden of the octroi on states, two distinct budget divisions were established in 1882, one regional and the other royal.

The Five-Year Budget's Unfavourable Implications

Instead of using an annual budgeting system, a five-year budgeting system was implemented in 1881. Despite the fact that this approach was beneficial to the regions, it had terrible implications. In response, the Indian government used the grants-in-aid mechanism and made decisions that will help keep the financial balance between the various areas (Ambedkar, 1998, Pp. 190–201). According to Ambedkar, a country's financial independence may be judged by looking at its budgets, which include the authority to impose taxes and collect money from a variety of sources. The military, foreign affairs, taxation, currency, debt, excise, post and telegraph, railroad, audit, and accounts were with the federal government, whereas minor issues like police, education, health, irrigation, roads and buildings, forests, and local organisations were with the regional governments (Ambedkar, 1998, p. 223). Under the direction of Lord Mayo, a top-to-bottom decentralisation structure was outlined, emphasising the value of local decision-making. In reference to this statute, Ambedkar noted that while a financial system for states was established in 1870, there was no regional financial system per se. Civil and revenue services, among other things, were still imperial. There were no separate authorities for the States to impose taxes and use them. There was a strong sense of central government control. According to Ambedkar, the reason why the state system is under the jurisdiction of the imperial powers is because the British have not gone to India to serve in government . Their obvious motivation was to use power and business to amass money so they could take advantage of the populace. Ambedkar categorises this change in the federal financial system into the following three phases;

- **Budgeting through outsourcing (1871 to 1876–1877)**

The idea of local spending from local financial resources was embraced in this arrangement. Imperialism in this system reduced financial support for major public works projects to pittances. State governments were required to cover the costs of repairing and maintaining both state and district roads (Ambedkar, 1998, p. 117).

- **Budgeting, utilising revenue division (1877–1878)**

The budgets of the imperial administration and the state governments were made distinct and separate under that system. The budget was divided into three categories;

- ✓ The entire imperial budget of income and expenditure;
- ✓ The entire state budget of income and expenditure; and
- ✓ The combined budget of income and expenditure.

These were separate fields for each state's revenue, income, and spending, and they were granted autonomy to strike a balance between revenue, income, and service expenditure (Ambedkar, 1998, p. 200). The imperial system had a grant provision for the difference between the state's income and expenses (Ambedkar, 1997, p. 27).

- **Budgeting using financial resources (1877–1878 to 1881–1882)**

According to Ambedkar, the purpose of this system during the British reign was to efficiently deliver resources while lowering the costs of the imperial system. John Stretchy implemented the standard of financial provision based on state tax revenue. The financial distribution of expenses in this system was based on projections of various revenue sources.

Montague Chemsford Commission Act of 1919

Article 45(C) of the Montague Chemsford Commission Act of 1919 gave the states special powers in response to their recommendations, which resulted in a significant reform in state administration. States were given the ability to exercise local self-government through the specific powers granted to them; as a result, they are now in charge of administering municipalities and managing their finances. Medical governance, public welfare, health, and statistics collection, education, public works, land revenue, scarcity relief, fisheries, cooperatives, forests, land acquisition, law, and justice, regional law report publications, administrators, stamps, registration of contracts, births, deaths, and marriages, property of religions and philanthropic organisations, government properties, industries and related issues, stores and stationery, diplomatic missions services, and consignment stores (Ambedkar, 1998, p. 296). The Act of 1919, which outlined the boundaries between the centre and the periphery in terms of rights and obligations, was crucial. The government was given the authority to collect taxes and borrow money, which was a significant step. Although the control of the centre over the people of enslaved India was to be decided in favour of the center's interests, the implementation was not sufficient in practise (Gopa Kumar, 2012, p. 35). When he remarked that Britishers were not here for public service but rather for commercial and economic profits, Babasaheb Ambedkar was very clear about this. 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.

Structure of Federal Finance in Independent India

The inclusion of the federal financial system in the constitution of independent India in January 1950 was significant. According to Rao (2005, p. 438), this transformation was influenced by a number of historical events. The 1935 Act's Article 262's federal arrangement was preserved in the new constitution. Roles and responsibilities between the states and the Centre were established. The Constitution's Articles 262-293 made it plain how the states and the Centre viewed finances (Gupta, 1992, p. 3). The federal finance system was incorporated into the constitution of independent India in January 1950, which was extremely significant. Many historical factors, according to Rao (2005, p. 438), played a role in this transformation. Article 262 of the 1935 Act on the Federal System was incorporated into the new constitution. The powers and responsibilities of the states and the centre were established.

According to Ingole (2010, p. 159), the Finance Commission was recommended by the Constitution's Drafting Committee to distribute income between the states and the Centre. As a result, the structure of state assistance was determined based on the state government's income and expenditure tendencies, as well as socio-geographical parameters. According to Gupta (1992, p. 48), states must primarily obtain their financial resources from three sources, including the recommendations of the Finance Commission, which was established by the constitution; the Planning Commission; and special assistance from the Centre for natural calamities, rehabilitation programmes for displaced people, and schemes of development. The seventh schedule of the Constitution outlines the division of legal, legislative, and financial authority between the states and the federal government. A provision for the formation of the Finance Commission every five years is also there.

On the basis of public revenues, such as taxation rates and revenue income, it has been granted the authority to decide how grant-in-aid should be distributed among the states and the Centre. Following that, panchayats and municipalities were given the authority to impose a variety of income taxes. The state will provide them with additional support using its revenue as well (Rao, 2005, pp. 440–441). Ambedkar was adamant that the federal system's main objective should be the welfare of the people. A financial system article in the Constitution permits state and federal authorities to monitor and oversee this situation. Ambedkar argues that these are essential elements of the federal financial system and that there should be a clear division of authority between the federal and state governments. This boundary must be upheld, according to the Finance Commission. This will be the only way to distinguish them from a unitary government. In a word, any federal system must include these two components. If either of the two violates economic principles or a legislative, administrative, or executive act and there is a dispute over it, no one will decide the issue; only the judicial tribunal designated for such a purpose will do so. One has the authority to change the law of distribution or to limit the jurisdiction of powers granted to them by the Constitution (Ambedkar, 1994, pp. 75–76). Babasaheb Ambedkar was passionate about establishing socialism and an egalitarian society. He thought that authoritarianism could be prevented by establishing a socialist state and conducting the parliamentary system well. Here, education regarding the function of the state and the Indian Union in economic development was the main or important objective.

Tyagi (2010, p. 154) states that Ambedkar stressed three significant concepts, including faith, wisdom, and economy, when discussing the role of the Comptroller and Auditor General of India and public finances during the 1949 process of establishing the Indian Constitution. Citizens have faith in government, and policies and programmes are chosen with objectivity and knowledge. With a financial system that supports national growth, the objective of economic development can then be accomplished.

Ambedkar and the administration of British colonialism

Ambedkar has thoroughly examined the decentralisation process in India, including its steps, difficulties, and changes since the East India Company's era. He has vehemently disagreed with all decisions made by the colonial state in an effort to advance its own economic interests at the expense of the wellbeing of its citizens. Ambedkar argues that just 32 of the 45 years, or between 1772 and 1857, were balanced. A 32 million dollar surplus was available to the government exchequer, but the East India Company chose to deliver it as a gift to England in the form of dividends rather than investing it in a productive field. India has been stripped of its riches and painted in a pitiful light in the eyes of the rest of the world. The import-export and taxation systems' discriminatory practises had a negative impact on production. The flawed tax structure prevented India from receiving income and had a negative impact on its economy. He commends British colonialism for its non-economic contribution to Indian society. According to him, its contribution in noneconomic matters is so significant that it cannot be measured in monetary terms. It has greatly enriched India with humanity, which is the true essence of peace. It gave to ancient culture and nation, modern institutes related to human life, it actually began western education, and it prioritised legal provisions and the establishment of justice. (Ambedkar, 1998, p. 50).

Conclusion

At the time, Ambedkar was a well-known intellectual in British-ruled India. During colonialism, he played key policy roles, and his development worldview was based on justice. That is why he was able to expose the flaws of British colonialism as a state and never feared clashing with it. Overall, Ambedkar studied India's federal finance system analytically and established, on the one hand, how British colonialism exploited the Indian people for the benefit of their own interests and, on the other hand, that there could be no development of the deprived classes under the regime of Kings and Sardars. As a consequence, he always emphasised the welfare of the people in his decentralised administration system. He would always defend the federal financial system. His assessment highlighted the fact that those in power are not justified in ruling solely for economic gain. The administration must shoulder and perform its responsibilities to citizens, as well as take steps for the betterment and growth of the people. His main reason for insisting on a federal finance system was for the economic well-being of the people.

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