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Ambedkar's Study on Fiscal Economics: A Critical Analysis

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Abstract
Dr B.R. Ambedkar, a renowned economist, contributed significantly to India's fiscal economics. This paper provides a critical analysis of Ambedkar's study on fiscal economics, which covers several key areas such as the administration of the East Indian Company, provincial finance in British India, the federal finance system in independent India, canons of public expenditure, and fiscal discipline. The study provides valuable insights into India's challenges and opportunities in terms of fiscal policy and management, both during the colonial period and after independence. Through a careful examination of Ambedkar's work, this paper highlights the essential findings and contributions of the study while also discussing some of its limitations and areas for further research. Ultimately, this paper aims to deepen our understanding of financial economics and its implications for economic development and social welfare in India and beyond.

Keywords: - *Fiscal, Economics, Public, Finance, Provincial, British, India, Federal, Canons, Expenditure, Colonial, Development, and Social Welfare.*

Management and Financial Operations of the East India Company

Ambedkar had written a dissertation entitled ‘Administration and Finances of the East India Company’ to partially fulfil the requirements for his M.A. Degree from Columbia University USA. In his dissertation, he sketched out the administration of the East India Company, the Revenue system, the expenditure side, the debt system and its effects on the economy through important practical facts and data from 1792 to 1856. One clear thing from his thesis is that he was very critical of the monopoly of the East India Company with the Indian trade. The British were determined to significantly derive as much as possible for allowing her that privilege. While considering the balance sheet of the Government of India under East India Company, he mentioned thirteen sources of revenue through which the East India Company collected revenue. He highlighted the exploitative nature of the East India Company's administration in India. He argued that the company's primary goal was to maximise profits and extract resources from India to benefit England. The company's administration was structured to allow the company officials to engage in corrupt practices, including bribery and embezzlement of funds.

Furthermore, Ambedkar discussed the company's financial system, characterised by an unfair taxation system that burdened the Indian population. The company levied numerous taxes on the Indian people, including land tax, customs duty, and salt tax. These exorbitant taxes made it challenging for the Indian population to sustain their livelihoods.

Ambedkar also discussed the company's monetary policy to extract wealth from India. The company introduced a new currency system that devalued the Indian currency, making it challenging for Indian traders to compete in the global market. The company

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officials also manipulated the exchange rate to their advantage, thereby weakening the Indian economy.

Moreover, Ambedkar criticised the company's commercial policy, which was aimed at controlling the Indian market and preventing local industries from competing with the British industries. The company officials-imposed restrictions on the Indian industry, including the ban on the export of Indian textiles, which led to the decline of the Indian textile industry.

Ambedkar concluded that the East India Company's administration and financial policies were exploitative and designed to extract wealth from India. The company officials engaged in corrupt practices and levied excessive taxes on the Indian population, which made it challenging for the Indian economy to develop. The company's monetary and commercial policies further weakened the Indian economy and prevented the growth of local industries.

Ambedkar's insights on the administration and finance of the East India Company provide an essential perspective on India's colonial history. His critique of the exploitative nature of the company's policies sheds light on the root causes of India's economic underdevelopment during the colonial era. Ambedkar's writings on the East India Company remain relevant today as India grapples with the legacy of colonialism and the challenges of building a just and equitable society.

Provincial Finance in British India: An Evolutionary Perspective

Ambedkar examined the fiscal policy the Government of India adopted and the relationship between the Imperial and Provincial governments from 1833 to 1919. In his thesis entitled 'The Evolution of Provincial Finance in British India'. The fatal disease of financial inadequacy was reflected in the recurring budget deficits of India. His work on the evolution of provincial finance in British India is one of the most critical and insightful analyses of the fiscal policies and practices of the British Colonial Government.

Ambedkar traces British India's fiscal system development from its early beginnings to its demise. He argues that the British government used the fiscal system to exploit India's resources for the British Empire's benefit. According to Ambedkar, the British colonial government used various methods to extract revenue from India, including taxation, land revenue, and loans.

Ambedkar begins his analysis by describing the state of the Indian economy in the early years of British rule. He notes that the Indian economy was primarily based on agriculture and trade and that the colonial government initially adopted a policy of non-intervention in the Indian economy. However, as the British Empire expanded and the need for revenue increased, the colonial government began to take a more active role in the Indian economy. One of the key ways in which the British government extracted revenue from India was through taxation. Ambedkar notes that the British government imposed various taxes on the Indian population, including income tax, customs duties, excise duties, and stamp duties. He argues that these taxes were often arbitrary and unfair and heavily burdened the Indian people. In addition to taxation, the British government also collected revenue through land revenue. Ambedkar notes that the British government introduced a land revenue system in India based on the Zamindari concept. Under this system, the British government granted land ownership to local landlords, responsible for collecting revenue from the peasants who worked the land. Ambedkar argues that this system was highly exploitative, as the landlords often charged exorbitant rent rates, leaving the peasants in perpetual debt.

Another way in which the British government extracted revenue from India was through loans. Ambedkar notes that the British government often borrowed large sums of money from Indian banks, which were then used to finance British imperial projects. He argues that these loans were usually made on highly unfavourable terms,

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with the Indian banks charging exorbitant interest rates.

Throughout his analysis, Ambedkar emphasises the British fiscal policies' negative impact on the Indian economy and society. He argues that the British government's policy of revenue extraction led to a decline in agricultural production, widespread poverty, and social unrest. He also notes that the British government often used the revenue it extracted from India to finance imperial projects in other parts of the world rather than investing in India's development.

Despite Ambedkar's many criticisms of the British colonial government, he also acknowledges some positive developments in the evolution of provincial finance in British India. For example, he notes that the British government introduced modern accounting practices in India, which helped improve the fiscal system's transparency and accountability. He also notes that the British government made some efforts to promote economic development in India, such as investing in railways and other infrastructure projects.

Overall, however, Ambedkar's analysis of the evolution of provincial finance in British India is a powerful indictment of the British colonial government's policies and practices. He argues that the British government used the fiscal system to exploit the resources of India for the benefit of the British Empire and that this exploitation had a devastating impact on the Indian economy and society.

An Overview of India's Taxation Policy and Practices

Ambedkar's legacy in the field of taxation policy in India even endures today, as his insights and proposals remain the subject of ongoing study and debate. He believed a modern society required a fair and effective tax system promoting economic growth and social justice. Ambedkar's vision for a sound taxation system emphasised equity, efficiency, and simplicity.

In Ambedkar's view, equity meant that the tax burden should be distributed fairly among all citizens, regardless of income or social standing. Efficiency involves designing the tax system to minimise collection costs while maximising revenue. And simplicity meant creating a tax system that was easy to understand and administer, with minimal bureaucratic barriers.

Ambedkar was critical of the British colonial tax system, which he believed was exploitative and arbitrary. He argued that various taxes, including income tax, customs duties, excise duties, and stamp duties, heavily burdened the Indian people. He also opposed the land revenue policy, which granted land ownership to local landlords who charged exorbitant rent rates, leaving peasants in debt.

To address these issues, Ambedkar proposed a land value tax based on the value of land holdings. He believed this tax would be fairer and more efficient than the existing land revenue system, encouraging landowners to use their land more efficiently and discouraging speculation. Ambedkar also suggested introducing a consumption tax to tax goods and services based on their consumption level, which he believed would be more equitable and efficient than excise duties.

Although many of Ambedkar's proposals were not implemented during his lifetime, his ideas have influenced tax policies worldwide. Progressive income tax systems and land value taxes have been adopted by governments worldwide, while the introduction of a consumption tax remains a subject of ongoing debate.

The Rules Governing Public Expenditure

Ambedkar believed that when correctly managed, public expenditure could be a powerful tool for promoting economic growth and social welfare. In this paper, we have examined Ambedkar's views on the canons of public expenditure in India and their relevance to contemporary debates.

The canons of public expenditure are a set of principles that guide the management of

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public funds. Ambedkar identified five canons of public expenditure: economy, efficiency, equity, elasticity, and simplicity. Let us examine each of these canons in turn.

Economy refers to the principle of minimising the cost of public expenditure. Ambedkar believed public funds should be spent to maximise their impact while reducing waste and inefficiency. He argued that public funds should be used to provide essential services, such as education, health care, and infrastructure development, in the most cost-effective manner possible.

Efficiency refers to the principle of maximising the impact of public expenditure. Ambedkar believed public funds should be used to achieve specific policy objectives, such as reducing poverty, improving public health, and promoting economic growth. He argued that public expenditure should be directed towards projects and programs likely to have the most significant impact on these objectives.

Equity refers to the principle of fairness in public expenditure. Ambedkar believed that public funds should promote social justice and reduce inequalities. He argued that public expenditure should be directed towards projects and programs that benefit the poorest and most marginalised sections of society, such as low-income households, women, and minority groups.

Elasticity refers to the principle of flexibility in public expenditure. Ambedkar believed that public funds should be used to respond to changing circumstances and emerging challenges. He argued that public expenditure should be designed to adapt to changing economic, social, and political conditions and be flexible enough to meet new needs and priorities as they arise.

Simplicity refers to the principle of transparency and accountability in public expenditure. Ambedkar believed that public funds should be managed in a way that is easy to understand and monitor. He argued that public expenditure should be subject to regular scrutiny and evaluation and that the public should have access to information about how public funds are being spent.

Ambedkar believed these canons of public expenditure were essential for promoting India's economic growth and social welfare. He argued that public expenditure should be directed towards essential services, such as education, health care, and infrastructure development, in a cost-effective, efficient, equitable, and transparent way. He also recognised the importance of fiscal discipline in managing public expenditure. He believed that public funds should be managed in a fiscally sustainable way that does not lead to excessive debt or inflation. He argued that public expenditure should be financed through a mix of tax revenues and borrowing and that borrowing should be used only for productive investments that generate sufficient returns to pay back the debt.

Ambedkar's canons of public expenditure remain highly relevant to contemporary debates about public finance in India. His emphasis on economy, efficiency, equity, elasticity, and simplicity in public expenditure management has been widely recognised as essential for promoting economic growth and social welfare. His fiscal discipline and accountability principles are also essential for ensuring that public expenditure is managed sustainably and responsibly. By following these canons, India can ensure that public funds are used to maximise their impact and promote the well-being of all its citizens.

Ambedkar vision for India's economic development was based on a set of guiding principles that prioritised transparency, accountability, and responsible governance. During the drafting of the Indian Constitution in 1949, Ambedkar emphasised three fundamental principles about the role of the Comptroller and Auditor General of India and public finance: faith, wisdom, and economy.

First, Ambedkar believed citizens must trust the administration to build a successful and effective government. This faith was essential to create an environment where citizens could trust their elected representatives to make decisions in their best

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interests. With confidence, the government would be able to mobilise resources or implement policies that were essential to economic development. By emphasising faith, Ambedkar laid the foundation for a government that was accountable and responsive to the needs of its citizens.
Secondly, Ambedkar believed that policies and programs must be selected objectively and with understanding. To build an economy that supported national development, making decisions based on evidence and a clear understanding of the underlying issues was essential. Policies and programs designed without a thorough understanding of the problem were unlikely to be successful and could do more harm than good. By emphasising wisdom, Ambedkar advocated for a government that made informed decisions based on rigorous analysis and a deep understanding of the issues.
Finally, Ambedkar believed that a financial system supportive of national development must be in place to achieve the goal of economic development. A financial system that was transparent, accountable, and effective in its management of public finance was essential to mobilise resources and allocate them in a way that supported economic growth. By emphasising the economy, Ambedkar laid the groundwork for a financial system that was efficient, effective, and responsible for managing public resources.
These three principles formed the cornerstone of Ambedkar's vision for India's economic development. By prioritising faith, wisdom, and economy in public finance management, Ambedkar aimed to create a transparent, accountable, and responsible government in its management of public resources. This approach was essential to building an economy that supported national development and provided opportunities for all citizens to share in the benefits of economic growth.
Ambedkar's emphasis on these principles underscores the importance of transparency, accountability, and responsible governance in achieving economic development. By prioritising these principles, Ambedkar laid the foundation for a government that was responsive to its citizens' needs and capable of building an economy that provided opportunities for all. In the decades since the drafting of the Indian Constitution, these principles have remained central to India's economic development. They have helped to guide the country's growth and development over time.

The Evolution of India's Federal Financial System

The federal finance system in independent India is a topic that was extensively discussed and debated by Ambedkar, the architect of the Indian Constitution. The system was established in 1947, when India gained independence from British rule, and was designed to balance the financial powers of the central government with those of the state governments.
One of the critical features of the federal finance system is the division of powers between the central and state governments. Under this system, the central government can levy taxes on various goods and services, including income tax, customs duty, and excise duty. The state governments, conversely, can levy taxes on certain items, such as sales tax, entertainment tax, and land revenue.
Ambedkar was a strong proponent of this division of powers, as he believed it would help to prevent the central government from becoming too powerful and overbearing. In a speech he gave in 1952, Ambedkar said, "The division of financial powers is a vital factor in the federal system. It provides for the necessary autonomy of the states, which is an essential condition of a federal system."
Another critical aspect of the federal finance system is the system of grants-in-aid. Under this system, the central government provides financial assistance to the state governments through grants intended to help the states meet their development needs. The grants-in-aid are typically provided for specific purposes, such as the construction of roads, the development of irrigation projects, or the provision of healthcare services.
Ambedkar was also a strong advocate for this system of grants-in-aid, as he believed it

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would help to promote equality between the different states. In a speech in 1949, Ambedkar said, "The objective of the grants-in-aid system is to ensure that the less developed states are not left behind in the race for development."
Over the years, the federal finance system in India has undergone several changes and reforms. In 1950, the system was overhauled with the introduction of the Finance Commission, tasked with reviewing the financial relations between the central and state governments. The Finance Commission still exists and plays a key role in ensuring that the federal finance system remains equitable and effective.
In recent years, there have been calls for further reforms to the federal finance system in India. One of the key issues raised is the need to increase the share of funds allocated to the state governments. Currently, the central government retains a significant proportion of the revenue raised from taxes, which has led to complaints from some state governments that they need to receive their fair share of the resources.
Despite these challenges, the federal finance system in India remains a critical component of the country's political and economic landscape. The system has helped to develop a diverse and vibrant federation with strong regional identities and a commitment to democratic values. Ambedkar emphasised in his speeches that the federal finance system is vital in ensuring India's continued success and prosperity.

Managing Public Finances with Fiscal Discipline

Fiscal discipline refers to keeping government spending and borrowing within limits that available revenue sources can support. It involves designing a sustainable budget in the long run, considering the government's revenue and expenditure patterns. Fiscal discipline aims to avoid government spending exceeding its revenue, leading to budgetary deficits and inflation.
Ambedkar emphasised the importance of fiscal discipline in maintaining price stability, which he saw as crucial for economic growth and development. He argued that inflation seriously threatened the economy, eroding the currency's purchasing power and discouraging investment. Inflation also led to social and economic instability, disproportionately affecting society's poor and vulnerable sections.
Ambedkar advocated for a balanced budget to avoid inflation, where government spending and revenue were in equilibrium. He believed a balanced budget would help contain inflationary pressures and stabilise the economy. Ambedkar also suggested that fiscal policy should counteract inflationary tendencies, such as raising interest rates or reducing government spending.
In addition to maintaining price stability, fiscal discipline was necessary for avoiding budgetary deficits. Ambedkar recognised that deficits were a significant economic problem, as they increased the government's borrowing requirements and could lead to a debt crisis. High debt levels could reduce confidence in the economy and discourage investment, leading to a decline in economic growth and development.
Ambedkar proposed adopting fiscal rules that constrain government spending and borrowing to avoid budgetary deficits. He suggested that the government should aim to balance the budget over the business cycle, ensuring that deficits were limited to exceptional circumstances. He also advocated using fiscal targets, such as a debt-to-GDP ratio, to monitor the government's borrowing and ensure it remained within sustainable limits.
Ambedkar also saw fiscal discipline as essential for maintaining social welfare and promoting equitable development. He believed excessive government spending and borrowing could crowd out private investment, leading to declining economic growth and development. This, in turn, could lead to reduced social welfare programs and a decline in living standards for the poor and vulnerable sections of society.
Ambedkar advocated for a balanced approach to fiscal policy to avoid this outcome, where social welfare programs were adequately funded, but government spending was also kept in check. He suggested that fiscal policy should be used to promote social

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welfare and reduce inequality but within the limits of fiscal sustainability. This approach would ensure that social welfare programs were maintained in the long run while promoting economic growth and development.

In conclusion, fiscal discipline was seen by Ambedkar as critical for maintaining price stability, avoiding budgetary deficits, and promoting social welfare and equitable development. He believed fiscal policy should be used to promote economic growth and development but within the limits of fiscal sustainability. This would ensure that the government's spending and borrowing were within sustainable limits, avoiding inflation and debt crises. Ambedkar's ideas on fiscal discipline remain relevant today as policymakers seek to design fiscal policies that promote economic growth and development while ensuring social welfare and fiscal discipline.

Conclusion

Ambedkar discussed the functions of the comptroller during the framing of the Constitution. He wanted the comptroller to be a watchdog on the Government for implementing policies so they are used effectively. The comptroller's purpose is necessary but insufficient under the present RTI regime. Every citizen has to be a watchdog and help the comptroller for the country's development.

Ambedkar advised the Government to be faithful to the original intentions of the will of the people. In the present scenario, politicians should respect the sentiments of their voters. Opposition leaders have no right to walk out from the parliament and assemblies. They must be well aware of all economic issues and raise their voice on every concern.

Ambedkar talked about wisdom as provided by the professionals in the field coupled with well-considered and honest judgement. It is the need of the hour to have academic economists working on the different aspects of economics be consulted by the Government on important issues instead of depending on court economists who dance to the tunes of His Master Voice (HMV approach).

Ambedkar emphasised that economy in public expenditure does not simply mean a low level of public spending. Still, the execution cost of implementing the programme should be monitored appropriately. The government provides funds, but there needs to be proper utilisation. For instance, we noted that due to built-in corruption, the funds are not reaching the people who deserve them even in the poverty alleviation programme.

By analysing Ambedkar's economic ideas, we have concluded that he is not only a Dalit messiah but an economist who understood, analysed and interpreted the contemporary issues of his time. By adopting his economic ideas, we can certainly reduce (if not wholly solve) today's economic and non-economic problems for all times to come.

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