B. R. Ambedkar’s contribution to the history of provincial decentralization of imperial finance

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Introduction

One of the important topics of the economic history of India, the origin, development and organisation of provincial finance during the British rule, has surprisingly enough, escaped the attention of most of the writers on the subject. With the possible exemption of M.G. Ranade, who presented a fragmentary sketch of 'provincial decentralization' in 1887, the subject remained un-trodden till Dr. B. R. Ambedkar (1891—1956) published his path breaking pioneering work 'The Evolution of Provincial Finance in British India' in 1925.1 Expressing the difficulties besetting his task, Ambedkar himself mentions that "no spade work has been done in the field of Indian Finance".2 The book is divided into four parts. The first three parts deal with the origin, development and organisation of provincial finance, and part four which discusses the constitutional change of 1919.

The present paper aims to study and evaluate Dr. Ambedkar's pioneering contribution to the origin and development of provincial finance during the British period. It will discuss his opinion regarding different stages of decentralization, and compare it with that of M.G. Ranade, one of the earliest writers on the subject. Towards the end, an effort will be made to investigate the main causes in Ambedkar's opinion that led to the enactment of the Reform Act of 1919 which marked the beginning of the modern history of public finance in India. It will also examine Dr. Ambedkar's view on financial relationship between the centre and the provinces.

Imperial Finance between 1833 and 1871

A progressive centralization of fiscal power was the striking feature of the East India Company. The three presidencies were completely independent of each other, till 1773 when Bombay and Madras were subordinate to Bengal, under a governor general, but it was not until 1833 that a central government was established separate from the government of Bengal and with complete powers over the three presidencies. Likening the several presidencies with separate clock each with own mainspring in itself, Dr Ambedkar says: "Each possessed the powers of sovereignty, such as the legislative, the penal, and the tax powers. They were independent in their finance. Each was responsible for the maintenance of services essential for peace, order and good government within its jurisdiction and was free to find money by altering or levying taxation or borrowing on credit to meet its obligations." The Act of 1833 put

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1 Dr. Islahi, a staff member of the Department of Economics, Aligarh Muslim University, presented this paper to the 76th Conference of Indian Economic Association held at Bombay during Feb. 19-21, 1994. Full paper was published in the Conference Volume. Later it was included in Das, D.K. (editor), Great Indian Economists, New Delhi, Deep and Deep Publications, 2004, vol. 3, pp. 321-329.
an end to this situation, and the financial system which was roughly analogous to the
system of separation of sources and contribution from the yield was changed into a
system of aggregation of sources and distribution of the yields. Thus, with the
Imperial system of the government in India in 1833, the system of Imperial Finance
started and very soon it became so comprehensive that when in 1858 the Crown took
over from the East India Company the government of India, it was found that no
province had any separate power of legislation, any separate financial resources, or
practically any power of creating or modifying any appointments in the service; and
the references to the Government of India which this last restriction involved gave
government the opportunity of interference with all the details of provincial
administration.

From its very start the Imperial system of government suffered from the fatal disease
of financial inadequacy, and it was only occasionally that the efforts of the finance
ministers were successful in restoring equilibrium and staving off the hours of crisis.

Ambedkar's Criticism of Imperial Finance

According to Dr. Ambedkar, 'the inadequacy of Imperial finance was mainly due to
an unsound fiscal policy'. The land tax was the heaviest impost of the Imperial
revenue system in operation, which prevented the prosperity of the agricultural
industry. Another source of income was the custom duty which hampered the
manufacturers of the country. There were internal customs and external customs and
both were equally injurious to trade and industry. Salt tax and other oppressive taxes
continued to harass the industrious poor. 'Under the injurious revenue system of the
Imperial government, the taxing capacity of people decayed so that notwithstanding
the numerous resources from which it derived its revenue, the Imperial government
was unable to make both ends meet.' As far expenditure is concerned, the military
invariably consumed more than one half of the total revenue of the country. To this
should be added the internal charges on war debts. In short, 'the bulk of the money
raised by injurious taxes were spent in unproductive ways'. 'Education formed no
part of the expenditure incurred, and useful public works were lamentably few.'

Move towards Federalism in Finance

As a result of grave condition of the Imperial finance, during the 1860s some of the
British officials, such as Richard Strachey advocated for a full federal system in
India. The federal plan was proposed by its advocates in the interest of economy,
responsibility, plenty and equity. The plan for federation was opposed on the ground
of practicability and expediency. Dr. Ambedkar notes that although at that stage
federalists could not win the majority, they at least succeeded in forcing their
opponents to improve the system by removing some of the most radical defects from
which it suffered. A new arrangement was made under which the revenues and
charges remained Imperial in their status, but their management was to be
provincialized, so that each of the provincial government to administer a part of the
Imperial charges incurred in its territory within the limit of a part of the Imperial
revenue collected in its territory. Ambedkar refers to the system as "Imperial finance
without Imperial management". This was the origin which led to the formation of
the scheme of provincial budgets.
The First Stage in Provincial Finance, Budget by Assignment

Lord Mayo, the viceroy of India, played the most important role to break through the hitherto prevailing spirit of hesitation and indecision. The new scheme was announced by the famous financial resolution of December 14, 1870, as being adopted for execution from the commencement of the financial year 1871-72. In this scheme, since assignment of funds from the Imperial treasury was adopted as a method of supply to balance the provincial budgets, Dr. Ambedkar gives it the name of 'budget by assignments'. Commenting on the system he says: "The assignments made to the provincial governments for the year 1871-72 had been declared to be fixed and recurring. Recurring they were, but fixed they were not; for, every year since the start the government of India kept on adding to and withdrawing from provincial budgets items of charges already incorporated in them. In accordance to these modifications in the incorporated charges, the Imperial assignments had to be either reduced or augmented as necessity dictated".

The Second Stage, Budget by Assigned Revenue

The scheme of provincial budget was introduced with mixed feelings; doubts and hopes were expressed even by its supporters. But the result was overwhelmingly favourable. In Ambedkar's assessment it proved economical and beneficial. Under this system revenue increased, receipts from services expanded and evasion decreased. However, the system appeared to be ill-fitted for the success of the scheme in its enlarged form. The most radical defect in the system of budget by assignment consisted in its rigidity. To Sir John Strachey belonged the credit of carrying the scheme a stage further. In place of fixed assignment, he proposed to give the provinces certain sources the yield of which largely depended upon good management with the aim at achieving better and more elastic provision for the growing needs of the provincial services. This was another stage in the evolution of provincial finance. Because of its distinct mode of supply adopted, it is called by Ambedkar as stage of budget by assigned revenue.

It should be noted the plan was not new. In early 1870s it was presented by the supporters of the provincial decentralization and by John Strachey himself. But at that time that government was afraid to adopt it. But the success of the previous stage paved the way to take a step forward and implement this scheme. According to Dr. Ambedkar, under new provision 'the deterrent effect of a deficit to bear and the stimulating effect of a gain to reap made the mechanism of provincial finance as perfect as It could be made from the standpoint of economy in expenditure and productiveness In resources.

The Third Stage, Budget by Shared Revenue

Although the measures of 1877 were superior to those of 1871, they were very short of the fullest requirements of elasticity in finance. As a result the government of Madras did not adopt it and it was also not applied to Burma and Assam. Keeping into view the requirement of the province, the government of India conceded that it was entitled to have its real wants supplied more liberally than before. The earlier system grouped the budget under two distinct categories, wholly Imperial and wholly provincial. The new provision carved out a third category of account to be made of
jointly imperial and provincial. Dr. Ambedkar termed the system as 'budget by shared revenue.' The principle of shared revenue was applied to all the provinces with effect from 1882-83. The earlier systems were characterized with constant revision of short duration. In 1882-83 settlement, it was made a definite rule that they shall be quinquennial in duration; that is, they shall not be subject to revision before the end of the fifth year from their commencement. The subsequent revisions took place in 1887-88, 1892-93 and 1896-97. The budget surplus of 1898-1913 enabled the government to be more generous with the provinces. The settlement was made quasi-permanent in 1904, and permanent settlement in 1912 which worked up to April 1, 1921, when provincial finance in British India entered on an entirely new phase.

Here the history of the growth of provincial finance as it developed stage by stage under the old phase comes to an end. Dr. Ambedkar dealt in details with the mechanism which inter-related the finances of the central and provincial governments under the old phase.

M.G. Ranade's Description of the Stages of Provincial Finance

Before we proceed to study Dr. Ambedkar's reflections on the new phase of provincial finance introduced in 1921, it seems worthwhile to compare his division of the stages of provincial decentralization of Imperial finance with the one fragmentary writing on the subject by M.G. Ranade entitled "Provincial Decentralization" appeared in 1887. He simply covers the period up to 1882 only. As we have seen above, one of the features of provincial finance after 1871 was that the revenues and charges incorporated into the provincial budgets were revised every fifth year. Dr. Ambedkar criticizes Justice Ranade who, in his opinion, takes this feature as a norm by which to mark off the different stages in the growth of provincial finance from one to another. Consequently, each quinquennial period to him becomes a stage, and in his hands the history of provincial finance falls into as many stages as the quinquenniums into which it can be divided. Commenting on this style Dr. Ambedkar says: 'It may, however, be submitted that if every revision had changed the fundamentals of provincial finance, such an arrangement would not have been illogical. But as a matter of fact, the provincial finance did not change at every revision. What the revision did was to temper the wind to the shorn lamb.' To Dr. Ambedkar, the title of Ranade's pamphlet as "Provincial Decentralization" is also false to the contents for it implies that its subject matter must be local finance.

Financial Relationship under the Old Scheme Between Central and Provincial Governments

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

**The New Phase in Provincial Finance**

Up to early twentieth century the financial arrangements were looked upon as a matter which concerned the central and provincial governments. But the time came when 'there arose a third party which now insisted on having a voice in the disposition of the financial resources of the country. It was the Indian taxpayer, and his clamour had grown so strong that it compelled the powers that be to alter the system so as to permit him to take the part he claimed to play. The Indian system of government was parliamentary type, but rarely the Executive felt any responsibility towards the legislature. The secret of its power lay in the fact that it sacrificed progress to order. In this effort the executive left most of the personal laws of most pernicious character to govern the social relations of citizens. Its financial system was similarly characterised by the desire to preserve peace and order by taxing the masses and exempting the classes. All the revenues that was collected was spent on services such as police, military and administration which are calculated to maintain order. Such services as education, state aid to industries, hardly found any place in the scheme of public expenditure as managed by this irresponsible executive. Disappointed with the existing executive, Indian people demanded a real parliamentary government with a parliamentary executive. As a result the announcement of August 20, 1917 was made which stressed 'the increasing association of Indians in every branch of the administration. To Dr. Ambedkar, this formed a land mark in the annals of the development of the Indian Constitution ... and marked the end of one epoch and the beginning of a new one. According to him, "the adoption of such a change of policy in the basis of the political institutions of the country involved far-reaching changes in their relations with one another, administrative, legislative, and financial. The changes in the system of provincial finance introduced in consequence of the Reform Act of 1919 were not caused by any inherent defect in the system as it stood at that day. They were effected because the system as a whole was inconsistent with the great revolution which that Act had sought to effect in the governmental system of the country".

**Concluding Remark**

Dr. Ambedkar's this monumental work bids the reader farewell after taking him to the threshold of what may be called as the beginning of the modern history of Indian public finance. Before he concludes the book he gives a thorough discussion of the changes introduced into the mechanism of provincial finance by Reform Act of 1919. In fact, this Act has been the basis of further developments and changes brought about in the provincial finance of the country. By producing this work, Dr. Ambedkar fulfilled a great due upon the writers on the economic history of India. It is enough to quote here Professor Edwin Seligman who expressed his valuable opinion about the book in the following words:
"The value of Dr. Ambedkar's contribution of this discussion lies in the objective recitation of the fact and the impartial analysis of the interesting development that has taken place in his native country. The lessons are applicable to other countries as well; nowhere, to my knowledge, has such a detailed study of the underlying principles been made."  

Notes and References

3. The term 'Imperial Finance' was used during British period for the finance of the central government. For the same idea the term 'federal finance' was used in U.S.A., and the provincial finance' is equivalent to state finance in post Independence period.
5. Ibid.p. 8.
8. Ibid.p. 12.
9. Ibid.p. 18.
10. Ibid. p. 19.
11. Ibid. p. 23.
12. Ibid.
15. Ibid. p. 46.
16. Ibid. p. 64.
17. Ibid.
18. Ibid. p. 78.
19. Ibid. p. 81.
20. Ibid. p. 79.
21. Ibid. p. 82.
22. Ibid. p. 84.
23. Ibid. p. 98.
25. Ibid. p. 110.
27. Ibid. p. XVIII.
28. Ibid. p. XXI.
29. Ibid. p. 152.
32. Ibid. p. 164.
33. Ibid. p. 185.
34. Ibid. p. 191.
35. Ibid. p. 192.
36. Ibid. p. 195.
37. Ibid. p. 207.
38. Ibid. p. 208.
39. Ibid. p. XI, from the Foreword