Chapter-7
Economic Thoughts of Kautilya

7.1. Introduction 413
7.2. Kautilya’s Arthāśastra 414
7.3. Economic Ideas of Kautilya’s Arthāśastra 415
7.4. Elements of Modern Economics Evident in Arthāśastra 455
7.5. Kautilya’s Coverage and Early Western Thought On Political Economy 456
7.6. Topics Cover in Arthāśastra 458
7.7. Conclusion 463
7.1 Introduction

- The Arthāśastra is a comprehensive treatise encompassing many aspects of human life.

- Artha means wealth and Shastra means science; thus Arthāśastra literary implies the science of acquiring and managing wealth.

- The treatise comprises a cohesive whole, including economic administration of the state, trading, imports/exports, retailing, transportation, and warehousing and consumer welfare.

- Kautilya’s Arthāśastra describes how these functions the field of economics was performed in Mauryan time.

- Kautilya’s Arthāśastra contributes to the history of marketing thought in a culture that has barely been discussed in the literature.

- It is remarkable that a book such as Arthāśastra should have been written more than 2000 years ago in northern India. It is by any substantial a book of substantial size. Its coverage includes economics, political science, public administration, law and statecraft. It is intended to provide practical advice for the management of the state and thereby enhance the wealth of the nation.

- Essentially, Arthāśastra is a treatise on political economy interpreted in its broadest sense. While the exact date of its completion is unclear, the available evidence suggests that it was written somewhere between 321 and 286 BC.

- Kautilya was a great statesman as well as a great scholar. He played a dominating role in the formation and functioning of the Maurya Empire. Subsequently under his guidance, growth with stability was attained in the empire with the help of strong administration and efficient fiscal management. His attainment in the sphere of scholarship is undoubtedly laudable. The ‘Arthāśastra’ consists of detailed analysis of different aspects of ancient Indian economy.”

- Kautilya presents view of the purpose of economics and the function of the king before examining his views about the Treasury and taxation. Kautilya gives the importance for the state in relation to industry, commerce and agriculture, as well as his prescriptions about the use and conservation of natural resources.

- Kautilya’s work can also be used to illustrate several aspects of economics emphasized in modern economics, such as the principal-and-agent
Contemporary Relevance of Economic Thoughts of Kautilya

problem, information asymmetry, urban-bias, principles of taxation, the importance of national economic accounting and census data, the importance of property rights for economic activity and so on. Such aspects are outlined and, before concluding, further attention is given to Kautilya’s views about the role of the state in contributing to the social security and welfare of its citizens.

7.2 Kautilya’s Arthāśastra

- Kautilya’s principles served as guidelines for many economically activities through time.

- Kautilya was a great proponent of the notion that the state or government has a crucial role to play in maintaining the material well-being of the people in a nation.

- The teachings of Kautilya, also known as Chanakya and Vishnugupta, have significance for both these countries, India as well as Netherlands, though both are at different points of a growth curve

- Kautilya’s work was encapsulated in the book “Kautilya’s Arthāśastra; the way of financial management and economic governance”.

- A significant part of the Arthāśastra deals with the science of wealth or economics. When it deals with politics, the Arthāśastra describes in detail the art of government in its widest sense; the maintenance of law and order of efficient administrative machinery.

- Kautilya’s Arthāśastra focused on creation of wealth as the means to ensure the well being of the state.

- A perfect balance had to be maintained between state management and people’s welfare, and this was the essence of Kautilya’s economic treatise Arthāśastra, created about 2500 years ago.

- Kautilya compiled his political ideas into the Arthāśastra, one of the world’s earliest treatises on political thought and social order.

- It set forth ideas of state graft and monetarism and also a code of civil and criminal law.

- Arthāśastra literally translates from Sanskrit as ‘the science of wealth’. Artha corresponds to the work ‘wealth’ in Sanskrit, and sastra to ‘science’. Kautilya recognized that the wealth of nations does not depend purely on narrow economic factors but on a broad array of factors. His
Contemporary Relevance of Economic Thoughts of Kautilya

treatise, therefore, takes into account economic, political, diplomatic, social, military, and other aspects that may affect the wealth of a nation.

- Although his work has a strong focus on the wealth, effectiveness and wellbeing of the king, his actual ultimate objective, however, was not to benefit the king but to benefit the people. He thought a strong and wealthy monarchy would be in a position to protect the interests of the people against the invasion of other kings. He has repeatedly mentioned that the king must keep his subjects happy and should not impose any repressive rule except during emergency.

- Kautilya makes it quite clear that the power of the king is not unlimited but he has implicit contractual duties to fulfill as part of his office – an implicit social contract is present between the king and his subjects.

- “The traditional ends of human life, Dharma (righteous living), Artha (material well-being), Kama (enjoyment of sensual and artistic things), and Maksra (freedom from the birth-death cycle) all go together, and enjoyment of a full life was thought to be impossible without any one of the above ends. Of these, Artha occupies a key position in human life. Kautilya, the foremost economic thinker of ancient India, treated economic topics along with political matters in his Arthashastra. Another source of ideas on economic matters was Santi Parva of the Mahabharata, the epic wherein advice concerning the accumulation and distribution of wealth was interspersed with advice on how to run a country.”

- The Arthashastra focused on preservation of the state through alliances, and viewed good counsel and correct judgment as the constituents of the state’s power and more useful than military might.

- Arthashastra takes a managerial perspective on managing the affairs of the state.

7.3 Economic Ideas of Kautilya’s Arthashastra

7.3.1 The Kautilian Economy

- The Arthashastra divides the economy of the state into three basic types of the activities- agriculture, cattle rearing and trade.

- It deals with self-sufficient economy based on indigenous ways of production; distribution and trade, and discusses monetary and fiscal policies, welfare, international relations, and war strategies in detail. Arthashastra, depicts in many ways the India of his dreams.
Contemporary Relevance of Economic Thoughts of Kautilya

- When he wrote this volume of epic proportion, the country was ridden in feudalism and closed and self-sufficient economy.

- The economy based on indigenous ways of production; was in a transitional phase, moving towards the advanced aspects of distribution and production. Culture and regional politics directed the way in which trade was done.

- The state accumulated wealth by generating resources in the form of grains, cattle, gold, forest produce, trade and labour.

- Because of the regime was authoritarian in nature, everything was organized in the interest of the state.

- A civil service existed and there were departments for accounts, revenue, mines, arsenals, taxation, agriculture, trade and navigation.

- Besides maintaining the existing productivity in forests, factories, mines and cattle herds, the king was also responsible for promoting trade and commerce by setting up market towns, ports, and trade routes, building storage reservoirs.

- Kautilya’s work dealt with such diverse economic subjects as accounts, coinage, and commerce.

- The whole economic policy was regulated and controlled by the state.

- It was the largest employer of labor. All industrial and natural resources were possessed by the state.

- The state also entered the market as a trader. It engaged in selling activities at the market place.

- It had its own superintendent of commerce who would supervise the dealings in the market.

- The revenues earned by sale of resources possessed by the state would be directed to the treasury.

- Manufacturing industry gained impetus in the Maurya period, which was about the era of Kautilya.

7.3.2 Economic Administration

- Money was used as the medium of transaction, in the form of coinage.
This is indicative of the function of monetary exchange which leads to the place of marketing.

The coin used was the pana, which was subdivided as follows: sixteen mashak as to a pana and four kakan is to a mashaka. The coinage in circulation was: silver coins of one, half, quarter and one-eighth of pana and copper coins of one mashaka, half a mashaka, one kakani and half a kakani.

The value of coinage was sought to be maintained by stringent punishments for counterfeiting.

A special official, the Coin Examiner, certified the genuineness of coins which were meant for circulation and exchange in market transactions.

The state and private merchants, both local and foreign, were involved in trade.

These merchants could sell their wares to customer in the market place, or to the state in bulk quantities.

The state would thereafter distribute these goods for sale in the market place, while retaining back some stock as reserve/ buffer.

The chief controller of State Trading was responsible for the equitable distribution of local and foreign goods, buffer stocking, sale of crown commodities and public distribution. He could appoint private traders as agents for the sale, at fixed price, of crown commodities or sell them direct to the public through state-owned retail outlets.

The governance structures then projected the potentialities of centralized administration, but having adjusted to the socio economic patterns and differentiations. Urban administration had its hierarchy of officers, supporting supervision of production and exchange in urban centers, presumably to control revenues.

7.3.3 Audit

The state, even those days, exhibited a closely controlled and orderly financial accounting system.

The chancellor was responsible for collecting revenue from the whole country, along with his delegates, the Governor Generals in each city.
It was his duty to prepare the budget and maintain detailed accounts of revenues and expenditures pertaining to all activities.

The governors and record keepers in every city were to keep records of the number of people in each family, their gender, caste, family name, occupation, income and expenditures pertaining to all activities.

Manufacturing establishments also kept a stock register showing the purchases of all raw materials, the qualities of the same consumed in production, stock changes due to materials; and a manufacturing costs register showing expenditure on the labour employed and wages paid.

In the case of stores of all kinds, the record books showed the prices, quality, quantity and description of the containers in which these were stored.

The procedure of year-end Audit existed even then.

Thus, all individuals and establishments involved in manufacturing, trading, retailing, and all such activities which engaged in monetary transactions were subject to audits and scrutiny.

The Chief Controller and auditor was responsible for maintaining the record office where the accounts book showing, for each and every business establishments in the market place, the nature of its activity and total income received from it.

On the closing day for accounts, all the accounts officers were to present themselves with sealed accounts books and with the net balance of revenue over expenditure in sealed containers. The chief controller and auditor would have the accounts thoroughly audited by the audit officers, who would check the entries to verify net balances. The king would then be informed of the audit results.

7.3.4 Accountability

Significantly, Kautilya was concerned, at least to some extent with accountability.

For example, he recommended specifically the listing of revenue collected from ‘fines paid by government servants’ and ‘gifts’. He also wrote, Expenditure will be classified according to the major Heads, as given below: The Palace [expenditure of the King, Queens, Princes etc.],”

He added, “Every official who is authorised to execute a task or is appointed as a Head of Department shall communicate [to the King] the
true facts about the nature of the work, the income and the expenditure, both in detail and the total.”

7.3.5 Kautilya on the Creation and Preservation of Wealth

- Kautilya identified quality of governance, human exertion, accumulation of physical capital, acquisition of land, and knowledge as the sources of economic prosperity.

- He observed, “Man, without wealth, does not get it even after a hundred attempts. Just as elephants are needed to catch elephants, so does wealth capture more wealth. Wealth will slip away from that childish man who constantly consults the stars.”

- It is worth noting that Kautilya understood, by more than 2,000 years earlier than Adam Smith, that accumulation of capital enhanced labour productivity. Additionally, he emphasised productive activities.

- Kautilya suggested, “Hence the king shall be ever active in the management of the economy. The root of wealth is economic activity and lack of it brings material distress. In the absence of fruitful economic activity, both current prosperity and future growth are in danger of destruction.

- A king can achieve the desired objectives and abundance of riches by undertaking productive economic activity.”

- Kautilya was concerned not only about the creation of wealth but also in the preservation of the existing wealth.

- Kautilya wrote, “In the interests of the prosperity of the country, a king should be diligent in foreseeing the possibility of calamities, try to avert them before they arise, overcome those which happen, remove all obstructions to economic activity and prevent loss of revenue to the state.”

- In fact, he believed in the virtuous cycle of good governance, riches, knowledge and ethical conduct. Accordingly, Kautilya put a very heavy emphasis on good governance. Kautilya’s definition of good governance consisted of provision of infrastructure and national security, formulation of efficient policies and their effective implementation and ensuring clean and caring administration.
7.3.6 Provision of Infrastructure and National Security

- He understood the importance of infrastructure to the creation of economic opportunities.

- Kautilya suggested, “Not only shall the king keep in good repair productive forests, elephant forests, reservoirs and mines created in the past, but also set up new mines, factories, forests [for timber and other produce], elephant forests and cattle herds [shall promote trade and commerce by setting up] market towns, ports and trade routes, both by land and water.

- He shall build storage reservoirs, [filling them] either from natural springs or water brought from elsewhere; or, he may provide help to those who build reservoirs by giving them land, building roads and channels or giving grants of timber and implements.”

- He added, “A king makes progress by building forts, irrigation works or trade routes, creating new settlements, elephant forests or productive forests, or opening new mines.”

- Kautilya wanted to maintain national sovereignty at every cost and by every means available since its loss meant misery and squalor. He believed that a country either would have both prosperity and national security or lose both.

7.3.7 Sources of Revenue

- He argued that both the provision of infrastructure and having a larger army were dependent on tax revenue, which, in turn, was dependent on the level of income.

- Kautilya understood the importance of tax revenue. He wrote, “All state activities depend first on the Treasury. Therefore, a king shall devote his best attention to it.

- A king with a depleted treasury eats into the very vitality of the citizens and the country.” Kautilya suggested that a king start his day by receiving ‘reports on defence, revenue and expenditure.’

- Any government, which follows Kautilya’s following principles of taxation, will bring prosperity to the people and will never face financial crisis.

(i) He suggested ways to increase the tax base and not the tax rate to increase revenue. He was against putting any excessive tax burden on the people.
Contemporary Relevance of Economic Thoughts of Kautilya

For example, he suggested for the king, “He shall protect agriculture from being harassed by [onerous] fines, taxes and demands of labour.” Similarly, he did not want the tax collectors to be overzealous and collect only what was due.

He wrote, “He who produces double the [anticipated] revenue eats up the janapada [the countryside and its people, by leaving inadequate resources for survival and future production].”

(ii) Kautilya’s insights into compliance issues are remarkable. According to him, ignorance of the work, neglect of duty, timidity, corruption, arrogance and greed on the part of tax officials were the main factors for causing the loss of revenue. Clearly, Kautilya emphasised both honesty and efficiency.

(iii) He noted that it was not easy to detect corruption. He stated, “Just as it is impossible to know when a fish moving in water is drinking it, so it is impossible to find out when government servants in charge of undertakings misappropriate money.”

He added, “It is possible to know even the path of birds flying in the sky but not the ways of government servants who hide their [dishonest] income.”

Kautilya suggested heavy penalties on those officials, who misappropriated revenue. He suggested, “Those officials who have amassed money [wrongfully] shall be made to pay it back; they shall be transferred to other jobs where they will not be tempted to misappropriate and be made to disgorge again what they had eaten.” On the other hand according to Kautilya, “An officer who accomplishes a task as ordered or better shall be honoured with promotion and rewards.”

(iv) It appears that Kautilya did not recommend any punishment for bribing. Since he considered the people more like victims. In fact, he suggested compensating them for their losses.

He wrote, “A proclamation shall then be issued calling on those who had suffered at the hands of the [dishonest] official to inform [the investigating officer]. All those who respond to the proclamation shall be compensated according to their loss.” That could be an effective way to combat corruption since the person, who is forced to bribe might be more than willing to provide some solid evidence against the corrupt officials. The current law by treating both the giver and the receiver of bribes as criminals unnecessarily protects the corrupt officials.

(v) He recommended that some enterprises, such as liquor sales, betting and gambling be run by the Government to generate some surplus to complement the tax revenue. He wrote, “Income due to profit on sales;
Contemporary Relevance of Economic Thoughts of Kautilya

increase in the price of a commodity at the time of sale, profit from the use of differential weights and measures and increased income due to competition from buyers.”

Kautilya would not, under any circumstances, have approved the continued operation of public undertakings draining tax revenue by generating huge losses.

7.3.8 Kautilya on Growth-oriented Government Expenditures

- Two points are noteworthy. First, according to Kautilya, most of the tax revenue should be used to the provision of infrastructure.
- He wrote, “The [total] salary [bill] of the State shall be determined in accordance with the capacity [to pay] of the city and the countryside and shall be [about] one quarter of the revenue of the State.”
- It implies that according to Kautilya, India will get more mileage out of the tax revenue by constructing a few additional miles of highway than squandering resources on overstaffed government offices and some outdated and unproductive institutions/organisations, such as Planning Commission.
- Second, Kautilya emphasised the need for tax incentives to encourage investment. However, those were very few and only for a very short duration.
- He suggested:
  1. Tax Holidays: “Anyone who brings new land under cultivation shall be granted exemption from payment of agricultural taxes for a period of two years. Similarly, ‘for building or improving irrigation facilities’, exemption from water rates shall be granted.”
  2. Subsidised Loans: “[On new settlements] the cultivators shall be granted grains, cattle and money which they can repay at their convenience.”
  3. Exemption from Import Duty: “Any items that, at his discretion, the Chief Controller of Customs, may consider being highly beneficial to the country (such as rare seeds)” are to be exempt from import duties.

7.3.9 Kautilya on the Need for a Bureaucratic Set up

- Kautilya had organized a huge and intricate network of bureaucracy to manage the Mauryan Empire. This also reflected the centralized character of the state Bureaucracy had thirty divisions each headed by Adhyakshas (Chiefs).
Reporting relationships were clearly specified. Kautilya had visualized the necessity of state provision of public goods which strengthened trade and commerce. The bureaucracy was involved in the provision of three of such goods - the ‘quality control machinery’, the system of currency, and the system of 'weights and measures'. Quality control was a revolutionary concept for that era.

Kautilya understood the concept of ‘bounded rationality’ and consequently the need to set up a bureaucracy. He observed, “A king can reign only with the help of others; one wheel alone does not move a chariot.

Therefore, a king should appoint advisers as councillors and ministers and listen to their advice.”

He assigned the role of executing king’s orders to the ministers. He stated, “The ministers shall [constantly] think of all that concerns the king as well as those of the enemy.

They shall start doing all that has not [yet] been done, continue implementing that which has been started, improve on works completed and, in general, ensure strict compliance with orders.

The king shall personally supervise the work of those ministers near him. With those farther away, he shall communicate by sending letters.”

Kautilya listed the ‘responsibilities of a minister’ as: “All state activities have their origin in the minister, whether these be the successful execution of works for [the benefit of] the territory and the population, maintenance of law and order, protection from enemies, tackling [natural] calamities, settlement of virgin lands, recruiting the army, revenue collection or rewarding the worthy.”

This suggests that Mauryan empire had an active trading sector and the buyers (domestic and exports) were discerning. As a mark of quality, merchandise had to be marked with the Abhigyan Mudra (state stamp) in sindura (vermillion). Counterfeiting was strictly punished.

Bureaucrats received a fixed pay and were also eligible for state subsidized housing. This is an example of Kautilya's deep understanding of statecraft as even in later centuries (in other empires), officials were expected to compensate themselves by retaining a part of revenue extracted from the people (a kind of ad-valorem compensation). The ad-valorem arrangement provided an incentive for the official to squeeze the tax payer as much as
possible (a short term on the part of the bureaucrat) as the bureaucratic tenure was not hereditary.

- Kautilya, given his experience as a Chief Minister, probably realized the peril of such an (ad valorem) arrangement and created a fixed pay compensation structure for the bureaucracy. Huge bureaucracy invariably results in a principal-agent problem.

- Kautilya sought to tackle this issue through three means - elaborately monitored standard operating procedures (SOPs), spies/intelligence organization, and decentralization of authority.

- SOPs minimized the room for subjective interpretation of the rules by the bureaucrats. The superiors carefully monitored the performance of the officials under their control. However this system of close monitoring must have resulted in enormous transaction costs. It was therefore supplemented by the intelligence organization which kept a watch on the corrupt practices of the officials.

- The exploits of the spies in catching corrupt officials were given wide publicity and this made the officials careful in their dealings with the citizens. Another measure to keep a check on the bureaucracy was decentralized-polycentric political arrangements which resulted in empowering of the local guilds. Thus the bureaucrats had to reckon with an effective local power center that were aware of the royal edicts and prevented the bureaucrat from substituting his/her objective function for the royal edict.

- It is interesting that Kautilya did not take recourse to ideology to discipline the bureaucracy. Probably he realized that if a bureaucrat is violating the SOPs.

- Kautilya lists forty kinds of misappropriation of funds by the bureaucrats. The informant giving information on corruption was entitled one sixth of the amount as a reward. There is also a fascinating description of how the departmental supervisors should check whether expenditures have been incurred for the desired end - including the heads (labor, capital and material) of the expenditure.

7.3.10 Kautilya’s Approach to Elicit Honesty and Efficiency from Bureaucrats

- Kautilya’s insights into human nature and how to design services and sanctions to elicit honesty and efficiency from bureaucrats are remarkable.
He identified the problem of moral hazard (i.e., the problem of shirking) and suggested payment of efficiency wages and supervision. He wrote, “The king shall have the work of Heads of Departments inspected daily, for men are, by nature, fickle and, like horses, change after being put to work.

Therefore, the King shall acquaint himself with all the details of each Department or undertaking, such as—the officer responsible, the nature of the work, the place of work, the time taken to do it, the exact work to be done, the outlay and the profit.”

### 7.3.11 Qualifications of a Councillor

- Kautilya expected a councillor to be of impeccable character and with unique qualities.

- Kautilya wrote, “A native of the country, of noble birth, easy to hold in check, trained in the arts, possessed of the eye (of science), intelligent, persevering, dexterous, eloquent, bold, possessed of a ready wit, endowed with energy and power, able to bear troubles, upright, friendly, firmly devoted, endowed with character, strength, health and spirit, devoid of stiffness and fickleness, amiable (and) not given to creating animosities— these are the excellences of a minister.”

- According to Kautilya, a person must be a native of the country to qualify for any powerful position. It requires no hard thinking in figuring out as to how many of the ministers in the present scenario in our country, would have been retained by Kautilya.

### 7.3.12 Kautilya Linked Pay to Performance and Qualifications

- According to Kautilya, compensation should be based on qualifications, experience and effort.

- He recommended that the aggregate wage bill of the State should not exceed one-fourth of its revenue.

- Kautilya stated, “Those who have all the qualities are to be appointed to the highest grade (as Councillors), those who lack a quarter, to the middle grades and those who lack a half, to the lowest grades.”

- He suggested, “Salaries and wages of any individual employee, permanent or temporary, shall be fixed in accordance with the above principles, taking into account each one’s level of knowledge and expertise in the work allotted.”
Contemporary Relevance of Economic Thoughts of Kautilya

- Kautilya insisted on efficiency and honesty. Kautilya stated, “Every man shall be judged according to his ability to perform [a given task].”

- Caste system was not that rigid during Kautilya’s times. For example, he stated, “Envoys therefore speak as they are instructed to, even if weapons are raised against them. The shastras say that even if an envoy is an outcast, he shall not be killed (1.16).” Similarly, B.R. Ambedkar (1891-1956) wrote, “This country has seen the conflict between ‘ecclesiastical law’ and ‘secular law’ long before Europeans sought to challenge the authority of the Pope.

- Kautilya’s Arthāśastra lays down the foundation of secular law in India; unfortunately ecclesiastical law triumphed over secular law.”

- The following table may be used to express Kautilya’s ideas.

<table>
<thead>
<tr>
<th>Administration (Politicians and Bureaucrats)</th>
<th>Efficient</th>
<th>Inefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Honest</td>
<td>Most Desirable</td>
<td>Moral Dilemma</td>
</tr>
<tr>
<td>Dishonest</td>
<td>Tolerable</td>
<td>Least Desirable</td>
</tr>
</tbody>
</table>

(Table-K. Measurement of administration)

- Kautilya insisted on efficiency and honesty for maintaining independence and creating prosperity. He specified qualifications for each job. Although he showed a lot of compassion for the disadvantaged but it is unlikely he would have approved the quota system in any form or shape.

- He advised that a king should take care of his subjects like a father takes care of his children. He wrote, “Whenever danger threatens, the king shall protect all those afflicted like a father [protects his children].”

- He added, “He shall, however, treat leniently, like a father [would treat his son], those exemptions have ceased to be effective.” Kautilya suggested, “King shall maintain, at state expense, children, the old, the destitute, those suffering from adversity, childless women and the children of the destitute women.”

- Incidentally, it may be noted that during 1950s there was both, honesty and efficiency. Other than the police and the irrigation department, most
of the employees were honest. Similarly, most of the politicians were honest.

- However, during the 1960s and 1970s, many bureaucrats and politicians became corrupt but still relatively speaking were efficient. But over the last 25 years, our Prime Minister and the President are all alone. A large majority of bureaucrats and politicians are both inefficient and dishonest.

- Kautilya relied on an efficient and honest intelligence service. Thus, in our context, unless the investigating agencies like the CBI and the courts functioned with due autonomy, honesty, efficiency and boldness, improvement in governance would have no chance. The CBI should investigate not only the past Chief Ministers but also the current Chief Ministers, Income Tax Officers and many others, who are amassing wealth at an unprecedented rate.

7.3.13 Judicial Fairness

- Kautilya wrote, “A king who observes his duty of protecting his people justly and according to law will go to heaven, whereas one who does not protect them or inflicts unjust punishment will not. It is the power of punishment alone, when exercised impartially in proportion to the guilt, and irrespective of whether the person punished is the King’s son or an enemy, that protects this world and the next.”

- When there is a conflict between established tradition and ethical principles, or between evidence and what is right (according to ethical principles) the case shall be decided on the basis of ethical principles. Where scriptural laws conflict with what is righteous and just, there justice shall be the valid criterion; the written text loses its relevance.

- He elaborated on this theme as thus: “Whoever imposes just and deserved punishment is respected and honoured. A well-considered and just punishment makes the people devoted to dharma, artha and kama [righteousness, wealth and enjoyment]. Unjust punishment, whether awarded in greed, anger or ignorance, excites the fury of even [those who have renounced all worldly attachments like] forest recluses and ascetics, not to speak of householders.

- When, [conversely,] no punishment is awarded through misplaced leniency and no law prevails, then there is only the law of fish i.e., the law of the jungle.”

- Kautilya did not view law to be an expression of the free will of the people. Thus sovereignty - the authority to make laws, did not vest with citizens. Laws were derived from four sources - dharma (scared law), vyavhara (evidence), charita (history and custom), and rajasasana (edicts of the
Contemporary Relevance of Economic Thoughts of Kautilya

King). In case of conflict amongst the various laws, dharma was supreme. The ordering of the other laws was case specific.

- **Rajasasana** ordered the relationship between the three major social groupings – the citizen, the association, and the state. The constitutional rules at the state level were specified in the rajasasana but the constitutional rules at the level of the association were to be decided by the members of the association. The collective choice and the operational level rules of the association were also decided by the members of the association though the state did promulgate laws to safeguard the individual member from the tyranny of the majority in the association.

- Arthāśastra outlines a system of civil, criminal, and mercantile law. For example the following were codified: a procedure for interrogation, torture, and trial, the rights of the accused, what constitutes permissible evidence, a procedure for autopsy in case of death in suspicious circumstances, what constitutes defamation and procedure for claiming damages, valid and invalid contracts.

- Regarding such, the Arthāśastra states that “the maintenance of law and order by the use of punishment is the science of government,” and the boundaries of what seemed to be valued by state ideology or dharma are indirectly revealed in the Arthāśastra by the magnitude of punitive fines attributed to unlawful deviations from the status quo.

- Thus, dharma was the prime source of political legitimacy of the state and it was one that was liberally tweaked by the Brahmin elites in furthering their ends and practicing efficient statecraft. Regarding the instrumental use of religion for political legitimacy value.”

7.3.14 Governance- Role of Ethics

- Kautilya was a sophisticated, foresighted and farsighted thinker. He approached every issue methodically and comprehensively. He believed that good governance was required to create opportunities and good institutions, such as the rule of law, were essential for exploiting the opportunities. He had deep insights into various aspects of good governance: its role in creating prosperity, its comprehensive definition and, above all, devising various measures for ensuring its delivery. He proposed complementing the Vedic approach of building virtuous character along with legalistic approach of codification of rules and prescribing appropriate sanctions in case of their violation.

- Kautilya used the word 'dharma' (which in general, means 'duty') and righteousness in personal and social conduct. He described the basic ethical (dharmic) values as, "Duties common to all - ahimsa (abstaining
Contemporary Relevance of Economic Thoughts of Kautilya

from injury to all living creatures); satyam (truthfulness); cleanliness; freedom from malice; compassion and tolerance.

- The concept of good governance is given by Kautilya which gets a lot of attention in Western society especially in current times. The concept of governance thereafter is attributed to Chandragupta Maurya and Kautilya for two reasons. Firstly, they successfully drove away the Greeks and destroyed the myth about Greek superiority. Secondly, Chanakya wrote, among others, a great treatise called Arthāṣastra, having chapters on the King, the well organised State, Treasury, Sources of Revenue, Accounts & Audit, Civil Service Regulations, Law & Justice, Foreign Policy, Defence & War, etc.

- The Arthāṣastra is a manual for practicing politicians. Kautilya prescribed specific, tested administrative procedures.

- An important part of that was coercive authority (danda, which literally means a stick) when officers do not meet their task or if citizens not obey the rules and regulations. He conceived danda to be the surest and the most universal means of ensuring public security as well as the stability of the social order. He contemplated the universal application of danda irrespective of the offender’s rank and status.

- He was aware of financial fraud committed by the government officials. Government officials could enrich themselves either by cheating the government or by exploiting the public. He prescribed punishment for both types of fraud.

- If Profit was a must in his scheme of running public enterprises. An official who did not generate adequate profits in crown undertakings was punished.

- Kautilya’s theory of the recruitment and selection of officials involved tests to judge officials before appointing them. According to him the civil servants needed to be watched and guided so that they did not misuse their position. The candidate who applied for a position was tempted by different means through secret agents.

- Kautilya developed the wealth tests, the virtue test, the pleasure test and the fear test. Those who passed all four tests were appointed as ministers. The Arthāṣastra explains in detail the principle of righteousness in management, politics and stated it to be the essence of being a King.

- The institution of state is created to enable the individual to practice his dharma and thus move towards the emancipation from the cycle of death-rebirth. The condition of arajat (lawlessness) was viewed with distaste as it militated against the practicing of dharma.
There is reference in many ancient Vedic texts to *Matsya-Nyaya* (Law of the Fish) which prevails in the state of nature. Such a state is characterized by the absence of *dharma* and *mamatava* (private property rights).

The four *ashrams* (orders) are *Brahmacharya* (student hood, emphasis is on abstinence and on acquiring knowledge), *Grihastya* (married life, emphasis is on *bhog* (enjoyment) of material pleasures), *Vanaprastha* (retiring to woods for meditation), and *Sanyas* (asceticism).

Vedic philosophy does not encourage asceticism for anyone of any age. Kautilya, a firm believer in the *ashram* system, was opposed to such pseudo-asceticism. *Arthāśastra* prescribes strict penalties for citizens who take up *sanyas* (asceticism) without sufficiently providing for their families.

Kautilya believed that this was socially destabilizing as if everyone became a monk then who shall run the society.

In political texts, especially the *Arthāśastra*, *dharma* has been interpreted in terms of law, justice and duty. Thus according to the doctrine of *dharma*, state is a law giving, justice dispensing, and duty enforcing institution.

Confucius civilization, in contrast to the Vedic Civilization, views law and order to be an intrinsic part of nature and not a creation of the human entity. Thus if anarchy exists, it is attributed to violation of filial piety (a natural law) by human beings.

Vedic civilization sanctified individual property rights. The King was not even the notional owner of land. He was a protector of land for which he had the right to levy taxes.

This conceptualization of the relationship between the King and the citizen is in contrast to the belief system in civilization where the emperor was the notional owner of the land. Hence in the Confucius civilization, the tillers of land didn't pay tax - they paid a rent to the State, which wields the instruments of coercion (*danda*), is constituted to get the society out of this quagmire. Thus the state enables two things - the practice of *dharma* and the *bhog* (enjoyment) of private property rights.

The Vedic state can be viewed as "qualified monism" in which the autonomy and the diversity of the various social groups residing within the boundaries of the state were recognized. Citizens had multiple loyalties - to the state as well as king.
The question is, do we always need an external authority to wield the 'sword' or are the human communities capable of evolving and sustaining such capabilities themselves? Kautilya would have argued for the necessity of both the internal and the external sword - to be used for different purposes. The legitimacy for both the swords, in the Vedic conception, would come from the same principle - the pursuit of dharma.

The Vedic civilization sought to tackle the free rider problem through the institution of 'danda'.

Kautilya realized that the moral imperative - dharma, alone could not prevent free riding. Hence a system of coercion and sanctions -danda, needs to be in operation.

The causal nexus between the state of nature and breakdown of a social order, as described in the ancient epic of Mahabharata, is as follows:

"Then foolishness or stupidity (moha) seized their minds. Their intelligence thus being eclipsed, the sense of justice (dharma) was lost. Cupidity or temptation (lobha) overpowered them next.

Thus arose the desire (kama) for possessing things not possessed. And this led to their being subjugated by affection (raga) under which they began to ignore the distinction between what should and what should not be done. Consequently there appeared sexual license, libertinism in speech and diet, and indifference to morals.

Dharma, on the other hand, has an appeal across deities. Its non-contestable character therefore served as a useful attribute for the legitimization of the state.

These associations related to the guild were knit together on the basis of two principles - military imperative (strength in unity) and the principle of dharma.

These bodies had well specified rules of governance and a code of conduct. They zealously guarded their autonomy and the King could not trample on their customs and traditions.

To ensure that the King and the associations do not overstep their respective limits, the Superintendent of Accounts had to codify the history, the customs, and the traditions of every association.

However, the relationship between the individual body and the state was not of competition or of turf protection. Both the bodies had a role to play in enabling the citizen to follow his dharma. Interestingly, there was a Department of Commissioners to protect the interest of the individual in
the association. Thus there was a mechanism to protect the individual from the larger association and the association from the State.

- The King was looked upon an embodiment of virtue, a protector of dharma. He too was governed by his dharma as any other citizen was. Thus if any actions of the King went against the prevailing notion of dharma, associations and/or the individual citizens were free to question him. King was not the sole interpreter of dharma.

- Kautilya considered moral values as a means to prosperity in this world and to paving the way to heaven after death.

- He asserted, “For the world, when maintained in accordance with the Vedas, will ever prosper and not perish. Therefore, the king shall never allow the people to swerve from their dharma.” He added, “For, when adharma overwhelms dharma, the King himself will be destroyed.”

- The insights contained in The Arthashastra are as relevant today as they were in his time and thus making it an ageless contribution.

- He truly possessed a modern outlook in formulating such universally relevant principles.

- According to Kautilya, so long as no effective remedy, legal or political, is devised to contain the extra ordinary tactics of the corrupt elected officials, India could not achieve her full potential. Since corrupt officials encourage socially unproductive, rent-seeking activities, distort the incentive system and discourage honesty, efficiency and hard work.

- Second, Kautilya pointed out that one should always keep in mind that sometimes the effects of a policy might be irreversible, and therefore one should be farsighted as well as foresighted in formulating a policy.

- Third, Kautilya proposed efficient, mutually reinforcing and consistent formulation and coordination of fiscal, labour, trade, judicial and foreign policies to promote prosperity, national security and fairness.

- His systemic approach should be used as the basis of current reforms in India. For example, according to him, economic efficiency depended on appropriate economic (including international trade) policies, judicial fairness, and ethical values.

- Therefore, along with economic reforms, judicial and political reforms might be necessary to achieve economic efficiency. How can a nation achieve economic efficiency when there are hardly any meaningful sanctions against economic crimes, such as tax evasion, adulteration,
Contemporary Relevance of Economic Thoughts of Kautilya

bribery, and extortion? Justice to a large extent is for sale and may be labelled as ‘green justice’.

- Fourth, according to Kautilya, maintenance of law and order was a prerequisite for creating prosperity. He observed, “By maintaining order the king can preserve what he already has, acquire new possessions, augment his wealth and power, and share the benefits of improvement with those worthy of such gifts. The progress of this world depends on the maintenance of order and the [proper functioning of] government.”

- Kautilya added, “Government by Rule of Law, which alone can guarantee security of life and welfare of the people, is, in turn, dependent on the self-discipline of the king.

- Also, according to Kautilya, every important task must get an undivided attention. For example, he stated, “If the [amount of actual cash in the] treasury is inadequate, salaries may be paid [partly] in forest produce, cattle or land, supplemented by a little money.

- However, in the case of settlement of virgin lands, all salaries shall be paid in cash; no land shall be allotted [as part of the salary] until the affairs of the [new] village are fully stabilised.”

- Clearly, according to Kautilya, supervision of a settlement of virgin lands required undivided attention. He reasoned if the officers were allowed to work on the land, most likely they would have spent very little time on the official duties and disproportionately more time working on the land, and thus, ignore their primary responsibilities.

- The Deputy Commissioner of a district, who has a longer list of responsibilities than perhaps that of God, should be concentrating just on maintaining law and order, which has been worsening over the years.

- Moreover, the private sector (including the farmer) has become quite entrepreneurial and the many layers of State officials are there to create only hurdles in the developmental work. In fact, many other offices need a review.

- For example, the only role State Governors seem to play is to destabilise democratically elected governments. A Chief Judge of the high court can perform the oath taking ceremony. Unfortunately, these bureaucratic structures are more durable than the stainless steel structures in India.
7.3.15 Conceptualizing Good Governance

- The Arthāṣastra equates political governance with economic governance. The end is economic governance while political governance is the means. But as economic objectives are not realised in the absence of political ones, then political governance becomes an end and economic governance the means.

- 'The end justifies the means', this is supposed to be the basis of Kautilyan and Machiavellian philosophy. Political power and material wealth according to Kautilya are the means and ends of governance.

- And good governance - political or economic - depends upon justifying the ends and means as the socio, economic and political conditions.

- The three constituents of power are: intellectual power, military might, and enthusiasm and morale.

7.3.16 Principle of Trading

- Trade was a controlled process in Medieval India. Commodities and products could not be sold in the places of their production; but where sold only at designed markets or brought into the city and sold after payment of a duty.

- The sale of all commodities belonging to the crown was centralized, i.e. conducted only at a specific location, generally the center square in the market place in the city.

- The officers in charge of sale of these crown commodities would deposit the proceeds in a wooden box; and at the end of each day of sale, they would hand over the money box, the balance stocks, and their weighing and measuring instruments.

- Certain merchants were also authorized by the state of sell commodities in the market place at prices fixed by the chief controller of state trading.

- When commodities existed in excess supply, the chief controller of state trading would have the authority to build up buffer stock by paying a price higher than the market price.

- When the market price would reach the support level, he would change the price according to the situation.

- Prices could not be fixed taking into account the investment, the quantity to be delivered, duty, interest, rent and other expenses.
The chief controller of state trading would ascertain the profitability of a trading operation with a foreign country, in order to allow exports of commodities and sales abroad.

The price of goods to be sold and the gains thereof would be estimated and weighed against those obtained through domestic trade, in order to sanction the exports.

The state provided encouragement to traders dealing in the sale of imported goods which were needed.

Merchants, foreign and domestic, who brought in foreign goods by caravans or by water routes, enjoyed such incentives as exemption from taxes, and higher profit margins, and immunity from lawsuits.

The profit margins allowed to merchants would be on the order of five percent for locally produced goods and ten percent for imported goods.

Imported goods were sold in all possible places and made readily available to people in the towns and countryside, in order to improve the peoples’ living standards and quality of life.

Import and sale of foreign goods was encouraged in order to make them freely available through state-approved channels all over the country.

Trade both foreign and domestic, was encouraged as it constituted a considerable portion of the state revenues.

Trade was partly in the hands of officials and party in those of shopkeepers or travelling merchants.

The Arthāśastra prescribed that profits be shared equally among workmen who labored together toward common goal. However proportionally in sharing of earnings would be applied when division of labour existed.

So officials and employees who shouldered higher responsibilities were entitled to higher earnings in proportion with their status and work patterns.

As now traders and merchants in those days were often mistrusted. Their propensity to fix prices by forming cartels, make excessive profits or deal in stolen property was guarded against by making these offences punishable by law.
Contemporary Relevance of Economic Thoughts of Kautilya

- Kautilya emphasized honesty and justice in trading. He recommended heavy fines for traders who would collude and fleece buyers by conspiring together to hold back wares and later sell them at higher prices.

- The chief controller of Private Trading kept a watch over merchants, by inspecting periodically their weights and measures and ensuring that they did not hoard merchandise, adulterate foods, or excessive mark-ups.

- Trust and confidence in the measurement system, i.e. the weights and measures, and also protection against counterfeiting of coinage, was necessary to ensure that state’s integrity of commerce.

- Private enterprises were allowed to run side by with state controlled traders; however private traders were looked upon with suspicion by the people, and taxed and fined severely by the state, if indicted with malpractice.

7.3.17 International Trade

- The importance of international trade is emphasized by Kautilya in that he advises the sovereign that foreign relations should be guided strongly by trade considerations. He counsels that relationship with southern kingdoms is to be favoured over those with northern kingdoms because the southern kingdoms possess greater mineral wealth. As he puts it “Possessing immense gold is better than a friend ruling over a vast population…for armies and other desired objects can be purchased with gold.” Kautilya also advantages attracting foreigners who possess good technical and other economic development of the realm.

- Kautilya clearly recognizes that imports represent a very important way in which the wealth of the realm can be increased, in that imports can provide the kingdom with products which are either not available domestically or can be obtained by more cheaply from foreign sources through trade than through domestic production. Kautilya fully realizes that exports are nor important than imports as a means for enhancing the kingdom’s wealth.

- Kautilya clearly formulates a comparative advantage view of international trade patterns by stating that it is mutually beneficial to the various kingdoms when the products being imported are cheaper than those that can be obtained domestically and will fetch higher prices to the exporter than can be gotten in domestic markets.
Contemporary Relevance of Economic Thoughts of Kautilya

7.3.18 Imports and Exports Activities

- International trade has always been an essential element of trade. India shares borders with several countries and was accessible through several routes which were paved for trading commodities.

- Kautilya's policies, when seen in totality, represent a very pro-merchant and artisan stance, with the State playing the role of facilitator and protector of commercial interests.

- Marketing activities for import/export purposes required establishing contacts with foreign trades and shipping/receiving goods via these trade routes.

- The state employed officers who traveled to foreign lands as its dignitaries. They studied the buying and selling activities and consumption patterns of merchants and customers in foreign markets, and recognized potential markets for sale of indigenous goods.

- Thus market research activities were prevalent then. Commerce relations were built with diplomats from overseas for exchanges of commodities.

- Effective intelligence would allow a state to carefully weigh the odds of foreign and domestic policy measures, and skillfully apply the principles underlying the text.

- Intelligence was the prerequisite for applying strategy, internally through secret service or externally through espionage and psychological warfare.

- The Mauryan government built ships and let them out on hire for transport of merchandise.

- Traders had to pledge their assets like their homes or lands as collateral when hiring ships for transporting their goods. The fair value of the goods being shipped into or out of the country was quoted by the state, and the merchants were assessed the hiring fee which was to be paid upon return of the vessels.

- Goods traded were classified into three kinds; those produced in the countryside, those produced in the city and those imported from other countries. All three types of goods were liable to payment of customs duty whenever they were imported into the city or exported from it.

- However customs regulations were such that duty would not be imposed on certain goods as such as those intended for gifting at wedding
celebrations, goods intended for religious rituals or worship of the gods, or those items, at the discretion of the chief controller of customs, which were considered beneficial of the state.

- The frontier office had the vested authority to inspect the caravans carrying foreign goods and classify the goods as those of high value or low value based on nature of the products and the value quoted for each of them by their respective merchants.

- The packages would be sealed with the official seal and identity papers issued to the merchants, along with the appropriate cess.

- All details about the caravans and their associated consignments would then be communicated to the chief collector of customs.

- On arrival at the city gates, the collector and his office would inspect the caravans and make his appraisal on the basis of information received from frontier officers, spies or the king. Goods enjoying exemption from payment of duty would be allowed in.

- All dutiable goods would be weighed, measured or counted and the duty payable on them would be collected at the course of entry.

- Penalty would be levied on violators who tried to cheat or escape payment. This system of inspecting goods twice was enforced in order to ensure that merchants did not sell their products at any location other than the market place, which was the sole center designated by the state for buying and selling of goods.

- Also sale at the market place alone would ensure that merchants did not make access profits, as they would be continually subject to scrutiny by the law.

- After payment of duty, a merchant would typically enter the market place. He would place himself near the custom house and declare the type, quantity and price of his goods.

- He would call out for bits three times and sell to anyone who was filling to buy his products at the price demanded. If there was competition among buyers and a higher price was realized, the difference between the call price and sell price alone with the duty their own would go to the treasury.

- In this manner, the market system was established such that traders would only pocket the fair returns on sell of their merchandise, and any additional or incremental revenues resulting there upon would be directed only towards the state’s coffers.
7.3.19 Wholesaling and Retailing

- Retailers played significant role in trading activities. Retailing generally involves all activities involved in selling goods or services directly to final consumers for their personal, non-business use.

- An agent selling goods on behalf of another party was paid on a commission basis. He would hand over to the proceeds of the sale to the original owner of the merchandise, and his receive commission in return.

- Thus this agent played the role of an intermediary like a wholesaler or retailer in a marketing channel.

- Increased sales, with higher profits, meant more commission for the agent, which served as an incentive for him to market the products better and sell more of them. If the price realized was lower because of missing the best opportunity for sale, the agent would pay the owner the cost of goods at the time he received them and normal profit.

- Whenever no profit was made, the retail seller would pay to the wholesaler or the owner of the commodities only the price of goods. If the price fell, between the time of entrusting the goods and the time of sale, only the lower price, actually realized would be payable.

- In case of goods sold abroad and those sold after a lapse of time, the amount payable would be reduced by the expenses and losses, if any.

- This pattern of business shows that there were wholesalers, retailers, and direct marketers in their trade channel.

- Goods which were sold by the producers themselves in the market place exhibit a pattern of direct marketing. Agents played the role of retailers, selling goods I the market without assuming the title of the goods.

- Merchants, who bought goods from foreign manufacturers and transported them in caravans and ships to market place, sold these goods in the market at the fair price and pocketed the earnings.

- This is similar to modern marketing channels of distribution where wholesalers assume title and ownership of goods from their producers and then sale these goods in the market at their price.

- Brokers and middlemen, did play their role too in trade, even in those days; however they were always looked upon with skepticism and hence controller was to watch over their activities. These brokers, played only
the role of intermediaries for passage and sale of goods in the open market, but never claimed title or ownership of the goods that they were to sell on behalf of the producers; just the way it is done today.

- The Chief controller of Private Trading was responsible for fair trading in old and new articles, and would allow the sale or pledging of old articles only if the seller or mortgagor could provide proof of ownership.

- He would ensure that merchants do not count the brokerage paid to middlemen as part of their costs. He would allow brokers to hold stocks of grain and other commodities only to the extent authorized, and confiscate stock in excess of those limits, to forward it for fair direct sale in the market.

7.3.20 Role of Warehousing

- Warehousing has always been a vital function of businesses, as it was necessary to care for the upkeep and maintenance of stored goods and commodities.

- The Chief Superintendent of Warehouses would be in charge of granaries and warehouses for fats and oils, sugar and honey, salt, vinegars, fruit juices, sour liquids, spices, dried fish, dried meat and vegetables; and cotton and flax. These were basic items and amenities necessary for survival of the population; hence their preservation was imperative for the state.

- This shows that warehousing was an important function for sustenance and business.

- The Superintendent would keep an account of all commodities received into the warehouses, and duty classify the inventory held in there as revenue received from taxes, exchanges on barter basis, borrowings, aid, labor, gifts to the king, surcharges or miscellaneous receipts.

- He would have the foresight and authority to sanction use of only the current stock at any time upon demand by the state, and preserve half the stock for reserve in times of calamities and emergency; he would exhaust moving stock, and regularly replenish old stock with new.

- During the Maurya reign, villagers were encouraged to have their own emergency stocks. Thus the population and the state exhibited foresight and planned for contingencies by practicing well the warehousing function of marketing.
Contemporary Relevance of Economic Thoughts of Kautilya

7.3.21 Role of Transportation

- Transportation has always played an important role in trade. Transportation constitutes a vital marketing function, as it involves the physical distribution of goods from production sites to warehouses and markets.

- It is intriguing to know that even in ancient times; this function was given great importance, and was controlled closely.

- Prior to the medieval era, items would be manufactured close to the sources of raw material, and artisans would gather there from surrounding areas.

- However as trade routes widened during the Maurya regime in the medieval period, development of roadways for inter-regional exchange activities of commodities started gaining impetus.

- With interconnections of roadways and sea-routes, there was a greater dispersal of craftsmen, with many gathering in centers where there were markets.

- Exchange of goods of various trades, from food and clothing to metals and mining, was facilitated over long distances.

- As market mechanisms emerged in the medieval Indian setting, wherein demand and supply patterns of goods began influencing prices, transportation of goods and commodities was facilitated through building and maintenance of roads and waterways for importing and exporting.

- Transportation of goods and commodities by sea and land was an essential function of the state.

- The chief controller of shipping had a wide range of responsibilities—supervising maritime safety and rescue, running shipping services, hiring ships and boats with or without crew, organizing ferries, controlling the movement of foreign merchants, collecting revenue such as road cess, customs duty and ferry charges, and ensuring security by keeping a watch over undesirable persons using the ferries.

- The chief controller of state trading had to be conversant with the details, pertaining to all state monopoly commodities, such as the public demand, price fluctuations, and relative prices of high and low value goods, and the optimum time for buying, selling, stocking and disposal.
Several merchants and traders were also involved in transporting commodities via caravans and ships. Toll had to be paid on the movement of merchandise from one place to another.

7.3.22 Consumer Rights

Marketing management has often stressed the customer being right. Organizations’ operations and marketing campaigns are geared towards producing and maintaining satisfaction and welfare of consumers.

Kautilya’s Arthāśastra talked about consumers rights. In Arthāśastra, there are references to the concept of consumer protection against exploitation by the trade and industry, short weights and measures, adulteration and punishment for these offences.

The law dealt severely with businessmen providing products or rendering services to consumer for a fair price, and any misdemeanor conducted by these businessmen would be subject to punishment of varies kinds by the state.

The reprimands would range from being humiliated in the market square and payments of fines in monetary value increasing with degree of the offence, to extreme punishments like lashing and whipping.

Thus, even in that era, and essential aspect of the welfare of the population was the protection of the interests of the consumer.

The Arthāśastra prescribed it the fundamental duty of the ruler to look after the welfare and benefits of the subjects.

It required the ruler to protect his citizens, including the peasants, whom Kautilya correctly believed to be the ultimate source of the prosperity of the kingdom.

Acting on Kautilya’s advice the king, during famine seasons, would show favor to his people by providing them with seeds and provisions stocked by the state in the regional and village granaries.

He would distribute portions either from his own collection of provisions or from the hoarded income of the rich.
7.3.23 Monopoly

- The notion of monopoly existed even then, with certain producers being granted exclusive rights to sell their respective wares in the market.

- Monopolistic firms would be those individual traders dealing exclusively in the marketing and sales of certain commodities which would be available in the market only through them.

- Profits margins on the sale of monopoly goods were a significant source of revenue. The monopoly tax was collected by the state, in the form of license fee, whenever a private manufacturer of trader of a state monopoly item was granted permission by the state to sell.

- This was under the control of the chief controller of state trading who was responsible for orderly marketing, maintain buffer stocks, avoiding excessive profits and collecting transaction taxes.

- Private trade was not encouraged for most commodities, except very few goods which were not indigenously available, as the state was anxious to preserve its lucrative monopolies. Prices were controlled.

7.3.24 Role of Contracts

- The concept of contracts and contractual agreements had its significance in society, and was subject to the law.

- Any contract entered into by anyone with others of his own class, community or group would be held valid, provided that the contract was concluded in a suitable place and at a suitable time, observing all the due formalities, including the presence of witnesses, and further provided that all the details of the object of the contract, such as appearance, distinguishing marks, quality and quantity were properly noted down.

7.3.25 Elements of the State and Role of a King

- Arthāśastra conceptualizes the state to have seven elements

1. Swami (Monarch)
2. Amatya (Officials)
3. Janapada (Population and Territory)
4. Durga (Fort)
5. Kosa (Treasury)
6. Bala (Military)
7. Surhit (Ally)
Contemporary Relevance of Economic Thoughts of Kautilya

- The cardinal principle of economic administration was laid down in Kautilya's Arthashastra in the following words - "The root of wealth is economic activity and lack of it brings material distress. In the absence of fruitful economic activity, both current prosperity and future growth are in danger of destruction. The King shall populate the countryside by creating new villages on virgin lands or reviving abandoned village sites."

- King derived his power from three sources - Prabhushakti (the power of the army and the treasury), Mantashakti (advice of wise men, specifically the Council of Ministers) and Utsashakti (charisma). Mantashakti was rated as the most potent source followed by the prabhushakti and utsahshakti.

- Clearly Kautilya believed in the importance of institutions (Council of Ministers) and not of an individual (King) for governing the state.

- The Vedic King was not an absolute monarch - he was certainly not a 'mortal god'. He was a protector of dharma but not the sole interpreter of it. He governed on the basis of the advice of the Council of Ministers. Further, the numerous autonomous associations which constitute his kingdom were also an effective check on his power.

- Kautilya had organized a huge standing army financed directly by the treasury. Organization of a standing army is a major factor in centralizing the state apparatus. When the King is dependent of the subunits or the guilds for the army manpower, he has share power with them. Kautilya, a believer in centralization, realized that a strong standing army was a pre requisite for a strong monarchial state.

- Next to the King came the Mantri Parishad (Council of Minister). King was enjoined to discuss each and every matter with the Parishad as it represented the distilled wisdom of the society. Parishad had two levels - the Inner cabinet and the Outer cabinet. The Inner cabinet had four members - The Chief Minister, the Chief Priest, the Military Commander and the Crown Prince. The Crown Prince was included to ensure smooth succession and to maintain continuity in case of emergencies. The membership of the Outer cabinet was not fixed in number. Invariably the heads of the prominent guilds were co-opted in this body. This gave a representative character of the Parishad.

- Kautilya glorified the State and viewed the office Kingship to be the embodiment of all legal and moral authority associated with the institution of the state.

- The King was an intrinsic part of the social order and by the nature of his office, a defender of that order. However King was to regard himself as an agent of the people and had to abide by his dharma as laid out in the
Contemporary Relevance of Economic Thoughts of Kautilya

*Sastras.* The institution of the Kingship was sacred but not the person who happens to hold it.

### 7.3.26 Principle of Taxation

- Kautilya visualized a *dharmic* social contract' between the King and the citizens.
- Kautilya's discussion of taxation has several underlying principles - the taxing power of the state should be limited, tax should not be felt to be heavy or excessive, tax hikes should be introduced gradually, tax should be levied in the proper place, time and form, and tax level should be equitable and reasonable.
- Ideally, the government should collect taxes like a honeybee that sucks just the right amount of honey from the flower so that both can survive.
- Kautilya's scheme of taxation involved the elements of sacrifice by the taxpayer, direct benefit to the taxpayers, redistribution of income (the state took care of the poor), and tax incentives for desired investments.
- In regard to taxation, the *Arthāśastra* advises prudence, balance, and proper timing.
- Taxes were levied for maintenance of the social order and for the state run welfare apparatus.

1. According to Kautilya, “When people are impoverished, they become greedy; when they are greedy, they become disaffected; when disaffected, they either go to the enemy or kill their ruler themselves.”

2. According to Kautilya, not only the king should be honest and efficient but his administration also should have those qualities.

3. He suggested, “Thus, the king shall first reform the administration, by punishing appropriately those officers who deal in wealth; they, duly corrected, shall use the right punishments to ensure the good conduct of the people of the towns and the countryside.”

4. The following table may be used to express Kautilya’s ideas.
Thus, according to Kautilya, either both the public and the administration were honest or both were dishonest. If the administration squandered the tax revenue, why would the taxpayers be honest in paying their taxes? Similarly, why would the administration be honest if the taxpayers cheated on their taxes? Kautilya tried hard to avoid Case IV.

He understood the disastrous consequences since that was harmful both to economic growth and national security by creating political instability and tempting an enemy to attack the kingdom. Kautilya did not discuss Case II and Case III, perhaps realising that those were transitory.

In case of aggression by an outside agency, the janapads (districts) could ask for tax remission as the King had failed in his duty to protect the citizens.

Kautilya realized the critical role of the tax system for ensuring the economic wellbeing of the society. The hallmark of his tax system was 'certainty' - of time, of rate and of the mode of payment. Stability in the tax regime was an important factor in ensuring active trade and commerce in the Mauryan Empire. This in turn strengthened the revenue base of the state and enabled it to maintain a huge standing army and the welfare apparatus.

State was overzealous in collection of taxes and tapped virtually every source. Citizens paid a toll-tax. Farmers (household as the unit of assessment) had to pay one sixth of the produce as the land tax. There was a land census at periodic intervals and land records were scrupulously maintained. This data base enabled the assessment of the taxable capacity

<table>
<thead>
<tr>
<th>Interdependence of Ethical Conduct</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Administration</td>
</tr>
<tr>
<td>Honest</td>
</tr>
<tr>
<td>Dishonest</td>
</tr>
<tr>
<td>Public Honest</td>
</tr>
<tr>
<td>Ideal case - I</td>
</tr>
<tr>
<td>Unstable case - II</td>
</tr>
<tr>
<td>Dishonest</td>
</tr>
<tr>
<td>Unstable case III</td>
</tr>
<tr>
<td>Worst case IV</td>
</tr>
</tbody>
</table>

(Table-L. Interdependence of Ethical Conduct)
of the household. Traders had to pay one tenth the value of the merchandize as tax. There was an entry tax to enter the fort, tax on use of roads and waterways, and for getting a passport. Even the hermits living in the forest had to part with one sixth of the grain gleaned by them as they too needed the protection of the King. Service industry was also taxed - actors, dancers, soothsayers, prostitutes, and auctioneers were subjected to taxation. Pilgrims had to pay a Yatra Vetna (pilgrimage tax). Citizens had to pay a tax (Pranaya Kriya) for the acts of benevolence.

- Many sources of public revenue are considered by Kautilya. Kautilya’s systems of taxation are very comprehensive but some of the ideas expressed about taxation in Arthāśastra predate it. Many of the principles of taxation that he outlined are still in favour today, as a perusal of standard texts on public finance. Kautilya identified and discussed the many sources of state and concludes that the State was “zealous in the collection of revenue from all possible sources so that the wealth so accumulated might be spent on the protection of the State from external and internal changes, and on social services and productive enterprises, as building of forts, roads, plantation of colonies, of villages, asylums, orphanage and educational institutions”.

- Furthermore, during Kautilya’s time, the king had responsibility for food security. Agricultural stocks were kept in the Royal granaries to ward off public distress, and the king.

7.3.27 System of Spies

- The Arthāśastra cherishes strategic means for achieving political and economic ends because of its inherent efficiency – strategy meant leverage. The presumably large scale of the state economy idealized in the Arthāśastra a necessitated abundant use of covert operations in order to defend against external threats and quell internal dissension.

- Kautilya was a product of the age of intrigue. He defeated Alexander of Macedonia and the Nanda king (most powerful Indian empire of that era) on the basis of military prowess and political craft.

- According to Kautilya, the King has to guard against intrigues from internal and external sources. Internal sources include the inner cabinet, the autonomous associations/ guilds, religious orders and the personality of the king himself (atma-dosa). External sources refer to hostile foreign powers.

- The intelligence apparatus was very elaborate and had infiltrated virtually every institution and profession - especially the institutions of mass participation like religion.
Contemporary Relevance of Economic Thoughts of Kautilya

- Spies could be under the following guises - kapatika chhatra (fraudulent discipline), udasthita (recluse), grihapalka (householder), vaidehaka (merchant), tapas (an ascetic practicing austerities), satri (a classmate), tikshna (a fireband), rasada (a poisoner) and a bhikshuki (a mendicant woman)

- Monks and the sanghas (association of monks) were actively used for the purpose of gathering intelligence. Kautilya even suggested that to assassinate a rival King, weapons may be kept inside an idol and be used when the King comes for worship.

- Thus Kautilya did not hesitate to use the institution of religion for the purpose of statecraft. For him, the most important condition for the practice of dharma was not the institution of religion but the institution of the state.

- Intelligence operations were greatly aided by the maintenance of a 'national citizen register' and a system of passport and visa. Register was updated by regularly conducted censuses and by the compulsory registration of the births and deaths.

- The Arthashastra recommends the use of “young women of great beauty,” or courtesans, to seduce and become intimate with rival military leaders and political officials so as to set the stage for provoking quarrels amongst them or inducing assassination.

- Similarly, deceptive means are undertaken to ensure loyalty and immediately quell any dissension within the state.

7.3.28 Importance of the Treasury

- Kautilya paid supreme importance to the maintenance of a rich treasury, which favorably affected entire activities of the administration. It was pointed out that the augmentation of the treasury depends mainly on the abundance of harvest, opulence of industrial production (Prachara-Samirddhi), prosperity of trade and commerce (Panyabatulya) as well as good fiscal management”. Therefore, Kautilya paid much attention to good fiscal management and methods to develop all the sectors of economic activity just mentioned. It was both in the interests of the king and of his subjects to develop all avenues of economic activity. Public finances were, amongst other things, to be used to defend the realm, ensure peace at home and to dispense justice and to provide support for the development of economic activity.

- At the same time, Kautilya advised the king to limit his expenditure on servants. This should be kept to less than a quarter of his total revenue.
Kautilya says: “In accordance with the requirements of his parts and country parts, the king should fix under one-fourth of the total revenue the charges of maintaining his servants. He should not violate the course of righteousness and wealth”. In essence, the treasury does not exist for the pleasure of the king but as a fund to be wisely utilized to increase the wealth of the nation.

- The treasury received income from industries under state control (prostitution, alcohol, and gambling), taxes and tolls, service charges, fines, special levies, and voluntary contributions and sale of royal honours.

7.3.29 Agriculture, Industry, and Commerce

- Agriculture, cattle breeding and trade- are called ‘Varta’.
- *Varta* is the most useful to the world because of it brings grains, animals, copper, gold and forest production.

Varta is source of treasury and king can control the enemy because of Varta.

- There are four sciences; there is inclusion of all that concerns righteousness and wealth as Kautilya’s view.
- The main activities of the economy were agriculture, cattle breeding and commerce. Among the three, Chanakya considered agriculture to be the most important constituent of the economy. It’s a fact that the Indian economy of today is an agro based one.
- As mentioned above Kautilya is keenly aware that Treasury’s fortunes depend on the development and economic productivity of the nation’s
industries. He, therefore, outlines measures for the development and improved management of mines and forests, agriculture and livestock, manufacturing, and commerce. Although he sees traders as relatively unproductive, he is very aware of the importance of commerce and trade as a contributor to economic welfare and as a source of government revenue, and proposes several measures for regulating commerce, often with a view to extracting increased taxes.

- He urged the sovereign to invest in transport infrastructure, particularly roads, possibly because this would foster trade and commerce thereby raising state revenues, facilitate internal administration of the nation, and assist in defense of the realm. Furthermore, commerce was promoted by the use of money, and standard weights and measures, and these in turn, also assisted efficient public administration and finance.

- In the economic systems of Kautilya’s time, the king (the State) is to a large extent involved in production. Agriculture involved both state-owned and managed farms as well as private farms. The king was advised to (and did) “carry on mining operations and manufactures, exploit timber and elephant forests, offer facilities for cattle-breeding and commerce, construct roads for traffic both by land and water and set up market towns.

- He shall also construct reservoirs (setu), filled with water either perennial or drawn from some other source”.

Kautilya saw the role of the State in relation to industry is summarized to some extent. While the State is dominant in the economic system described by Kautilya and was often in the position of a privileged monopolist, cooperation between the State and the private sector was also encouraged. Kautilya was of the opinion that “a strong private sector is a course of strength to the state”.

- It might be noted that king had property rights, as in Europe in all natural resources such as minerals, forests, wild animals, and fish. Whether this was conducive to their conservation is unknown. However Kautilya did recommend practices for the conservation of natural resources, especially living resources. He was aware that the future productivity of natural resources is linked to their appropriate conservation. Also, in line with Hindu traditions, he recommends kindness towards animals.

7.3.30 Use of Land

- He had a grand vision of building an empire encompassing the whole of Indian subcontinent, prosperous, secure against foreign threats, internally stable, and based on judicial fairness.
He articulated its essential resource base and structure as thus: “The kingdom shall be protected by fortifying the capital and the towns at the frontiers. The land should not only be capable of sustaining the population but also outsiders] in times of calamities. It should be easy to defend from enemies and strong enough to control neighbouring kingdoms.

It should have productive land (free from wamps, rocky ground, saline land, uneven terrain and deserts as well as wild and [unruly] groups of people).

It should be beautiful, being endowed with arable land, mines, timber forests, elephant forests, and good pastures rich in cattle.

It should not depend only on rain for water. It should have good roads and waterways. It should have a productive economy, with a wide variety of commodities and the capacity to sustain a high level of taxation as well as a [large] army.

7.3.31 Towards higher sustainable Economic Growth with People Welfare

Good governance in Kautilya's literature is aimed at fulfilling the welfare of the people. "In the happiness of the King's subjects lies his happiness, in their welfare, his welfare. Whatever pleases him personally, he shall not consider as good, but whatever makes his subjects happy, he shall consider good."

The jargon related to Human Resource Management was not prevalent then, but its essence was widely practised in Kautilya's times. "The King should look to the bodily comforts of his servants by providing such emoluments as can infuse in them the spirit of enthusiasm to work. He should not violate the course of righteousness and wealth. Thus, he shall not only maintain his servants, but also increase their subsistence and wages in consideration of their learning and work."

Kautilya said that good governance and stability go hand in hand. According to him, there is stability if rulers are responsive, responsible, accountable, removable, and recallable, otherwise there would be instability.

Kautilya’s Arthāśastra stressed the importance of education. He stated that teaching wrong things was a great crime. Learning results in righteousness and wealth.
• In his opinion, training and learning destroyed unrighteousness, poverty and hatred. Along with the varied sciences, the student was urged towards discipline and self-control. Thus it was a combination of intellectual skills and yogic discipline. Not everyone was capable of the type of discipline he valued as important for education. Therefore he stated that the lessons of discipline could be imparted to those who had the desire to learn, capacity to listen attentively, power to grasp what was taught, retain it in memory, discriminate between the important and the unimportant, draw inferences, deliberate and imbibe the truth.

• Kautilya stated that sciences should be studied and their precepts strictly observed only under the authority of specialist teachers. Students stayed at residential schools called Gurukuls.

• Animals were regarded as a part of the same cosmos as humans, therefore there was veterinary medicine.

• The average citizen and villager were expected to defend their own hearth and home, therefore there was military training. Trading with other countries was profitable.

• Therefore there was commercial education. Statistics was one of the main subjects.

• Data was collected in agriculture but also for marking animals for categorizing. Besides the intellectual learning the Arthāśastra stressed moral education and character building as essential for education.

7.3.32 Social Security and Welfare

• There is major emphasis in Arthāśastra on the duty of the king to assist in ensuring the social security of his subjects and a requirement that the king help the handicapped and the unfortunate. For example, it is stated:

    “The king shall provide the orphans (bāla), the aged, the infirm, the afflicted, and the helpless with maintenance. He shall also provide subsistence to helpless women when they are carrying and also to the children they give birth to”.

    Directed the retention of half the annual produce for the relief of distress; and provided poor persons with food and seed corn to enable them to start farming”.

• In addition, various public activities, such as the building of water reservoirs and the construction of irrigation works, were a part of policy
to avert famines. Where the State did not directly undertake such works, it provided subsidies to those who did.

- Policies that, in general, advanced the economic development of the nation and, therefore, the nation’s wealth, also provided the people with increased economic security. Furthermore, security was provided by the king’s effective defense of the realm and the enforcement of just legal system at home that is just from the perspective of the times.

- Kautilya is strongly of the view that the ultimate purpose of economics is to increase the welfare of the king’s subjects. In outlining the duties of the king, he states:

Hence, the king shall ever be active and discharge his duties; the root of wealth is activity, and of evil its reverse. In the absence of activity acquisitions present and to come will finish; by activity he can achieve both his desired ends and abundance of wealth.

- While concepts of happiness and welfare are complicated in Indian thought, there are undoubtedly similarities between the Kautilya’s objective of economics and that expounded by mainstream economists from the time of Adam Smith onwards. This is so even though most of these mainstream economists favoured liberal market systems as a stepping stone towards the maximization of social welfare, rather royal or state activity as a means to achieve this goal.

- Early Indian thought emphasizes that the duty of the king (State) is to protect the people, maintain peace and justice and be active in providing economic assistance to individuals and groups. Those services provided the rationale for taxation. Thus an implicit social contract existed between the king and the nation’s citizens. If the king did not keep to this ‘contract’, he did so at his own peril. For example, in areas where he failed to protect his citizens, they might even ask for remission of taxes paid.

- While Kautilya supported absolute monarchy, it was necessary for the king to be a benevolent despot to have a legitimate place as head of State.

- He positioned the State as an institutional necessity for human advancement. Based on this premise, he outlined almost everything that the State should do and described how it should be managed for the maximum happiness of its citizens. He prescribed the following to the ruler:

\[
\text{Praja sukhe sukham rajyaha prajanamcha hitehitam,} \\
\text{Natma priyyam hitam rajanaha prajanam cha hitam priyam.}
\]

- Truly, the commonly believed Hindu philosophy is expressed in the words: \textit{bahujan sukhaaya bahujan hitaya} i.e. public welfare lies in the happiness of
the masses. Therefore, not only the king but all individuals as well as institutions should keep the happiness and welfare of the society in proper perspective in all their deeds or decisions. This also highlights the prominence of public good over private good.

7.3.33 Planning

- The Arthāṣastra is surprisingly calculated on every minute detail and economic function – the exact number of panas is provided salaried position, legal ramification, commodity, and livestock.

- Economics was regulated through such central planning and the highly detailed attempts at identifying the optimal amount for every economic function stresses this constant strive towards efficiently improving the overall utility and welfare of society.

- Central planning was directed towards maintaining stability, order, and efficiency in the economy. Extremely volatile market fluctuations were stabilized by the Chief Controller of State Trading to keep commodity prices at a certain threshold level.

- Kautilya also mentions that traders and merchants were mistrusted by the state:

  “…they shall be prevented from oppressing the people. Their propensity to fix prices by forming cartels, make excessive profits or deal in stolen property was guarded against by making those offences punishable by heavy fines.”

- Similarly, government officials and secret service actively regulated society to crack down on underground black markets, counterfeiting, and other violations of economic standards set by the state.

- Along with prudence and careful calculation, the state is advised to be extremely active or energetic in managing the economy, as the Arthāṣastra states that,

  “The root of material well-being is activity, of material disaster its reverse. In the absence of activity, there is certain destruction of what is obtained and of what is not yet received. By activity reward is obtained, and one also secures abundance of riches.”

- The rapid growth and centralization of states seemed to have greatly reduced the margin for error in government policies and measures undertaken.
Contemporary Relevance of Economic Thoughts of Kautilya

- The Arthāśastra warns of several instances in which seemingly minor mistakes may precipitate the entire collapse of the state, and conversely, the text also advocates methods to engineer similar stratagems on enemy states through covert operations.

7.3.34 Population

- Furthermore, providing amenities for the poor masses indirectly stimulated population growth, and thus, the overall growth of the state and economy in the long run. Hence, there is a lot of truth in the verses in which the Arthāśastra states that

  “it is the people who constitute a kingdom; like a barren cow, a kingdom without people yields nothing.”

- The emphasis on population growth for indirectly achieving economic prosperity is also hinted elsewhere in the text, in which the Arthāśastra strongly prohibits premarital sex and adultery and instead encourages fertility via rewards and punishments framed within the legal system.

7.4 Elements of Modern Economics Evident in Arthāśastra

- There are many elements of modern economics that can be illustrated by the coverage in Arthāśastra but only a few aspects can be mentioned here.

  Kautilya is deeply aware of the principal-and-agent problem and the presence of asymmetry of information between the principal (in this case, the king) and his agents (his servants).

- Kautilya recommends the use of spies, proper accounting methods and scrutiny as well as other measures to deal with such a problem. This is dealt well in two chapters: one entitled “Detection of what is embezzled by Government Servants out of State Revenue” and the other entitled “Examination of the Conduct of Government Servants”. However, being a realist, he concludes that because of asymmetric information it is virtually impossible to wipe out all embezzlement. He states, “Just as it is impossible not to taste the honey or the poison that finds itself on the tip of the tongue, so it is impossible for a government servant not to eat up, at least, a bit of the king’s revenue. Just as fish moving under water cannot possibly be found out either as drinking or not drinking water, so government servants employed in government work cannot be found out (while) taking money (for themselves)”.

455
As much of the coverage of Arthāśastra illustrates, Kautilya was well aware of the importance for the efficient operation of the State and economic development of what is described today as good governance. Furthermore, it can be inferred that he was well aware of the value of capacity-building amongst public servants, a ‘catch-phrase’ commonly used today as a rationale for many foreign aid projects to less developed countries. To some extent, Arthāśastra a can be regarded as a manual for capacity building in the public service in the Mauryan period.

It is interesting to note that Kautilya points out that public prosperity can sometimes be increased by dispensing with too many government servants. While his economics is inconsistent with structural adjustment policies that currently hold centre stage, he was clearly aware that the public sector could be inefficiently large.

Consumer protection is strongly emphasized in Arthāśastra. This may have been regarded as a benefit to citizens of the sovereign’s control of all trade and commerce. The sale of products at the place of production was forbidden and they could only be sold at designated official urban market places. While on the one hand this may have strengthened consumer protection as government officials could verify the quality of wares for sale, on the other hand, it was also, in all likelihood, a means to more efficient taxation of produce. Produce was taxed often on the way to market and at the market place. Furthermore, this procedure probably imparted urban-bias to the economic system.

The State had a financial interest in ensuring that as much production as possible was marketed. Hence, the king was urged to maintain and improve transport systems and to ensure safety from robbers and vagabonds for those transporting goods. The importance of a good transport infrastructure to facilitate trade and commerce was stressed by Kautilya. A further benefit was that it facilitated the defense and administration of the realm. The importance of such infrastructure for economic development is again being stressed today by bodies, such as the World Bank, but probably with a slightly different agenda in mind.

Other aspects, for example, raised by Arthāśastra include taxable capacity and the importance of the collection of census data and the keeping of other national accounts.

7.5 Kautilya’s Coverage and Early Western Thought on Political Economy

Aristotle and Kautilya were contemporaries and significant contact between Greece and India was evident in the Mauryan period. There probably was direct contact between the Greek ambassador,
Megasthenenes, to the Mauryan court and Kautilya. In any case, a number of ideas of this period were common to the Greeks and Indians. Rao (1958) does, in fact, compare the political thought of Kautilya and Aristotle “to show how much there is in common between the two greatest political thinkers of Classical Antiquity”. Nevertheless, it should be emphasized that there are major differences also. For example, unlike Aristotle, Kautilya did not consider the charging of interest on loans to be unjust.

- Although several of the ideas on political economy expressed in Arthāśastra are also evident in European thought before Adam Smith (and after), many of Kautilya’s conceptions of factors contributing to the wealth of nations seem to have been superior. For example, while he stressed the importance of the development of agriculture for the economic prosperity of the nations, he by no means considered agriculture to be the sole basis of wealth, as some French Physiocrats appeared to argue. He also stressed the importance of developing industry and commerce as step towards securing the wealth of the nation. He knew that the wealth of the nation and the security of the state depended on the development and efficient operation of several sectors of the economy and he was able to envisage their economic interdependence as in inter-industry analysis.

- While there are strong parallels between Mercantilist economic theory and Kautilyan economics, Kautilyan economics is much more sophisticated. It seems likely that many Mercantilists believed that treasures (‘money’), such as gold and precious metals, were the basis of wealth. The king or prince was, therefore, generally advised to build up his Treasury. This could be done by several means. For example, by taxes on subjects and by the use of state monopolies. But in particular, the Mercantilists stressed the importance of sustaining a surplus in foreign trade as a means to accumulate national treasure.

- Nevertheless, Mun (and other Mercantilists) equated treasures with economic wealth and did not have a clear conception of the role of the Treasury in relation to the defense and wealth of the realm. There is no evidence that Kautilya fell into such a trap. In fact, he did not believe that national wealth consisted of money or ‘treasures’, and while he thought that the Treasury should be well provided for, he had a clear conception of the purposes for which Treasury finances should be used. For Kautilya, treasures were only a means to an end, not economic ends in themselves.

- According to Hutchison, Mun (and some other Mercantilists) envisaged international trade as involving a strictly zero-sum – a nation obtaining a surplus in trade with an exporting country was seen as gaining at the expense of the exporting country. This contrasted with Kautilya’s position. He thought that foreign trade should be encouraged and believed that it
could benefit an exporting and importing country. He saw foreign trade as advantageous and suggested measures for its expansion. He encouraged imports but understood that it could not be a one way trade; hence, in the long term, he suggested a balance between import and export be maintained. He does not display any of the fears of foreign trade that the mercantilists after him had displayed. He stated that before successful trade contract can be established, it must be beneficial to all countries concerned.” Therefore, he recognizes mutual gains from trade.

7.6 Topics covers in Arthāśastra

Arthāśastra broadly covers fourteen areas.

- One deals with the King – his training, appts of minister etc.
- Two describes the duties of various officers of the state and gives a complete picture of the state’s activities.
- Three is concerned with law and administration of justice.
- Four is on suppression of crimes.
- Five is a sundry collection of topics including salaries of officials.
- Six is on foreign policy and constituent elements of state.
- Seven is an exhaustive discussion on the way in which each of the six methods of foreign policy may be used in various situations.
- Eight relates to calamities.
- Nine is on preparations of war.
- Ten is concerned with fighting and types of battle arrays.
- Eleven is on how must a conqueror deal with a number of chiefs rather than one king.
- Twelve shows how a weak king when threatened by a stronger one must overpower him.
- Thirteen is concerned with the conquest of the enemy’s fort by fighting.
- Fourteen deals with occult practices.
Foreign Policy - “The welfare of a state depends on an active foreign policy”. One of the main reasons for India’s downfall is that we turned inward looking ceased to be abreast with the developments in the world. “An enemy’s destruction shall be brought about even at the cost of great losses in men, material and wealth”. Post independence India’s rulers have not followed this. Pakistan has been supporting terrorism in India for over a decade now. Leave aside defeating their designs we have failed to do anything by which they pay for their deeds, we have offered them Most Favored Nation Status, eased Visa restrictions.

“A king weak in power shall endeavor to promote the welfare of his people. For power comes from the countryside, which is the source of all activities”. No Indian Prime Minister, weak or strong has followed this dictum. The Marxists of Bengal have followed this dictum to carry out land reforms program in rural Bengal, i.e. why they have ruled over Bengal for over 25 years.

“One should never submit spinelessly not sacrifice oneself in fool hardly valor. It is better to adopt such policies as would enable one to survive and live to fight another day”. After spending months in Kargil unnoticed, Pakistan could not live with pressure from the U.S. and India’s armed forces. Having made a point, it withdrew, only to bring India on its knees at Quandhar followed up with killings, during Bill Clinton’s visit and of Amarnath yatri. More than 1,000 people have lost their lives in Jammu and Kashmir this year, more than Kargil and the cost to Pakistan is! A friend of mine had this great ability to swallow any humiliation. When she was on a weak wicket or knew it was a battle she could not win, she would keep quiet and bid her time. As and when the tide turned, was in a position of strength, she would come down heavily on the people who had humiliated her in the past.

The basic principles that govern the Kautilyan theory of foreign policy are -

- “The king shall develop his state i.e. augment his resources and power for him to embark on a conquest”. What it meant that a prosperous state which looked after its people had high rates of economic growth had the where withal to undertake military conquests. For whatever reasons, India is not a prosperous state today, cannot take on the burden of a conquest, high defense expenditure. On the other hand, we have the U.S. Economic prosperity and superior military power have made it the world’s only superpower. It embarks on military and economic conquest. Export its products and culture, Intel chips, McDonalds, Microsoft products and may be chicken legs shortly.
“The enemy shall be eliminated”. If only Prithviraj Chauhan had digested this there might never have been any Muslim rule in India, if only Indira Gandhi had resolved the J and K issue in 1971, how many women would not have become widows today.

“Those who help are friends”. Ask the Pakis what it means to have friends in China, Saudi Arabia. Russia has stood by us during last thirty years yet we seem to be so smitten by Bill Clinton. If Al Gore does not become President, the party with the U.S. might just be over. Be friends with the U.S. but remember, it is the U.S. that continues to impose sanctions on us, did not sell us supercomputers or prevailed upon Russia against giving us the technology for the cryogenic engines. In the process, we have ignored France, a country that is known to pursue a foreign policy independent of the U.S and is keen to further diplomatic, military ties with India. As for our former rulers, the Brits continue use the Muslim-Pakistan card against us yet. In August 2000, why did the British Home Minister visit Mumbai’s Jama Masjid?

“A prudent course shall always be adopted”. One has to be practical, be guarded against spineless submission and foolhardy valor.

“Peace is to be preferred to war”. We have taken this policy to the other extreme. Peace is to be preferred when the relative power equation between a king and his enemy is not likely to change as a result of any action.

The six methods of foreign policy are – Samdhi, making peace, by concluding a treaty. Vigraha, hostilities could mean a conventional war, a secret war or a proxy war as is known today and an undeclared war. The last twenty years have seen proxy and undeclared wars become more effective. Instead Pakistan prints fake Rs 500 rupee notes to destabilize the Indian economy and provides shelter to Mumbai’s underworld who extort money from businessmen, Bollywood.

Asana means staying quiet and Yana is preparing for war. Samsraya is seeking protection from a stronger king (just like Japan is under the U.S. nuclear protection umbrella) and Dvaiddhibhava is the policy of making peace with a neighboring king in order to pursue, with his help, the policy of hostility towards another.

Progress and Decline – “Any activity which harms the progress of the enemy engaged in similar undertakings is also progress”. Internal Security has plagued India for centuries. Threats were both external and internal. Till about the 300 BC, the threats did not result in mass destruction, plunder and rape so their impact was not as bad as the invasions of Alexander, Huns, Kushanas, Muslims and Christians. India’s economic fortunes dwindled with the advent of the Christian rule. Today,
a substantial portion of our attention and revenues are spent on internal security issues. Imagine if there were no problems in Jammu and Kashmir and North East. Scarce Resources would be spent on education and health of Indians in the sub continent. (There are some 2 crore Bangaldeshi’s in India). According to the Home Ministry, the Cost of ISI Terror in the decade 1988-1998 resulted in Rs 64,500 crs spent on Internal Security. Think of how productively the money could have been spent.

- Setting out on a Campaign – “After the king has increased his strength he shall set out on a campaign against the enemy, choosing a time when the enemy does not have all his forces mobilized”. “He shall set out on a campaign when he finds that the enemy’s troubles with one constituent of his state cannot be compensated by the other constituents, the enemy’s subjects have become impoverished, disunited due to oppression by the troops or ill-treatment by their monarch and thus have become susceptible to enticement to desert”. This is what Kargil was all about.

- Treaties - “Non-intervention, negotiating a peace treaty and making peace by giving a hostage-all mean the same thing, since the aim of all three is to create confidence between the two kings”. Some feel that a treaty when backed by a hostage is more stable. K disagreed. An agreement made on oath or word of honor is stable in the world and the next. (We believe in re-birth). Not keeping hostages is fine when you are dealing with decent guys but not when you are dealing with a country whose reason for existence is hatred for Bharat. After defeating Pakistan in 1971 India took 93,000 soldiers as prisoners of war yet released them without any substantial gains.

- Treaties by the Weaker King - “A weak king, attacked by a stronger king whose armies had already started moving against him, shall quickly submit and sue for peace with the offer of himself, his army, treasury and territory”. Let’s take the Indo China War of 1962. Everyone in the Indian Government knew that there was no way we could take on the Chinese militarily yet Nehru told the press in October 1962 that he had ordered the army to throw out the Chinese from our territory. Knowing the Chinese resolve to take area in Ladakh, I wish he had the guts to accept Chou-en-lai’s proposal of 1960 where by China would accommodate India in the North East if India were to accept the line of control in Ladakh. He would have saved his countrymen the scars of humiliation.

- Liberating the Hostage – “The hostage shall liberate himself by his own efforts or be helped by clandestine agents adopting various disguises, using entertainers, attendants (adopted by Shivaji when he escaped from Agra), and avoiding recapture.

- Choice of Allies – “When there is a choice between two allies, the one amenable to control, though temporary is preferred because he remains an ally as long as he helps. The real characteristic of friendship is help”. If
I have two friends who are very dear, the one who helps me willingly is a true friend. The constant ally giving small help shall be preferred. The temporary friend giving substantial help is likely to withdraw for fear of having to give more or will expect it to be repaid. The constant ally, giving small help continuously, does in fact give great help over a period of time”. “An ally who is likely to grow in power after defeating the enemy and thus become uncontrollable shall be embroiled in a conflict with his own neighbor or such actions would be taken as would oblige the ally to remain obedience, in return for help received”. This reminds me of a colleague. He used his juniors to fire missiles at other departmental heads and at people within his department. With time, the junior became powerful. Then he would sideline them until they came back to him and pleaded for help.

• Planning a Campaign – K lists eight different factors which have a bearing on success or failure. If the king concludes that he is superior to the enemy he should go to war. The first factor is power. One is not foolish to attack a stronger adversary. Power has three constituents – intellectual power, military might, morale. The next two factors are place and time. This means terrain and season when battle will be fought, estimated duration of war. The next is deciding on the right type of troops and the right season for setting out. Another factor is the danger of an internal revolt against him. A manager must never go on leave if he is unable to nominate a person to do duty for him in his absence. Next is what does he hope to achieve and the extent of losses. The last factor is the possibility of treachery. When taking decision to set out on a campaign, it is imp for the King and his councilors to sit together. K warns against a king showing undue kindness or weak qualities. Once you decide to go for a military campaign, it must be pursued steadfastly.

• An in depth analysis helps the king in making correct judgement. If you then realize, that your opponent is stronger then the campaign must be abandoned. If you do an in depth analysis of your strengths and weaknesses before getting into a negotiation, it enables you, to invariably make a better decision. K maintains that a king faced with losses should save the best of his resources; he should save himself to fight another day. That is what Bhutto did in 1972 and Gen Mushraff in 1999.

• “A conqueror, having assured himself about his superiority in power, place and time shall leave behind a third of his army to protect his capital.” The Pakis have through the ISI, set up bases in the country; Mumbai is just one hot spot. (During the Kandhar hijacking crisis and the recent attack on Chhota Rajan, key players were found in a Mumbai suburb, Jogeshwari.) As and when the next conventional war happens, the Indian army will not only have to fight the enemy across the border but one within. Which means that an army that is already over stretched fighting anti-insurgency operations in Jammu and Kashmir and the North East will have to retain a portion of its troops for internal security? I
remember an army colonel telling me that only the Army could match the fire power of Mumbai’s underworld.

- Against an attacking Confederacy – “7.14 deals with a situation where a king is beset by a confederacy of allies and needs to recoup his powers and build up his strength. The first step is to break the unity of the confederacy.” Let’s look at a Finance Manager who is upright, honest and has become a pain for the other head of departments. The HODs or allies would identify managers who work for the finance manager, win them over to their side, encourage them to revolt i.e. they would sow seeds of dissension. This akin to breaking the unity of a confederacy.

- “When the king under attack cannot afford the time needed to sow dissension among the members of the confederacy, Kautilya advises that it is best to make peace by making concessions, with the time bought by peace, he shall try to remedy his weaknesses. What to do is to remedy each type of weakness is given.” Moral of the story is never taking a panga; pick up a fight till you have the power to back it. Or else, wait; build your strength and then attack. You must be able to swallow your ego to do this.

- The Weak King – Kautilya cautions against spineless submission and foolhardily valor. It is better to give up what will be taken by force and live to fight another day. Only if the circumstances are not conducive to peace shall he fight. A weak king may try to reduce his losses by suing for peace. Equally, he can employ clandestine methods to kill or weaken the aggressor. “Peace can be sought even after the aggressor starts his campaign by offering him useless things. If this fails an envoy can be sent to dissuade the aggressor from continuing his campaign. If this is also useless, the aggressor can be killed or undermined by provoking rebellions and attacks. Or, he can be assassinated”.

### 7.7 Conclusion

- Having thus far discussed the different business related functions associated with the process of exchange of commodities in the Mauryan era in medieval India, it reflects on how marketing has always played a vital role as an integrated function of trade even then.

- The terminologies employed may have evolved over time, but the nature of exchange and the role of marketing as an exchange function seem consistently pertinent in all settings.

- Arthāśastra is a very comprehensive treatise on the governance in a monarchical Vedic state. Kautilya had a rational approach to governance and statecraft.
He conceptualized the state and the office of the kingship to be human artifacts. Also his model of the human being was very realistic. However he expected super human qualities from a 'human' King. Chandragupta, Bindusar and Ashoka matched this ideal but their successors could not. Clearly the system of checks and balances amongst the king, the associations and the citizens worked well as long as the King wanted it to work.

The vision of Kautilya was a creation of a strong and prosperous Vedic order so the foreigner invasions (like that of Alexander) could be repulsed. The success of the Muslim invasion suggested that either the governance by the 'Hindu' Kings was not according to the tenets of the Arthāśastra or the Arthāśastra philosophy itself had become antiquated. Probably both were true.

By any standards, Kautilya’s Arthāśastra represents a remarkable scholarly achievement. Although containing some inconsistencies, and some peculiarities from a modern perspective, it was a valuable guide to political economy in its time and provides us with privileged insights into the Mauryan economic system and society. Its close association with a long Hindu tradition is clear, such as its emphasis on the social responsibility of the State towards its citizens.

With sympathetic and careful reading, one can glean from it some economic wisdom of relevance to our times, and it certainly can be used to illustrate several modern economic ideas, as was shown. In his conception of the factors that influence the wealth of nations, Kautilya was well ahead of Western thinkers. It took around 2000 years for Western economic thought to reach and then possibly surpass the level of economic sophistication apparent in Arthāśastra.

Possibly Adam Smith’s Wealth of Nations represents the watershed. While Adam Smith’s advocacy of a liberal market-based economy differed from Kautilya’s support of a centrally planned (mixed) economic system secured by the monarchy, both had the same conception of what constitutes the wealth of a nation and what the economic goal of a nation should be. Both agreed that money per se does not constitute a nation’s wealth. Both agreed that the nations’ resources had to be developed by investments and other means to add to wealth.

Kautilya “anticipated the teachers of the Historical School, when he rejected the absoluteness or cosmopolitanism of Economic Theory. He did not believe that there was One Universal Law which is applicable to all conditions and all times. He held that economic laws should be adapted to changing conditions of time and place”. Therefore, we can conclude that Kautilya would have accepted the proposition that appropriate social
mechanisms for the efficient creation of national wealth could vary with the passage of time and could differ between nations.

- Covering various topics on administration, politics and economy, it is a book of law and a treatise on running a country, which is relevant even today. His ideas remain popular to this day in India.

- Kautilya’s Arthāśastra did provide a valuable basis for economic science, a basis long neglected. It contains useful insights about economics. These insights were only independently discovered by Western thinkers in the eighteenth century. As for the specific social and economic system that Kautilya outlines and provides advice about, he would be the first to agree that his advice is relative to his time. Therefore, Arthāśastra should be assessed in its historical context. Nevertheless, it contains many points of relevance to modern economic conditions.

- As such, the Arthāśastra provides extensive coverage on the overall economy, which includes: infrastructure (roadwork, irrigation, forestry, and fortification), weights and measurements, labour and employment, commerce and trade, commodities and agriculture, land use and property laws, money and coinage, interest rates and loan markets, tariffs and taxes, and government expenditures and the treasury.