

Kautilya's Economic Philosophy: Insights from Arthashastra

***Dr. Rajendra Prasad Saini**

Introduction

One could call Kautilya 'a first economist' or 'the Father of economics', it would not be a hyper wording. Kautilya is described by historians as the emperor's 'Prime Minister' and as the grand theorist of the politics and economics of the Mauryan state. The title Arthashastra, which means "the science of material gain' or 'science of polity', does not leave any doubts about its ends, as we know that he did not write especially on economic. Hence he discussed the only problems that are the most practical kind faced by a ruler. In his book Kautilya proved his knowledge about basics of economic terms whereas western economic philosophy had nothing on this part of knowledge. It was the time when the King was the centre body of politic & thus Kautilya expressed his idea for the Kings to rule and good governance. According to Kautilya the kings should be aware of justice to the citizens. While advising kings he anonymously developed many theories of economics and devoted almost one-third of his Arthashastra to issues related to the administration of justice. Drekeimer believes that Kautilya understood that "justice is What transforms power into 'authority'.

1. Views on Price Determination

Kautilya wrote that price determination is a relationship between demand and supply. According to him, a king should not logically fix price of a product without considering its supply and demand. Nevertheless today for the most part for social concerns prices of some goods are arbitrarily fixed which have their awful effects on other sectors, Prices were to be ultimately determined on the basis of cost of production on the one hand and intensity of demand on the other but the concept of 'just price', determined in this manner, was to be approved and executed by the state so that traders and producers could not manipulate prices to make inflated their profits. Kautilya advised the state not to be a rigid in determining the prices of goods, in case of temporary discrepancy e.g. excess demand or excess supply. In this case of difference between demand and supply, prices are to be increased or reduced automatically to get a new symmetry point. While going through the Kautilya's Arthashastra we find that he advocated a uniform rule to determine Just Price' all over the state. According to Kautilya the state should appoint Superintendent of Commerce' to fix prices and to observe so that merchants could not influence the prices to increase their profits.

Just Price = Average cost of production + tolls and taxes + transport and associated costs + profit margin.

Where,

Production cost = cost of raw materials + wages + interest.

2. Views on Taxation and Fiscal Management

Kautilya's views on taxation and fiscal management were very similar to modern thinkers. This is also confirmed by Jha and Jha while depicting in his book, "Chanakya paid supreme importance to the maintenance of a rich treasury, which favourably affected the entire activities of the administration. It was pointed out that the augmentation of the treasury depends mainly on the abundance of harvest (Sasya-

Kautilya's Economic Philosophy: Insights from Arthashastra

Dr. Rajendra Prasad Saini

Sampat), opulence of industrial production (Prachara-Samirddhi), prosperity of trade and commerce (Panyabatulya) as well as good fiscal management". Kautilya's Arthashastra contains 150 chapters that are categorized into three core parts:

- (i) National security issues including a foreign policy,
- (ii) Administration of justice including crime and punishment issues, and
- (iii) Policies related to economic development, taxation, labour management and financial management. The Arthashastra is a theoretical thesis designed to teach kings everywhere and for all time. The latter part of the classification is for the kings how they get revenue and how they impose taxes on public. This part contains 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
 - Tax level should be equitable and reasonable.

Superlatively, the government should collect taxes like a honeybee that sucks just the right amount of honey from the flower so that both can survive. According to Kautilya, while people are on the breadline, they become greedy; when they are greedy, they become estrange; when they are estrange, they either go to the enemy or kill their ruler themselves. The state should be conscious in collecting of taxes and should approach almost every source of taxation. Kautilya recommended an income tax when a lump-sum tax might have been reasonable. He linked the origin of the income tax to the benefit principle. The citizens of the kingdom should pay one-sixth part of the grains grown by them and one -tenth of other commodities and money. People of the state should be imposed a toll-tax. According to Kautilya there should be a land census at periodic intervals and land records were carefully maintained. This data base enabled the officials to estimation of the taxable capacity. He believed that merchants dealing with gold and silver made more money than those dealing with wood, and accordingly he recommended a graduated tax. The taxation categories and amounts were suggested by Kautilya are followed as given in the table.

Table:

Some Special Taxes Kautilya Recommended on Merchants, Workers, and Craftsmen

Type of merchant or worker	Recommended tax
Merchant in gold, silver, and gems	50 panas
Merchant in copper, brass, and perfumes	40 panas
Merchant in grain and liquids	30 panas
Worker in glass, or other highly skilled craftsmen	20 panas
Other craftsmen	10 panas
Workers in wood, bamboo, stoneware, and earthenware	5 panas

Note: pana-a silver coin used as a unit of money

Kautilya justified the collecting revenue through taxation. This thing strengthened the revenue base of the state and enabled it to maintain a huge standing army and the welfare apparatus. There is major emphasis in Kautilya's Arthashastra on the duty of the king to assist in ensuring the social welfare of his subjects and the king should help the handicapped and the unfortunate. "The king shall provide the orphans (bala), 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" Kautilya said that the king who could not keep safe their citizens from invaders, he had no right to impose taxes.

3. Views on International Trade

Kautilya was in favour of trading with other kingdoms but with the heavy regulation of international trade, both so as not to weaken state and not to aid potential adversarial kingdoms. Kautilya also advocates price and profit controls, being concerning about just and fair' prices and profits. Kautilya recommended a heavy taxation on imported luxury goods and light duties on necessary goods. Kautilya, like in globalization era, was also in favour of attracting foreigners who possess good technical and other economic development of the realm. Kautilya clearly devised a comparative advantage of international trade by saying 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. Kautilya was familiar that imports represents 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 more important than imports as a means for enhancing the kingdom' wealth.

4. Views on Wages and Interest Rate

Wages

Kautilya prescribed the basic principle of wage determination is that wages should be so determined by contracting between the employer and the employee, the wages which once settled, would be binding on both the parties, hence the employer is not cheated and at the same time the employee is not exploited. According to Kautilya wages should be settled in the presence of witnessed whereas to handle any dispute. Kautilya's guiding principle for wage determination are scattered in Book-III, Chapters-13, 14; Book-IV, Chapter-2 and Book-V, Chapter-3 of the Arthashastra. Kautilya prescribed some types of wages e.g. the Chancellor and the Treasurer would be paid 24000 panas annually, "enough to make them efficient in their work." Such a high reward should be compared to the yearly minimum wage for an unskilled worker, which was only 60 panas at this time. A lengthy list of wages of various state sector employees is described in Book- V, Chapter-3 of the Arthashastra.

Interest Rates

Kautilya recommended different interest rates for different types of loans, depending on the level of risk, hence he acquainted with the concept of risk premium. According to Kautilya interest rates should be rigidly fixed by the state taking into account the degree of risk. Kautilya categorised interest rates for various loans are as followed-

For non-commercial loans =15%

For less risky commercial loans = 60%

For risky commercial loans 120%

For foreign trade 240%.

Having a close look at above classification we find that the interest rate on loans for foreign trade is 240% per annum is much higher than that on loans for internal trade. However, it is very dissimilar to the present day policy in India, interest rates on loans for foreign trade especially for exports are lower than that on loans for internal trade. In the period of Kautilya foreign trade was much more risky than internal trade because of undeveloped of transport and communication systems.

Conclusion

Kautilya's Arthashastra is a famous treatise of ancient India. Basically, Kautilya's Arthashastra was a guideline for the kings to rule but, while composing this treatise he provided much basic knowledge about economics, and several of its conceptions are still relevant. Kautilya's concepts of enhancing factors of wealth of nations are well ahead of western thinkers. Kautilya's Arthashastra contributed a valuable basis for economic science which contains useful insights about economics. These insights were only independently discovered by Western thinkers in the eighteenth century but Kautilya had performed this 4th century B.C. His insights on international trade, wages, interest taxation etc. are very similar to modern concepts and have relevancy even at present day, We believe that his contributions should receive appropriate overdue recognition.

***Principal**
Department of Political Science
Shri Krishna Mahavidyalay Govindgarh
Jaipur (Raj.)

References

1. Atkinson, Anthony B., and N.H. Stern. 1974. Pigou, Taxation and Public Goods. Review of Economic Studies.
2. Jha, K.N. and Jha, L.K. (1997) Chankaya: The pioneer economist, Delhi: APH publishing Corporation.
3. Kautilya, V.C. (4th century B.C.E.), The Kautilya Arthashastra, Part II, An English Translation with Critical and Explanatory Notes, 2nd Ed. 1972 by Kangle, R.P. Delhi: Motilal Banarsidass, 2000 reprint.
4. Rao, M.V.K. (1958) Studies in Kautilya, 2nd Ed. Delhi: Munshi Ram Manohar lal.
5. Splenger, J.J. (1971), Indian Economic Thought, Durham: Duke University Press.
6. WALDAUER, C., ZAHKA, W. J., & PAL, S. (1996). Kautilya's Arthashastra: A Neglected Precursor to Classical Economics. Indian Economic Review, 31(1), 101-108. <http://www.jstor.org/stable/29793735>