Pashupati Pragya

(A peer-reviewed open-access journal)

ISSN 2505-0974 (Print)

Received date: 02-01-2024 Accepted date: 17-02-2025

Published by Pashupati Multiple Campus, Kathmandu, Nepal

A Comparative Study of Modern Economics and Kautilya's "Arthashastra"

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Abstract

In essence, Kautilya's "Arthashastra" is a guide for running a state. There are fifteen volumes in the Arthashastra. Of them, the first five deal with internal administration, the next eight with relations with neighboring states, and the last two with other subjects. The two primary objectives of Kautilya's Arthashastra are to maximise resources and manage them as effectively as possible. His economic theories from the fourth century B.C. are discussed in this essay along with their relevance today. The entirety of the examination shows that Kautilya's economic theories are based on certain scientific concepts. An excellent way to establish rules for state administration is through Arthashastra. His economic theories are still relevant today. Therefore, this outstanding leader and philosopher deserves a special place among the greatest thinkers in the history of economics.

Keywords: administration, management, optimization, resource

Introduction

Aristotle's contemporary and instructor Kautilya was also called Chanakya and Vishnugupta. In essence, his well-known treatise "Arthashastra" serves as a guide for acquiring and conserving wealth as well as a manual for state management. Although there is debate about the exact year of his work, most scholars place him in the Fourth Century B.C., during the tenure of Chandragupta Maurya, the well-known Indian king who is credited with ruling India for a considerable time.

According to the analysis of pertinent literature, Kautilya was the minister in the Chandragupta kingdom and played a vital part in the management of the empire. It was also claimed that he continued to play a significant role in freeing the state from the oppression of the Nanda dynasty.

Unlike the works of Western economic thinkers, Kautilya's well-known book "Arthashastra" was more than just a treatise on the concepts of wealth and money. Kautilya interpreted the word "wealth" in a broad way. According to Kautilya, a kingdom or monarch must have wealth in order to maintain its sovereignty, but managing wealth—or, more now, resources—is just as crucial to maintaining the emperor's sovereignty. The ruler should maintain the happiness of his subjects and refrain from enforcing harsh regulations unless absolutely necessary, according to Kautilya (Sarkar, 2000).

He has previously stated that even a great emperor cannot endure if his subjects are not content and prosperous. However, he believed that a powerful and affluent kingdom would be able to defend the interests of its subjects from the invasion of other monarchs. Thus, the two primary objectives of Kautilya's Arthashastra were resource maximization and optimal resource management, which offers methods for obtaining resources that might increase prosperity without doing away with financial incentives.

His explanation of how to develop the principles of statecraft, even if he did not merely explain economic theories, made modern economists aware of his knowledge with some of the fundamental ideas of the discipline.

A synopsis of "Arthashastra"

The fifteen adhikarans, or books, that comprise Kautilya's "Arhtashastra." Of them, the first five deal with internal administration, the next eight with relations with neighbouring states, and the last two with other subjects. The king's education, the appointment of ministers and other state officials, his daily routine, and his safety and security are all covered in Book 1. In addition to the duties of the various state executive officers, Book 2 offers a thorough summary of state action in mining, agriculture, recreation, and other fields.

Book 3 reproduces a comprehensive code of law and the administration of justice. Criminal suppression is covered in Book 4, which also contains sections on criminal detection, regulating traders and craftspeople, torture, and the death penalty. One of the subjects covered in Book 5 is official salaries. Book 6 is divided into two chapters. The theory of a state's fundamental elements is discussed in the first chapter, while the theory of foreign policy is covered in the second.

A thorough explanation of how each of the six foreign policy procedures can be applied in the range of scenarios that are likely to occur during foreign policy conduct is provided in Book 7. Vyas Anas, which are typically viewed as disasters that have the potential to disrupt the system's overall operation, are the subject of Book 8. Book 9 sheds light on the war preparations, including the kind of troops that could be mobilized, the conditions that must be met before embarking on an expedition, and the risks that must be avoided before beginning (Prasad, 2004). Fighting is covered in Book 10, which also includes descriptions of the main battle camp, several battle arrays, and fighting techniques.

There is only one chapter in Book 11 that describes how a conqueror should defeat oligarchies run by a group of chiefs rather than a single king. Book 12 explores how a weak monarch should derail a stronger one's plans and ultimately defeat him when the weaker king is threatened. The conquering of the enemy's fort through combat or stratagem is the subject of Book 13. The final book discusses the process and the rational techniques employed in the task, whereas Book 14 deals with covert and unsettling activities.

One may argue that, generally speaking, the first five books address internal administration, while the latter eight focus on a state's ties with its neighbours, even though the arrangement of some chapters may not seem entirely logical (Rangarajan, 1992).

Contemporary Arthashastra and Economics

Demand and Supply: Kautilya understood the basic concepts of modern economics, such as supply and demand and how they work together to affect prices. According to him, a king or queen shouldn't decide on a product's price on their own without considering supply and demand. Without considering supply and demand, a price cannot be considered an equilibrium price that maximizes the welfare of producers and consumers. The theorist most associated with the concept of equilibrium price and quantity is Léon Walras; he developed the "general equilibrium theory" which explains how supply and demand in multiple markets interact to reach a balanced equilibrium price across the economy. Leon Walras's general equilibrium theory was first published in 1874 through his work titled "Elements of Pure Economics".

Adam Smith, the father of modern economics, had a theory known as the "invisible hand" that is very similar to this one. Since Kautilya was conscious of the monopoly aspects, he attempted to establish a profit cap that would address both. Five to ten percent profit was permitted for business owners (Sarkar, 2000). During the Kautilya era, both private and state-owned enterprises existed. It is therefore normal for them to have conflicting interests. However, by proposing some pricing parity that shouldn't inhibit the private sector's incentive, he recommended a method to eliminate this kind of conflict.

According to Kautilya, the state shouldn't set prices without taking into account factors like production costs, supply and demand ratios, a fair profit margin, etc. It was anticipated that the state would step in and centralize product sales in the event of excess (overproduction), preventing prices from dropping below a minimal level that is now referred to as the price floor (Kangle, 1960).

International trade: Kautilya firmly believed in the advantages of international trade, as did Ricardo and other modern Western economists. He believed that trade with other nations may increase the wealth of trading nations. He dispatched experts to study foreign markets and aggressively pushed trade with other nations in order to categorise items into groups that could be imported and exported. He believed that encouraging international trade would increase consumer opportunities and yield financial gains. However, during the Kautilya era, international trade was prohibited.

Interest and Profit (Related to Productivity, Risk, and Uncertainty) Kautilya added risk and uncertainty to the interest and profit levels. He had suggested that greater profits and interests must be obtained in exchange for a greater degree of risk and uncertainty. He stipulated that native goods should yield twice as much profit as imported items. While domestic items were only allowed to make 5% profit, imports were allowed to make 10%. The cause of this was obvious. When the products were shipped from other states, importers of foreign goods had to deal with the serious risk of robbery and looting (Sen, 1967).

The modern profit theory of Knight, which holds that profit is the reward of uncertainty, is somewhat comparable to Kautilya's idea of profit. Although the state controlled the interest rate, Kautilya supported charging interest on loans. According to him, the capital's productivity and the risk involved should be the two elements that decide the interest rate. However, the interest rate was lower for personal uses, like marriage or funerals, whereas it was higher for trading.

Additionally, interest rates varied based on the venture's level of risk for various trade categories. As a result, it is evident that both the loan's productivity and risk were taken into account while determining the interest rate. Additionally, human consideration of interest payment was noted. Certain groups of people were excluded from paying interest, including students and those who couldn't afford it. To receive such an exemption, they had to pass through a legitimate judicial system, nevertheless. As a result, varied interest rate structures based on the loan's purpose were prevalent at the time, and these systems are strikingly similar to those used by banks and other financial organisations today Sarkar (2000).

Tax Structure: In addressing political, administrative, and economic problems, the Arthashastra of Kautilya exhibits outstanding fiscal prudence. He promoted just and equitable taxation as well as limitations on the state's taxing authority. He believes that taxes shouldn't be burdensome and excessive. Tax rates should not exceed 16–20%, or 1/6th or 1/5th of overall economic activity, according to his recommendation. He was aware that excessive taxes would deter investment and possibly encourage tax evasion.

However, he recommended tax rates of up to 50% or higher for certain commodities and services that were detrimental to society. It's also important to note that the majority of the taxes were imposed on commodities and land. Except for singers, dancers, prostitutes, spies from nearby states, etc., income tax was hardly ever observed. In these situations, taxes amounted to at least 50% of their earnings. A sensible strategy to prevent tax evasion and black money was to implement a reasonable tax rate of 16–20% (Mehata, 1998).

As a result, it is noted that the present progressive direct tax structure system and Kautilya's tax notion are rather comparable. Many developing nations still adhere to the principle of agricultural land exemption from taxes. His idea of raising taxes on harmful goods for society is still relevant today. The majority of nations in the modern world impose high taxes on alcohol, cigarettes, and other items, which is detrimental to society.

In his Arthashastra, Kautilya provided a thorough overview of the tax system, including its administration, structure, and goal. He mentioned in his treaties that 18 ministers were needed for the general management of the state. The taxation department (shulka) was headed by two of these ministers. In the Atharvaveda, the word "shulka" was used to refer to the general tax that traders were required to pay (Atharvaveda 11, 29.3). Kautilya explained the ministry of taxation or income using the phrases "Samaharta" and "Samindhata." Samaharta is regarded as the head of revenue collection, including taxes.

Samaharta was also in charge of monitoring how the land's gross income from tariff revenues was calculated. However, Samindhata was responsible for building and maintaining "Panyagrha," a storehouse for state-produced goods for sale, and "Kasthagara," a storehouse for food production. Additionally, he brought up "Sulkadhyaksa," the head of the tariff department. Therefore, it is clear that the mechanism for imposing and collecting taxes was very good back then (Sen, 1999). He supported a surplus budget on the financial front.

He noted that a state will never experience a financial crisis if a monarch closely monitors the state's revenue and expenses (Arthashastra 5-2). In addition, one of the seven components of a state's sovereignty was thought to be having a sufficient treasury (Thakur & Sah, 2004). Kautilya also highlighted the intelligence department's contribution.

He asserts that administrative officers alone are insufficient for a kingdom to succeed. He stated in the Arthashastra that the intelligence division was responsible for preventing economic crimes. He was also worried about the budget's spending side. He recommended that the state's overall salary bill not surpass one-fourth of its total revenue. He promoted varying pay rates based on job kind, skill level, and work quality. There was an apparent attempt in Arthashastra to formulate a wage policy grounded in practical ideas and an understanding of political, social, and economic aspects (Sarkar, 2000).

Economic growth theory

Kautilya's theory of economic growth is his most significant contribution. His thesis, which is developed in minutes, emphasizes the King's crucial role in fostering economic progress on both a micro and macro level. Productivity, government policy, fiscal policy, price stability, monetary policy, trade, economy, welfare, productive enterprise, productivity-linked wages, the position of women in the labour market, the role of marketing in promoting market activity, price stability, consumer protection, division of labour, specialisation, and so on are all components of Kausalya's growth model.

The mechanism and component

The parts of the model support the evidence that ancient societies had far more sophisticated economic theories and practices than we currently recognise; every "causality—feedback tree" that is present in any "modern" growth model is present in the model that we have built using the data that has been obtained and the historical facts. 4. The complex economic processes of today's mainstream models are not more accurately formalised representations of the "real" world than the model produced by Kautilya around 2,400 years ago. This is supported by his The Arthashastra and the intricate model of the Indian economy that he developed.

Kautilya fostered a multifaceted growth model that included bi-directional causality and a number of interconnected variables of interest (growth factors). According to his argument, it was obvious why some empires grew more quickly while others did not. Agriculture and fishing, two major industries that were producing income and added value for the King and the State, were at the heart of his model. With its four industrial levels—state monopolies (which dealt with the production of weapons and liquors), state-controlled industries (textiles, salt, and jewellery), state-regulated small industries (blacksmiths, goldsmiths), and private industry (which was free, unregulated)—potters, basket makers, and others—the mining sector was also a significant source of wealth. Kautilya's readings do not specifically address other kinds of industries.

Conclusion

The entire presentation shows how Kautilya's economic theories are based on certain scientific concepts. Arthashastra contains the best explanation on how to set norms for state administration. When searching for answers to any social problems that a state was encountering in the fourth century B.C., he realised that economics could not be disregarded. Unlike Adam Smith and other western economists, Kautilya did not write a book on economics per se, but his explanation of the role of economic philosophy in regulating state activities is equally important to many modern economic philosophers. As a result, this exceptional leader and philosopher merits a particular place among the brightest minds in economics history.

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