

# ECONOMIC THOUGHTS OF CHANAKYA

(REFERENCE OF THE ROLE OF THE STATE AND TAX )

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## ABSTRACT:

Chanakya, the great statesman and philosopher is considered the pioneer of the field of politics and economics in India and is placed in the history at par with Machiavelli, Aristotle and Plato of West. His books Arthashastra and Chanakya Neeti-shastra is being revisited as an eloquent works on politics, welfare, war strategy, foreign policy, wealth generation and moral guides for the administrator and society as a whole. But almost more than 2000 years have passed since Chanakya (350-275 BCE) paved the way for the establishment of the powerful and dominant Maurya Dynasty. The perception, morality and mechanism of the country and people have not only changed but to some extent been totally different. Therefore, the paper tries to explore whether the teachings of Arthashastra fit into modern day democratic set up. The paper throws light on various areas where Chanakya's Arthashastra can be applied in modern economics paradigm. The objective of the paper is to analyze the applicability of Chanakya's take on the role of the administrator (modern day State) and his tax policy. The methodology is completely based on information gathered from books and articles. The paper opines that though there may be controversy in considering Chanakya as an Economist in modern definition of the subject and the relevance of his ideas but no doubt he enjoys a great place in the history of Economic thoughts.

**Key Words:** Chanakya, Economist, Arthashastra, Relevance, Applicability, Tax policy

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## 1. INTRODUCTION

Chanakya (321-286 BC), popularly known as Kautilya is often referred as "Indian Machiavelli" in West and is mostly debated for his treatise on economics and politics i.e. "Arthashastra" (written in 300 BC). The literal meaning of Arthashastra is "Artha means wealth and "Shastra" means Science. The book provides a detailed account of the economic, revenue, administrative system of 4th century India of the Maurya period. The book is divided into 15 chapters consisting of sutras and slokas. The credit to translate Arthashastra goes to Professor Shama Shastry (1905) and later two more translations were done by Professor Kangle and Shari Rangarajan. The book in the form of verses consists of many insights and principles in the areas of moral philosophy, governance, wealth generation, diplomacy and so on. These verses have vast and varied interpretations and are still useful. Chanakya was a scholar of political science and economics at the Takshashila University located in present Pakistan. His life and timing is full of controversy and is known for his straight forwardness and honesty to the level of ruthlessness. The paper will interpret some of his famous economic ideas, which may be proved relevant in present context of governance.

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## 2. OBJECTIVES OF THE STUDY-

The objective of the study is to first explore the Chanakya's economic views as has been presented through slokas in his renowned book "Arthashastra" and secondly to investigate its relevance in modern time. The study is mainly focused on his ideas on tax policy and the role of the state (King) in ensuring the prosperity and security of its citizens.

## 3. METHODOLOGY-

It is an analytical study based on secondary data. The information has been collected from "Arthashastra" and articles available on Chanakya. The paper is divided into two sections:

- **Section I** highlights broad economic and political ideas of Chanakya as has been written in his economic and political treatise, "Arthashastra". It elaborates Chanakya's take on a just tax system and the duties of a king towards its country and its fellow citizens.
- **Section II** tries to investigate and interpret the relevance and applicability of Chanakya's insights and moral teachings in modern time. It also concludes the study.

## 4. ECONOMIC IDEAS OF CHANAKYA IN THE ARTHASHASTRA

The focal point of the Arthashastra is to maintain a perfect balance between state management and public welfare. Chanakya defines "Economics is the most important aspect as it provides the basis for human existence and survival". This is almost akin to Karl Marx (18th Century) idea of materialistic interpretation of history where he opines that economic mode of production shapes the system.

### Role of the State

Chanakya was strongly of the view that the ultimate purpose of economics is to increase the welfare of the king's subjects and says "The King, the ministers, the country, the fortified city, the treasury, the army and the ally are the constituent elements of the state." He has presented his views on the purpose of the economy and functions of the king before examining the treasury and taxation. Chanakya defines an ideal rural as "one who is ever active in prosperity and welfare of the people and who endears himself by enriching the people and doing goods to them". In a way he conceptualized the welfare state and maximization of utility. He stressed on good governance which includes economics, regulatory framework, tax, diplomacy, administration and trade. His approach was holistic as he explained the many critical areas regarding state functioning like national security, relationship with neighbouring states, arts of warfare, network of spies, selection of ministers, organizing economy and collecting and distributing state revenues.

Chanakya's four pronged approach based on "Dharma, Artha, Kama and Moksha" sets the theories of state craft, monetarism and a code of civil and criminal laws. Though the essence of the book is generating wealth and prosperity, the book emphasizes more on statecraft as Chanakya believed that only a strong and just king can provide good governance. In brief Arthashastra talks of the following.

- 1 A good governance implies prosperity guided by public administration, where the ruler is responsive to the needs of the subject.
- 2 There should be uniformity in administrative practices as well as competent ministers and officials possessing leadership qualities and intellect along with moral conduct.
- 3 Chanakya talks of a strong and wealthy monarchy (in turn a state with surplus budget) to fulfill its duties of maintaining law and order, protecting the country from external attack and ensuring public welfare.
- 4 Chanakya's ideas on maintaining law and order and a strong army were radical to the extent that he gives the king all despotic power to ensure the same. He observed "By maintaining order, the king can preserve what he already has, acquire new possessions, augment wealth and power and share the benefits with those worthy of such gifts."
- 5 The state is dominant in the overall system with control of production and property rights but was advised to "carry mining and manufacture, exploit timber and forests, offer facilities for cattle breeding and commerce, construct roads, set up town markets (panyapattana), construct reservoirs (setu), ensure social services and productive enterprises, as building of forts, roads, plantation of colonies, of villages, asylums, orphanage and educational institutions".
- 6 He advocated that foreign relationships should be strongly based on trade considerations and mitigating attacks. Foreign trade is mutually beneficial for trade partners, but whether Chanakya supports free trade is not certain as he also advocates controlling foreign trade to maintain state monopolies and not to aid potential adversaries.
- 7 According to Kautilya "good governance is a prerequisite for growth of knowledge. The three Sciences (philosophy, the Vedas and Economics) are for their development.

### **Chanakya's Ideas on Taxation**

Chanakya is much more debated on his ideas on tax structure, its collection and distribution. He argues that tax system plays a critical role in ensuring the economic well being of the society. His views of a just tax system is very much modern in approach. The key ingredients of his tax system were certainty of time, rate and mode of payment, simplicity and standardization.

It was Chanakya's approach towards maintaining a large and perennial treasury that ensured active trade and commerce, strengthened revenue base of the empire and enable the Mauryan ruler to maintain a large army and war apparatus. He was well aware of the scope of trade as a source of revenue and therefore proposed measures like monetization, standard weights and measure, efficient revenue collection office to extract taxes. As pointed out by Jha and Jha (1997), "Chanakya paid supreme importance to the maintenance of a rich treasury, which favourably affected entire activities of the administration. It was pointed out that the augmentation of the treasury depends mainly on the abundance of harvest (Sasya-Sampat), opulence of industrial production (Prachara-Samirddhi), prosperity of trade and commerce (Panyabatulya) as well as good fiscal management".

Chanakya quotes “King must collect tax like honey bee, enough to sustain but not too much to destroy”. This represents modern principals of taxation, namely as (i) A tax should be levied once a year, and should not prove burdensome and (ii) Taxes should be levied according to the ability to pay. Sources of Revenue included taxes on land, forests, monopoly and property, customs and excise duties, fines, profits of state, factories and crown monopolies, from manufacture and sale of saffron, salt, intoxicants, trade in horses, fine wool and elephants and port dues, road tolls, fruit and tree tax etc.

We find a lot of similarities in theories followed in modern public finance with respect to tax like the need for price and profit control (progressive tax), high rate of tax on luxury and imported items, moderate rate on common consumption items, (modern principle of indirect tax, GST), use of import tariff to get revenue rather than changing trade patterns. (WTO).

## 5. RELEVANCE OF CHANAKYA IN MODERN ECONOMIC SPHERE

Nevertheless, the contribution of Kautilya to political economy has been neglected by Western scholars despite the fact that his coverage of this subject was probably the most sophisticated and broadly based one globally until Adam Smith published his *Wealth of Nations* in 1776. (Jha and Jha, 1997). In many respects, Kautilya’s ideas were wider in terms of bringing security and dominance of the country through economic routes than earlier western economists. Unlike Physiocrats, who emphasized agriculture as the sole basis for national prosperity, Chanakya along with agriculture gives due importance to industries, commerce and trade. Similarly unlike Mercantilist, he was well aware of the interdependence of several factors, both economic and non-economic in ensuring prosperity and security of the nations.

His take on corruption is very much practical. He quotes “Just as it is impossible not to taste the honey that finds itself on the tip of the tongue, so it is impossible for a government servant not to eat up”. He also says” 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 taking money”. Therefore he argues for a strong audit system and efficient and honest administrative staff.

One of the Chanakya’s famous quotes was “Books are as useful to a stupid person as a mirror is useful to a blind person”. Through this, we can interpret the “Capability Approach” forwarded in development economics by the Indian economists and the noble laureate Amartya Sen. As Sen argues that it is not the resources (Capacity) that a country (Individual) possesses is important but what are of utmost importance are how these resources and capacity are used and function. Therefore functioning of the capacity and judicious use of resource utilization makes a country developed and enriches the life of the people.

The mainstream economists favour liberal market system for maximization of social welfare and though on this Chanakya stands on opposite pole, as he supports a strong absolute monarchy but the end objective was to safeguard the country and citizens. He mentions about an implicit social contract between the king and the citizens and that according to him is the basis of taxation. He was radical in his approach when he says that in

case the king fails to protect his citizens, the people can revolt, behead the king or not pay the tax and even ask for remissions of the tax amount paid.

Kautilya's Arthashastra is one of the most comprehensive treatises on state's role in economic development. Several of his ideas were later advocated by economists like Mrydal and Lewis who have on different occasions argued for the need of the state to maintain public services, influencing the distribution of income, controlling the quantity of money, breaking social chains and creating psychological, ideological, social and political situation necessary for economic development. His ideas on creating basic infrastructures like road and waterways to facilitate market and trade support modern economics views in terms of the role of the infrastructure in economic development.

The historical importance of the book lies in its detailed account of ancient Indian economy. Some of the modern economic principles like asymmetric information, principal-agent problems, canons of taxation, importance of national accounting, trade based on comparative advantage, role of the state in providing social security can be extracted from ideas mentioned in Arthashastra.

It can be concluded that Kautilya's Arthashastra is one of the best treatise regarding how an ideal state should function. Though written in almost more than 2000 years ago, Chanakya's take on moral philosophy, political and economic governance are still relevant.

Kautilya's Arthashastra did provide a valuable basis for economic science, and contains useful insights about economics. It is true that the specific social and economic system that Kautilya outlines and provides advice about have changed and therefore the book and the insights mentioned by Chanakya need to be assessed and interpreted in its historical context.

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