

KAUTILYA'S ARTHASHASTRA

The Way of Financial Management
and Economic Governance

How Kautilya's Arthashastra, written about
2,400 years ago, can solve many of India's
current economic and other problems



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This book is dedicated to the Memory of
Late Shri BHAGWANDAS PERAJ THAKKER



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FOREWORD

—Jignesh Shah

Chairman, Promotion of Oriental Studies Committee, Priyadarshni Academy

Chairman & Group CEO, Financial Technologies Group

No book perhaps deserves to have as much pride of place in the personal libraries of political pundits, social scientists, and economic scholars as *Arthashastra*, written by Kautilya (also known as Chanakya or Vishnugupt) as far back as 300 BCE. Not only was Kautilya a man of letters and a shrewd statesman, but he also had profound knowledge of political science, military strategy, and economics. He was the best known professor of politics and economics at the world renowned Takshashila Gurukul (university) in ancient India. He was the advisor to the first Maurya king, Chandragupta, and later became the Prime Minister of his kingdom.

Arthashastra may literally mean 'Science of Money', although it is also defined as a political science, science of political economy, or science of material gain or profit. Leaving aside the meaning of the word itself, Kautilya's *Arthashastra* is undoubtedly an excellent treatise on statecraft, economic policy, and military strategy, and provides an outline of legal and administrative structure for governing a political economy. Be that as it may, it is in reality a discourse on the administration of finances through raising revenues from different sources, economic or otherwise, and expending the same on maintaining law and order, defence of the state and social welfare, as also for regulating economic, social and other activities of the citizens by the State.

Arthashastra is, therefore, addressed more to the rulers than their subjects, though the latter too gain much knowledge of the various economic, political, and social practices prevailing during Chandragupta Maurya's times. Yet,

Arthashastra is more than mere economic history. Many of its tenets are as much valid today to the governments as well as the populace in their day-to-day affairs as during the Mauryan era.

Since the State raises finances from all the sectors of the economy, namely, agriculture and forestry, livestock and dairy farming, export-import and domestic trade, industry and crafts, and services of diverse hues, Kautilya has discussed all these economic activities, defined their objectives, and even drawn rules for administering such activities to the benefit of the society as well as for earning revenues for the State. Not only has he prescribed varying fees and charges for engaging in different activities, but even provided elaborate fees and penalties for violations of the rules to prevent abuses, which at the same time, fill in the coffers of the State.

Kautilya's contribution to economic thoughts of his times was immense. He had a deep insight into public finance. Surprisingly, even as barbarians roamed through Northern Europe, Kautilya was designing a guidebook for kings, listing several revenue sources, including taxes on land, trade and industry; interest and profits on state investments and enterprises; and fines and penalties for infringement of laws and rules, while providing simultaneously principles for investments in basic infrastructure like land development, mining and irrigation through the construction of dams, tanks and lakes, besides offering judiciously planned subsidies and tax exemptions to women, minors, students, disabled and the other needy.

Surprisingly, he was aware of even the canons of taxation – fairness, equity, efficiency, and ability to pay, which are not infrequently missed in the present times by the ruling class while rushing to raise revenues through indiscriminate taxation, without realising the consequences. He made a strong plea for avoiding discontent among taxpayers.

During Kautilya's times, trade and commerce was booming. Kautilya had laid down detailed rules for trade, weights and measures, price fixation, *etc.* His price fixation policy framework vividly suggests that he was very much conscious of the influences of supply and demand on prices, and commodity characteristics. He had stipulated rules for markets, sale and purchase contracts as well as for deliveries. Long before the arrival of forward and futures contracts in Europe and North America, Kautilya had even defined the term "futures price" as one that takes care of what in the current market parlance we call 'carrying costs' that

include not only storage costs, but interest costs as well as transport costs. The market rules were so framed as to benefit both the producers and the consumers.

What's more, he had described even the organisations of the artisans, which appear to be precursors to modern corporations. He had prescribed the manner in which such corporations should function, pay taxes to the state, trade in their goods, and fix wages for their labour.

Above all, he had understood the environmental needs as well. He has emphasised the preservation of forests, and even wildlife, like elephants and other animals therein. His treatise is essentially aimed at developing a welfare society. No wonder, he expected the King to behave in a righteous manner. In his own words, "In the happiness of his 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." Clearly, in Kautilya's *Arthashastra*, there are many valuable lessons to be learned for the present day rulers as well as citizens. What surprises one is that although this sage taught us so much as far back as over 2,400 years ago, we have conveniently forgotten most of his lessons. Had we remembered them, India would have been shining gloriously as it had during the Golden Age of Chandragupta Maurya.

Priyadarshni Academy must be congratulated for bringing out such an illuminating and scholarly publication, which must adorn the tables of our political rulers, their mandarins, political and social scientists, economists, and corporate managements.

PREFACE

—Shri Nanik Rupani

Chairman, Priyadarshni Academy

Written in Sanskrit, *Arthashastra* remains unique in the entire panoply of Indian literature because of its unabashed advocacy of practical economics and real politic. Kautilya's philosophy is based on the principles of "*sam, dam, dand, bhed*" (persuasion, temptation, punishment, and division) as various, different, and sequential means to achieve an end. I admire Kautilya's focused approach to achieve a goal using any means that are sequenced pragmatically.

Kautilya's *Arthashastra* is a masterpiece, particularly if viewed in the context of the time when the book was written. He seems to have had an encyclopedic knowledge about different aspects of governing a monarchy such as: administration, revenue, taxation, law, diplomacy, business and trade, coinage, agriculture and land tenure, labour, people and the society, *etc.*

The moment I started reading the revered works of Kautilya, also called Chanakya, advisor to King Chandragupta Maurya, the most powerful King in India in 300 BC, I was convinced that Kautilya's teachings are full of apt solutions to India's current problems.

I strongly believe that India can draw important lessons and norms from *Arthashastra*'s rich heritage. Although the book was written over 2400 years ago, its precepts about social, political, and economic structure of an ideal state are relevant even today. Perhaps even more so!

Chanakya dreamt of an India that:

- Has a self-sufficient economy
- Provides equal opportunities to all
- Develops and efficiently manages land (the most valuable source)
- Has minimal taxes, collected in the least painful way

I am specially enamored by Kautilya's visionary thinking when he states, "A King must collect taxes like a honeybee," enough to sustain the state, but not too much to destroy. This is what is of utmost relevance to the Indian taxation environment today.

To me, Kautilya's work can be best described as a treatise on corporate culture and spirituality, though the word 'corporate' was not in vogue at that time. Corporate Social Responsibility (CSR) which implies that companies contribute towards the welfare of society, has become the buzzword today not only in India, but the world over. In my view, the principle of CSR is rooted in Kautilya's *Arthashastra* and his teachings.

Not only had Kautilya thought about CSR, 2400 years ago, he had also contemplated about the best ways of dealing with environmental issues. Water management, preserving forests, and nurturing land as valuable resource, all form part of his treatise. Kautilya set down a fundamental truth – "Society undergoes constant change, leaving behind those who say 'no' to change." In other words, "*parivartan hi sansaar ka niyam hai.*" In today's coalitional and factional politics, there are many who say 'no', not because what is proposed is bad for the country, but because it may harm their own political career.

Chanakya Niti or diplomacy is legendary all over India, and is practised in many areas like defence, strategy formation, and foreign relations. In *Chanakya Niti*, the focus is on how governments should govern. I am amazed to find that in the areas of public governance, superintendents were appointed in sectors like:

- Mines, gold, trade
- Weights and measures, yarns and textiles
- Forest produce, armoury

- Agriculture and shipping

On head-hunting, Kautilya wisely said, "Avoid persons who are angry, greedy, proud, and fearful." He stressed, "Spiritual development is paramount for internal strength and character of the individual, material pleasures and achievements come second." "Whatever action is taken should be result-oriented," we are not following these rules today. If results are not achievable, the concerned personnel should be punished or penalised.

Kautilya's thoughts also find reverberations in Sadhu Vaswani's philosophy, "Reward of service is more service. When you give, you are being blessed. Those who give results will be rewarded." On the role of *Dhanis-Vyaparis* (wealthy traders) in society, he recommended that they contribute to the digging of wells, providing dispensaries, *balwadis*, community development work during earthquakes, flood, *etc.*

Karma yoga (dedication to work), *Dhyana yoga* (contemplation), and *Bhakti yoga* (faith) need to be integrated into our lives so that this may increase the profits made by corporations, which may be converted for the larger good of the people.

Kautilya opined that the "King has no individuality of his own. He is for the people and of the people." This is similar to the Gandhian philosophy that assets are to be held by managers as trustees for their constituents. We also find this perspective reflected in the Bhoomidaan Movement initiated by Vinoba Bhaveji.

At this stage, I would like to mention that Sri Sri Ravishankar, founder of The Art of Living Foundation, spoke on "Role of Holistic Science in Corporate Management" at the IMC's 4th India Calling 2004 – Asia Pacific Business Summit at Singapore. Hearing Sri Sri Ravi Shankar, I got reminded of Kautilya's thoughts.

In the same vein, Smt. Indu Jain, Chairperson, Times of India Group and Bennet, Coleman & Co. Ltd. spoke about CSR and what defines CSR.

It is Philanthropy?

Charity?

Social Obligation or Duty?

Community Development?

Building Roads, Community Halls, Schools?

Providing facilities for clean drinking water, sanitation?

Adopting a village?

Environment Protection?

Trees should not be indiscriminately cut. Deforestation is a crime.

In short, CSR was differently but eloquently explained by Kautilya. Thus, CSR is not a recent Western phenomenon. It is certainly not new to India – it has been a part of our culture for thousands of years.

In modern times, Tatas and Birlas, followed by quite a few corporates, have been giving back to society through CSR.

I sincerely believe that many of the problems that India faces today can be tackled with the help of the meticulous suggestions made by Kautilya with respect to the country's political and economic administration.

Arthashastra provides a comprehensive analysis of political administration, defence matters, agricultural operations and governance matters, amongst other issues.

Even though Kautilya called his treatise as the *Arthashastra*, it is an all-encompassing document covering a much larger spectrum of human activity. It provided a full account of how a monarchic state should be organised, defended from the external threats and attacks and how it should be consolidated in order to have a central unified regime. While doing so, Kautilya's *Arthashastra* provided a very detailed account of public finance, agriculture, trade, selection of officers and ministers and governance of the state, *etc.*

The bureaucracy whom Chanakya envisaged in his *Arthashastra* continued to be a model for kingdoms established later on. The *Arthashastra* provides the norms for an efficient and well functioning bureaucracy. This again is of utmost relevance to India at present.

I would like to state that Kautilya's *Arthashastra* has been compiled in the context of ancient Indian culture. It is necessary to comprehend the then prevailing environment in order to correctly grasp the teachings of such a magnum opus.

The beauty of this great work lies in the fact that it provides very useful and practical analysis, which would be valid and relevant for all the times to come. It

is amazing that Kautilya, who lived some two thousand four hundred years ago, had such a vision and foresight that is so universal in character. Though the political, social and economic milieu, existing then and now are vastly different in many ways, Kautilya's teachings were relevant then and are found more relevant in the modern context too.

I am proud to say that I initiated the project and it has provided me with an immense satisfaction and pride of carrying wider the insights and teachings of such a famous and all times great "*The Kautilya's Arthashastra*".

With Kautilya as his Minister, Chandra Gupta Maurya presided over what was described as the initiation of golden age of India. By imbibing Chanakya's teachings, I am sure we may usher in another golden age for India in the near future.

We should take out the best from Kautilya's *Arthashastra* which is suitable for contemporary India.

This book has made a sincere attempt to comprehend the spirit of Kautilya's thoughts, understand Kautilya's message, and includes references on the relevance of his teachings for the management of governments and modern Indian businesses.

I am confident that this work would be found useful by readers from all walks of life and, what is more, as a result of this work, Kautilya's economic principles would find suitable applications in the management of various organisations.

I recommend this study to all economic players so that they may derive practical inspirations to solve the nation's most pressing problems.

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The thought of bringing out a publication on Arthashastra first occurred during a discussion meeting Mr. Nanik Rupani had with Dr. Vijay Bhatkar, Founder Chairman, India International Multiversity; Mr. P.P. Chhabria, CMD, Finolex Group; and Dr. Ram Tarneja, former President, IMC. Mrs. Geeta Rupani, wife of Mr. Rupani, fully supported the idea.

It was decided that the study could be taken up at the Vedic Research Centre in Pune which was jointly set up by Priyadarshani Academy and India International Multiversity. The publication idea also received an overwhelming response from the august gathering present at a talk Mr. Rupani gave at the International Conference at the Art of Living Centre of Sri Sri Ravi Shankarji in Bangalore.

Subsequently, Mr. Rupani realized during his tenure as President, Indian Merchant's Chamber, that its Economic Research and Training Foundation, a body that conducts research on topical issues in the area of finance, commerce and trade, could be the appropriate platform for giving life to the publication. The entire Managing Committee of IMC, particularly Mr. Ram Gandhi and Mr. Suresh Kotak, lent unstinted support to the idea.

A panel of experts completed the work and Mr. Jawahar Mulraj, Columnist, Times of India, edited it in record time.

Special thanks are also due to:

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Indian Merchants' Chamber Economic Research and Training Foundation

INTRODUCTION

—Shailesh Haribhakti

Former President, Indian Merchants' Chamber

*A*nashritah karma Phalam, Karyam Karma karoti yah,
Sah sanyasim cha, yogi cha, na niragnir na chakriyah.

(Bhagavad Gita, Chapter 6)

The one who is unattached to the fruits of his work and who works as he is obligated, is in the renounced order of life and he is a true mystic, not he who lights no fire and performs no duty.

This verse is recited by Lord Krishna to his disciple Arjuna while explaining the importance of performing one's duties selflessly. The Lord's words imply that it is very difficult for people in general to perform their duties, especially in the age of *Kali*. Everyone's actions are aimed at maintaining one's family and one's paraphernalia, but no one is working without any kind of self-interest, or personal gratification, be it concentrated or extended.

To act in the Lord's consciousness is the duty of every living entity because every one is part of the Supreme Being. The living entity who acts for satisfaction of the supreme whole and not for personal satisfaction is the perfect *sanyasi*, the perfect *yogi*.

(from *Bhagavad Gita – As It Is* by A. C. Bhaktivedanta Swami Prabhupada)

One can extend the application of the above thought to the performance of governance duties. Governance is also a function which should be discharged in

line with this ideology. One can substitute 'governance jurisdiction' in place of 'supreme' and 'elected representatives and bureaucracy' for 'living entity'.

The wealth of knowledge that Indian mythological scriptures contain and its relevance in our current times is immense. The appropriate interpretation and application of the principles ingrained in these texts could help us achieve progress and welfare that can be sustained in the years to come.

We are currently facing a situation where a few political leaders are concerned with doing everything in their power to preserve their vote banks and ensure the longevity of their careers. In this process, neither are they lighting any fire (read 'progress') nor are they performing or allowing others to perform their duties.

Our Constitution recognises three main pillars of governance:

1. The legislature which makes the law,
2. The judiciary which interprets the law, and
3. The executive which consists of both the permanent bureaucracy as well as elected political populace which implements the law.

The executive is the most important in the context of democracy. History is replete with instances where it has failed to act in the interest of the masses, which has led to the destruction of civilisation.

The stable social structure and prospering economic environment is dependent on governance. It is everyone's wish that we have an ideal governing body that encourages sustained prosperity. The question that needs to be addressed is whether there could ever be such ideal machinery?

One of the earliest thoughts on this pertinent question came from Vishnugupt (better known as Kautilya, or Chanakya) (c. 350 – c. 275 BC). His treatise *Arthashastra* deals extensively with aspects of political, economic, and social management and is the oldest book on management in the world. It was written by Kautilya around 350 BC. When literally translated, it means 'Scripture of Wealth'. The book is a masterpiece and covers a wide range of topics like statecraft, politics, military warfare, law, accounting systems, taxation, fiscal policies, civil rules, internal and foreign trade, *etc.* No wonder scholars through the centuries have time and again described Kautilya as a rare mastermind who

was an expert in so many varied and specialised fields. Kautilya was credited with bringing down the Nanda Dynasty and influencing the defeat of Alexander in India when the warrior was on his way to conquer the world. As a political thinker, he was the first to visualise the concept of a 'nation' for the first time in human history. During his time, India was split into various kingdoms. He brought all of them together under one 'Central Governance', thus creating a nation called '*Aryavartha*', which later became India. He documented his lifelong work in his book *Arthashastra*. For ages, rulers across the world have referred to the *Arthashastra* for advice on building a nation based on sound economics and spiritual values. Even though India and Indians never forgot the *Arthashastra*, the study and practical application of the book lost its importance for quite a few centuries. However, apart from being seen as a scholarly work, this book today needs to be once again presented to everyone so that it may be practically applied in today's world. The book has many principles and techniques, which once applied, could cause tremendous improvement even in our day-to-day management of things and situations.

GOVERNANCE – ROLE OF ETHICS

Issues relating to ethical conduct have been discussed since antiquity. Kautilya has also offered many insights, such as – no amount of rules and regulations or auditing can prevent unethical behaviour, both character-building and action-oriented ethical values are essential for a solid grounding in ethics and in offering guidance to practice ethical behaviour. Ethical behaviour helps in the maintenance of law and order and the creation of wealth, which promotes economic prosperity, and religious scriptures and philosophy are sources of ethical values.

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

The Greek philosophers Plato and Aristotle considered ethical values as virtues, emphasised the building of a person's good character and believed that good conduct would naturally follow. Moral values acknowledged by Aristotle include courage, temperance, justice, and prudence. Additional virtues include honesty, compassion, generosity, fidelity, integrity, and self-control. While

Aristotle addressed the principle of virtue ethics, he did not discuss any action-oriented principles of ethics. Kautilya referred to both virtue ethics and action-oriented principles of ethics. But he elaborated only on the action-oriented ethical values, such as rights, fairness, and servant leadership. He wrote, "Proper behaviour is more important than being virtuous."

Kautilya had studied the Vedas and various philosophies deeply, but he thought that a discussion regarding personal character-building was beyond the scope of the *Arthashastra*. For example, he stated a prince 'should learn philosophy and the three Vedas from authoritative teachers, economics from the heads of (various government) departments, and the science of government from (not only) theoretical exponents of political science (but also) from practicing politicians'. With regard to this, two remarks are in order. First, Kautilya believed that instilling ethical values in a child kept him ethical later in life whether he worked as a public servant (a politician or bureaucrat) or as a merchant (or an accountant) in the private sector. Second, the grounding in ethics, such as, the development of the capacity to follow one's conscience, looking beyond self-interest and showing benevolence toward others, was as important as learning professional skills.

Kautilya emphasised the creation of an ethical climate in the State and also suggested various measures to enhance it. He argued that bureaucratic organisations were necessary since nothing can be accomplished without them, but was also very apprehensive about the potential for corruption and the difficulty of detecting such practices. He recognised that a good system of book-keeping and auditing was necessary, but not sufficient to guarantee ethical practices. In other words, an accounting method, no matter how sound, would not defeat 'aggressive and creative' accounting practices.

Kautilya identified several types of officials who might cause loss to the treasury. A discussion of just two of the many types reveals the nature of his insights. According to Kautilya, an official who causes loss may be arrogant 'about his learning, his wealth or the support he gets from highly placed persons'. The phrase 'support he gets from highly placed persons' implies the potential for abuse from undue access to high officials. Similarly, an official may be greedy, 'which prompts him to use false balances, weights or measures or to make false assessments and calculations'. Kautilya insisted on character references before a person was hired. This practice which was started by Kautilya, still holds merit, as even today most companies prefer a reference before recruiting any

employees into their organisation.

Kautilya suggested various measures for the King to adopt to improve the ethical climate. He stated, "A King endowed with the ideal personal qualities enriches the other elements when they are less than perfect," adding, "Whatever character the King has, the other elements also come to have the same." According to Kautilya, a King should uphold the highest ethical standards and rule through his leadership and not by his authority. Among the other recommendations proposed was the establishment of an ethical code of conduct.

These remarks by Kautilya are particularly true in today's day and age because just as the King was responsible for setting ethical standards in his kingdom, the same holds true for the top management of the organisation. It is the duty of the management not just to set up a code of conduct within the organisation, but also to set up procedures which would ensure that these standards are adhered to by all employees. The code of ethics in an organisation should be set-up in a manner in which it would not only ensure that all the employees comply with applicable laws, rules and regulations, but also engage in and promote honest and ethical conduct and abide by the policies and procedures that govern the conduct of the company's business. Each and every employee of the organisation must take it upon himself to help create and maintain a culture of high ethical standards and commitment to compliance and, in the case of directors and officers, maintain a work environment that encourages employees to raise concerns to the attention of management and promptly address employee compliance concerns.

GOVERNANCE – EFFECT ON SOCIETY

An administration through its policies and control moulds the development of society. Socio-economic progress is hugely dependant on such policies. Social aspects include religions, superstitions, urbanisation, food, entertainment, women empowerment, morality, dependence, and occupations. Economic parameters include financial administration, trade policy, tax policy, labour policy, and consumer protection.

The central theme driving the policies would be to establish equality, justice and prosperity through participation, decentralisation, accountability, and transparency. *Arthashastra* was conceived to provide the norms for an efficient and well-functioning bureaucracy. Kautilya attached considerable importance to

financial management of the State, recognising that the financial strength of the State is critical in normal times as also in times of war, famine, and other calamities.

It is also to be appreciated that Kautilya recognised that the 'State should run a diversified economy actively, efficiently, prudently and profitably'. Kautilya laid emphasis on profit making and wealth creation. He viewed making profits by enterprise as pro-labour in the sense that if the enterprise is not earning profit then it is wasting the time and energy of the labour that is carrying out the task. He believed wealth creation would lead to the welfare of the State.

The earlier view that dominated the business scenario was the orthodox view according to which the sole objective of business was to make profit. The new foundation comes with the enlightened view of business where, besides earning profit, care should be taken to ensure that it is being earned through ethical means. The concept of business is now redefined and subsequently the goal of production is not restricted to mere profit making. Accordingly, the goal of every productive industry is now meant to benefit a wide cross-section of people consisting of shareholders, workers, consumers, suppliers, and finally, the whole of society. It should be made clear that the enlightened view of business does not say that profit is unimportant or that it is of no consequence. Profit making is important as it contributes towards the development of society. The companies which generate wealth are important as they can contribute towards the development of the society from which they derive their sources of generating income. Whereas any enterprise earning losses swallows the hard work of labour and is a burden on the society and the economy as a whole.

Kautilya believed in linking wages to productivity, an idea which is now being followed in the corporate world. In the age of globalisation, companies are recognising the importance of high productivity as this leads to curtailing overheads and reducing unnecessary expenditure, resulting in good returns. Also various performance appraisal programmes are being undertaken by companies to check whether employees are carrying out their tasks effectively and schemes such as productivity-linked performance bonus for achieving specified productivity levels are designed to achieve the desired growth rate.

Kautilya also dealt with the system of taxation in an elaborate and planned manner. This well-known treatise on state craft, written sometime in 300 BC when the Mauryan Empire was rising gloriously, is truly amazing, for its deep

study of the civilisation of that time and the suggestions it offers a King on how to run the State in the most efficient and fruitful manner. A major portion of *Arthashastra* is devoted to financial matters including financial administration. According to the famous statesman, the Mauryan system, so far as it applied to agriculture, was a sort of state landlordism and the collection of land revenue formed an important source of revenue. The State not only collected a part of the agricultural produce which was normally one-sixth of the total quantity, but also levied water rates, octroi duties, tolls, and customs duties. Taxes were also collected on forest produce as well as from mining of metals, *etc.*

Collection of income tax was well organised and it constituted a major part of the revenue of the State. General sales-tax was also levied on sales, and the sale and purchase of buildings was also subject to tax. Even gambling operations were centralised and tax was collected. A tax called *yatravetana* was levied on pilgrims. Though revenues were collected from all possible sources, the underlying philosophy was not to exploit or over-tax people, but to provide them as well as to the State and the King, immunity from external and internal danger. The revenues collected in this manner were spent on social services such as laying of roads, setting up educational institutions, setting up new villages, and other such activities beneficial to the community.

The reason why Kautilya gave so much importance to public finance and the taxation system in the *Arthashastra* is not far to seek. According to him, the power of the government depended upon the strength of its treasury. He stated, "From the treasury, comes the power of the government, and the earth whose ornament is the treasury, is acquired by means of the treasury and army." However, he regarded revenue and taxes as the earnings of the Sovereign, for the services which were to be rendered by him to the people, and to afford them protection and to maintain law and order. Kautilya emphasised that the King was only a trustee of the land and his duty was to protect it and to make it more and more productive so that land revenue could be collected as a principal source of income for the State. According to him, tax was not a compulsory contribution to be made by the subject to the State, but the relationship was based on *dharma*, and it was the King's sacred duty to protect the citizens in view of the tax collected. If the King failed in his duty, the subject had a right to stop paying taxes, and even to demand refund of the taxes paid.

Kautilya has also described in great detail the system of tax administration in the Mauryan Empire. It is remarkable that the present day tax system is in many

ways similar to the system of taxation in vogue about 2400 years ago. According to the *Arthashastra*, each tax was specific and there was no scope for arbitrariness. The schedule of each payment, and its time, manner and quantity were pre-determined. The land revenue was fixed at 1/6th share of the produce and import and export duties were determined on ad-valorem basis. The import duties on foreign goods were roughly 20% of their value. Similarly, tolls, road cess, ferry charges, and other levies were all fixed. Kautilya's concept of taxation is more or less akin to the modern system of taxation. His overall emphasis was on equity and justice – the affluent had to pay higher taxes as compared to the not-so-fortunate. Students, people suffering from diseases, or minors were exempted from tax, or given suitable remissions. The revenue collectors maintained updated records of collection and exemptions. The total revenue of the State was collected from a large number of sources.

Kautilya placed land revenues and taxes on commerce under the head of 'tax revenues'. These were fixed taxes and included half-yearly taxes like *Bhadra*, *Padika*, and *Vasantika*. Custom duties and duties on sales, taxes on trade and professions, and direct taxes comprised the taxes on commerce. The nontax revenues consisted of produce of sown lands, profits accruing from the manufacture of oil, sugarcane and beverage by the State, and other transactions carried on by the State.

Kautilya also laid down that during war or emergencies like famine or floods, etc., the taxation system should be made more stringent and the King could also raise war loans. The land revenue could be raised from 1/6th to 1/4th during emergencies. The people engaged in commerce were required to pay big donations to war efforts.

Taking an overall view, it can be said that Kautilya's *Arthashastra* was the first authoritative text on public finance, administration and the fiscal laws of this country. His concept of tax revenue and non-tax revenue was a unique contribution to tax administration. It was he who gave tax revenues due importance in the running of the State and pointed out its far-reaching contribution to the prosperity and stability of the Empire. It is truly a unique treatise. It lays down in precise terms the art of statecraft including economic and financial administration.

GOVERNANCE – EXPLORED

*Saktah karmany avidvamso, yatha kurvanti bharata,
Kuryad vidvams tathasaktas cikirsur loka-sangraham,
Na buddhi-bhedam janayed, ajnanam karma-saginam,
Josayet sarva-karmani, vidvan yuktah samacaran.*

(Bhagavad Gita, Chapter 2)

As the ignorant perform their duties with attachment to results, the learned may similarly act, without attachment, for the sake of leading people on the right path. So as not to disrupt the minds of ignorant men attached to the fruitive results of prescribed duties, a learned person should not induce them to stop work. Rather, by working in the spirit of devotion, he should engage them in all sorts of activities.

As rightly said by one of our technocrat leaders, in the current scenario, socio-economic decisions cannot be taken in political vacuum. There are leaders who play to the masses. Their idea is to maintain their vote banks without caring about long-term benefits for everyone. Here again one could look to the *Bhagavad Gita* for guidance. Lord Krishna appreciates that many people perform their duties with some personal gain in mind. He explains that it is the duty of the learned to guide others on to the right path without stopping them from performing their duties.

Governance quality can be measured on three parameters:

1. Accountability
2. Integrity
3. Transparency

A governance system should measure well in each of the above three parameters to be regarded as sound and sustainable. It has been historically observed that governance systems have evolved over a period of time to imbibe all these three qualities. Governance in the developed countries would measure well in these aspects.

Kautilya stressed that governance should be discharged with a sense of pragmatism. He recognised that the economic welfare of subjects and private businesses is not in conflict with the welfare of a State. Extending this thought, he enunciated the importance of promoting free trade practices and building

institutions. He propagated wealth creation justifying it as crucial for establishing a welfare state. Entrepreneurship and astute strategy were the resources identified by him for paving the way towards economic prosperity.

Astute strategy for Kautilya meant employing the four tenets of *saam*, *daam*, *dand*, and *bhed* as various different and sequential means to achieve an end (*saam* – persuasion; *daam* – temptation; *dand* – punishment; *bhed* – division). In *Arthashastra* he dwells at length on different aspects of governing including social, political, and economic administration. His thoughts work under the assumption that 'the source of livelihood of men is wealth'. He also draws the corollary that the wealth of a nation is both the territory of the State and its inhabitants who may follow a variety of occupations. Thus *Arthashastra* could be viewed as a work about the 'Science of Economics'.

The aim of pursuing successful economic policies, particularly through productive enterprises, is also to increase the revenues of the State and appropriate the surpluses for the State Treasury. A balance has to be maintained between the welfare of the people and augmenting the resources of the State. This presupposes two things – maintenance of law and order, and adequate administrative machinery.

GOVERNANCE MODELS

All across the world, various governance models/ideologies have been implemented and tested. Some of them are:

1. Monarchy
2. Fascism
3. Socialism
4. Democracy

We could judge them by Kautilya's principles, and rate them on their accountability, transparency, and integrity.

MONARCHY

A monarchy is a form of government that has a monarch as the Head of State.

One of the distinguishing characteristics of monarchy is that the Head of State usually reigns for life; in a Republic, the Head of State (often called the President) is normally elected for a certain time period. There are currently 29 extant monarchies in the world.

Since 1800, many of the world's monarchies have ceased to have a monarch and have become republics, or become parliamentary democracies. Democratic countries that retain monarchy have by definition limited the monarch's power, with most having become constitutional monarchies.

In an absolute monarchy, the monarch has power over every aspect of the state, and a constitution may be granted or withdrawn, while in a constitutional monarchy he is subject to it as well as any citizen (though it may grant him such privileges as inviolability). Modern versions tend to survive only in societies with sufficient technology to allow the concentration and organisation of power, but not to allow education and rapid communication. The economic structure of such monarchies is often of concentrated wealth, with the majority of the population living either as agricultural serfs, or, as in Gulf monarchies, a paternalistic model showering benefits on the citizens (while politically they may remain subjects) and importing cheap foreign labour.

Kautilya wrote *Arthashastra* in an era when monarchy was prevalent. It needs to be kept in mind that Kautilya is not the originator of *Arthashastra* but that he relied on similar treatises from the past. It can be observed that this model relies more on *dand* and *bhed*. The qualities of a monarch would translate into the quality of monarchy. The general masses would be subjugated to a single individual's wish. As people become conscious about their rights, such monarchies either had to adapt or fade out of existence.

The idea of adaptation was to imbibe qualities of accountability, transparency and integrity. Towards this end, constitutional monarchies took shape. In a constitutional monarchy the electorate is given importance. In such monarchies, the monarch serves as a symbol of continuity and statehood. Many monarchies are constituted by tradition or by codified law so that the monarch has little real political power. The power would vest with the Parliament or the Executive Council.

FASCISM

Merriam-Webster defines fascism as "a political philosophy, movement, or regime that exalts nation, and often race, above the individual and that stands for a centralised autocratic government headed by a dictatorial leader, severe economic and social regimentation, and forcible suppression of opposition." The *American Heritage Dictionary* describes it as "A system of government that exercises a dictatorship of the extreme right, typically through the merging of state and business leadership, together with belligerent nationalism." Mussolini, one of the main proponents of Fascism, defined it as a right-wing ideology in opposition to socialism, liberalism, democracy, and individualism.

Fascism is characterised by a very high degree of nationalism, economic corporatism, a powerful, dictatorial leader who portrays the nation, state or collective, as superior to the individuals or groups composing it. Fascism is also typified by totalitarian attempts to impose state control over all aspects of life – political, social, cultural, and economic. The fascist state regulates and controls (as opposed to nationalising) the means of production. Fascism uses explicit populist rhetoric; calls for a heroic mass effort to restore past greatness; and demands loyalty to a single leader, often to the point of a cult of personality.

Analysing this model from governance perspective, one could appreciate that the base ideology is that of a group's requirement taking predominance over individuals. One could assume that integrity is a necessary part of such ideology. However, the other qualities – accountability and transparency – are vitiated. Due to its totalitarian nature, the system is prone to excesses. Under the camouflage of nationalism, many personal causes could be forwarded.

This model also extensively relies on *dand* (punishment). With people involved, a governance model has to be a blend of all the four tenets. A bias towards one will result in the model being rejected. After the defeat of Fascist Italy and Nazi Germany in World War II, the term has taken on an extremely pejorative meaning, largely in reaction to the crimes against humanity committed by the Nazis. Today, very few groups proclaim themselves as fascist, and the term is often used to describe individuals or political groups who are perceived to behave in an authoritarian or totalitarian manner; by silencing opposition, judging personal behaviour, promoting racism, or otherwise attempting to concentrate power and create hate towards the 'enemies of the state'. Because of the pejorative meaning of the term there is a great deal of controversy surrounding the question of what political movements and governments belong to fascism.

SOCIALIST DEMOCRACY

Socialism is an ideology of a social and economic system where the means of production are collectively owned and administered by all of society. Amongst other things, this is intended to produce a more evenly spread distribution of wealth. 'Socialist' ideologies tend to emphasise economic cooperation over economic competition; virtually all envision some sort of economic planning (many, but by no means all, favour central planning). All advocate placing at least some of the means of production – and at least some of the distribution of goods and services – into collective or cooperative ownership. The idea of abolition of private property became a part of the idea in the early 19th century.

Historically, the ideology of socialism grew up hand in hand with the rise of organised labour. In many parts of the world, the two are still strongly associated with one another; in other parts, they have become two very distinct movements.

This model imbibed most of the qualities that Kautilya envisaged as a governance model. The welfare of the state/ group was given importance. As the group was also responsible for regulations, integrity and accountability were assured. Representation from the masses in governance germinated in this model. There was a feeling of belonging that began to grow.

However, this system did not adequately recognise the importance of "*Bhed (Differentiation)*". As human beings, everyone likes to be appreciated and rewarded for specific achievements. Not only are the group's benefits to be protected, but individual wants also need to be addressed. In the absence of such incentives, performance gets affected. This results in discontent.

The Founder Fathers of Independent India were drawn to the socialist model. Given the state of affairs in those times, such models also seemed pertinent. With around two centuries of British rule, the common Indian would have lacked entrepreneurship abilities. Further, the availability of resources to support business was limited. As a result, central planning and allocation of scarce resources into avenues of prime importance made sense.

Thus, most of the production facilities were owned by the government. Employment opportunities were centralised. Industrial licensing was introduced to control and monitor private enterprises. The idea behind such legislations was to offer a cross-section of people, an environment conducive to growth and prosperity. However, too much of power started resting with the executive

bureaucracy. Such concentration of power led to corruption. Integrity of the governance machinery started rusting. Accountability could not be imposed due to the lack of differentiation mechanisms between performance and non-performance.

With the economy in dire straits, the governance machinery had to be overhauled. The first step towards this was taken up in early 1990s. India started recognising capitalism in a better light. The governance strategy was moulded in line with Kautilya's ideas and *bhed* was accepted as an important strategy to promote state welfare. Our system has now evolved into a 'mixed democratic economy'.

CAPITALIST DEMOCRACY

Capitalism has been defined in various ways. In common usage, it means an economic or socio-economic system in which the means of production are overwhelmingly privately owned and operated for profit, decisions regarding investment of capital are made privately, and where production, distribution, and the prices of goods, services, and labour are affected by the forces of supply and demand.

While most people regard the Western developed countries as capitalist, some of these economies may be more strictly called 'mixed economies', because they contain state-owned means of production and significant government economic interventionism.

This is by far the most sustainable governance model that one could currently observe. It could also be called a successful model as countries practising this system have attained a high level of economic prosperity. This overcomes all major drawbacks of other models discussed before. India has seen its prosperity levels increasing after adoption of certain capitalist ideologies.

A set of broad characteristics are generally agreed on by both advocates and critics of capitalism. These are as follows (along with comparisons with Kautilya's ideology):

1. Private sector and private property – acceptance of principle of differentiation
2. Free enterprise – Kautilya insisted on deregulation of trade and promotion of administrative machinery

3. Profit – the temptation to undertake work diligently
4. Unequal distribution of wealth – all the above resulting in wealth discrimination which in turn results in greed and which drives efficiencies higher
5. Competition, self-organisation, the existence of markets (including the labour market) and the pursuit of self-interest – these factors aid in maintaining the qualitative characteristics of accountability, transparency, and integrity.

GOVERNANCE: CORPORATE LEVEL

In the current corporate and management scenario, we find a lack of business ethics. Even though modern corporations have developed a basic framework of 'Corporate Governance' it has merely become yet another piece of document which the management signs. Even some of the top multinationals have a very well-defined corporate governance structure. However, the practical applications are hardly being noticed. This has become a very serious problem when one considers that corporations are becoming the prime movers of society. Corporate governance is not a new concept and has been in existence in Asia from the early days of civilisation. But, with rapid changes in the business environment, such as globalisation, deregulation, disintermediation, institutionalisation, and tax reforms, the concept and scope of corporate governance needs to be re-shaped and reinforced.

Corporate governance is a process or a set of systems and processes to ensure that the company is managed to suit the best interests of all. The systems which can ensure this may include structural and organisational matters. The stakeholders may be internal stakeholders (promoters, members, workmen, and executives) and external stakeholders (shareholders, customers, lenders, dealers, vendors, bankers, community, government, and regulators).

Corporate governance is concerned with the establishment of a system whereby the directors are entrusted with responsibilities and duties in relation to the direction of corporate affairs. It is concerned with accountability of persons who are managing it, towards the stakeholders. It is concerned with the morals, ethics, values, parameters of conduct and behaviour of the company and its management.

The concept of corporate governance hinges on total transparency, integrity and accountability of the management, which are the very same principles that were

considered the pillars of good governance by Kautilya. It is a system of making the management accountable to the shareholders for the effective management of the company, in the interests of the company and also with adequate concern for ethics and values. Corporate governance recognises issues like maintaining continuity by succession planning, identifying opportunities, facing challenges, and managing changes within the business and allocation of resources towards the right priority.

Corporate governance deals with laws, procedures, practices, rules, *etc.* relating to corporate functioning in our country. The emerging new global investment environment is forcing companies to follow more and more stringent practices. However, the decision to practice good governance is a subjective managerial decision, and hence involves an element of trust.

Corporate Governance mainly consists of two elements:

- Long-term relationship, which has to deal with checks and balances, incentive of managers and communications between management and investors.
- Transactional relationship involving matters relating to disclosure and authority.

The Indian corporate sector is at the crossroads as far as the legal structure and internal management, control, and administration of corporations is concerned. It is faced with numerous issues demonstrating the ineffective implementation of laws and the code of business ethics. If certain instances of malpractices, tax evasion, and management infighting are any evidence, the corporate sector and the government need to have an urgent look at the whole scenario prevailing in the country to ensure good corporate governance.

Qualitative improvement in corporate governance in our country, is based on a code of good corporate practices and meaningful disclosure of information to shareholders which holds the key to corporate success. This is necessary in the context of the changing profile of corporate ownership, with the increasing flow of foreign investment, preferential allotment of shares to the promoters of companies and the new role being given to mutual funds. This means better governance and management of corporate bodies, prompt compliance of legal and financial obligations and adherence to ecological and environmental standards. The benefit of such governance must accrue to the investors,

customers, lenders of finance and to the society at large.

Kautilya understood the importance of accountability and transparency for the effective administration of the State. However, even in contemporary society, principles of corporate governance are founded on transparency, responsibility, accountability, and fairness.

Corporate governance represents the moral framework, the ethical framework, and the value framework under which an enterprise takes decisions. Corporate governance essentially consists of three aspects – the first is transparency in operations. Greater the transparency, lesser the scope for corrupt practices or mischief, as the risks and the benefits will be clearly understood by all who are investing in a capital market or an enterprise. This form of transparency is not just restricted to corporates and business houses, but also to the government. With the introduction of the Right to Information Act by the government, it clearly reflects a national policy shift in public administration from a culture of confidentiality to one of openness. The Act allows anyone the right to access all types of recorded information held by a public authority, subject to certain limited exceptions.

The second aspect is accountability, which follows from transparency because responsibilities should be fixed easily for actions taken, or not taken. In a transparent process, everybody knows how a decision is taken and it is easy to identify those who are guilty and take action against them. The third aspect of good governance is giving value to investors in terms of creation of wealth, reasonable returns and good market capitalisation.

When investments take place in emerging markets, the investors want to be sure that not only are the capital markets or enterprises, with which they are investing, managed competently, but that they also have good corporate governance. In other words, when investments take place across national borders, the investors want to be sure that not only is their capital handled effectively and adds to the creation of wealth, but the business decisions are taken in a manner which is not illegal or involving moral hazards.

However, in the same context, Kautilya in his *Arthashastra* mentioned the appointment of spies to ensure a system of vigilance to monitor various departments. In a real sense this may not be considered as an audit but it served the functioning of an audit, i.e., of keeping a check on the various functions of

the business entity. Thus, the role of the audit committees is of more significance in modern day business.

Managing corporate governance is a complicated task as many corporates in India are family-managed and some are professionally managed. Governing a family business is more complicated because of the central role played by the family that owns and typically leads the business. In a family business, the business, the family, and the ownership group all need governance. In family businesses (companies whose ownership is controlled by a single family) and other kinds of family enterprises including family foundations and family investment funds, the lack of effective governance is a major cause of organisational problems. In case of family owned businesses, good and efficient governance results in three fundamental ingredients for success:

- Clarity on roles, rights, and responsibilities for all members of the three circles
- Encouraging family members, business employees, and owners to act responsibly
- Regulating appropriate family and owner inclusion in business discussions

In the present day scenario, investor protection is a matter of paramount importance. Securities and Exchange Board of India (SEBI), as a regulator, has been charged with the statutory responsibility in this regard and is concerned with corporate governance, so as to overcome any jurisdictional impediment. The company law on the other hand takes care of the basic requirement of the form of corporate governance structure; SEBI is concerned with the dynamic substance of corporate governance practice. Kautilya says in *Arthashastra*, "To be good is noble; to tell the people how to be good is nobler." SEBI is engaged in such a 'nobler' endeavour!

In India, the debate of corporate governance was initiated after a Code was presented by the Confederation of Indian Industry (CII) in 1997, which was followed by a number of other committees and task-forces. The enforcement of codes for good corporate practices has become relevant and is important for the future of corporates in India. The Birla Committee helped create a fresh momentum in the debate of corporate governance by issuing specific clauses in the Listing Agreement as prescribed by SEBI. The Birla Committee was followed by the Narayana Murthy Committee (appointed by SEBI) and the

Naresh Chandra Committee (appointed by Department of Company Affairs) which focused on issues of transparency and accountability dimensions in the board process. The Naresh Chandra Committee Report was based on the audit function and audit committee of the board.

SEBI has revised Clause 49 of the listing agreement to improve the standard of corporate governance in India. These changes primarily strengthened the requirements in the areas of board composition and procedures, audit committees and its responsibilities, risk management and most important of all, the clause requires the CEO/CFO to certify that the financial statements do not contain any materially untrue statement, nor any significant omission or any misleading statements. It also requires them to state that they have evaluated the effectiveness of the internal control systems and have disclosed to the auditors as well as the audit committee of any deficiencies in design and operation of internal controls. The decisive reason for the inclusion of this particular clause is to make the top managements more accountable for their decisions in the workings of the company.

The regulatory and legislative framework can only make more efficient the existing practices of corporate governance, but the corporates also have to be self-driven so as to run the organisation by paying attention to accountability and transparency, so as to propagate a well-articulated message that in the long run, ethical behaviour and efficient social corporate actions go hand in hand to promote good corporate governance, and thus bring about sustainable profitability of the companies.

CONCLUSION

*Etany api tu karmani, sangam tyaktva phalani ca,
Kartavyaniti me partha niscitam matam uttamam.*

(Bhagavad Gita, Chapter 18)

All these activities should be performed without attachment or any expectation of result. They should be performed as a matter of duty, O son of Partha. That is my final opinion.

Governance is a function which needs to be discharged with utmost goodwill. The leader, or the ruler, should selflessly devote his time towards the betterment of the society he resides in.

As Kautilya writes:

*Prajasukhe sukham rajah, prajahnam ca hite hitam,
Natmapriyam hitam rajah, prajanaam tu priyam hitam*

In the happiness of his subjects lies the king's happiness; in their welfare his welfare. He shall not consider as good only that which pleases him but treat as beneficial to him whatever pleases his subjects.

Kautilya's *Arthashastra* is a unique Indian text that hasn't lost its relevance in contemporary India. The very reason that this book appeals to our generation, even after over 2400 years, shows that Kautilya has fine-tuned each concept in great detail, proving his farsightedness. Kautilya stated that the King should rule his State and take care of his subjects and also look after the overall development of the society, similarly, today a company's board of directors acts on behalf of the shareholders and safeguards their best interests at all times. Even though the responsibility of managing the company's affairs is left in the hands of the executive officers, it is the board of directors who oversees and monitors the work on a regular basis. This very concept of 'agency theory' can be charted back to Kautilya's times.

Therefore in the 21st century, stability and prosperity will depend on the creation of strong corporate governance systems. It is important that the momentum for reform of corporate governance regime be maintained. The principles of corporate governance which have been handed over to us by Kautilya, can help in the process. Even though they might not be able to prevent future shocks, they could prevent a setback from becoming a crisis.

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KAUTILYA'S ARTHASHASTRA: AN OVERVIEW

1

In third century BC lived Kautiliya, one of the most fascinating characters in Indian history. His seminal work, *Arthashastra*, ought to be read by all, be they statesmen, business managers or academic scholars.

Indeed, Kautiliya's *Arthashastra* is being studied, not only in India, but everywhere in the world, for its deep insights and relevance, even 2400 years after it was written. In order to truly appreciate the significance of *Arthashastra*, it is necessary to go back in time and study ancient Indian culture. Kautilya belonged to the Magadh State, which corresponds to present day South Bihar. Magadh was then the biggest state in India. Kautilya (who was also called Chanakya or Vishnugupta) studied at one of the world's oldest universities, Takshasila University. The subjects studied there were politics, defence, architecture, medicine, and a few others. He joined Chandragupta Maurya's empire, after a brief stint with the previous Nanda Dynasty. He served as the *Mahaamatya*, in the Mauryan empire, a post similar to the present day Prime Minister and, thus, possessed rich experience in political administration and defence matters. Eventually, Kautilya became an intelligent scholar, fearless thinker, capable secretary, and astute politician.

Later, he retired from active politics and took upon the monumental task of writing the *Arthashastra*. Being a profound scholar, he studied the literature available to him on subjects like philosophy, religion, politics and diplomacy. However, he came out with an independent account and commentary of his own in the form of *Arthashastra*. This document is more a tome than a book on economics. Kautilya wrote a comprehensive account encompassing political administration and defence matters. In the process, he came to the conclusion that **economics was the most important aspect of public life** as it provided the basis for human existence and survival.

Kautilya concentrated on things that were relevant to his time, viz., agriculture, cattle-breeding and trade. However, while commenting on other matters of administration, Kautilya made reference to different dimensions that have a strong bearing on economics. Thus, Kautilya provided a detailed analysis of public finance, taxation, public expenditure, and investments, appointment of ministers and other state officials and many other matters concerning governance of the state.

Of special interest to the readers in India would be an **elaborate description of how public funds can get misappropriated** and how such practices could be contained and controlled. As for agriculture, Kautilya went into minute details about cultivation, farming and trading transactions essentially in farm products. Looking at the whole document, it can definitely be said that Kautilya was attempting to set down ways of achieving 'excellence in economic and business management'.

ECONOMIC THOUGHT PROCESS

Kautilya's major contribution to the economic thought process could be seen in the area of public finance. He attached considerable importance to financial management by the State recognising that the **financial strength of the State is critical in normal times as also in times of war, famine, and other calamities**. Kautilya referred to seven different sources of revenue, classifying them as routine sources (like taxes on land and commerce) and additional sources (such as interest and profits). At the same time, he enumerated 15 heads of expenditure. While levying taxes, **he advocated fairness and equity as the basis of taxation**. He also made a strong case for avoiding discontent among the taxpayers, as the welfare of citizens was uppermost in his mind. The concept of subsidies and exemptions seems to have prevailed in Kautilya's times too. He indicated that these exemptions should be judiciously planned and provided to women, minors, students, disabled and others.

While commenting on public finance, Kautilya showed remarkable foresight and suggested ways for **investments in virgin land, dams, tanks, irrigation and mining**. How relevant this is even today can be seen from the mention made about conservation of water resources in the last two Budgets. These assets undoubtedly were of critical importance in Kautilya's times from the point of view of economic planning. It is necessary to extend this logic and prepare an exhaustive list of productive assets in the context of a modern economy like

India. Kautilya's suggestions as regards investments are admirably suited to India and important lessons can be drawn from *Arthashastra* in this regard.

Equally important is Kautilya's contribution in the management of agriculture which he believed was the basis for any economy. Kautilya pointed out that, besides providing foodgrains to feed the people, agriculture also provided revenue, employment and food for the army personnel to the State and, hence, he treated land as a very important asset. He had an exhaustive methodology for cultivation, selection of seeds and, more importantly, forecasting weather conditions, and rainfall. Given the fact that this was done 2400 years ago, it is remarkable that he advocated a scientific approach to farm operations and management.

Kautilya classified land into arable and non-cultivable land. Arable land was given to the farmers for life only and **Kautilya insisted that taxes were paid by farmers**. India, at present, is engaged in a debate about tax on agricultural income, which still remains inconclusive. Kautilya provided a rational defence of his decision. He also advocated that rich farmers be taxed at higher rates. Kautilya argued for **maintaining data on agriculture**, since this provided necessary information for revenue assessment and collection. He made suggestions for the improvement of land records too. This is yet another subject which needs to be emphasised in the present context as many Indian states do not have proper land records. Absence of land records inhibits the carrying out of land reforms.

Kautilya also pointed out that irrigation should be planned and there should be a provision for buffer stock, which is a State responsibility. Kautilya realised the need to give relief to needy citizens and hence suggested that **tax-free land should be allocated to certain specified categories of people**.

Kautilya wrote a very scientific and articulate book on agricultural economics. It is amazing that he showed such great vision and foresight while talking about agriculture, which ensured a sustainable basis for human existence and livelihood.

TRADE AND COMMERCE

Kautilya's *Arthashastra* also discusses trade and commerce. Trade, whether in farm goods or other manufactured items, was largely under the control of the

State during his time. Trading operations were supervised and controlled by the Superintendent of Trade. The prices of traded goods were fixed by the State after undertaking the process of costing, allowing a profit margin of 5% on domestic goods and 10% on foreign goods. In his book, exports and imports refer not to foreign countries, but to neighbouring Indian states. Kautilya laid down procedures for such foreign trade transactions, along with methods for price fixation too.

Kautilya attached **considerable importance to weights and measures** used for trade, which were standardised in those days. While the medium of exchange was silver and copper coins, barter was practised whenever necessary. Kautilya also made suggestions for the **development and maintenance of trade routes**. Today, we talk about the importance of the Golden Quadrilateral highway! It must be remembered that Kautilya emphasised that **interests of traders, consumers and the ruling state** must be borne in mind while organising trade and commerce. He had the concept of welfare state on his mind in all his teachings. This is interesting, because today, balancing various interests in order to introduce VAT has become a major issue.

We also find references to industry, mining and manufacturing in Kautilya's *Arthashastra*. Not modern industry, of course, but industries that existed then. Reference is made to the textile industry engaged in the production of wool, bark fibre, cotton and hemp. Chariots were used in those times and hence, industrial activity in the manufacture of such items existed in Kautilya's times.

Apart from investment of State funds in mines, Kautilya made suggestions for **renewal and renovation of discarded mines**. It is interesting that gold and silver held great appeal in Kautilya's times too. Besides, mines for copper, lead, tin, and iron ore were developed. Manufacture of defence weapons, coins and implements for farming operations were undertaken in those times. There existed a total State monopoly on mining and manufacturing and the private sector did not exist in any form in these sectors. The State enjoyed a commanding position on treasury and defence operations and hence its total control on the relevant industrial activity.

LABOUR POLICY AND HRD PRACTICES

Kautilya devoted a lot of his attention to labour policies and human resource development matters. However, these were with reference to State service and

procedures to be followed by the State for the recruitment of ministers, secretaries and other officers. Besides, **detailed procedures were indicated for conducting tests, fixing remuneration, for rotation of duties, and promotions.** While laying down these guidelines, Kautilya opined that the **treatment of the labour force had to be fair, yet strict.** Even though the concept of HRD has not been mentioned specifically in Kautilya's *Arthashastra*, all these guidelines give an impression that Kautilya was propounding 'human resource development' in a detailed manner. He believed in the welfare state and his labour policy and administrative procedures were in tune with that spirit in a broad sense.

Kautilya put forward an elaborate process of selection of ministers, secretaries, palace attendants, financial accountants, administrative officers, secret agents, and ambassadors of State. Apart from their technical competence and knowledge, Kautilya stipulated that qualities, such as, spirit, intelligence, integrity and loyalty must be thoroughly examined. Kautilya also indicated methods for salary fixation and insisted that there be differentiation in salary in order to compensate officers with superior qualities. He also explained how duties and responsibilities of State officers should be fixed and what penalties should be imposed for non-fulfillment of duties.

Kautilya was also aware of the need for education and training of the different functionaries. He drew up detailed instructions about the training and familiarisation of the King and the heir apparent with various subjects relevant to administration and defence.

HRD matters have become very important in India. The new economic regime, with its focus on globalisation, has made it imperative to adopt an appropriate HRD approach. Lessons can be drawn from Kautilya's *Arthashastra* on how HRD can be conveniently tackled in the current economic circumstance prevailing in India.

GOVERNANCE

It is finally necessary to understand the concept of governance, as explained by Kautilya. He wrote about governance in the context of a monarchic State and the principles enumerated by him were with reference to governance of such a State. The CEO of the State is the King and Kautilya described in detail the King's duties, his background, and his supreme position in all matters concerning the

State. Kautilya prescribed a **comprehensive daily routine, divided into seven phases** from early morning to late evening, so that the King's time was spent effectively on efficient administration. According to Kautilya, the King should possess knowledge of philosophy, old scriptures, political ethics, diplomacy, and the functioning of the economy.

In terms of good governance, Kautilya commented that the King should administer law and justice. He said that the King was the final arbiter and the fountain of justice. The classification of legal matters into civil and criminal is found in Kautilya's *Arthashastra*. He laid down elaborate guidelines for administering justice in terms of evidence, procedures, and witnesses. Kautilya strongly believed in *Dandniti*, though he maintained that penalties must be fair and just, and proportionate to the offence committed.

As for the State's political administration, Kautilya provided a full-fledged commentary on how this should be effectively undertaken. He gave instructions about the defence of the State's boundaries, protection of the forts, and the manner in which an invasion by the enemy should be handled. The day-to-day functions to be performed by the prince, ministers and other state officials were described by Kautilya. He also assigned importance to expanding and consolidating the State's position. Kautilya was preoccupied with the task of consolidation of the Maurya Empire into a unified central regime and having achieved these goals, he knew exactly how this task could be accomplished. Kautilya believed in the end result and hence was not too sensitive about the means deployed. He upheld moral and ethical standards in his personal life. However, he was straightforward in recommending means, fair or foul, in achieving the goals of the State. In fact, many scholars criticised him on this score.

Yet another aspect of good governance enumerated by Kautilya concerns **misappropriation of state funds**. He prepared an exhaustive list of dubious methods employed for embezzlement of funds and other similar malpractices. He explained how checks and balances should be administered for the containment of malpractices. This is perhaps among the most important lessons that can be learnt by the administrators of India. Identifying corrupt practices and prescribing strict and stringent remedies and penalties for the containment of such practices is the most urgent task and challenge faced by India. The enforcement machinery could benefit from the study of Kautilya's *Arthashastra* specifically from this point of view.

RELEVANCE OF KAUTILYA'S *ARTHASHASTRA*

A deep understanding of Kautilya's *Arthashastra* would offer important lessons in contemporary times too. Even though the circumstances prevailing in Kautilya's times were vastly different, his teachings have a universal appeal. He was charting a path for economic prosperity through entrepreneurship and astute strategising to achieve prosperity under any situation. Kautilya realised that wealth creation was crucial for establishing a welfare state. He outlined and advocated appropriate strategies for creation, protection and conservation of a nation's wealth.

Kautilya's specific commentary on areas like public finance and treasury, investments in productive assets, techniques of agriculture and cattle breeding, and trade and commerce would be found to be very useful and relevant to this day. Obviously, these strategies need to be suitably adapted, given the prevailing political and social environment as also the availability of advanced technologies. Apart from these specific issues, Kautilya's *Arthashastra* could be treated as the quintessence of the art of good governance.

Apart from broad principles of governance, Kautilya provided techniques for enforcement of law and justice. The universality of his teachings stems from his focus on techniques required to enforce principles. His sense of pragmatism in matters of governance needs to be imbibed by politicians and practising managers, apart from research scholars.

India is endowed with a rich treasure trove of knowledge, with books such as *Arthashastra* and other such documents that have been well-preserved over many centuries. The present day economic administrators would immensely benefit from Kautilya's teachings with suitably adapted applications in diverse areas of our economy.

Kautilya's emphasis on excellence in economic and business management remains relevant in today's globalised environment.

KAUTILYA AS AN ECONOMIST

2

In Kautilya's *Arthashastra*, there are a number of economic concepts and ideas which have parallels in the modern theory of economics. Often Kautilya's economic theories are implicit rather than explicit, which is understandable because he did not write a book on economics as we know it to be today. The economic ideas expressed in the *Arthashastra* are not new to the modern economist, but what is amazing is that Kautilya had developed these thoughts some 2, 400 years ago. Many of the same ideas have been rediscovered and restated since his time.

Perhaps one could call Kautilya the 'Father of Economics in India'! If one were to read his thoughts on domestic commercial policies, one knows that he understood well the relationship between demand and supply in the determination of price. He even wrote about the estimation of demand and control of supply. According to him, a **king should not arbitrarily fix the price of a product without regard to its supply and demand.** Even today, largely for social considerations, prices of certain products are arbitrarily fixed, which have their effects on other areas, usually fiscal. For example, kerosene is subsidised for social reasons, as it is a cheap fuel. This subsidy is borne by the State, and State-owned oil companies. However, it is also misused as a substitute for diesel, which harms the environment.

Kautilya advocated the concept of '**just price.**' The 'just price' was designed to maintain the incentive for business people by allowing them five to ten per cent profit in their operations. As State-owned businesses competed with private businesses, the conflict of interest was clear. Kautilya suggested some parity in price be maintained such that the private sector was not choked off. He indicated that an arbitrary price cannot be dictated from above without regard to the cost of production, the ratio of supply to demand, a reasonable level of profit, *etc.* When there was a glut of any commodity, the State (designated state official

Panyadhyaksa) was expected to intervene and centralise the sale of that commodity so that the price did not slump. Apparently, the entire supply was purchased and its sale carried out through the agency of the state at a fixed price.

All in all the text reveals a definite attempt to strike a reasonable balance between the interests of the state, the traders and the consumers. Often however, the interests of the consumers are regarded as supreme. The *Panyadhyaksa* was expected to be an expert in determining the values of various commodities and always be updated with the demand and supply situations of the commodities involved. Any kind of price collusion by the groups and associations of merchants was discouraged by heavy fines.

FOREIGN TRADE

Well before the World Trade Organisation, Kautilya clearly understood the advantages of foreign trade and strongly encouraged it. In fact, he recommended that experts be sent to study foreign markets and determine which commodities could be imported and exported profitably. He encouraged imports but understood that it could not be a one-way trade; hence, for 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 a successful trade contract can be established, it must be beneficial to all countries involved**, surely a principle that would underlie modern day trade agreements between countries. There must be a price advantage and a profit to be made. Hence, the possibility of increased consumption and a profit motive seem to be the dominant factors in encouraging foreign trade. Foreign trade, however, was regulated – not everything could be imported or exported. Kautilya laid down general and specific policies regarding all aspects of trade, which seem too complex and strangely modern.

TRADE POLICY

There was a clear-cut role for the State in seeking and analysing 'market access.' In some ways the role envisaged by Kautilya for the State in seeking foreign markets, i.e., analysis of price and demand, tariff and transportation costs and market information, is very similar to the brief of modern Trade Policy Departments in various countries.

"Having ascertained the value of local produce as compared with that of foreign

produce that can be obtained in barter, the superintendent will find out (by calculation) whether there is any margin left for profit after meeting the payments (to the foreign King) such as the toll (sulka), road—cess (vartanf), conveyance-cess (ativahika), tax payable at military stations (gulmadeya), ferry charges (taradeya), subsistence to the merchant and his followers (bhakta), and the portion of merchandise payable to the foreign King (bhága)."

For Kautilya, **information gathering and lobbying was a prerequisite for trade activities**, "having gathered information as to transactions in commercial towns along the banks of rivers, he (the officer) shall transport his merchandise to profitable markets and avoid unprofitable ones."

RISK AND UNCERTAINTY

Kautilya related the levels of risk and uncertainty to levels of profits and interests. He opined that higher levels of risk and uncertainty need to be compensated by the chance of receiving higher profits or interest. For example, he recommended the allowable profit on imports to be twice as high as on domestic goods. The associated risk was considered to be an important reason for allowing 10% of profits on imports and only 5% on domestic products. This was because not only did imports require a lock-in of large amounts of capital, but also because of the danger of goods being stolen in transit.

Showing an early understanding of risk and reward, Kautilya provides a very detailed analysis of interest rate structures and the importance of having correct structures of interest rates and debt recovery mechanisms. Kautilya provides for different interest rate structures for different sectors of the economy. He states, "Five *panas* per month per hundred is commercial interest (*vyāvahāriki*); ten *panas* per month per hundred prevails among forests; twenty *panas* per month per hundred prevails among sea-traders (*sāmudrānām*)," clearly showing that the riskier the venture, the greater the interest should be taking into account the higher risk. **Kautilya believed that the State should have some watch over commercial activities that affect the general welfare of the State**, i.e., "The nature of the transactions between creditors and debtors, on which the welfare of the kingdom depends, shall always be scrutinised." This idea is similar to present day systems of 'watchdogs' that supervise commercial activities (Central Banks, Securities and Exchanges Boards, etc.) and provide legitimacy and security to them to make the business environment robust.

Unlike Aristotle, who considered charging interest on loans as unjust, **Kautilya outlined a structure of rates based upon the type of loans, factors affecting interest rate, methods of calculating interest and the circumstances when interest may not be collected by the lenders.** Interest rates in his time varied from 1.25-2% per month, primarily, depending upon two factors – the risk involved and the potential productivity of the money borrowed. The interest rate on secured loan for personal needs such as to meet marriage expense was at the lower end of the spectrum, at 1.25% per month. The rate was higher for trade. In the case of ordinary local trade the rate was five per cent per month, but the rate doubled for those trading in forest products. The traders who travelled to forest areas were subjected to greater risk from animals and robbers; further, the business in forest products was more profitable. The highest rate of 20% per month was charged to those who engaged in overseas trade, considered to be the most risky but also the most profitable of businesses. Commercial bankers today would salivate at the thought of such rates!

The rate of interest was also high on loans taken by a group of people, rather than that taken by an individual. It was felt that since the group would share the burden of interest, it would not fall heavily on any one individual. Moreover, the group was generally in a better position to pay high interest because it was involved in larger projects with greater profit potential such as foreign trade. Creditors could not charge an interest not approved by the State.

Further, certain groups of people, due to their inability to pay (sickness, bankruptcy), or due to the nature of their work (student) were exempt from paying interest – the privilege, however, had to be earned by the person by the process of law. Five different kinds of interest were distinguished by Kautilya: compound interest, periodical interest, stipulated interest, daily interest, and the use of a pledged article. Indeed **the idea of expressing interest as a percentage originated in India.** Thus, overall, the Kautilyan system of interest seems quite elaborate, complex and even modern.

WAGES

Kautilya used three criteria in prescribing wages for state employees. He indicated that the wage should be high enough to maintain the loyalty of high ranking officials, to evoke the needed efficiency and effort, and to reflect the relative standing of their occupation. **He recommended that the aggregate wage bill of the State should not exceed one—fourth of its revenue. The**

Finance Commission would do well to study the chapter on wages!

In determining wages in private industries, Kautilya used a variety of factors such as the quality and quantity of work, market value of the final product, the market value of the inputs, *etc.* The wage differed between the industries based upon skill and technology required, and within the industry based upon the quality and quantity of work done. Higher wages were paid for overtime work done during holidays. The labour market was quite competitive. Those who could not compete, joined the ranks of the unemployed and the unskilled labour force with their wages appreciably reduced. The concept of contractual wages also existed. The quality and the quantity of work to be performed were specified for a certain sum of wages. A general review of the industries, described by Kautilya indicates a trend toward specialisation and use of mechanical devices to improve the quality and quantity of output.

In *Arthashastra*, there is a definite effort to formulate a wage policy based on the realistic understanding of the economic, social, and political factors. The emerging policy must be just, and must be consistent with the interest of the state as a capitalist. For Kautilya, the State is a party to any labour or wage legislation together with farmers, merchants and industrialists. The policy suggested in *Arthashastra* attempts to strike a balance between the delicate interests of the parties involved. **Kautilya indicates that although the State holds a privileged position of a monopolist, it should co-operate with the private sector for proper utilisation of resources. Further, a strong private sector is a source of strength to the State.**

MONEY AND BANKING

In Kautilya's economy, **there is no restriction on the supply of money.** The supply and demand for money seem to take care of themselves without any interference from the State. It seems the restriction on the supply of money comes from the availability of gold and silver – the two important metals used in the manufacture of coins. In manufacturing coins, both gold (for gold coins) and silver (for silver coins) had to be mixed with definite proportions of other alloys. Any individual could have his gold or silver converted into coins at the State mint for a fee. Different denominations of coins were used for transactions. It seems the supply of money was not used for controlling economic activities.

Kautilya also envisaged the idea of a rudimentary banking system that kept the

wealth of guilds and artisans in safekeeping. He recommends that the banker should have a good understanding of the workings of the artisans, should be reliable, and be a person of good standing. Modern day banks indeed serve all these functions, i.e., they have to build trust and stature within their community to conduct their business and have to have a good understanding of markets to be successful. In Kautilya's words, "those who can be expected to relieve misery, who can give instructions to artisans, who can be trusted with deposits, who can plan artistic work after their own design, and who can be relied upon by guilds of artisans, may receive the deposits of the guilds. The guilds (*srenî*) shall receive their deposits back in times of distress."

One must marvel at the depth of Kautilya's pragmatic philosophy underlying his work in *Arthashastra*. Although he did not write a book on economics per se, he has expressed and highlighted many economic ideas when it comes to managing the affairs of the State as early as in the 3rd century BC. Since then, many of his economic thoughts have been rediscovered and restated by many prominent economists and philosophers. Kautilya should earn his rightful place among the stalwarts of economic ideas.

FREE MARKET ECONOMY

3

Kautilya believed that the State had a role in the market as a regulator. Such a view would not be very different from the actual practice in current free market economies, where the State is expected to provide the institutions required for the efficient conduct of economic activities. This chapter focuses on Kautilya's concept of a market economy, how governments can play the role of a facilitator, the need for institution-building for the efficient functioning of a market system and how a consumer's interest could be protected by preventing unfair trade practices. All of these are relevant, and strike a chord in the minds of today's consumers. Kautilya was meticulous in outlining, in detail, the technique of controlling practically every aspect of economic activity. However, his prescription for control was to discipline and streamline the various economic activities for the greatest economic welfare of the state. **Kautilya viewed the welfare of the State to be coterminous with the prosperity of its subjects.** He outlined the techniques for regulating agriculture, domestic non-agricultural businesses, as well as foreign trade.

Definite wage structure and policies were instituted in accordance with the product produced. The employee and employer relationship was monitored to prevent exploitation of labour or disruption of production by the workers. The State ensured that all the contractual obligations between them were fulfilled, as this would be in the interest of the State to see that production did not cease. The output was not allowed to be sold at the point of origin, it was to be sold only in designated market places so that price regulation on products could be systematically applied. The State determined the prices of products based upon the estimate of demand and supply. The price was so regulated that it allowed a profit of 5% for local business, and about 10% for foreign trade. The State often controlled the supply if the predetermined price could not be maintained. It also provided social overhead capital and often gave tax incentives for businesses to operate profitably.

In theory, the State had absolute control over all aspects of economic activities; in practice, it allowed and even encouraged the growth of private businesses. It was recognised that the wealth of a state depended upon the wealth of the people, hence, it could not stifle individual initiatives in production and profit. While the economic welfare of the subjects and private businesses were not in conflict with the welfare of a State, Kautilya streamlined all economic, administrative, political, legal and social activities to strengthen the State. Though Kautilya envisaged a very strong supervisory role for the government in the conduct of commercial activities as evidenced in the above paragraph, he did not believe that the State had a role in centralising and planning commercial activities. Kautilya felt no need for either price, production, or quantity controls for consumer goods. "There shall be no restriction on the time of sale of those commodities for which there is frequent demand; nor shall they be subject to the evils of centralisation (*sankuladosha*)."

THE STATE AS A FACILITATOR

The Kautilyan State considered it its duty to facilitate transactions; it also deemed it important to regulate the nature of transactions for the maximum welfare of the State. In terms of facilitating commercial activities, Kautilya laid stress on the 'removal of thorns' to society by protecting artisans (guilds) and their commercial interests. In the Kautilyan State 'those who conspire to lower the quality of the works of artisans, to hinder their income, or to obstruct their sale or purchase shall be fined'.

Given the pride of place in current literature (i.e., in economics, political science, and public policy) to transaction costs and the business environment, Kautilya was indeed addressing economic issues that continue to remain serious concerns of the modern State. In some ways Kautilya's stress on the State as a regulator is very interesting. He favoured free trade and believed that the State should create mechanisms to protect and promote commercial activities; at the same time, he favoured a situation where the State should have a major role in the conduct of commerce. The Department of Commerce in the Kautilyan system had a very important role as facilitator. It also had distinct roles in domestic commercial policy and trade policy. "The Superintendent of Commerce shall ascertain demand or absence of demand for, and rise or fall in the price of, various kinds of merchandise which may be the products either of land, or of water, and which may have been brought in either by land or by water. He shall also ascertain the time suitable for their distribution, centralisation, purchase, and sale."

INSTITUTION BUILDING

The Kautilyan idea of institution-building for States and markets, and the emphasis laid on them is similar to modern ideas. Kautilya realised that setting domestic standards and institutionalising them through laws was very essential. To this effect he recommended **a separate superintendent of weights and measures who would strictly enforce such standards in the market.** The importance of exacting standards was not lost on Kautilya, "weights (*pratimánáni*) shall be made of iron or of stones available in the countries of Magadha and Mekala; or of such things as will neither contract when wetted, nor expand under the influence of heat."

In our modern world, the concept of maintaining market confidence through maintenance of effective standards has been thoroughly institutionalised. The idea of standards has expanded to include various issues such as health and safety, labour, environment, *etc.*

Kautilya laid down very strict rules on what constitutes a 'legal' agreement, the role of trial and transparency and the importance of having the maximum amount of information to resolve all disputes fairly. Kautilya stands out among ancient philosophers for having identified and proposed such a refined (given the antiquity) idea of contracts and their legal basis. For Kautilya, **the element of transparency in agreements was foremost.** All agreements needed to have witnesses, needed to be recorded and the **witnesses could not be those who had a criminal record** (i.e. condemnable). Those were the good old days!

In Kautilyan times, oral contracts that were otherwise unlawful, were valid. Those who voluntarily heard such contracts (*stroti*) could bear witness to it. Contracts were declared invalid if, for example, one of the parties to it or the witness, was under provocation, anxiety, intoxication or was a lunatic. The *Arthashastra* is also perhaps the earliest treatise known in history to recognise the **collective legal rights of a group or body of people.** In Kautilyan India, there were groups of merchants and professionals organised together into '*srenis*' or co-operatives who specialised in some economic activity. In essence, they were early representations of the modern idea of the firm or corporation. Kautilya allowed intra-firm contracts as acceptable, "agreements entered into by members of any association (*srenis*) among themselves shall be valid though entered into in private." Kautilya also emphasised that disputes could be among 'merchants or trade-guilds', i.e., a body of people and another party. Kautilya

also laid out laws for contracts that involved co-operative undertakings or joint efforts.

In fact, the idea of the 'contract' and the agents who can enter into them is extended. "The above rules (i.e., the rules of agreements) shall also apply to... countries (*desa*), castes, families, and assemblies." This is a surprisingly evolved idea, and Kautilya is the first known source to enunciate such a comprehensive view of the nature of contracting parties to include individuals, firms, communities as well as nations and States (*desa*).

The process of arbitration and trial that ensures proper enforceability of contracts has been given much importance in *Arthashastra*. Kautilya laid stress on the proper registration of cases with the maximum information; he also recommended harsh fines and punishment for those who give wrong information. Kautilya recommended, "the year, the season, the month, the fortnight (*paksha*), the date, the nature, and place of the deed, the amount of the debt as well as the country, the residence, the caste, the *gotra*, the name and occupation of both the plaintiff and the defendant, both of whom must be fit to sue and defend (*kritasamarthāvasthayoh*); having been registered first, the statements of the parties shall be taken down in such order as is required by the case. These statements shall then be thoroughly scrutinised." To maintain transparency in the arbitration and trial process, Kautilya forbids the idea of counter-suits. "In cases other than duels, robbery, as well as disputes among merchants or trade-guilds, the defendant shall file no counter-case against the plaintiff." In the Kautilyan system, there is a provision for adjournment to give the defendant time to prepare his brief and as such is in consonance with modern ideas of arbitration. Kautilya states that 'the defendant may be allowed three or seven nights to prepare his defense. If he is not ready with his defense within that time, he shall be punished with a fine.' Our present judicial system, with its backlog of lakhs of cases, could do with such a strict adherence to time standards.

The Kautilyan arbitration system recognised several kinds of disputes and categorised them under different heads with detailed instructions on the specific nature and treatment of such disputes. The *Arthashastra* recognised disputes related to buildings, sale of buildings, boundary disputes and those related to the determination of boundaries, disputes related to land and water resources, non-performance of agreements, recovery of debts, disputes concerning deposits, co-operative undertakings, disputes related to merchants and trade guilds, rescission

of purchase and sale and sale without ownership, disputes related to titles and ownership and defamation.

STATE INTERVENTION

Kautilya identified several areas of State intervention and appointed officials to facilitate the economic life of the country. They are as follows:

1. The superintendent of slaughter house
2. The superintendent of prostitutes
3. The superintendent of ships
4. The superintendent of passports
5. The office of the city superintendent

Kautilya's idea of the passport corresponds to the modern version of this document that facilitates movement of people. This is perhaps the first instance of an institutionalised concept of passports that regulated the flow of people across borders.

Kautilya said that 'whoever is provided with a pass shall be at liberty to enter into, or go out of the country. Whoever, being a native of the country enters into or goes out of the country without a pass shall be fined 12 *panas*. He shall be punished with the first amercement for producing a false pass. A foreigner guilty of the same offence shall be punished with the highest amercement.

PREVENTION OF UNFAIR TRADE PRACTICES

Kautilya realised that the role of the State was to ensure that commercial activities do not violate laws or are harmful for the consumer, and if the State did not establish and enforce codes of conduct, it would, in fact, raise transaction costs. The lack of trust and guarantee of quality would diminish commerce and increase search and verification costs for agents undertaking commercial transactions. Kautilya explicitly states, "Adulteration of grains, oils, alkalis, salts, scents, and medicinal articles with similar articles of no quality shall be punished with a fine." The consumer or buyer is provided safeguards by Kautilya, i.e., "the sale or mortgage of articles such as timber, iron, brilliant

stones, ropes, skins, earthenware, threads, fibrous garments, and woolen clothes as superior though if they are really inferior shall be punished with a fine."

It is interesting to note that Kautilya tried to establish guidelines for professional service providers also, including weavers, washermen, boatmen, shipping agents and even prostitutes. Modern States are still grappling with the complexity of setting such 'service' oriented guidelines and in that light Kautilya's attempts at the same shows the sheer breadth of his vision at such an early point in history. Kautilya also established explicit guidelines for the practice of the medical profession, incorporating ideas that seem strangely modern, i.e., "Physicians undertaking medical treatment without intimating (to the government) the dangerous nature of the disease shall, if the patient dies, be punished with the first amercement. If the death of a patient under treatment is due to carelessness in the treatment, the physician shall be punished with the middlemost amercement. Growth of disease due to negligence or indifference (*karmavadha*) of a physician shall be regarded as assault or violence."

For Kautilya, the welfare of the State and the people of the State were paramount. It is natural that Kautilya would recommend measures that would safeguard consumers from price escalation and inflation. Kautilya sees the solution through strict control of market behaviour, including setting the upper floor for prices. Thus, in some ways, Kautilya was an advocate of price controls in the domestic market, unfortunately some people interpret this as 'planned' or 'control' economy. In reality, **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.** But the Kautilyan State, like any modern State, saw the welfare of citizens as priority, and thus safeguards against monopoly behaviour and price escalation had to be factored into the bargain.

Kautilya showed an understanding of collusive and monopoly behaviour and created safeguards to protect the market and consumers from its ill-effects. Kautilya clearly stated, "Merchants who conspire either to prevent the sale of merchandise or to sell or purchase commodities at higher prices shall be fined." To ensure that consumers and traders received a fair price, Kautilya says, "the Superintendent of Commerce shall fix a profit of five per cent over and above the fixed price of local commodities, and ten per cent on foreign produce. Merchants who enhance the price or realise profit even to the extent of half a *pana* more than the above in the sale or purchase of commodities shall be

punished with a fine." But Kautilya is perceptive enough and flexible enough to realise that the State official might not be able to gauge the market, he thus states that "in case of failure to sell collected merchandise wholesale at the fixed rate, the rate shall be altered."

Kautilya envisaged a role for the State to ensure that excessive price fluctuation detrimental to commercial activities did not occur. Kautilya showed a highly refined understanding of the law of demand and supply and the pernicious effects of gluts in the market (it is important to reiterate here that Kautilya's *Arthashastra* is the first known treatise to discuss such concepts, and thus Kautilya is indeed the Father of Economics). Kautilya recommended an interventionist policy in case of gluts in the market, i.e., "whenever there is an excessive supply of merchandise, the Superintendent shall centralise its sale and prohibit the sale of similar merchandise elsewhere, before the centralised supply is disposed of."

CONCEPTUALISING GOOD GOVERNANCE

4

Kautilya's *Arthashastra* is an important source of knowledge on polity, economy and administration. However, this important document had been forgotten for centuries. Thanks to Syamasastri, who first interpreted Kautilya's economic and political thoughts in a book published in English in 1909, we had insights into the writings of that brilliant mind. Since then, a large number of scholars and ideologists from the East and the West studied the book and found that it was a fascinating source on the ancient Indian political system, economic activity and administration, both public and private.

The authenticity of Kautilya's period, the role he played as Prime Minister to put an end to the evil regime of the Nandas and create a new rule under Chandragupta Maurya, has been confirmed by scholars the world over. Kautilya's *Arthashastra* is basically a book on governance. Political administration and economic administration for good governance are its important aspects. However, the book includes a large number of subjects related to social, political and economic aspects of life. It is an interdisciplinary work running over several chapters, comprising 6000 Sanskrit verses.

The *Arthashastra* is more a practical guide meant for kings than a theoretical composition. The *Arthashastra* is a tome on how the King should rule and what aims he should strive for. Kautilya knew the drawbacks of an evil ruler. He knew that even the strong republics that existed in India and later succumbed easily to Persian and Greek invasions, fell primarily because of maladministration. He realised the need for creating a strong and centralised monarchy benevolent to the people. He could visualise the realisation of a strong normal rule in place of an evil one. He succeeded in creating an ideal state ruled by an ideal king, Chandragupta Maurya. He administered the kingdom as Prime Minister and then wrote the *Arthashastra* as a guideline for the benefit of the King.

The relevance of Kautilya's *Arthashastra* to present day India and, indeed, the whole world need not be doubted. The work is relevant in many ways. For example, governance in general and good governance in particular are the most relevant aspects. Those on an endless search for good governance can expect a treasure trove in the *Arthashastra*. A number of modern thinkers, from Hobbes to Rawls, including Gandhi and Marx believed that human beings conceded coercive power to the state only in the hope of realising good governance. Kautilya's treatise on the art of government and administration, the duties of kings, ministers, officials and art of diplomacy is a guideline on good governance.

The King is expected to behave in a righteous manner. **"In the happiness of his 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."**

Elsewhere Kautilya maintains, "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."

For Kautilya, *artha* (wealth) followed *dharma* (righteousness). *Artha* has a wider connotation than mere wealth; the material well-being of a person being only a part of it.

Good governance in Kautilya's mind was aimed at the welfare of the people. The principles of good governance in Kautilya's *Arthashastra* are well-drawn out. The King has no individuality. His duties merged into his personality. He himself was one of the organs of the state, albeit the most important organ. In *Arthashastra*, polity and society are merged and both are restrained.

In good governance, the objectives of the state are to be fulfilled and realised. This is possible through a properly organised and guided administration. This principle is relevant even today. A government is good, if it is administered well. Kautilya suggests that good governance should avoid extreme decisions and extreme actions. Soft actions (*sama*, *dana*) and harsh actions (*danda*) should be taken accordingly. In what seems to be a very modern tone of voice, Kautilya opines, "Sovereignty is practicable only with the cooperation of others and all

administrative measures are to be taken after proper deliberations." The King and ministers were supposed to observe strict discipline. Kautilya recommended a strict code of conduct for himself and for his administrators. This code of conduct is useful and applicable to modern executives.

Even 2400 years ago, Kautilya emphasised capping at a quarter of the revenue the salaries of the king and his officials. For good governance all administrators, including the king, were considered servants of the people. They were paid for the service rendered and not for their ownership of anything. Compare this to the expenses on the salary of government employees today, which constitutes over 50% of the revenue. In some states even 80% of the revenue is spent on salaries, wages and pensions.

It was the duty of the king to maintain law and order in society and to ensure protection of life, liberty, and property. Dereliction of duty in this respect had to be compensated from the king's property. In modern times, the problem of law and order has become very difficult. Protection of individual liberties does not seem to be always possible. And never, ever, would it be paid for by the personal property of the leader. A good deal of public money is spent on maintaining law and order. No progress and development is possible without law and order administration.

Ministers and secretaries are directly responsible for administration. They must be selected with great care. Their abilities must be tested before their selection. They should be tested according to the jobs they will be assigned. Their abilities and sincerities should be tested from time to time. All these measures are relevant to the civil servants in present administration.

Kautilya also deals with the problem of corruption, in fact he points out about 40 ways by which government funds can be embezzled. However, Kautilya has a very realistic perception about dealing with this malaise. He feels that it is difficult to discover the honesty, or otherwise, of an officer. According to Kautilya, for good governance preventive and punitive measures to punish corrupt civil servants must be adopted.

Good governance and stability go hand in hand. If rulers are responsive, responsible, accountable, removable, recallable, there will be stability, if not, there would be instability. This is very essential in the present democratic set up. As in Kautilya's monarchical set up, similar qualities are required in our rulers

and administrators.

The *Arthashastra* 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. Good governance is fundamental to the Kautilyan idea of administration. Judging by the countless governance scandals that are uncovered nearly every day in India, a reading of *Arthashastra*, and imbibing its principles, ought to be the topmost priority for our leaders, both political and corporate.

PUBLIC GOVERNANCE

5

PART I: PRINCIPLES OF ECONOMIC ADMINISTRATION

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."*

IMPORTANCE OF VILLAGE ECONOMY

Whereas Kautilya enjoined upon the King to populate the countryside, unfortunately, in today's India, the reverse is taking place. People from rural areas are migrating to urban centers, resulting in proliferation of slums, that become breeding grounds for crime, prostitution, drug trafficking, diseases *etc.* The Government of India (and State governments) should follow Kautilya's suggestions on decongesting big cities. It is, therefore, heartening to note the former President of India Dr. A. P. J. Abdul Kalam's suggestions of initiating the project called Providing Urban Amenities in Rural Areas very much in line with Kautilyan thoughts. Rajiv Gandhi's Grameen Vidyutikaran Yojana provides incentives for the 'ruralisation of population'.

Kautilya makes some very useful suggestions in the book such as, arable land should be allotted to taxpayers for their lifetime. Land allotted to all those who do not cultivate it, should be confiscated and given to others. The loss suffered by the State due to non-cultivation should be made good by the attending holder of the land. To boost agriculture, Kautilya made it mandatory for the king to protect farmers from being harassed by overdue fines, taxes and demands for labour. The King would promote trade and commerce by setting up market towns and trade routes, both by land and by water. He should build water

resources, reservoirs throughout the country and construct wide roads. He should protect trade routes from harassment by his own courtiers, officials, or thieves and frontier guards. In India today, persons dealing in inter-state and even intra-state trade experience considerable harassment by officials. It is common knowledge that heavy bribes are paid so that work may proceed smoothly.

CONCEPT OF MIXED ECONOMY AND PUBLIC SECTOR

Kautilya was foremost among political economists, who propounded the concept of 'mixed economy'. **According to him, the State should run a diversified economy actively, efficiently, prudently, and profitably.** For example, any official who did not generate adequate profits in crown undertakings was punished for, 'swallowing the labour of workers'. A crucial command was given to the Chief Controller of State Trading that he 'should generate profits and avoid losses'. One wishes that our politicians would read and understand this.

When the State's commodities were sold by private merchants, they had to pay a charge to compensate the State for profit, which the State would otherwise have got by selling directly. **Thus, it is obvious that for Kautilya the word 'profit' is not anathema but a must in business.** Had post-Independence socialism in India not derided profits, the financial health of the public sector and indeed of the Government which borrowed heavily to finance it, would have been vastly better.

According to Kautilya, public and private sectors had their own roles to play. Land was in the public sector, **the State held all virgin lands, forests and water resources. Arable land was both in public and private sectors.** Even mining and fishing were held by both sectors. While the actual making of salt was done by the lessees of salt pans, the Chief Salt Controller collected revenues before it could be marketed (salt was also imported). The State had monopoly over the manufacture and sale of alcoholic liquor, gambling, prostitution and betting. Further, sale and purchase and manufacture of gold, silver and precious stones were under the control of the State.

LOCAL AND FOREIGN TRADE

Both private merchants and the State were involved in local and foreign trade. The Chief Controller of Trading was responsible for the equitable distribution of local and foreign goods, buffer stocks, sale of crown's commodities and public distribution. The Chief Controller of Private Trading kept a watch over

merchants, inspecting their weights and measurements periodically and ensuring that they did not hoard, adulterate, or add extra mark-ups.

JANAPADAS AND ECONOMIC ACTIVITY

Most of the productive economic activities took place in the *Janapada*, or self-sufficient villages. According to Kautilya, "Power comes from the countryside, which is the source of all activity." An ideal *Janapada* should be capable of producing a wide variety of commodities to support the native population and also immigrants from outside. People should be predominantly agriculturists, artists and craftsmen devoted to work; they should be loyal and intelligent. Other economic activities were trade, building forts and water reservoirs, mining and manufacture. The textile industry was also encouraged. The spinning of yarn was decentralised and was carried out by women. Weaving was both decentralised by contracting work out to weavers on a piece rate basis and was also carried out by the State under its supervision in specially built weaving sheds for special type of cloth. Making of salt was a State monopoly and illegal manufacture of salt was severely punished.

Labour and employment were not overlooked or ignored by Kautilya. Women and children had specific roles to play in the schemes of employment both in public and private sectors. An interesting aspect of employment of labour is that **wages were related to productivity in some sectors of the economy**. A large part of the labour force that worked for a fixed salary was in the State sector. But the total wage bill was not to exceed a fourth of the total revenue. One wishes the Finance Commission goes through these ideas. Self-employed craftsmen formed guilds called *srenis* and had their own rules and guidelines regarding wages and payments. Linking wages and salaries to productivity is an ideal formula. If implemented, this would go a long way in reducing costs and have a favourable effect on labour-output ratio, especially in industries.

BUDGET ACCOUNTS AND AUDIT: REVENUE BUDGETING

The councilor in charge of budget making had to first estimate the revenue for the tax year by determining the likely revenue from each sphere of activity under different heads of accounts, total them up by place of activity to arrive at the grand total. Deductions were made for expenditure on the King; standard rations for others and exemptions granted by the King by decree, or orally. Outstanding revenue was estimated by taking into account the works under construction from

which revenue was to accrue only on completion, unpaid fines and penalties, dues recoverable and advances to be repaid by officials. Kautilya's method of calculating net revenue was to deduct expenditure from income taking into account the actual as well as deferred payments. It appears that Kautilya's methods described above did not allow for budget estimates, revised estimates and actuals, which are practised in India today by Finance Ministers!

In modern India, alas, the process is reversed. Political compulsions lead to various concessions being granted to different sectors, often vote banks. The expenditure is first determined, and then the exercise to raise revenue from new or existing sources begins. Back to basics, as propounded in the *Arthashastra*, may be a good practice to follow.

MAINTENANCE OF ACCOUNT BOOKS

In the account books, every entry was to have the date of transaction on the receipt side, whilst revenue was to be classified according to main heads of accounts, viz., cost price, share (*bhaga*), transaction tax (*vaiji*), monopoly taxes, fixed taxes, manufacturing charges, fines, and penalties. On the debit side, expenditure was classified under I I broad heads, such as charitable expenses, palace expenditure, administration, foreign affairs, maintenance of granary, ordinance depots, warehouses, manufacturing expenses, labour charges, defence, cattle and pastures, forests and game sanctuaries and firewood, fodder and other consumables. Strict audit of accounts was recommended. Today, one has only to read various CAG reports to know how badly accounts are maintained by the state agencies in India. **Responsibility of auditors was underscored in the *Arthashastra*. Failure to conform to regulations was a punishable offence.** The auditor had to be ready when the accounts officer presented himself for audit, otherwise he would be punished.

High officials were responsible for rendering the accounts for their sphere of activity without any contradiction in them. Those who told lies or made contradictory statements were liable to pay a heavy penalty. The quantum of penalties ranged from 12 *panas* to 200 *panas*. Similarly, elaborate penalties were imposed on those officials whose activities resulted in a loss to the State, for lying about accounts, for interpolating entries in the accounts, for not being ready for audit and for making contradictory statements in the accounts. Fear of severe punishment kept unscrupulous and irresponsible auditors on guard while they prepared audit reports.

PART II: GOVERNANCE: ADMINISTRATION: RULE OF KING

The manual of administration in Kautilya's *Arthashastra* described the organisation of the apparatus of the state and prescribes the duties and responsibilities of every key official, either for maintaining order or for collecting revenues. It also dealt with civil service discipline and the enforcement of peoples' civic responsibility. The code of law and justice covered both civil and criminal law and was basically a penal code. **The extensive and graded penalties and fines prescribed in it had the twin objectives of deterring transgressions and collecting revenue for the State.**

The State was governed by the King with the assistance of councilors and ministers, through three methods, viz., that which the King saw with his own eyes, that which he knew indirectly through reports submitted to him and that which he inferred about work not done by knowing about the work that had been done. The King thoroughly investigated all the qualities of any one whom he was considering for appointment as a minister. **The King was accessible to his people every day for one-and-half hour after sunrise.** When in the court, he would not make petitioners wait at the door (but attend to them promptly himself). Kautilya averred that when the king was inaccessible to the people, they would cross over to the enemy.

As mentioned earlier, the basic principle on which governance lay was, "In the happiness of his subjects lies his happiness; in their welfare, his welfare." In India today, the situation stands in contrast to what Kautilya enjoined upon the King. Our rulers, viz., ministers, Members of Parliament, Members of Legislative Assemblies, even district collectors are not easily accessible to the *aam janta*. As a result, middlemen find a flourishing business to redress the grievances of the people. Alas, in modern India, over a third of our elected MPs have criminal records, and some for the most heinous of crimes.

So long as they are only accused but not convicted (and the legal process is slower than the proverbial snail) they can continue to remain elected representatives. Thus, Kautilyan feudalism, based on the King promoting the welfare of the people, can be adopted to democracy.

CIVIL ADMINISTRATION

The King was in charge of an elaborate machinery to control civil administration. The heads of the administration were the treasurer, chancellor,

chief comptroller, and auditor. Under the chancellor were frontier governors, provincial governors, and judges. Under provincial governors were magistrates. Under the chief comptroller and auditor were city commander, city administrators, ministers, head of manufacturing establishments, and city governor-generals. Under the ministers were forest commanders and *danda palav*, chief forest officers and the heads of departments directly under chief comptroller and auditor.

CIVIC SERVICE

An honest, efficient and experienced civil service (i.e., bureaucracy) is a *sine qua non* for efficient, equitable and just governance. Kautilya knew that a few civil servants would feel the temptation to bite into a bit of the State's wealth. Therefore, Kautilya recommended that only those officials who did not eat the King's wealth, but increased it in just ways should be made permanent in civil service. While an officer negligent or remiss in his work would be fined double his wages and losses incurred, an officer who accomplished a task as ordered or did better than that, would be promoted and rewarded.

STRUCTURE OF SALARIES AND WAGES

Kautilya's *Arthashastra* specified the amounts of salaries to be paid to various categories of civil servants. **The total salary bill of the State had to be determined in accordance with the city and countryside's capacity to pay, and it was not to exceed one-fourth of the revenue of the State.** If the amount of the actual cash in the treasury was inadequate, salaries could be paid partly in cash, and partly in kind. Grain could be substituted for cash wages according to the formula that an annual salary or wage of 60 *panas* was equal to one *adhaka* of grain per day. This is similar to the Food for Work Programme that has been recently launched in India. The total wage or salary bill not exceeding one-fourth of the State's revenue, should have been the model for both central and many state governments that have been spending 50% of their revenue on services and pensions.

FRAUDS AND PUNISHMENT

Kautilya's *Arthashastra* details an elaborate salary structure for the King's officials. The highest salary was 48,000 *panas* per annum (received by the councilors, royal scribe, and royal *purohita*). The treasurer and the chancellor were entitled to 24,000 *panas* per annum. The governor general of the city,

Rastrapala, was paid 12,000 *panas* per annum. The lowest salary was 60 *panas* per annum. Kautilya was aware of financial frauds committed by government officials. He observed that they could enrich themselves improperly in two ways – either by cheating the government or by exploiting the public. He prescribed punishment for each type of fraud. He listed 40 ways of 'stealing' government wealth.

A few examples mentioned by Kautilya about officials cheating the government include, construction using government property for personal profits, falsification of the date of receipt of income, misuse of government property, etc.

CONSUMER PROTECTION

The *Arthashastra* contains measures for consumer protection and the welfare of the people. It has also prescribed how much to pay to artisans, craftsmen, goldsmiths and merchants. To protect consumers it was made mandatory that all balances and weights were bought from the chief superintendent of weights and measures. It also describes various ways by which merchants cheat consumers, for e.g., fraud in weighing, substitution of original products or ingredients with fake ones.

Kautilya also listed the wages to be paid to base metal workers, artisans and craftsmen; weavers, washermen and tailors; doctors; and entertainers. From the several minute details regarding employment, salaries and wages detailed in *Arthashastra*, it is obvious that unemployment and begging cannot be ruled out in the kingdom. In fact, Kautilya prohibited beggars, entertainers, and mendicants from moving about during the monsoons. The punishment for transgression was whipping with an iron rod.

If we examine the kinds of corruption and fraud committed by the King's officials, we realise that nothing significant has changed over the centuries. The difference is that in many cases the government officials get away unpunished for their misdeeds in present India whereas strict punishments were slapped on corrupt officials in earlier times. The punishments ranged from 'wealth punishments' to the lowest standard penalty. In some cases, public humiliation was recommended, such as, smearing the face and body with cowdung and parading the errant official in public areas, or shaving off their hair. Can such punishments be meted out in India today? Even if a law is passed in the

Parliament it could be challenged by the accused in the court of law. Since a few law makers have themselves been accused of crimes, it is highly unlikely that they would want to legislate penal proceedings.

III. CONCLUSION

Is Kautilya's *Arthashastra* relevant to India today? It is true that the ideal State Kautilya envisaged in his treatise was a feudal monarchy, where the King was the sole master of his kingdom. Democratic India today has a federal polity and governments, both at the center and at the states, depending on the votes cast by the electorate. The State cannot have its own way on many issues, even if it wants to follow methods and measures suggested in *Arthashastra*.

Legislature, judicature, executive and public opinion (freedom of the press) are the four pillars of democracy. Despite its constraints, India can benefit from the wisdom of Kautilya as expressed in *Arthashastra*. When he (Kautilya) discusses the economy, just administration or relations between States (nations), we can learn from his wisdom. Kautilya's state was run on the principle of *dharma* (righteousness).

Compared to Kautilya's emphasis on rural (village) development, the high importance he gave to agriculture and decentralisation of textile industry today, one finds these areas are neglected. Unlike in Kautilya's State where the King was accessible to his people everyday at least for one and half hours, in India, today, it takes a long time to even get a hearing from the State when people approach it.

In the sphere of economic administration also, India has much to learn from *Arthashastra*. Kautilya recommends severe penalties on officials of public enterprises who incur losses, and rewards for those who showed profits. Profit was a must in Kautilya's scheme of running public enterprises, unlike the way things are now.

Though Kautilya's *Arthashastra* was written in the third century BC, the book is relevant to India even in the 21st century. The ground rules and measures suggested in it especially in matters relating to the budget, accounts and audits are applicable even today to Indian conditions. Witness the innumerable frauds mentioned in the CAG reports. In Kautilya's State, the king could take action against erring officials and severely punish them, however highly placed they

were. In India, IAS officers of the rank of joint secretary and above, cannot be arrested without clearance from higher authorities, even when they are caught red-handed by the Anti-Corruption Bureau or CBI.

The auditors in *Arthashastra* were liable to pay severe fines and be penalised for any wrongdoing. They could not escape their accountability to the crown. India could adopt such measures to tighten the audits of public and private sector companies. In conclusion, the relevance of Kautilya's *Arthashastra* to India today so far as governance is concerned is:

- Firstly, Kautilya's State had adopted a mixed economy structure, in which public, private, and joint ventures of both public and private sectors functioned side by side. At present, India also has a similar economic framework. What with the State having a share (often a major share) in some companies, it has all the three types in the economy.

India should make profit the main objective for its public enterprises.

- Secondly, high priority should be given to agriculture, water reservoirs, road building and forest development as suggested by Kautilya.

- Thirdly, people should have easy access to the State's high officials to get their grievances redressed. There should be no harassment of people by tax collectors, customs and tax officials. Officials who harass people should be dealt with severely.

- Fourthly, rural areas and villages should be developed to decongest population in urban areas and cities. Industries should be decentralised and employment, especially of women, should be given priority. Kautilya's observation that the State depends on the prosperity of villages and village population echoes Gandhiji's view on the subject.

- Fifthly, auditors should be dealt with severely if they fail in their duties and for their omissions and commissions which cause losses to the State.

- Lastly, irrespective of political party in power, the government both at the center and at the state level should realise that the State is for the welfare of the people and people are not there to serve it as acolytes or servants.

Kautilya emphasised this wisdom in *Arthashastra*.

AGRICULTURE

6

Kautilya had a brilliant mind, which was both realistic and intuitive! This is evident from his approach to managing agriculture. The *Arthashastra* states that the main activities of the economy were agriculture, cattle rearing, and commerce. Among the three, Chanakya considered agriculture to be the most important constituent of the economy. *Arthashastra*, with its focus on the importance of agriculture, is surely a source of inspiration and learning in today's India, given its wisdom on economic development and growth. *Arthashastra* pointed out that **the responsibility of a government was not, of course, limited to ensuring the proper planning and allocation of central funds but also proper management and implementation of policies in accordance with standards and procedures.** Kautilya was of the opinion that a King must also learn about agriculture.

It extends, too, over the whole of the general government sector, including regions, districts and municipalities, as well as central government institutions. This task can be extremely difficult where there is a large degree of decentralisation accompanied by shortages in management and audit capacity.

Kautilya opined that the government should also **ensure strong financial management systems** to be introduced in agencies and organisations at the village level which interface with the public and private sectors. Such systems should also be in place in public corporations that are subject to government regulation. This is not ruling out the fact that in all of these, sound and reliable standards of governance are often needed.

A major focus in *Arthashastra* is the role of citizens in the agricultural sector. It suggested the provision of a special officer titled *Sitadhayaksha* or Superintendent of Agriculture (for crown lands). The book also contained information related to farmers in general as it was meant to inform and advise

the Superintendent with regard to increasing the production on the lands owned by the Crown. During Kautilya's time, agriculture, cattle breeding, and trade were grouped into a category called *Varta*.

Kautilya indicated that agriculture should receive policy and administrative support from government officials. For production of crops, supply of good seed and other purchases, inputs need to be arranged. Assistance had to be provided to make available other resources such as labour, machinery, implements, and bullocks. Contingency plans were made for alternative crops in case the monsoon failed or floods occurred. Irrigation was provided wherever the water source existed. Arrangements were made to protect crops, harvest, and to safely store the produce.

The *Arthashastra* has a lot of valuable information about the management of agriculture, measurement of rainfall, astrology, and astronomy related to agriculture, meteorological aspects of agriculture, kinds of crops, advantage in cultivating certain classes of crops, the growth of crops, treatment of seeds, manuring, and harvesting.

The taxation issue is also well-addressed.

"Possessed with knowledge of the science of agriculture, water management, and managing crops and trees, or assisted by those who are trained in such sciences, the superintendent of agriculture shall in time collect the seeds of all kinds of grains, flowers, fruits, vegetables, bulbous roots, fruits of creepers, fiber-producing plants such as hibiscus and cotton."

In Kautilya's time, clear orders were issued to the superintendent to make sure that the farmers and the labourers were not hampered in their activities and that their work did not suffer.

"The work of the above men shall not suffer on account of any want of ploughs and other necessary implements, or of bullocks. Nor shall there be any delay in procuring for them the assistance of blacksmiths, carpenters, basket sellers, rope-makers, as well as those who catch snakes, and similar persons. Any loss in production because of the above persons should invite fine equal to the loss."

METEOROLOGY

Even in Kautilya's times, weather forecasting was of prime importance and people possessed a high level of meteorological knowledge.

"Three are the clouds that continuously rain for seven days; eighty are they that pour minute drops; and sixty are they that appear with the sunshine – this is called rainfall. Where rain, free from wind and unmingled with sunshine, falls so as to render three turns of ploughing possible, there the reaping of good harvest is certain."

The forecast of rain was made by observing planets, viz., the position, movement and cloudiness of Jupiter, from the rise, setting, and movement of Venus, and from changes in the appearance of the Sun. In regions where cultivation was dependant solely on the rain, land was classified as suitable for dry crops if the rainfall was about 16 *dronas* (about 25 inches) a year and for wet crops, if the rainfall was 1½ times that (about 37½ inches a year). **A good rainy season was when one-third of the annual rainfall occurs at the beginning (Srayana July/August) and at the end of the season (Kartika October/November) and two-thirds in the middle (Praushtapada August/September and Asvayuja in September.** About 13½ *dronas* in the country of *asmakas*; 23 *dronas* in *avanti*; and an immense quantity in western countries (*aparántánám*), the borders of the Himalayas, and the countries where water channels are made use of in agriculture (*kulyávápánám*).

OWNERSHIP OF LAND

Scholars differ on the point of the prevalence of private ownership of land in ancient India. But so far as *Arthashastra* is concerned, it recognises private ownership in land, though it presupposes the existence of State-owned or crown lands. **All unoccupied land belonged to the State.** Unoccupied land was allotted to villages. **The grants of the agricultural land were made for the farmer's lifetime only, meaning that the farmers were not absolute owners.** However, the description and existence of *Sitadhayaksha* proves the existence of State farms. Nevertheless, **lands not under the supervision of the *Sitadhayaksha* belonged to private owners.** Records of agricultural and other properties in the villages were maintained by the *Gopos* and the *Sthanikas*, who worked under the *Samahart* and were in no way related to the *Sitadhayaksha*. Moreover, the *kshetrika*, the owner of the field, was distinguished from the *upavasa*, the tenant. When neither party could prove their claim in connection with disputes regarding boundaries between two fields, the disputed territory was surrendered to the king. Likewise, if the owner of a land was not traced, the

land was then controlled by the king. *Arthashastra* also mentioned the gift of land to priests, preceptors, and others, in the form of grants to Brahmins. Thus, in Kautilyan times, there was private ownership of land, although mines belonged to the State.

CROPPING PATTERN

The *Arthashastra* enjoined that a handful of seeds bathed in water be sown first and the following mantra recited:

*"Prajápatye Kasyapáya déváyá namah.
Sadá Sítá medhyatám déví bījéshu cha
dhanéshu cha. Chandaváta hé."*

This means, "Salutation to God *Prajapáti Kasyapa*. Agriculture may always flourish and the Goddess (may reside) in seeds and wealth. *Chandavata he*."

Kautilya showed farmers the advantage of cultivating different classes of crops, which is relevant even today.

"Rice crops and the like are the best. Vegetables are intermediate; and sugarcane is the worst (very difficult to grow) for it is subject to various evils and requires much attention and expenditure to reap."

His words are quite relevant today in India to farmers, as well as the state agricultural departments, as they can advantageously use this advice to their benefit. In fact, India has one of the world's highest production of sugarcane and, not surprisingly, one of the lowest levels of groundwater resources!

Arthashastra says that anyone who brought new land under cultivation is to be granted exemption from payment of agricultural taxes for two years. Though Kautilya advised the King to be firm and relentless in the execution of the state policy, **he adopted a very soft attitude towards the flora and fauna of the land as also towards the animals on land. Causing pain to quadrupeds or cutting tender shoots were regarded as punishable offences.** Fruit and flower-bearing plants were under the special care of the State.

In *Arthashastra*, several chapters are devoted to animal husbandry. Kautilya dealt with various kinds of animals, their herding, grooming, training, marking, feeding, and milking. In fact, the State owned large herds of cattle. At the same

time, cattle were also owned privately. The *Godhyaksha* (the superintendent of cattle) maintained a complete record of animals in all the herds belonging to the State.

IRRIGATION

Kautilya's *Arthashastra* established the rules for building reservoirs and dams, and mentioned irrigated fields being more valuable than rainfed fields. For building or improving irrigation facilities, the following examples for payment of water rates were granted by *Arthashastra*:

- New tanks and embankments – five years
- Renovating ruined or abandoned water works – four years
- Cleaning water works over-grown with weeds – three years

Anyone leasing, hiring, sharing or accepting waterworks as a pledge, with the right to use them, had to keep them in good condition. The owner could give water to others (by dredging channels or building suitable structures) in return for a share of the produce grown in the fields, parks or gardens. In the absence of an owner, either charitable individuals or the people of the village acting together had to maintain waterworks.

Unfortunately, post-Independent India has not fully utilised its water resources. Though the population has nearly doubled since Independence, the area for major crops under cultivation has grown only 10%. Wheat is the only exception, for which the gross area under cultivation has almost doubled. Currently, 27 million hectares area is under wheat cultivation. Old cropping patterns, old varieties of seeds, old methods of production are no longer sufficient or relevant. In order to feed a billion people, we now need improved varieties of crop species, increases in productivity and extended irrigation projects. Water has to be harnessed. Traditional irrigation projects had their limitations; they could not always prevent famine and floods. Besides, there were social dimensions too. They were always linked to caste hierarchy, with dominant landholders of a village controlling even the decentralised tanks. As stated in *Arthashastra*, the government needs to realise that irrigated fields are more valuable than rainfed fields to help increase agricultural productivity.

AGRICULTURAL TAXATION

The *Arthashastra* advocated against excessive taxation and stated that both extremes should be avoided, namely, either complete absence of taxes or exorbitant taxation. **The taxes for agriculturists varied between 1/6th, 1/8th, and 1/10th of their produce depending upon their circumstances.** This taxation was not progressive but proportional to fluctuating incomes. An excess profit tax was also collected.

PROFIT MARGINS

Arthashastra indicated the profit margin allowed to merchants as:

1-5% for locally produced goods, and

2-10% for imported goods.

PRICE SUPPORT

Arthashastra states that when the supply of a commodity is in excess of demand, the Chief Controller of State Trading has to build up a buffer stock by paying a price higher than the market price. When the market price reaches the support level, he shall change the price, according to the situation.

FUTURES

Similarly, the price of any commodity was fixed taking into account the investment made, the quantity to be delivered, duty, interest, rent and other expenses.

SUSTAINABLE FARMING

While talking of sustainable farming, the following words are relevant – "The seeds of grains are to be exposed to mist and heat for seven nights; the seeds of *kosi* (mung bean, black gram, etc.) are treated similarly for three to five nights; the seeds of sugarcane and the like are plastered at the cut end in a mixture of honey, lard, ghee and cowdung; seeds of bulbous roots with honey and ghee; cotton and hard seeds with cow dung; and pits for trees are to be burnt, and manured with bones and cowdung on proper occasions."

Kautilya's *Arthashastra* is a treasure-trove of scientific information on a variety of

subjects including agriculture. It is now universally acknowledged that no long-term economic growth programme is feasible in India without including the development of the agricultural sector. Before we understand the relevance of Kautilya's management strategy, specially for Indian agriculture, it is important to understand the current status of Indian agriculture.

CURRENT STATUS OF AGRICULTURE IN INDIA

The agricultural sector has a vital place in India's economic development as it represents 22% of the country's Gross Domestic Product (GDP) and provides livelihood to 58% of the country's population and accounts for a sixth of the total value of the country's exports. In the emerging post-WTO world economic order, India is widely expected to benefit in the area of agriculture. This is one area in which India can emerge as a potential global competitive player. The WTO rules and regulations have focused on the rate of tariffs and widening the market for global competitors. In order to harness the potential of agro exports however, adequate rural infrastructure and facilities need to be provided.

In India, it is only from the fourth five-year-plan that the agricultural sector received priority status with plan outlays being more than doubled. More than financial support to the agricultural sector, its growth has been stultified because of politics and being a state subject under the Constitution. This has led to several inefficiencies including restrictions on inter-state movement of goods, excessive subsidies on certain types of fertilisers leading to their overuse and price support systems that encourage cropping patterns not necessarily based on market economics.

Consequently, competitiveness and development has taken a backseat. The development of rural road networks has been ignored for years, which is essential to bring Indian agriculture on to a global competitive platform. As a result of poor roads and the absence of a cold storage chain, it is estimated that a third of fruits and vegetables harvested get lost in transit. Little wonder that productivity in India is amongst the lowest in the world.

The percentage share of the investment and capital formation in agriculture to gross capital formation in the country has shown a steep decline. It is now just under 8% compared to over 15% a few years ago. Equally, the issue of availability of additional irrigation facilities has also not been sufficiently emphasised. It is sad that even after over a decade of reforms, the sector has to

rely on the vagaries of monsoon. This is reflected in the growth of agricultural produce that registered a drop in production for four fiscal years since 1991 (initialisation of reforms). Even prior to 1996, agricultural growth had averaged at 3.3% per year between 1980 and 1995. Of course, the fact that India has achieved self sufficiency in foodgrain production is a matter of pride. However, it has yet to exploit its full potential in the export of agricultural goods.

The need thus arises to study the implications of globalisation on Indian agriculture. We need to take a holistic approach by studying areas of strength and weakness and have policies that encourage productivity and exports and not merely protect political constituencies.

One can say that India's low export of agricultural products could be attributed to three major reasons:

- Quality standards
- Competitive pricing
- The terms and conditions upon which import substitution is encouraged

Farmers are now being persuaded to switch over to organic farming and thus phase out the consumption of chemical fertilisers. Organic farming should be used as the most appropriate environment-friendly mechanism to arrest further degradation of the environment. Constant use of pesticides not only pollutes the basic formative components of ecology, but also affects human and cattle health. For instance, spraying Endosulphan on cashew crops in Kasaragod, Kerala caused mental disorders among people who lived nearby.

The government, through the State Marketing Boards, needs to play a vital role in promoting standardisation, grading, quality certification, market-led extensions and training farmers and market functionaries in marketing related areas. Indian agriculture suffers from a mismatch between food crops and cash crops, low yields per hectare except for wheat, volatility in production and wide disparities of productivity over regions and crops. Domestic production of pulses and oilseeds are still below the domestic requirements and India imports pulses and edible oils to bridge the gap. Government procurement policy, which guarantees a minimum price for rice and wheat crops to farmers, has created a bias in their favour and a distortion of cropping pattern which is not market determined. At times these procurement policies result in such surpluses of

foodgrain that, due to inadequate storage facilities, the beneficiaries of food subsidies are Indian rats! The movement of agricultural produce which, according to the Indian Constitution, is a State subject, is also restricted, thereby depriving the Indian farmer the benefit of a naturally large domestic market.

RELEVANCE

Interestingly, the relevance and importance of an agro-based sector continues even today. Kautilya outlined these issues 2400 years ago. It seems that *Arthashastra* has a solution to most of the problems in India. To begin with *Arthashastra* suggested the creation of a post for a superintendent of agriculture and identified the importance of agriculture in the country. The book also argues that the King should understand the intricacies of agriculture. Commercialisation of agriculture, especially of large farms, would be needed with professionally trained managers able to study the global movement of prices, modern farming techniques and use of technologies such as satellite farming. Courses on farm management need to be more widespread. Similarly, agriculture is completely out of the tax regime in India. The agricultural sector that has been given priority status for bank lending gets completely de-prioritised when it comes to taxation. As against this, the *Arthashastra* has highlighted the significance of taxes on agriculture and its allied activities (though it was one of the sole major sectors contributing to state welfare).

Arthashastra insisted that the richer farmer be taxed, which should perhaps be done now when the Finance Minister is trying to find ways to increase the ratio of tax to GDP.

The importance of irrigation and providing amenities should be taken up on a priority basis. The economy which has to compete with the international market is yet depending on the vagaries of monsoon. Although India has the second largest irrigated area in the world, the area under assured irrigation or with at least minimal drainage is inadequate. Some of the fertile land has lost its fertility because of inadequate fertilisers or incorrect usage of fertilisers and in incorrect proportions. This is the result of prolonged subsidies on nitrogenous fertiliser (urea) while no such subsidy was given for phosphatic and potassic fertilisers, thereby encouraging farmers to overuse what was available, leading to the permanent loss of soil quality. Thus, a subsidy initiated for the benefit of the farmers is actually working to their permanent detriment.

The emphasis on organic farming, which obviates the need to use chemical fertilisers, is an obvious alternative. Given the fact that India has one of the few natural factories for organic manure one wonders why organic farming has not yet got the attention it deserves. This would also help prevent the slaughter of cattle. The cattle is slaughtered once they are of no commercial use. However, if their manure provides a revenue stream to the farmer he would be averse to slaughtering them. Kautilya, with his love for animals would agree. Systematic cropping patterns and irrigation systems followed by the Kautilya Raj is what today's experts need to adapt. Farmers and consumers would benefit if all agricultural production was produced by ecologically sound and sustainable means.

Pricing and marketing agro products and providing adequate infrastructure are equally crucial. Of all the factors, the cost of production is the most tangible factor that decides the price and it takes into account all operational and fixed demands. To conclude, one can positively say that application and validity of quite a few of the suggestions of *Arthashastra* can be tested which will benefit the farmers today.

FOREIGN TRADE

7

INTRODUCTION

Kautilya's *Arthashastra* described in detail the trade and commerce carried on with foreign countries, and the active interest of the Mauryan Empire to promote such trade. Goods were imported from China, Ceylon, and other countries. Interestingly, the trade was not free from levies. Levies known as a *vartanam* were collected on all foreign commodities imported to the country. Levies called *Dvarodaya* which was paid by the concerned businessman for the import of foreign goods was in addition to the ferry fees of all kinds. This helped augment the tax collection. However, the medium of tax payment was either in gold bars or in coins. Kautilya in his treatise elaborated on the extraction of metals from ores, the manufacture of metallic alloys and the minting of coins. For silver coins he has used the term *karshapanas*.

Coins of foreign origin were also in circulation in the State. Thus, for a long period of thousand years or even more, India's foreign trade was of 'surplus nature'. With a continuous inflow of gold in the form of coins or bars used by foreign traders to purchase Indian commodities, India was transformed into '*Suvarna Bhoomi*' or 'golden land.' Greek coins with a punch mark were in circulation as the official currency. Later, Roman coins especially those made of gold and silver were brought in by traders. Trade with the Roman Empire flourished from first century B.C. From Rome, India imported chemicals, wines, high quality pottery, some metal alloys and gold and silver in the form of coins and bars, and exported silk and their articles, spices, precious stones, jewelry, *etc.* This trade was generally very favourable for India.

Kautilya, apart from being a man of wisdom and perfect strategies, propounded duties – *Nitishastra* – as the ideal way of living for every individual of the society. His principles of foreign trade are even today taught in universities,

based as they were on the theory of comparative advantage. His art of diplomacy is well known across India and practised in the areas of defence, strategy formation and foreign relations.

The land revenue was fixed at 1/6th the share of the produce, and import and export duties were determined on ad valorem basis. Import duties on foreign goods were roughly 20% of their value. Interestingly India, which had import duties often exceeding 100% till a few years ago, has now reached the level of 20%. Similarly, tolls, road cess, ferry charges and other levies were all fixed. Kautilya's concept of taxation is more or less akin to the modern system of taxation. His overall emphasis was on equity and justice in taxation.

TRADE AS REVENUE GENERATOR

Trade was mostly carried out by the State and private trade was allowed in areas other than in which the State had monopoly. The revenues raised through trading went partly to finance the army and to expand territories.

SUPERVISION AND CONTROL OVER TRADING

In order to have effective control over trade, monitoring was done through 7 out of 34 departments envisaged. The head of each of the department was called *adhyaksha* or chief controller in the present-day parlance. The seven departments overseeing and monitoring trade activities were: (i) State Trading, (ii) Private Trading, (iii) Customs and Octroi, (iv) Ports, (v) Weights and Measures, (vi) Shipping and Ferries, and (vii) Surveyor and Time keeper.

There being neither air cargo nor railways at that time, mention is made only of shipping and ferries. In State trading, the sale of goods over which the state exercised monopoly, collection of the transaction tax (*vzaji*) and tax on export of crown commodities was the main function. In private trading, the controller ensured orderly marketing and prevented traders from making excessive profits. He was also responsible for consumer protection.

Further, *sulka* (duty) represented customs duty levied on imports and exports. This duty was collected not at the frontier posts, but at the gates of fortified cities, particularly, of the capital. Kautilya points out that not only foreign goods, but also domestically produced goods which entered the city from the countryside were subject to *sulka*. Likewise the goods produced in the city and sent outside were also subject to duty.

Thus, there was no distinction between the octroi and customs duty – perhaps due to the relatively smaller size of the area which constituted the country. Since *sulka* (duty) was levied at the gate of entry of the city, there was no need for government control over the sale of goods in the countryside. However, the government exercised control and prohibited sale of goods at the places of production such as mines, fields and gardens. Penalties were prescribed for violation of the ban on sale at places of production, and the penalties were quite stiff. Sale was allowed in designated markets where the private merchants came under the control and purview of the Controller of Private Trade. The Chief Controller of Shipping and Ferries was entrusted with a wide range of responsibilities which included, among others, supervising maritime safety and reserve, running shipping services, hiring ships and boats with or without crew, organising ferries, controlling the movements 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.

IMPORTS OF GOODS

Consistent with the policy of providing services to the people, the sale of imported goods was permitted in as many places as possible so that they were readily available to the people in towns and the countryside. In fact, assistance was provided to encourage import of foreign goods required in the country. In other words, there was no restriction on the imports of goods, in case these were required by the people so that they did not feel oppressed for want of goods.

Traders were given two incentives:

(i) Local merchants who brought in foreign goods by caravans or by water routes enjoyed exemption from taxes, so that they could make a profit. This specifies the basic principle of management, i.e., to encourage entrepreneurship. Those merchants who took the risk of travel to import goods were encouraged through tax exemption.

(ii) Foreign merchants were not allowed to be sued in money disputes unless they had legal status in the country; their local partners could, however, be sued. Thus, the liability was always on the citizens to ensure fair trade practices and better goods for the consumers. Thus, the system provided both for an incentive to foreign trade as well as strict procedures and penalties to ensure fairness. The

threshold limit of profit was also indicated. Traders were allowed profit margins of:

- 5% on locally produced goods.
- 10% on imported goods.

When there was an excess supply of a commodity, the Chief Controller of State Trading would build up a buffer stock by paying a price higher than the market price. However, when the market price reached its start price, the Controller was authorised to change the price and work out a strategy. Further, the price was fixed taking into account the investment, the quantity to be delivered, date, interest rate and other expenses.

EXPORTS ON GOVERNMENT ACCOUNT

Since there was no paper money prevailing then, foreign trade was on barter basis. It was the State Trading Office which determined the level of expenses to be deducted for arriving at the allowable profit margin. Basically, there were two main types of expenses, one relating to caravans which included custom duties, road cess, escort charges, tax payable at military stations, ferry charges, daily allowances paid to merchants and their assistants, and two, the share payable to the foreign king. In addition, the cost of hiring ships and boats, and provisions for the journey required, would also be included.

Arthashastra insisted upon foreign trade resulting in a profit and discouraged trade to areas found to be unprofitable. So the risk and reward system was very much prevalent in the Kautilyan era. Nevertheless, the terms of trade was not just dependent on economics but also on other various parameters. The traders had to keep in mind the political or strategic advantages in exporting to or importing from a particular country. Echoes of such strategic considerations can be found today in the continued import of palm oil from Malaysia despite self-sufficiency in it thanks to the Technology Mission.

With regard to trade, some precautions were indicated;

(i) When goods were transported over land, the chief controller needed to ensure that not more than a quarter of the goods were of high value, presumably to prevent theft of an entire consignment of valuable goods.

(ii) Various officers such as frontier officers and governors were contacted to ensure safety of goods in transit.

(iii) Extra precautions had to be taken in case the caravan contained goods of high value.

(iv) In the event that the caravan could not reach its destination, the goods could be sold wherever it was at the time.

When goods were transported by water, seasonal changes in weather had to be considered to avoid damage.

DOMESTIC TRADE

8

INTRODUCTION

After agriculture and manufacturing, trade was considered to be the third most important activity. It was the King's responsibility to promote trade and commerce by setting up trade routes over land and water and to designate markets and towns including ports. It was clear that these trade routes were to be kept free of harassment by courtiers, state officials, thieves and frontier guards, and that these routes were not to be damaged by herds of cattle. In other words, cattle rearing which was a big part of the agricultural economic area would in no way interfere with the trade routes.

I. PROTECTION OF TRADE ROUTES

The King had to protect those using trade routes from harassment by courtiers, state officials, thieves and frontier guards. Frontier officers had to make good what was lost. Kautilya felt that just as it was impossible not to taste honey or poison which was on the tip of one's tongue, so also it was impossible for those dealing with government funds not to taste, at least a little bit, of the King's wealth

This is a powerful assertion signifying two facts. First is the realisation that trade routes were important for the development of the economy and their safety thus needed to be assured. The second is a warning about corruption in matters relating to trade. Under no circumstances should those who were entrusted with the job of maintaining safety of trade routes be permitted to indulge in corrupt practices which by virtue of holding public office would succeed in diverting the resources from the State to private hands. Even at that time, the King or his advisors were aware of the possibility of the officials and frontier guards indulging in corruption.

II. TYPOLOGY OF DOMESTIC TRADE

The concept of gross margins was practised in Kautilya's time rather than that of 'value added'. The King prescribed that gross margins of the trader should not be excessive so that the products available to the consumers were at reasonable rates. Unlike today, profit margins were not market determined, perhaps, in keeping with an era in which a benevolent king cared for the welfare of the people. The system of State trading was well established and there were prescriptions on how trading was to be conducted. Kautilya's *Arthashastra* meant 'the science of material gain'. It is very clear that its aim was to benefit people. According to Syhamasastri, "Kautilya belongs to that school of politicians whose policy is to justify the means by the noble end sought to be achieved," which Kautilya as a conqueror had to win at any costs. For Kautilya, **the end was more important and ranked higher than the means.**

Modern economics talks about the concept of 'value add'. Kautilya broadly divides the economy into three sectors: (i) state/ government/ king, (ii) private, and (iii) service providers such as banks and financial institutions. Kautilya's *Arthashastra* was very clear about the role of different sectors, but it was the King who was at the center of decision making. In trade involving the private sector, only the safety of the routes was ensured by the State, and compensation in the case of loss was prescribed. Sale proceeds from mining activity accrued to the State, since it controlled the land. *Private trade*, however, consisted of selling manufactured products to households; these were supplemented by imports, in case of shortage. Exports were freely encouraged. The trade control system was well defined and articulated. One of the policies laid down was that commodities were to be brought to designated markets where only these were to be sold, and not at their place of production. The officers in charge of the sale of government commodities had to deposit the proceeds in a box with a lid with only one hole so that there was no scope for taking out the same once deposited. At the end of the day, accounts would be given and the money handed over after taking the balance stock. The policy and the procedure laid down showed that Kautilya was fully conscious of the possibility of officials engaging in corrupt practices.

III. RELATIVE MERITS OF DIFFERENT TYPES OF ECONOMIC ACTIVITY

- An ideal *Janapada* was one which was easily defined and which had a lot of

productive land with cultivable fields, mines, timber forests, elephant forests, and pastures.

- Agriculture was the most important economic activity. Cultivable land is better than mines because mines fill only the treasury while agricultural production fills both treasury and store houses.
- The King had to ensure that agriculture was protected from harassment by not levying onerous taxes or fines, and by not making undue demands for free labour.
- Building forts (defence preparedness), water works and reservoirs as the source of crops.
- Trade routes were also a means of out-manoeuvring the enemy because it was through these that the King could send secret agents and bring in weapons and other war material.
- It was better to have a large production of low value minerals than a small production of high value ones.
- Productive forests should be large, near the borders of the country with a river and yield material of high value.
- It was better to have a large number of trade routes even if they were not all built to high standards. Kautilya's order of preference for establishing trade routes: land route preferably to the south, a water route on the coast and the inland waterway.
- Cart-tracks and tracks usable by draught animals were preferred over footpaths. As earlier mentioned, trade was the third pillar of economic activity, and the *Arthashastra* details every aspect of trade. Apart from promoting trade by improving infrastructure, the State was required to keep trade routes free of harassment by courtiers, state officials, thieves and frontier guards. Kautilya appears to mistrust traders believing them to be thieves with a propensity to form cartels to fix prices and make excessive profits as also to deal in stolen property. He prescribed heavy fines to discourage such offences by traders and with a view to protect consumers.

Further, the law on dealings among private merchants included:

- (a) Selling on agency basis
- (b) Revocation of contracts between traders
- (c) Traders travelling together and pooling their goods

IV. SAFETY IN TRANSIT

It was also enjoined upon the frontier officers to ensure the safe passage of the merchandise and to make good any loss incurred. Responsibility to recompense loss to traders vested with the village headman, barring, of course, goods that were stolen or sent away. Further, if any property of trader was lost or driven away in an area between villages, the person responsible was the Chief Superintendent of Pastures (CSP). In the regions which did not fall under the control of CSP, the responsibility was that of *Chora Raju*. Finally, if the responsibility could not be fixed on any official, the people of the village within whose boundaries the loss had occurred were collectively responsible to the trader. It is thus seen that the importance of the trader was recognised by Kautilya as also the importance of the rule of law, by restoration for any loss caused. At the same time traders were prevented from oppressing people. This clearly shows that the welfare of the people was uppermost in the mind of the King.

APPENDIX: CHIEF CONTROLLER OF PRIVATE TRADING

(a) Responsibilities

- (i) To ensure fair trading in new and old articles
- (ii) To allow sale/pledging of old articles only if seller/ pledger would provide proof of ownership
- (iii) To inspect the weights and measures used by merchants in order to prevent fraudulent use.

(b) Contract over Merchants

- (i) To ensure that profit margins of 5% on domestically produced goods, and 10% on imported goods were adhered to
- (ii) To ensure that goods were sold at the prices fixed for them
- (iii) To ensure that merchants did not deal in stolen goods.

(c) Assistance to Merchants

(i) To provide appropriate exemptions, if goods held by the merchants were damaged for unforeseen reasons.

(d) Brokers and Middlemen

(i) To ensure that merchants did not count the brokerage paid to middlemen as part of their costs in calculating their profit margins

(ii) To allow brokers to hold stocks of grain and other commodities to the extent they were authorised

(iii) To confiscate any stock held by brokers in excess of authorised limits, and to deliver these to the chief controller of state trading for sale to the public.

(e) Orderly Marketing

To prevent the collective purchase by merchants of commodities as long as the goods of an earlier joint purchase remained unsold.

GOVERNMENT FINANCE

9

The word *Arthashastra* means 'Science of wealth creation'. Kautilya, however, used the word in a much broader context to include many of the activities of a state-economic, political, social, military and others that may affect its wealth. Kautilya's *Arthashastra* is a masterpiece particularly in the context of the time when the book was written. He seems to have an encyclopedic and all encompassing knowledge about different aspects of governing a monarchy such as administration, revenue, taxation, law, diplomacy, business and trade, coinage, agriculture and land tenure, labour, people and the society, *etc.* Kautilya emphasised that the State is sustained by the revenue it collects from its subjects. **His ultimate objective 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 interest of the people against invasion by other kings.**

Kautilya established the principles of taxation and the sources of revenue and expenditure. In essence, it is one of the earliest recorded guidelines of Public Finance. He also categorised types of revenue incomes and laid down the systems for audits which are comparable to existing mechanisms. Moreover, Kautilya states, "that which remains after deducting all the expenditure already incurred and excluding all revenue to be realised is net balance (*nívi*) which may have been either just realised or brought forward." This concept is akin to the modern theory of fiscal balance and ideas of audit, and Kautilya can be credited for institutionalising such concepts in the framework of governance and policy.

PRINCIPLES OF TAXATION

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.

Kautilya noted that **a ruler should not tax at his pleasure**. He took extreme care in avoiding fiscal tyranny and consequent public discontent. According to him, "Disloyal and indifferent subjects will endeavour to destroy even strong kings." He stressed that subjects should be taxed in such a way that they maintain their ability to bear future burden, and, if necessary, a heavier one. Increase in tax should be gradual during times of prosperity.

Even today, one of Kautilya's maxims on taxation is very much alive and calls for adherence by the governments all over the world. According to Kautilya, "Taxation should not be a painful process for the people. There should be leniency and caution while deciding the tax structure. Ideally, governments should collect taxes like a honeybee, which sucks just the right amount of honey from the flower so that both can survive. Taxes should be collected in small and not in large proportions." He did advocate proportionately higher income tax on the rich and higher sales tax on the luxury goods. However, to Kautilya, it was essential that a ruler supply sufficient overhead capital and developmental assistance, or encourage it through tax exemptions. Further, a King should direct expenditure to profitable projects and have in hand sufficient reserve of money, food, clothing, and ammunition to meet the need imposed by calamities, war or other emergencies. Many groups were exempt from tax either due to their inability to pay (handicapped conditions), or the service they were engaged in (priest). The land tax and tax on traders were collected only if there was a profit above the normal level. The schedule of taxes on production and sales was prepared after carefully calculating the cost of production and the normal profits, the length of time needed to sell the product, the level of unsold inventory, the fluctuations of the market, *etc.* Taxation by the state took into consideration the conditions necessary for ensuring the stability and welfare of the tax payer. Different kinds of taxes existed such as direct and indirect taxes, sales and excise taxes, income and value added taxes. It seems **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**. One of the unique features of his tax policy was to allow for a normal amount of profit for businesses before the tax was collected. Kautilya's tax system seems quite comprehensive, particularly in light of the antiquity of his writing. However, some of his ideas on taxation existed in Indian literature even before Kautilya penned them.

CLASSIFICATION OF PUBLIC REVENUE

Kautilya identified an exhaustive list as the sources of government revenue, and put the actual administration of revenue collection on the department under which that particular activity was covered. The Collector General (i.e., the chief of revenue) was to consolidate the revenue from all departments into the central treasury. Thus, an institutional mechanism for revenue collection was set up. The system is very similar to modern systems of revenue collection and management, whereby the actual collection was de-centralised while the consolidation and audit was centralised.

Sources of revenue mentioned in *Arthashastra* under their corresponding modern categories can be highlighted as below:

Corporate Taxes: The corporation or guild of artisans and handicrafts-men (*kárusilpiganah*)

Indirect Taxes: Liquor, slaughter of animals, threads, oils, ghee, sugar (*kshára*), the state goldsmith (*sauvarnika*), the warehouse of merchandise, rivers, ferries, boats, and ships, road-cess (*vartani*), ropes (*rajjú*) and ropes to bind thieves (*chórarajjú*) and taxes on minerals.

Land and Property Tax: Town houses and building sites (*vástuka*), pasture grounds, agricultural produce, flower gardens, fruit-gardens, vegetable gardens, wet fields. A large part of tax on agriculture was received in kind.

Customs duty: *Sulka* was collected on all imported goods at the city-gates and the work of collecting customs duty was supervised by *Sulkadhyaksha*, viz., Superintendent of customs.

Fees and Government Service charges: Tolls, fines, weights and measures, the town-clerk (*nágaraka*), the superintendent of coinage (*lakshanádhyakshah*), the superintendent of seals and passports.

Income Taxes: Produce from crown lands (*sita*), portion of produce payable to the government (*bhága*).

Entertainment taxes: Prostitutes taxes and gambling charges.

PUBLIC EXPENDITURE

Items of expenditure were classified under 15 heads. This was known as

Vyayasarira, 'the body of expenditure'. The majority of items involve expenditure on State accounts. Only a few may be regarded as constituting the privy purse of the King. Perhaps the most important public policy ideas in this section come from Kautilya's analysis of productive and capital expenditure as opposed to non-productive expenditure. In the *Arthashastra*, a clear distinction is made between revenue invested, i.e., capital expenditure and current expenditure. For Kautilya, there were two kinds of expenditure, viz., daily expenditure and profitable expenditure. Daily expenditure was the obligation of the State to maintain certain services and functions for the people, i.e., the day-to-day expenditure of running an administration. For Kautilya the 'expenditure' that earned revenue 'once in a *paksha*', a month, or in a year is called profitable expenditure. Kautilya understood that such profitable expenditure, in essence, puts a check on spending from the current account. Investment of capital (*vikshépa*) is a means to check expenditure (*vyayapratyayah*). Kautilya realises the importance of capital expenditure through which the State can earn revenue in the long run; he states, "the King will have to suffer in the end if he curtails the amount of expenditure on profitable works."

The emphasis on a proper system of audit and the quality of revenue administration is exceptional. In essence, it reflects Kautilya's focus on institution building and management.

Kautilya underlined the categories of works that needed to be done by the revenue department – "The business of upkeeping the government (*samsthánam*), the routine work (*prachárah*), the collection of necessities of life, the collection and audit of all kinds of revenue; these constitute the work in hand. That which has been credited to the treasury; that which has been taken by the King; that which has been spent in connection with the capital city not entered (in the register) or continued from year before last, the royal command dictated or orally intimated to be entered (in the register), all these constitute the work accomplished. Preparation of plans for profitable works, balance of fines due, demand for arrears of revenue kept in abeyance, and examination of accounts, these constitute what is called part of work in hand."

The function of a 'wise collector-general', according to Kautilya, was 'increasing the income and decreasing the expenditure', a maxim that goes well with our current ideas of cutting down on fiscal deficit.

GOVERNMENT SERVANTS AND GOVERNANCE

Kautilya clearly stated that the people's and therefore the State's prosperity depended on the conduct of government servants, yet another example of Kautilya's concern with governance and institutions. Kautilya was also against big government machinery, "dispensing with (the service of too many) government servants...is conducive to financial prosperity of the State."

Kautilya identified 40 different methods of embezzlement of public money, and prescribed the harshest punishment for such an offence. "Under the above circumstances (embezzlement), the persons concerned, such as the treasurer (*nidháyaka*), the prescriber (*nibandhaka*), the receiver (*pratigráhaka*), the payer (*dáyaka*), the person who caused the payment (*dapaka*), the ministerial servants of the officer (*mantri-vaiyávrityakara*) shall each be separately examined. If any one of them tells a lie, he shall receive the same punishment as the chief officer (*yukta*) who committed the offence."

Kautilya also understood **the need for transparency during the investigation of public servants and the practice of whistleblowing on corrupt practices.** "A proclamation in public (*prachára*) shall be made to the effect that whoever has suffered at the hands of this offender may make their grievances known to the King. Those who respond to the call shall receive such compensation as is equal to the loss they sustained."

Kautilya recommends that public servants, "while engaged in work, shall be daily examined; for men are naturally fickle minded and like horses at work, exhibit constant change in their temper. Hence the agency and tools, which they make use of, the place and time of the work they are engaged in, as well as the precise form of the work, the outlay, and the results, shall always be ascertained... hence the chief officer of each department (*adhikarana*) shall thoroughly scrutinise the real amount of the work done, the receipts realised from, and the expenditure incurred in that departmental work both in detail and in the aggregate."

Kautilya admitted that some amount of corruption would always exist and cannot be scrutinised perfectly, "It is possible to mark the movements of birds flying high up in the sky; but it is not possible to ascertain the movement of government servants with a hidden purpose." He therefore recommends the strictest punishment, both material and corporal, as a disincentive to cheat.

Kautilya had given detailed instructions on check-and-balance accounting and

auditing for the royal treasury of the great Maurya Empire. However, Kautilya conceded that it is just as difficult to detect an appointed official's dishonesty, as it is to detect how much water a swimming fish drinks.

CLASSIFICATION OF FINANCIAL FRAUDS

In the *Arthashastra*, fraud prevention as well as fraud detection has been highlighted. Kautilya had listed several ways of misappropriating public funds by way of fraud against which auditors at the royal treasury had to always be on their guard. Some of these frauds relevant in today's corporate environment are:

(a) Falsification (of date) with a motive of personal profit: Showing a later date than the one on which income was received or showing an earlier date than the one on which expenditure was incurred and using the proceeds in both cases for personal profit for a period.

(b) Misrepresentation (of income received or expense incurred) with a motive of personal profit:

(i) Revenue due on a given date is allowed to be collected at a later date for a consideration

(ii) Revenue not due till later is collected earlier by force or deceit but credited on due date

(iii) Revenue paid by one is credited in the name of another for a consideration

(iv) Revenue for treasury realised in the capacity of a collector is misappropriated by an individual by force or deceit

(c) Discrepancies (arising out of willful fraud) in:

(i) personally supervised work

(ii) account heads

(iii) labour and overhead charges

(iv) work measurement

(v) totalling

(vi) quantity

(vii) price

(viii) weights & measures

(ix) containers of goods

Actual income was calculated under the three major account heads:

(a) current income

(b) transferred income

(c) miscellaneous revenue

The last category had three further subdivisions which mainly included recovery of previously written-off debts, etc., realisable economies made in investment against planned budgets and any differential (value-added) income. In account books, every entry was to be recorded on the date of transaction, duly classified under the different heads on both sides – receipt and debit. Not maintaining a systematic and legible accounting record was a punishable offence as this was deemed a precursor to a fraud. An elaborate check and balance system was in place to ensure the timely submission of accounts and accounting for every transaction in minute detail.

In the event of a discrepancy after audit, the official concerned was made to pay a penalty at least equivalent to the discrepancy. With improved telecommunication and electronic fund transfers now available, the possibility of fraud and necessity of disciplined audit cannot be underestimated. If we systematically categorise the various financial frauds that are being unearthed by present-day auditors and investigators across the world, we will probably find that most of them can be roughly placed under one of the aforementioned Kautilyan classifications.

PUBLIC SECTOR

10

The basic philosophy of a feudalistic monarchy is that the King owns the entire kingdom, its manifest as well as unmanifested resources. Kautilya in *Arthashastra* clearly demarcates the spheres of economic activities between the State and its subjects. Thus, the concept of public sector, private sector and joint sector was delineated.

OWNERSHIP OF LAND

Land, the most important resource, was primarily in the public sector, with the State holding all virgin land, forests and water resources. However, both public and private sectors held arable land. State's lands were either directly cultivated by the chief superintendent of crown lands, or leased out to tenants. Land was granted to private parties either in perpetuity or for a limited period, on a tax-paying or on a tax-exempt basis. A park, an embankment, a water tank or a reservoir associated with arable land could be privately owned with a transferable title.

MINING, FISHING, AND SALT PANS

Mining and fishing were both in public and private sectors. Salt pans were in the public sector, but salt making was done by the lessees of salt pans. The chief salt commissioner collected the revenue before it could be marketed.

MANUFACTURE AND SALE OF LIQUOR AND BETTING

Manufacture and sale of alcoholic liquor and betting were the State's monopoly. Any private parties engaged in these activities were severely punished.

PRECIOUS METALS AND JEWELLERY AND PRECIOUS STONES

Since time immemorial and in ancient sacred texts, gold and silver were mentioned as most valuable metals. Whether these metals were largely mined or imported is not known but Kautilya recognised the importance of these metals, and emphasised strict control on sale, purchase and manufacture of these metals as well as precious stones.

PROFIT IN PUBLIC SECTOR

According to Kautilya, **profit was a 'must' and not anathema in operating public sector undertakings**. The main guiding principles of the administration of the economy were that the State should run a diversified economy actively, efficiently, prudently and profitably. A few references are enough to show how much importance was given to profit making in Kautilya's public sector undertakings. **Any official who did not generate adequate profits in a crown's undertaking was punished for 'swallowing the labour of workers'**. Chief controllers of state trading who looked after trade with foreign countries were told to 'generate profits, avoid losses'.

Clear regulations were spelt out regarding buffer stocks and futures in which profit making was emphasised. When crown commodities were sold by private parties or merchants, they had to pay a charge to compensate the state for the profit which it would have otherwise got by selling them direct.

ANIMAL HUSBANDRY

The State also was engaged in many diversified activities. Crown herds were the responsibility of the chief superintendent who either employed cowherds, milkers, *etc.* on wages or gave some herds to a contractor. Private herds could also be entrusted to the State for protection on payment. There also appear to be veterinary doctors in the employment of the state.

FORESTRY

The State's participation in protecting and developing forestry cannot be minimised. Factories were set up in the forests for producing useful articles by the superintendent of productive forests and the chief ordinance officer. The well-protected leisure forests, intended for the King's pleasure, had plantations bearing fruits, thornless trees and pools of water. They were stocked with tamed deer, wild animals rendered harmless, and tamed elephants.

MINING

Mining was in the public sector. Mines, the source of war material, were important because, "mines are the source of wealth, from wealth comes the power of government, because with the treasury and army, the earth is acquired." The following metals were mentioned by Kautilya in his treatise: gold, silver, copper, lead, tin and iron, alloys of copper such as brass, bronze and bell metal. Diamonds, precious stones, mica, as well as marine products were considered part of the mining industry. A number of officials, under the chief controller of mining and metallurgy, were responsible for these industries.

MANUFACTURE

Two categories of manufacture were under the State's monopoly. They were making weapons and brewing liquor. State-controlled industries were textiles, salt and jewellery. State-regulated industries were small-scale industries of craftsmen such as goldsmiths, blacksmiths, weavers, and dyers.

LOCAL AND FOREIGN TRADE

Both public and private sectors were engaged in local and foreign trade. The Controller of State Trading was responsible for the equitable distribution of local and foreign goods, buffer stocks and sale of crown commodities. He could also appoint private traders as agents for the sale of crown commodities at fixed prices, or sell those directly through state-owned retail outlets. The official in charge of exports, the Chief Controller of State Trading, was advised to undertake foreign trade only if there was a profit. Exporting weapons and valuable material was prohibited.

PUBLIC SECTOR UNITS

Though Kautilya wrote in the context of a monarchy and the governance that prevailed in his time, there are certain fundamental points of relevance that we can cull from his propositions about those activities that come within the purview of present-day public sector units.

1. The *Arthashastra* emphasised that the King should build forts, canals, roads, and moats and as a matter of fact it describes with considerable detail the layout of each of these infrastructural constituents. It is not the precise applicability of each of these specifications, but the fact that this is meticulously described in the

Arthashastra, which underscores that Kautilya recognised that efficient provision of these amenities entailed adherence to certain parameters.

2. The second aspect is Kautilya's **exhaustive description of the duties and responsibilities** of the entire gamut of functionaries within the monarchy ranging from the ministers, councilors, and commissioners to the officers at the lowest level of the hierarchy. Furthermore, the *Arthashastra* enumerates **corrective and preventive measures such as penalties and a system of vigilance** to ensure the efficient discharge of the responsibilities of those in various tiers of governance.

Penalties were also used for the enforcement of revenue targets and expenditure limits. Evidently, Kautilya understood the importance of accountability and transparency, the lack of which in a number of public sector units has been a prime reason for the proliferation of loss-making public sector enterprises.

3. Interestingly, one can draw discernible similarities between some of the provisions of the *Arthashastra* and the **main principles of corporate governance**. For instance according to the Cadbury Committee's report (1992) on financial aspects of corporate governance, proper managerial accountability was the key to any system of corporate governance. Its view was that companies that adhered to its Code of Best Practice would experience improvement on the effectiveness and value of its audits.

The *Arthashastra* spoke of the **King appointing spies to ensure a system of vigilance** that would be able to monitor the activities of various departments and although this may not be termed as an audit, it would have served some of the purposes that an audit is supposed to fulfil. There has been extensive research on this subject in today's times. However, one of the central objectives of corporate governance is to ensure accountability and transparency through certain managerial and legal provisions.

HEAD HUNTING

11

WINNING OVER SEDUCIBLE AND NON-SEDUCIBLE PARTIES IN ENEMY TERRITORY

Kautilya described the behaviour of those who could be won over when needed. There were four types of behaviour that he felt made a man seducible – anger, fear, greed, and pride. Why these four? Many of Kautilya's teachings and policies were influenced by the Vedas, which tell us that a human being is made up of mind, body, and intellect (brain). Of these, the body acts either at the command of the mind or at the insistence of the intellect. Intellect is defined as the capacity to control the mind and this comes from study and reflection. The mind is a collection of our feelings, emotions, thoughts, *etc.* While intellect rationalises, the mind dictates the emotion. Further, the mind is insatiable, it wanders (perhaps even faster than the speed of light), and it gets attached. All these things make one dependent on the world.

A person feels stress when his mind rules over his intellect. This is the state of unfulfilled desires. Whereas when intellect rules over the mind, the desires become aims and ambitions. Unfulfilled desires could lead one to anger (the mind experiences this as an obstruction to what one desires); greed (when the craving or the desire becomes very strong); this leads to arrogance, which with the passage of time becomes envy. Envy leads to fear (losing what one has). The fourth state that the Vedas talk about is *Moha* (delusion); but Kautilya lays stress on pride in a man that relates to arrogance as the fourth seducible element.

How do we identify these people?

The group of enraged: Anger is exhibited when one's desires are obstructed. This group includes: – those who felt cheated or denied after being promised certain rewards (increment in pay, status, etc).

- One of two or more persons, who being equally competent, feels humiliated because the other is assigned a job.
- One who feels slighted because his superior favoured another.
- One who is unable to deliver results on account of being given a difficult assignment.
- One who feels distress on being transferred to a far-flung area, or an area of his dislike (Kautaliya considered both those willing to be transferred but considered the remuneration improper, and those unwilling to be transferred).
- One who is on an assignment not of his choice.
- One who cannot achieve his objective in the organisation even after trying hard and giving his best, perhaps because of a fault in the culture of that organisation.
- One who is hindered from doing his duty, either due to paucity of time, or because of not being given requisite authority to do the task.
- One who feels underpaid.
- One deserving, but deprived of an office he aspired to.
- One held back by his peers or superiors in an organisation for their own interests.
- One who is reprimanded and/or punished, (whether such reprimand/punishment is justified or not) after serving the organisation loyally.
- One who feels the other got credit for the work done by him.

The group of those who are frightened: This fear is one of losing something. The group includes: – One who has thwarted, or pulled down someone

- One who had committed a serious wrong – a deliberate act detrimental to the organisation.
- One who has become known for a wrongful act perhaps in his personal

capacity.

- One frightened by the punishment meted out to another for a like offence.
- One who has seized someone else's work or credit.
- One who has been subdued by authority.
- One who has suddenly amassed a lot of wealth at the expense of the organisation – One disliked by his superiors.
- One who has entertained hostility towards his superiors, or the organisation itself.

The group of those who are greedy (These people are in a state of overwhelming desires). This group includes: – One who is impoverished (for money/respect/opportunities).

- One who has faced a calamity.
- One who has indulged in vices either in personal or professional capacity.
- One who has indulged in rash transactions. Rashness of transactions may have involved a financial loss or expectation of a great gain.
- A person who believed in personal gain by withholding information.

The group of those who are proud: This relates to arrogance that follows greed.

This group includes:

- One who was filled with self-conceit (self-importance, pride, vanity, snobbery, arrogance).
- One who desires achievement of honour.
- One resentful of the honour bestowed on a colleague.
- One placed in a lower position than he had envisaged for himself.

- One fiery in temper.
- One given to violence (physical, verbal or non-verbal).
- One dissatisfied with his emoluments

After identifying these four groups, Kautilya prescribed how to approach them.

To lure the enraged

Reinforcing perceptions such people hold about their organisation by telling them how their organisation and managers lacked the knowledge, commonsense and also the experience to see what they were worth; Also to explain to them the 'detrimental effects' that such behaviour of their organisation and managers could have on the organisation; By inviting them then to join another organisation to realise their potential.

To lure the frightened

Reinforcing their sense of insecurity by warning them of a possible 'harm' that they risk getting from their organisation due to its own (incorrect) apprehension of being harmed by them, showing them a safer haven where they could grow.

To lure the greedy

Reinforcing their desire by amplifying the fact that their organisation rewarded those who were devoid of spirit, intelligence, and eloquence, but not those endowed with their qualities. Presenting an alternative organisation which has a culture of acknowledging and rewarding persons of distinction and asking them to join.

To lure the proud

Proud people need to get their ego massaged. The approach used should be to impress upon them that their organisation is fit for and is of benefit to only people with lower qualities and, little or no intelligence, conviction or abilities, not for people of their standing. Inviting them to join an organisation that 'knows' how to honour persons of distinction.

SELECTION OF PEOPLE

Though the kingdom was a feudal monarchy, it had a well-structured administrative machinery, containing various departments and the heads of these departments were charged with well-specified responsibilities; they were expected to run the team actively, efficiently prudently and profitably. The highest authority was the King himself who was advised by a group of councilors, ministers and other high officials, who were carefully selected by the King himself after a careful scrutiny of their character, background, and leadership qualities.

QUALITIES FOR APPOINTMENT

Kautilya believed in the adage "*Yatha Raja Thatha Prajah*," (as the King is, so will be the people"). Therefore, he laid down the condition that 'an ideal King is one who has the highest qualities of leadership, intellect, energy and personal attributes'. Nepotism had no place in Kautilya's scheme for holding high offices. For the King (or in modern times, the Prime Minister), these important qualities were emphasised.

QUALITIES OF LEADERSHIP

We have to view these qualities in the context of the political-social milieu of Kautilya's times. Qualities that were then desirable were birth in a noble family, good fortune, intellect and cultivating associations with elders, being righteous, truthful, resolute, enthusiastic and disciplined, not breaking a promise, showing gratitude to those who help, being holy, and not being dilatory.

QUALITIES OF INTELLECT

This included the desire to learn, listening to others, grasping, retaining and understanding thoroughly and respecting knowledge, rejecting false views and adhering to the true ones. An energetic King is one who was determined, valourous, quick and skilful.

PERSONAL ACTIVITIES

An ideal King had to be eloquent, bold, and endowed with a sharp intellect, a strong memory and keen mind. He should be amenable for guidance. He had to be well-trained in all martial arts and have the ability to lead a disciplined and trained army. He had to have the ability to govern in normal times and the capacity to face crises. He had to conduct himself in accordance with the advice

of elders. The King himself scrutinised persons whom he appointed to high posts as councilors, ministers, commander-in-chief of the army and heads of various departments in his kingdom.

CONCLUSION

The King appointed councilors and ministers after carefully scrutinising their birth, abilities, character and suitability for taking up the high posts. The King had to personally supervise the work of those ministers near him. With those further away, written communication was used. According to Kautilya, the King had to thoroughly test the integrity of those whom he had appointed. Kautilya also cautioned the dangers inherent in King's service. "Service under a King has been compared to living in a fire (but is, in fact, work). A fire may burn a part of one's body and, at its worst, all of it, but a King (goes from one extreme to another). He may either confer prosperity or may have the whole family, including wives and children, killed. Therefore, a wise man makes self-protection his first and constant concern."

Specific qualifications were laid down in *Arthashastra* for the appointment of the heads of the departments. 34 heads of departments were listed by Kautilya. Only those who had the specified qualifications were appointed to these high posts. Except in the case of *Raj Purohita*, the scribe (*Brahmin*) and army (*Kshatriyas*), there was no caste reservation for the high-level posts. Thus, upward mobility in the hierarchy was based on merit, suitability and fulfilling other qualifications laid down for these posts.

WATER MANAGEMENT

12

Kautilya's views on water issues speak volumes of his foresight and clear thinking, the most striking being the concept of '**user charges**' **practised in his time**. Today, even after consensus on user charges, there are still practical obstacles in the way of implementing these. The tax holiday, so far thought to be a product of modern times, was prevalent in Kautilya's times as well. For example, for the purpose of the creation of irrigation facilities, **exemption from payment of taxes was provided for a terminal period of three to five years in case of new tanks, renovation and cleaning**.

Since all water resources belonged to the King, the **levy of user charges helped the King replenish his treasury**. Due to risks involved in transporting goods via waterways, the land route was preferred. Among various water routes, coastal and river routes were preferred.

KING'S DICTUM

WATER FOR IRRIGATION & CULTIVATION

- All water reserves belonged to the King and users paid a water rate for taking water from irrigation works built by the King.
- Irrespective of whether the cost of building a dam or an embankment was borne entirely or only partly by the state, all the fish, ducks, and green vegetables produced in or near the reservoirs are the King's property.

IRRIGATION

- For building or improving irrigation facilities, the following exemptions from payment of water rates were stipulated to be granted:

New tanks and embankments – five years

Renovating ruined or abandoned water works – four years

Clearing water works overgrown with weeds – three years

- Waterworks such as reservoirs, embankments and tanks could be privately owned and the owner was free to sell or mortgage them.
- The ownership of tanks would lapse, if these had not been in use for a period of five years, except in cases of distress.
- Anyone who leased, hired, shared, or accepted a waterwork as a pledge, with the right to use it, was obliged to keep it in good condition.
- Owners could give water to others (by dredging channels or building suitable structures) in return for a share of the produce grown in the fields, parks or gardens.
- In the absence of the owner, either charitable individuals, or the people of a village acting together had to maintain waterworks.

WATER: VARIOUS OTHER USES

- **Dams built to store water from a flowing source (such as a river) are preferable to those built to store water brought by canals (dug for that purpose).**
- Among reservoirs built by constructing dams on rivers, the ones which irrigated a larger area were considered better.

Kautilya gave importance to productive use of water and water routes. Despite the fact that water routes can be used to transport a large quantity of goods at less expense and exertion as compared to land, Kautilya preferred the latter. According to Kautilya, the water route is not usable at all times, is accessible at only a few places, is full of dangers and is indefensible, in contrast to land routes.

Further, among water routes, a coastal route is better than the high sea because there are a large number of ports along any coast. A river route is also good because it poses less serious danger and is more constantly in use. Safety of water routes was emphasised (this has been dealt with elsewhere). The director

of trade had to be conversant with the differences in prices, the popularity or unpopularity of various goods and know whether they were produced on land or water and whether they had been transported by land or water routes.

The state was responsible for making sure that only a seaworthy boat, properly manned and equipped, was allowed to set sail upon paying of penalty for any loss suffered for want of seaworthiness. Ships sailing on the sea had to pay duty whenever these came within the King's domain. Boats that were shown to cause harm, those coming from enemy territory and those violating the regulations of the port were to be destroyed.

Contrast the emphasis placed by Kautilya on efficient water management and the detailed instructions on how to do it, with the current neglect of this God-given resource. India is blessed with several large rivers, flowing from the melting snows of the Himalayas and also fed by the southwesterly rains. Yet, for thousands of people living in villages, especially women and children, obtaining this basic requirement involves trudging for miles and carrying it on their head. The last two Budgets, emphasising the maintenance of water bodies, point out the gross neglect of maintenance of this vital natural resource and its contamination. The *Arthashastra* would be very instructive to those charged with the responsibility of conserving our water resources.

It is unfortunate that in India, despite six decades of planning, an efficient and equitable water management programme is still a pipedream. In this respect, Kautilya as a visionary has many practical suggestions to offer.

EDUCATION

13

Education in every sense is one of the fundamental factors of development. No country can achieve sustainable economic development without substantial investment in human capital. It is undeniable that education enriches people's understanding of themselves and of the world. It improves the quality of their lives and leads to benefits both to individuals and to societies. Prior to the nineteenth century, systematic investment in human capital was not of special importance for any country. Expenditures on schooling, on-the-job training and other similar forms of investment in development of human capital, were quite small. This began to change radically during the 19th century with the application of science to the development of new goods and more efficient methods of production. In agriculture, evidence suggests positive effects of education on productivity among farmers using modern technologies, but less impact, as might be expected, among those using traditional methods.

Interestingly, Kautilya's *Arthashastra* clearly demarcated the significance of education and the role of intellectuals in ensuring a welfare state. During the era it was the political theorist of the early Maurya period who was acquainted with the principles of *Arthashastra* who formulated these in a text. This might have been done shortly after the death of Kautilya, in order to fill the gap left by the fact that Kautilya did not write his own text or found his own school.

Kautilya's *Arthashastra* identified the significance of training and learning. It clearly stated that training imparted discipline. Thus, the lessons of discipline could be imparted to those whose intellect had the desire to learn, capacity to listen attentively, power to grasp what was taught, to retain it in memory, discriminate between the important and the unimportant, draw inferences, deliberate and imbibe the truth and not to others.

A young intellect was apt to consider whatever was told as the teaching of

scientific knowledge, just as a fresh, raw object absorbs whatever material it is brought in contact with. *Arthashastra* clearly points out that 'teaching wrong' things was a great crime. It urged that discipline and self-control were acquired by learning the various sciences under the authoritative control of concerned teachers. Kautilya believed that only learning which results in righteousness and wealth was true learning. Persons who distinguished themselves on account of their learning, intellect, valour, and good deeds were acclaimed. Thus, Kautilya established the fact that education helped and preserved righteousness, wealth and physical pleasures. *Arthashastra* preached that training and learning destroyed unrighteousness, poverty and hatred.

It is from learning that the intellect is formed, through the intellect skill in action (*yoga*) and from *yoga*, self-control follows. Much of our knowledge about state policy under the Maurya rule comes from the *Arthashastra*. Though it was written during the third century BC, it is still relevant. The book, written in Sanskrit, discusses theories and principles of governing an ideal state and is not necessarily an account of Maurya administration.

It categorised discipline into two kinds: artificial and natural. Instruction (*kriya*) can be rendered only by a docile being tied to the rules of discipline. The study of science can tame only those possessed of such mental abilities as obedience, hearing, grasping, retentive memory, discrimination, inference, and deliberation, but not those devoid of such abilities. *Arthashastra* warned that sciences should be studied and their precepts strictly observed only under the authority of specialist teachers. In view of maintaining efficient discipline, the student should invariably seek the company of aged professors of sciences from whom alone the discipline's roots could be understood.

Students were to spend the forenoon in receiving lessons in military arts concerning elephants, horses, chariots, and weapons, and the afternoon in hearing the *Itihasa*. *Purana*, *Itivritta* (history), *Akhyayika* (tales), *Udaharana* (illustrative stories) *Dharmasastra*, and *Arthasastra* are known by the name *Itihasa*. During the rest of the day and night, they should not only receive new lessons and revise old lessons, but also hear over and over again what had not been clearly understood. From hearing (*sruti*) ensues knowledge; from knowledge, application (*yoga*) is possible; and from application, self-possession (*atmavatta*) is possible. This is what is meant by efficiency of learning (*vidhyasamarthyam*). Kautilya stated that a well-educated King, disciplined in the sciences and devoted to a good government, would enjoy the earth

unopposed.

India, at the time of Kautilya, continued to be famous for its medical knowledge throughout the ancient period. The doctors could perform surgical operations for cataract, hydrocele, abscesses, extraction of dead embryos, *etc.* Education and training were divided into specific areas.

VETERINARY EDUCATION

This field of medicine had developed fairly early. Since animals were regarded as part of the same cosmos as humans, it is not surprising that animal life was keenly protected and veterinary medicine was a distinct branch of science with its own scholars.

MILITARY EDUCATION

In modern times, military training is usually given only by the state authorities when recruits join the army. Such was not the case earlier. The average citizen and villager was expected to be able to defend his own hearth and home. The *Arthashastra* expressly lays down that every village ought to be able to defend itself. That such was actually the case in several parts of India would become quite clear from the accounts of Alexander's invasions, as given by the Greek historians.

In several places, the Macedonian was opposed not so much by state forces as by the whole population up in arms. There can be no doubt that in many of the republican states of Punjab, the Kathas, the Malavas, the Sibis, *etc.*, every adult used to receive military training of a fairly high order.

MILITARY TRAINING

There were also some cities in the country, famous as centers of military training. Takshasila, situated in the north-west, had become a center of military training.

COMMERCIAL EDUCATION

There was considerable inter-provincial and foreign trade in the ancient times. Maritime activity was considerable, and the trade with other countries was very profitable. There is evidence to show that Statistics would have been taught here.

Kautilya's *Arthashastra*, while describing the duties of different officials, says that there had to be a person to mark the animals that were a month or two old or that had stayed in the herd for a month or two — the branded mark, the natural mark, the colour, the peculiarity of the horns — and along with these characteristics, the recording of additions to the herd. Another person should look after 100 animals, i.e., an equal number of aged cows, milk cows, and cows with young, cows with calves for the first time, and heifers. Thus, we understand that people of ancient India were conversant with the topic.

ASSOCIATION OF ATTRIBUTES

In the same chapter, Kautilya has written that statistics and records about all agricultural and other properties in the village were to be maintained by officials, known as *gopas* and *sthanikas*. Hence, we can conclude that Statistics had been taught even in those times. Despite scientific, commercial and a practical educational system, the ancient Indian educational institutions were characterised by spiritual endeavors to realise a higher truth. **Moral education and character building, in addition to intellectual learning, formed the essential features of such systems.**

PATRONISED CENTERS

Kings were encouraged to set up centers for higher education in various branches of learning by utilising state income. **Patronised centres like Nalanda University, in Rajgriha, Bihar, Takshasila University in present Rawalpindi (Pakistan), Vikramshila University in Dharam Pala, Bihar were few of the leading educational centres during that era.** Historians have found that Nalanda University had about 1500 professors and 10, 000 students. All these universities followed the Gurukul system of teaching where students and the faculty stayed together. The universities were well-known over the world as major hubs of learning (akin to Oxford and Harvard Universities today) that attracted a large foreign student population.

TAKSHASILA – THE MOST ANCIENT UNIVERSITY

Takshasila was the most famous seat of learning. This was where students went to complete, not begin, their education. They were invariably sent there at the age of sixteen or when they "came of age". Here it would be essential to mention briefly the range of subjects taught in Takshasila:

(1) Science, (2) Philosophy, (3) Ayurveda, (4) Grammar of various languages, (5) Mathematics, (6) Economics, (7) Astrology, (8) Geography, (9) Astronomy, (10) Surgical science, (11) Agricultural sciences, (12) Archery and (13) Ancient and Modern Sciences.

Takshasila was also the capital of Gandhara and its history goes back into antiquity. It was founded by Bharata and named after his son Taksha, who was the ruler there. As a center for learning, the fame of this city was unrivalled. The philosophy and layout of the university adhered to the ancient Hindu beliefs of the value of natural beauty around a university. The valley is "a singularly pleasant one, well-watered by a girdle of hills."

Numerous references show how students from far off Benares, Rajagaha, Mithila, Ujjain, from the Central region, Kosala, and Kuru kingdoms in the North country flocked there. The fame of Takshasila as a seat of learning was of course due to the wisdom of its teachers. Sending their sons a thousand miles away from home also proves the great concern felt by parents about good education, even in those days. As shown in the case of the medical student, Jivaka, the course of study at Takshasila extended to as many as seven years. Historical records reveal how parents felt on seeing their sons return home after graduation at Takshasila. An archery school at Takshasila had on its roll call 103 princes from different parts of the country. The students came to Takshasila to complete their education in the three Vedas and the 18 *Sippas* or Arts. Sometimes the students were known to select to study only the Vedas, or just the Arts. The *Boddisatta* (Buddha) is frequently referred to as having learned the three Vedas by heart.

NALANDA

Nalanda was the name of the ancient village now identified with modern Baragaon, seven miles north of Rajgir in Bihar. The earliest mention of Nalanda is in the Buddhist scriptures, which refer to a Nalanda village near Rajagriha with a Pavarika Mango Park in Buddha's time. Even Kautilya was once a student of this university. This university was the seat of knowledge for the world. Nalanda University offered many subjects for study, though it specialised in Mahayana Buddhism. Instructions were imparted in logic, grammar, philosophy, astronomy, literature, Buddhism, and Hinduism. Discussions in the classrooms were the usual method of teaching.

VIKRAMSILA

Like Nalanda, the University of Vikramsila was also possible due to royal benefactors. The syllabus and method of teaching were controlled by a board of eminent teachers. The walls of the university prominently displayed portraits of pandits eminent for their learning and character.

Grammar, logic, metaphysics, ritualism were the main subjects here. The image this university conjures up is one of a typical Brahmin with a high chignon, beard, short garments, seated on a mat in a round leafy hut; four fellow denizens of his hermitage, a cow, a crow, a kneeling doe, and a coiled snake, all living at peace as friends in the atmosphere of non-violence.

CONCLUSION

Kautilya's *Arthashastra* identified the significance of training and learning. It clearly stated that training imparted discipline. Kautilya established the fact that education helped and preserved righteousness, wealth, and physical pleasures. Even though the concept of human resource development had not been specifically mentioned in Kautilya's *Arthashastra*, all the prescribed guidelines give the impression that he was propounding 'human resource development' in a detailed manner, where education played a vital role.

Today the common perception, even among educationists, is that institutions of learning have little connection with learning and have more to do with business or training recruits for employment as serfs in corporate life. Nevertheless, education raises people's productivity and creativity and promotes entrepreneurship and technological advances. In addition, it plays a very crucial role in securing economic and social progress and improving income distribution. The highest priority and importance should be given to education and training. Many countries are now on the brink of increasing access to secondary and higher education and in effecting spectacular improvements in the quality of education offered at all levels.

More students complete their basic education and their demand for education at higher levels is similarly increasing. Previous studies have shown handsome returns to various forms of human capital accumulation – basic education, research, training, learning by doing and aptitude building. Unequal education tends to have a negative impact on the per capita income in most countries. Undeniably, as stated by Kautilya, **investment in human capital especially in**

higher education would have a greater impact on the growth and development of the economy.

ISSUES OF RELEVANCE TO CONTEMPORARY INDIA

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TOWARDS HIGHER SUSTAINABLE ECONOMIC GROWTH WITH PEOPLE WELFARE

Kautilya's *Arthashastra*, a great revelation, is primarily a guidebook for the benefit of the top management of the country. It outlines both political and economic governance norms working simultaneously as means and ends. **Without political will and good governance, no economic goals can be achieved. Without economic and administrative governance, populist ambitions cannot be realised in their true spirit.**

The *Arthashastra*, a treatise on polity, economic activity, and administration, both public and private, written from the perspective of ideal, but pragmatic governance norms and in a holistic framework, was lost to us for centuries. This wonderful body of knowledge needs to be brought to the attention of the people.

The work brings out clearly the relevance of Kautilya's thoughts and teachings to contemporary times not only in India, but throughout the world. The relevance becomes more pertinent as Kautilya's interdisciplinary work basically meets the need of creating a strong and centralised administration, which is truly benevolent to the people. 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 believed in a welfare state, flexible labour policy, and constructive administrative procedures. Efficient administration is basic for good governance. Good governance should avoid extreme decisions and extreme actions. Kautilya recommends a strict code of conduct for himself and for the administrators. This code of conduct is useful and applicable to modern executives.

The concept of trusteeship was not in fashion in the times of Kautilya. But what Kautilya preached was the highest form of trusteeship as advocated by Gandhiji – **"For good governance, all administrators, including the King, should be considered the servants of the people."** They were paid for the service they rendered, and not for their ownership of anything.

The main role of a leader is to lead by example. All the attributes spelt out by Kautilya are expected even from the present day leaders. In fact, the working and motivation of the leaders from various segments of the economy determine the well-being of the inhabitants of the economy.

The detailed emphasis on efficient law and order, effective administration, taxation, and other key functions is extremely relevant today. According to Kautilya, for an efficient government, the personnel holding various administrative posts were to be selected with great care according to the job's requirements. Kautilya was of the opinion that their abilities and sincerities should be tested from time to time. This is relevant for civil servants in the present administration as well. 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 emphasised accountability even in a monarchy. In the present democratic setup, these qualities are very essential.

Kautilya dealt seriously with the problem of corruption. He listed about 40 ways by which government funds could be embezzled by corrupt officials. However, he was very practical about the prevalence of corruption. He pointed out how difficult it was to be sure about the honesty of an officer. According to him, for good governance, preventive and punitive measures must be adopted to deter the greed of civil servants. This deserves the serious attention of relevant policy

makers in the government so that a cleaner public life is ushered in. Judging by the fact that not a single person holding a high office has ever been convicted, though several have been charged of corrupt practices, the relevance of punitive measures and enforcement norms as advocated by Kautilya becomes even more important. It is unfortunate that in India, despite over six decades of planning, an efficient and equitable water management is still a pipedream. In this respect, Kautilya was a visionary, and had many practical suggestions to offer.

In 1985, the Technology Mission on safe drinking water was set up, but the dream of the vast majority of people in the non-metro areas is yet to be realised. There is an urgent need to look into and implement Kautilyan principles of user charges.

It is indeed amazing that Kautilya, about two millennia ago, described the workings of a mixed economy. It is interesting to note that the mixed economy concept was favoured by late JRD Tata in the mid 1950s, as a via media between private enterprise and state ownership. "The State should run a diversified economy actively, efficiently, prudently and profitably."

Till now, the authorities have had a general dislike for the word 'profit', which did not allow entrepreneurship to flower in the country. Kautilya eulogised profit-making and wealth creation. He did not see profit-making by an enterprise as anti-labour, but, in fact, quite the opposite. Any official, who did not generate adequate profits in crown undertakings, was punished for '**swallowing the labour of work**'. According to Kautilya, the treatment towards the labour force had to be fair, yet strict. Kautilya realised that wealth creation was crucial for establishing a welfare state. He outlined and advocated appropriate strategies for creation, protection and conservation of a nation's wealth.

Kautilya laid stress on employment generation with due emphasis on relating wages to productivity. In this age of globalisation, linking wages to productivity has become extremely relevant.

On public finance, if the present government follows the principles as laid down by Kautilya, there would be no need to enact and implement the "Fiscal Responsibility and Budget Management Act" by the Centre and States. The rules for a healthy treasury management as laid down by Kautilya are not only for India but the entire world.

Kautilya's major contribution to economic thought can be seen in the area of public finance. He attached considerable importance to financial management by the State recognising that **the financial strength of the State is critical in normal times as also in times of war, famine and other calamities**. Kautilya referred to seven different sources of revenue, classifying them as routine sources (like taxes on land and commerce) and additional sources (interest and profits). At the same time, he enumerated 15 heads of expenditure. While levying taxes, he **advocated fairness and equity as the basis of taxation**. He also made a **strong plea for avoiding discontent among the taxpayers, as the welfare of citizens was uppermost in his mind**.

Kautilya provided an **elaborate description of how public funds get misappropriated** and how such practices could be contained and controlled. The concept of subsidies and exemptions seems to have prevailed in Kautilya's times too. He indicated that these exemptions should be judiciously planned and provided to women, minors, students, disabled and others.

While writing about public finance, Kautilya showed remarkable foresight and **suggested ways for investments in virgin land, dams, tanks, irrigation and mining**. How relevant this is even today can be seen from the mention made about the conservation of water resources in the last two Union Budgets. These assets undoubtedly had critical importance in Kautilya's times, from the point of view of economic planning. It is necessary to extend this logic and prepare an exhaustive list of productive assets in the context of a modern Indian economy.

Kautilya's suggestions as regards investments are admirably suited to India. **Kautilya treated land as a very important asset**. Given the fact that this was done 2400 years ago, it is remarkable that he advocated a scientific approach to farm operations and management. **Kautilya classified land into arable and non-cultivable land**. The arable land was given to the farmers for life only, and it was made sure that taxes were paid by the farmers. **India, at present, is engaged in a debate about taxing agricultural income**, which is still inconclusive. Kautilya has not only provided the rationale to tax agriculture, but has also advocated that **rich farmers should be taxed at higher rates**. In respect to taxes on agriculture, he said that **extremes of either complete absence of taxes or exorbitant taxation should be avoided**.

Kautilya argued for **maintaining data on agriculture**, as this would provide a basis for revenue assessment and collection. He had suggestions about land

records too. This is yet another subject which needs to be emphasised in the present context, as many Indian States do not have proper land records, which is an inhibiting factor when it comes to carrying out land reforms.

Kautilya made suggestions for irrigation management and for provision of buffer stocks. He also realised the need to give relief to needy citizens and hence suggested that tax-free land should be allocated to people belonging to certain specified categories. **It is interesting that gold and silver held great appeal in Kautilya's times too.** In the wake of the famous Brazil, Russia, India and China (BRIC) report of Goldman Sachs, gold has become extremely significant today, mainly due to its intrinsic value, which no currency has.

Environment protection was an integral part of Kautilyan economics. Emphasis was laid on water management, forest protection, land management, *etc.* Kautilya advocated the concept of 'just price.' Currently, this is a matter of intense debate, not only in India but in the entire world. The determination of the right price of oil has become a burning issue.

On Public Sector Undertakings, Kautilya wrote in the context of a monarchy and the governance that would emanate therein. But, these are relevant yet, within the purview of conventional public sector units. *Arthashastra* emphasised that the King should build forts, canals, roads and moats and, described in considerable detail the layout of each of these infrastructural constituents. He described the duties and responsibilities of all the functionaries within the monarchy. *Arthashastra* also lays down the penalties to ensure the efficient discharge of responsibilities at various tiers of governance. Kautilya understood the importance of accountability and transparency, the lack of which in a number of public sector units has been a primeval reason for the proliferation of loss making public sector enterprises.

Arthashastra allowed the King to appoint spies to monitor the activities of various departments. This would have served some of the purposes of an audit. One of the central objectives of corporate governance today is to ensure certain managerial and legal provisions leading to accountability and transparency.

India is poised to become a super power, and to ensure that this happens sooner rather than later, it is imperative to surmount deterrents. One of the most recurrent obstacles that the country has had to encounter, stems from the manner of governance and it is in this context that Kautilya's *Arthashastra* bears

considerable relevance to contemporary times.

A substantiated enumeration of this follows:

Kautilya states, "An ideal King is one who has the highest qualities of leadership, intellect, energy and personal attributes and behaves like a sage monarch or *Rajarishi*." Among other things, "a rajarishi is one who is ever active in promoting the *yogakshema* of the people and who endears himself to his people by enriching them and doing good to them." *Yoga* is explained as the successful accomplishment of an objective and *Kshema* is peaceful enjoyment of prosperity. To possess great intellect, a King (leader) should have:

- The desire to learn
- Retention
- Thorough understanding which reflects pursuit of truth

As regards a King's (leader's) personal attributes, Kautilya states that an ideal King should be eloquent, endowed with a sharp intellect, a strong memory and a keen mind. He should be amenable to guidance. He should be just in rewarding and punishing. He should have the foresight to avail himself of opportunities by choosing the right time, place and type of action. He should know how to govern in normal times and in times of crisis. He should know when to fight and when to make peace, when to lie in wait when to observe treaties and when to strike at an enemy's weakness. He should preserve his dignity at all times and not laugh in an undignified manner. He should be sweet in speech, look straight at people and avoid frowning. He should conduct himself in accordance with the advice of elders.

Economic growth is a means to an end and the primeval goal of countries is or at least should be sustainable development. The *Arthashastra* was a treatise that explored the embodiments, features, and principles of an efficient political economy. It is not unusual for poverty and underdevelopment to persist despite an increase in the economy's growth rates. In essence, the reasons for this stem from the structures or rather the lack of those that have the mechanisms to transmit the benefits of prosperity in a manner that will eliminate or at least mitigate the trappings of depravation and abject poverty. The role played by the lack of a proper mechanism with transparency and accountability has played a major part in stalling the transmission effects taking place from growth to

development.

Centuries ago, the prescription for sustainable development was written in the *Arthashastra*. Some of the most important measures are:

(i) The emphasis on infrastructure building

(ii) The meticulous manner in which councilors, commissioners, and all government functionaries are selected; the standards they have to adhere to; and the system wherein these are enforced, have been comprehensively specified.

By doing so, Kautilya demonstrated that he was cognizant that transparency and accountability cannot be ascribed to chance or the presumption that the individuals concerned would always act according to the dictates of integrity.

(iii) The King himself had to possess certain attributes and was not exempt from adhering to codes of discipline. Thus, leadership was not merely about having power and position, but it meant the discharge of duties, responsibilities and obligations effectively.

Kautilya may not have lived in an era of globalisation, however, **his classification of the various alliances or allies that a country can have and conversely the enemies or hostilities that it may be threatened by, are useful.** *Arthashastra* has very essential lessons for us when we are desparately seeking good governance in all walks of life. The stress on 'good and just administration', 'service', 'integrity', and 'accountability', etc., is immediately desired in today's turbulent times.

CONCLUDING OBSERVATIONS

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The more one delves into the seminal work, *Arthashastra*, the more one marvels at how current and topical Kautilya is to the present dynamic and uncertain economic and social milieu. In fact, Kautilya's work has relevance not only in contemporary India, but in the entire contemporary world. Though written in Sanskrit, which was the predominant language at that time, *Arthashastra* is still unique in the entire canon of Indian Literature, because of its unabashed advocacy of real politics and disciplined economic management.

Though the general impression is that Kautilya had not written much about economics, the fact is that Kautilya by taking a holistic and integrated approach to governance, had provided a new dimension to the field of economics, which unfortunately has remained neglected all this time. Economics works well with resource management, efficient administration, a fair judicial system, knowledgeable people with integrity, capable of taking up high positions.

Another important dimension – economic growth with equity and social welfare – as suggested by Kautilya, would render sustainability to the economy's management system. His most important contribution pertains to treasury management which, as mentioned in earlier pages, was designed in a holistic way. This included the ruler being honest, committed, and truly deserving of his position, the required systems and procedures and norms that are to be observed being in place, and clearly spelt out. There should be several routes of treasury replenishment, which have to be transparently laid down. The strength of the treasury depended upon the accumulation of wealth by the State which was made possible by the fact that the King was the principal and residual owner of all the property. For example, land which was not specifically owned by individual was assumed to be the King's property. All water resources belonged to the King and users were required to pay the King for its use.

What is most striking is Kautilya's penchant for pragmatic and realistic perspectives on crucial determinants of governance. It is strange that even today we continue to grapple with problems to which Kautilya had pointed straightforward solutions 2400 years ago. This implies that at some stage, something went wrong with our approach. What Kautilya propagated was tackling fundamental problems relating not just to the economy but also to human resource management, which is not practised in its true spirit today. Hence, there is an urgent need to revisit Kautilyan economics.

The relevance of Kautilyan thoughts in the Indian economy gains another dimension when judged in the context of the general perception that India along with China is likely to drive global economy in the 21st century. The relevance of Kautilyan economics could enable India to pursue a holistic and integrated development plan. The realisation of this dream requires that all areas of public policy and governance are streamlined to create an enabling and supportive environment. Here, Kautilya's work would prove most useful.

ANNEXURE: MAXIMS AND LESSONS FROM THE *ARTHASHASTRA*

(I) RULERS: DUTIES AND QUALITIES

- In the happiness of the people lies the ruler's happiness. Their welfare is his welfare. The ruler shall not consider what pleases and benefits him personally, but what is pleasing and beneficial to the people.
- Exercise of power and achievement of results should be properly planned by the ruler, in order to win over the people.
- Many rulers have been destroyed by being under the control of the group of six enemies (lust, anger, greed, infatuation, arrogance, envy). One should not follow their path, but preserve righteousness and wealth.
- When under attack or affected by a serious calamity, the people will help the ruler who is just in his actions.
- The whole of this science is intended to create a control over the senses. A ruler acting contrary to it and hence not having his senses under control, immediately gets destroyed, even if he is the lord of the four corners of the earth.
- Generally rulers swayed by anger have been killed by people's fury. Those addicted to carnal pleasures have been destroyed by enemies and diseases caused by decadence and vice.
- A mad elephant, mounted by an intoxicated mahout tramples everything that it comes across. Likewise, is the plight of a ruler devoid of the light of learning,

advised by an unwise minister.

- A ruler, disciplined by learning, will 'be interested in disciplining his subjects. He will enjoy the earth unopposed, devoted to the welfare of all beings
- One who does not keep one's word and one whose behaviour is contrary to that of the people becomes untrustworthy to one's own people and to others. Hence (a ruler) should adopt the same mode of life, same dress, same language, and same customs as those of the people.
- A ruler with loyal people accomplishes his task even with a little help because of their cooperation.
- A ruler with character can render even unrenowned people happy. A characterless ruler destroys loyal and prosperous people.
- An evil-natured and characterless ruler will be destroyed by the people or overcome by enemies.
- A ruler with good qualities, who knows statecraft and is endowed with the wealth of loyal people, even if he rules a small country, enjoys the entire earth, ever wins and never loses.
- (A ruler) should establish right code of conduct and also appoint preceptors and ministers who will keep him off dangerous spots.
- (A ruler) should not harass the roots of righteousness and wealth.
- What character the ruler himself has, the people attendant on him have.
- The ruler blinded by not learning the various sciences, acts indiscriminately, is obstinate in decisions and is led by others.
- Absence of learning and discipline causes vices in men. The untrained, undisciplined illiterate does not see the evil in vices.
- The whole aim of learning sciences and scriptures is this – control over the senses.
- A ruler who performs his duty righteously and protects his people properly

goes to heaven. Quite contrary is the case with one who does not protect his people or metes out unjust punishment.

- By enforcing the adherence of the people to the observance of duties prescribed for the four castes and the four stages of life and rooting out all unrighteousness, the ruler functions as the dispenser of justice.
- A ruler who administers justice on the basis of four principles: righteousness, evidence, history of the case, and the prevalent law, shall conquer the earth.
- Righteousness, overcome by unrighteousness, destroys the ruler, if neglect is shown.
- After conquering the earth consisting of diverse groups of people in various stages of life, the ruler should enjoy it, governing according to prescribed duties.
- (A ruler) should introduce righteous customs, practised by others but not yet current in the country. He shall not introduce unrighteous customs and should stop these, if practiced by others.
- His (the ruler's) secret others should not get; but he should ascertain others' weak spots. As the tortoise withdraws its limbs, he should try to hide any part of his which might be thrown open.
- Just as a hidden snake emits poison on whatever is seen as a threat by it, so the ruler emits the poison of anger on those from whom danger is apprehended.
- Just as the cow kept by dog-keepers gives milk to dogs and not to Brahmins, so the (depraved) ruler gives succor to those devoid of valour, wisdom, eloquence and strength and not to those of noble character.
- Just as the well belonging to (outcaste) huntsmen is of use only to them and not to others, so this (depraved) ruler is of use only to low type of people and not to men of noble character.
- Envoys are the mouthpieces of rulers. Hence even if weapons are raised they speak as they have been told to speak, of these even the low born are immune to killing. What to speak of Brahmins?
- The ruler should condone minor offences and be satisfied even when the

revenue is small.

- A ruler's actions are based on what is patently seen, what is not directly seen and what has to be inferred.
- An inaccessible ruler is made to do the opposite of what ought or ought not to be done by those surrounding him.
- (A ruler) should attend to all urgent matters promptly and never postpone them. Once a matter is deferred, consideration and decision become more difficult or impossible to tackle.

(II) COUNSELORS, AIDES, ALLIES

- Governance is possible only with assistance. A single wheel does not move. Hence ministers should be appointed and their counsel listened to.
- (The ruler) devoid of the power of counsel, should gather around him a collection of wise men or consult learned elders. Thus, he would attain immediate prosperity.
- India's council of ministers consists of 1000 sages. That is his eye. Hence it is that they call him "the thousand eyed one", though he has only two eyes.
- With whom shall an alliance be made? One to whom he is dear, or one who is dear to him? He shall go to him, to whom he is dear. This is the best way of forming an alliance.
- An ally with increased power is untrustworthy, for prosperity changes the mind.
- Difficulties stabilise friendships.
- Rendering help is the sign of a friend.
- Those with an established relationship do not desert, even if offended.
- Such loyalty is seen even among animals. For example, cows pass by unaccustomed herds and stay always in the company of known herds.
- Those whose relationship with the ruler is established over a long period are

however likely to completely take over everything from the ruler and pose as rulers themselves.

- Classmates, though they are trustworthy, will not respect the ruler, having been playmates (Hence they should not be appointed as ministers).
- Those who have a similar nature in secret matters and who have common vices and habits (in common with the ruler) do not offend him out of fear that he knows their secrets.
- Just as those not well-versed in the scriptures are unfit to eat the feast offerings to the dead given by good people, so too rulers not well-versed in the various sciences of state are not fit to hear ministerial counsel.
- (A weak ally) even if he gets only a small share of the spoils of victory from the superior ally should appear contented.
- In the absence of support, the supported do not exist.

(III) POLICY TOWARDS ENEMIES

- As a bird is captured by a bait in the form of a bird, enemies should be destroyed by creating trust and offering a bait.
- One should not allow enemies posing as friends to grow at one's expense.
- One should offer (to one's enemy) that which is likely to be taken by force by another enemy.
- Destruction of the enemy's army is primarily the destruction of their elephants.
- Just as a pigeon which has lived on the holy fig tree (*plaksha*) is a source of constant danger to the silk cotton tree (*salmali*), so a person who has come back after living with an enemy is a source of constant danger.

(IV) MILITARY POLICY

- Armed forces under several commands do not, due to mutual fear, go over to the enemy.
- (Groups of people) if stationed at one place are capable of acquiring arms.

- Victory of rulers in battle depends mainly on elephants.
- A fight between equals, like the collision of one unbaked pot with another, destroys both.
- In a fight with an inferior, one attains absolute victory, like the stone hitting an earthen pot.
- Power is the cause for the forging of treaties. Unheated metal does not join with metal.
- The force of (an army) which returns to fight, without any desire to live, is irresistible. Hence a broken army should not be harassed.
- In day time, the crow kills the owl. At night the owl kills the crow (The time of fight is important).
- In the fight between the dog and the pig, the ultimate victory is that of the pariah (who gets the meat to eat).
- A dog on land drags a crocodile. A crocodile in water drags a dog (the place of fight is important).
- One should sign a treaty of peace with one's equal and superior and fight with the inferior.
- Fighting a superior is like an infantry soldier fighting an elephant.
- (A weak ruler) surrendering to everyone lives without hope in life, like the crab on the river bank (always in danger of being captured). One who fights with a small army perishes like the one who tries to cross the sea without a boat. Hence he should seek refuge with a powerful ruler or remain in an impregnable fort.
- An army not under control can be brought under control by conciliation and other means.

(V) FINANCIAL POLICY

- The treasury has its source in the mines.
- From (the strength of) the treasury the army is born.

- Through the treasury and the army, the earth, whose adornment is the treasury, is obtained.
- Material wealth alone is important, says Kautilya, for, both righteousness and pleasure are based on material wealth.
- Even after winning (a battle) a ruler with a weak army and treasury is a loser.
- In inactivity there is certain destruction (sure loss) of what has been achieved and of what is to come.
- By activity, objectives are achieved and abundance of wealth acquired.
- Riches, righteousness, and physical pleasures – these are the three kinds of wealth. It is preferable to first attain the earlier mentioned ones than the latter.
- Absence of riches, absence of righteousness and absence of enjoyment are the three kinds of poverty. It is preferable to counteract the ones mentioned earlier first than the latter.
- The launching of all programmes depends first and foremost on the (resources of the) treasury.
- Since righteousness is the root of wealth and enjoyment its fruit, attainment of wealth linked to righteousness and enjoyment is attainment of all riches.
- A ruler with a depleted treasury will devour the citizens of cities and the people of villages.
- Men without wealth do not attain their objectives even after hundreds of trials. Only through wealth can material gains be acquired, as elephants (wild) can be captured only by elephants (tamed).
- A state with depleted resources, even if acquired, becomes only a liability.
- Just as only ripe fruits are collected from a garden, so too the fruits of the state (revenue) should be collected only when due. Collection of unripe fruits (premature collection of revenue) should be avoided as this will generate the wrath of the people and result in self-destruction.

(VI) CORRUPTION

- Just as it is difficult not to taste honey or poison placed on the tongue, similarly, it is difficult for one handling the ruler's money to refrain from tasting it in at least small quantities.
- Just as it is not possible to know, when the fish moving in water drink water, similarly, it is difficult to find out when officers employed in the execution of works misappropriate money.
- Even the path of birds flying in the sky can be found out, but not the ways of officers who hide their intentions.
- Even one who is not a thief is likely to be captured as a thief, if he is seen accidentally on the scene of theft, or if there is resemblance between the dress, weapons and other articles of the thief and his, or if he is seen near the stolen articles,
- (The cowherds) if given wages in the form of milk and ghee act to the detriment of calves.
- He who is responsible for loss of revenue shall be deemed to have eaten the ruler's property.
- He who doubles the revenue eats up the people's property.
- He who causes expenditure equal to the revenue eats up the labour of workmen.
- The pure shall not be corrupted, as water by poison. Sometimes it may not be possible to find a cure for the corrupted.
- The intellect of the brave, trained to be steadfast, once corrupted may not return without reaching the end (the summit of corruption).
- In a case of misappropriation involving a large amount of money, if a government servant is proved to be guilty of even a small part, he shall be held liable for the whole amount.

(VII) GUARDING OF SECRETS

- To as many men a ruler divulges a secret, on so many he becomes dependent, rendered helpless by that act.
- The tasks of one whose secrets are not kept, even if accomplished with special success, will undoubtedly get ruined like the broken vessel on the sea.
- A person under the influence of carelessness, intoxication, or prattling while asleep or enjoying carnal pleasures, or one hidden or dishonored, discloses secret counsel.
- The disclosure of secret counsel is injurious to the welfare of the ruler and his staff.
- Wise men exhibit in their gestures and expressions the opposite of their feeling in the pairs: love and hatred, pleasure and sorrow, determination and fear, etc., in order to hide their secrets.

(VIII) LAW, JUSTICE, PUNISHMENT

- In all cases an offence concerning women or relatives, professional rivalry, hatred of opposition, market association, or trade guilds, any of the legal disputes, the origin is anger. Anger results in murder.
- A case in dispute is four-legged. It depends on:
 - (1) what is right according to ethical principles
 - (2) evidence
 - (3) custom
 - (4) the ruler's order

The last one overrules all the earlier ones.

- What is right is based on truth, evidence on witnesses, custom on available tradition of the people and the law is the ruler's command.
- 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.
- Only that should be taught which conduces to righteousness and material prosperity and not what leads to unrighteousness and material disaster.
- He who punishes severely is hated by the people, he who punishes mildly is despised, one who metes out deserving punishment, is respected.
- Punishment meted out after due consideration keeps the people attached to righteousness and to tasks conducive to material wealth and enjoyment
- Wrong punishment meted out in anger, lust or ignorance angers even sages of the forest. What to speak of householders?
- If no punishment is given, the law of the fishes (strong swallowing the weak) is created.
- In the absence of punishment, the strong swallows the weak.
- The people of the four genres and the four stages of life function in their respective spheres, when ruled by a ruler who metes out appropriate punishment.
- Punishment, the root of discipline, is the source of prosperity for the people.
- Men deeming the dispenser of punishment to be 'Yama incarnate' do not commit crimes.
- Rulers armed with the staff of punishment remove people's miseries and bring about their security and welfare.
- When guilt is removed there are no guilty men.
- When guilty men are removed, the guilt will again contaminate others. Judges should be impartial to all beings, trustworthy, and liked by people.
- Punishment meted out by the ruler equally, according to offence (without discrimination) to sons and enemies alike, alone protects this world and the other.

- Whatever be the crime, the learned one should not be tortured.
- Against an accused there can be no other suit.
- It is the prosecutor who decides what is to be done, not the accused.
- Truth has to be spoken by witnesses.
- The guarantee of a minor has no value.
- Sons having fathers (alive) have no right to property.
- Marriage precedes disputes.
- Righteous marriages are indissoluble.
- Denial of sexual pleasure to a wife, after her monthly ablution is a transgression of (the husband's) duty.
- It is to meet unforeseen difficulties that a woman is given property (dowry) (at the time of marriage).

(IX) CAUSES OF PEOPLE'S DISCONTENT

- By not giving donations which ought to be given and accepting donations which should not be taken.
- By not punishing the guilty and severely punishing the innocent.
- By arresting those who should not be arrested and not arresting those deserving to be arrested.
- By the stoppage of righteous and appropriate customs.
- By the encouragement of unrighteousness and the discouragement of righteousness.
- By doing what ought not to be done and preventing what ought to be done.
- By harming important leaders of the people and dishonouring respectable ones.

- By estrangement of elders, by nepotism, and falsehood.
- By not repaying for what was done (in help) and not doing what was agreed to be done.
- By undertaking schemes which result in loss and stopping those which would result in gain.
- By not protecting the people from thieves and robbers and enriching himself at the people's cost.
- By preventing manly endeavour and criticising good work.
- By disrespect shown to good people and the encouragement of the unrighteous.
- By acts of unprecedented and unrighteous violence.
- By stopping righteous and appropriate customs, by the encouragement of unrighteousness and disregard of righteousness, decadence, avarice, and disaffection are generated in the people.
- By the destruction of the security and welfare of the people due to the negligence and laziness of the ruler. impoverishment, avarice and discontent are produced in the people.
- Impoverished people become avaricious and avaricious people become discontented.
- Discontented people go over to the enemy or destroy the rulers themselves.

(X) RULING FAMILY, RULING CLASS

- The power of the ruling class, augmented by the learned preceptor, buttressed by the counsel of good ministers, armed with the compliance of scriptures and sciences triumphs and ever remains unvanquished.
- Corporations (or groups of exclusive ruling class) being close-knit are not easily assailable by enemies.
- A ruling family composed of indiscipline and dissolute members breaks like moth-eaten wood.

(XI) DUTIES OF OFFICIALS

- A worldly wise person should seek, through the agency of a dear friend, the service of a ruler endowed with personal qualities, wealth and loyal subjects.
- One may seek to serve a ruler devoid of wealth or loyal subjects, but never a ruler without character, for a characterless ruler disregards the tenets of political science, associates himself with evil company and comes to ruin even after inheriting a large and prosperous kingdom.
- Fire may burn a part or whole of the body. But a ruler can destroy one along with his wife and children. He can also cause their advancement.
- Absence of a contradicting tendency makes one's position secure.
- (A courtier) should speak out the ruler's interest without loss of time, his own interest with his dear friends, others' interests at the appropriate time and place, keeping in view the requirements of righteousness and material well-being.
- (A courtier) when questioned by a ruler on important matters requiring intellectual analysis, should like an expert and unafraid of the assembly, mention his views on what is practicable, consistent with righteousness and material benefit.
- Those who goad one into rash acts, unrighteousness, and extravagance are really enemies under the mask of friends.
- One should avoid hearing evil aspersions spoken about others nor speak such things oneself.
- One should forgive evil words spoken to oneself and have forbearance like that of the earth.
- Even competent persons speaking unpleasant things have been banished by rulers.
- Undesirable persons become favourites by acting according to the reading of the ruler's mind.

- One may laugh at jokes, but never laugh loudly.
- The wise ones should always first look to their own self protection. Those who serve rulers are said to function in fire.
- When asked, one should speak what is pleasing and beneficial. One should not speak pleasing things which are not beneficial.
- What is good, though unpleasant, shall be spoken in private, if (the listener) is willing to listen.
- One may even be silent in reply, but never mention anything displeasing.
- The occasions when one should leave one's post are:
 - (a) when one's work gets destroyed without fruition,
 - (b) one's power gets reduced,
 - (c) when one's learning is treated like a tradable commodity,
 - (d) one's hopes are frustrated,
 - (e) one is eager to be in new countries,
 - (f) when one loses the confidence of the master, when one comes into conflict with powerful people.

(XII) TRAINING AND LEARNING

- Training can impart discipline to those who are suitable material, not to those who are not.
- Learning disciplines those, whose intellects have the desire to learn, capacity to listen attentively, power to grasp what is taught, to retain it in memory, discriminate between the important and the unimportant, draw inferences, deliberate and imbibe the truth, and not others.
- A young intellect is apt to consider whatever is told as the teaching of scientific knowledge, just as a fresh raw object absorbs whatever material it is brought in contact with.

- Teaching wrong things is a great crime.
- Discipline and self-control are acquired by learning the various sciences under the authoritative control of concerned teachers.
- That learning is called learning, from which results righteousness and wealth.
- Persons standing out on account of their learning, intellect, valour, noble lineage, and good deeds are venerated.
- Thus, this science has been propounded citing stratagems and devices for the acquisition and protection of this world and the other.
- (This science) creates and preserves righteousness, wealth and physical pleasures.
- It destroys unrighteousness, poverty and hatred.
- It is from learning that the intellect is formed, through the intellect skill in action (*yoga*) and from *yoga* self-control follows.

(XIII) PHILOSOPHY

- The three Vedas deal with righteousness and unrighteousness, economics deals with wealth and poverty, politics deals with good and bad state policies. Philosophy, which sifts with reason the relative importance of these sciences, benefits the world, keeps the intellect steady in adversity and prosperity and creates excellence in thought, word and deed.
- Philosophy is considered the light of all learning, the means for the accomplishment of all tasks, and the refuge of all righteous beliefs (of all religions).

(XIV) MISCELLANEOUS DICTA

- A state is that which has people. Without people what will it yield, like a barren cow? Nothing.
- An unpeeled territory is no country and without a country there is no state.
- One who embarks upon only what is possible undertakes works which are easy

to accomplish, one who embarks upon only auspicious works undertakes faultless works, one who embarks upon only productive undertakings takes up works which lead to (people's) welfare.

- Time (opportunity) approaches a man desirous of it only once. And will not come a second time when he wants to do his work.
- Generally gamblers are crooks.
- By prostration, an army of the learned class (Brahmins) can be won over.
- Even for the sake of immense wealth, no one desires to die.
- Success and failure are common on all paths.
- Power alters the mind,
- Persons of a particular type can be found out only by those of the same type.
- Sons kept engaged in pleasures do not rise against the father.
- Only the display of valour can tackle trouble.
- That course of action should be followed which will usher in prosperity.
- Among thousands there is hardly one or not even one (fit to be a) leader.
- In vast tracts, medicinal herbs are found to grow in water or land very rarely.
- It is the combined acts of God and man that make the world function.
- Fire is not reliable and is an infliction of God.
- A writer should know all conventions, he should be fast in composing, have a beautiful handwriting and be able to read documents.
- Women are necessary to produce children.
- How can chaste women deceive?
- Activity is that which brings to fruition tasks undertaken.

- Peace is that which allows the enjoyment of results achieved without disturbance.
- Land, watered by a river, is a means to living, during difficulties it becomes a support.
- Men's minds are not steady.
- Having a nature similar to horses, men when engaged in work exhibit change of behaviour.
- Artisans are generally dishonest.
- Even in matters of excessive valour, the wise one overreaches the brave one, as the hunter does the elephant.
- The arrow shot by the archer may or may not kill a single person. But stratagem devised by a wise man can kill even babes in the womb.
- In order to develop discipline, one should daily have the company of learned elders, who are firmly rooted in discipline.
- The gambler continuously plays on, even at night, by lamplight and even when the mother is dead. And gets angry, if questioned in difficulties.
- One with character should give up anger and lust, from which all evils start and which destroy the root of life, and must attain control over senses by serving elders.
- When factors contributing to trouble for loyal elements arise, immediately these should be countered by suitable measures.
- On account of kingdoms father fights sons and sons go against the father. What then to say about ministerfolk?
- Even a small trouble becomes very troublesome to one under attack.
- Like forest fire, the power born out of sorrow and resentment bestows bravery.
- No one should be disrespected, Everyone's opinion shall be heard. The wise

one should utilise even a child's sensible words.

- Performance of one's duty leads to heaven and eternal bliss. By violation of duty and consequent confusion people come to ruin.
- The three Vedas are useful in that they lay down the duties of the four castes and the four stages of life.
- One who upholds one's duty is happy in this life and the life hereafter.
- One should enjoy physical pleasures without harming righteous conduct and material wealth. Thus shall he be happy. Equal attention should be given to the three kinds of wealth which are interconnected. Any one of the three: righteousness, material wealth, physical pleasures, if excessively indulged in harms itself and the other two.
- There is no man without desire.
- Wealth will desert the childish man who always consults the stars. Wealth is the (auspicious) star for wealth. What can stars (in the sky) do?
- A person with (theoretical) knowledge, but without practical experience, comes to grief in the accomplishment of tasks.
- From the skill exhibited in performance is a man's capacity assessed.
- A steadfast worker does not give up his task without completion.
- Fire lurks in wood.
- What has come of its own shall not be discarded. A woman who makes love on her own, if rejected, showers curses. So goes the saying among the people.
- The self-controlled one should protect himself.
- The farsighted one should protect himself from both his own people and outsiders.
- People rooted in established noble conducts of life, firmly following the prescribed division of duties and the various stages of life, protected by the three

Vedas, progress and do not decay.

- Peace and activity (industry) are the source of security and welfare.
- Power, place, and time mutually help.
- The leader of a group should be impartial and do good to all members of the group, he should be popular, self-controlled, have loyal men and act according to the wishes of all.
- A noble one shall not be enslaved.
- The rain god (Varuna) is the chastiser of sinners among men. One's body should be protected, not wealth. Why feel for transient riches?

LESSONS FROM THE *ARTHASHASTRA*

Kautilya's *Arthashastra* contains a number of extremely well-analysed perceptions and wise suggestions, particularly relating to governance and administration, public finance, agriculture, *etc.* The important ones among them are:

I. POLITICAL ALLIANCES, GOVERNANCE AND ADMINISTRATION

- *Yatha Raja Thatha Prajaha* (As the King is, so are the people). The sacred task of the King is to continuously strive for the happiness and welfare of his people. His greatest gift to them would be to treat all as equals.
- The three constituents of power are: intellectual power, military might, and enthusiasm and morale.
- The State is sustained by the revenue it collects from its subjects. They follow different vocations from which they make a living and pay taxes to the state.
- There can be no kingdom without a country or territory.

The ideal country (*Janapada*) is described as self sufficient villages. *The picture of the ideal Kautilyan state that emerges is one of a well-run state, prosperous and bustling. There were shops with textiles, gold and jewellery and eating*

houses serving vegetarian and non-vegetarian food. Musicians, dancers, storytellers and reciters, clowns, acrobats, and jugglers entertained the people. Men went to gambling places and drinking halls or visited brothels. Monks and nuns wandered freely. Among other things, the state should be easy to defend, should provide easy means of livelihood, such as agricultural land, mines, forests, pastures, trade-routes, and so on, and should be inhabited by hard-working agriculturists and men mostly of the lower varnas.

- It is prescribed that *dharma*, that is the law of inheritance, which may be peculiar to any region or community or *SANGHA* or village should be recognised, and upheld.
- Again, one of the qualities essential in an *amatya* (minister) is that he should be a native of the land (*janapada*), implying the expectation that therefore he would naturally care about the interests of the country. Similarly, it is laid down that only such persons should be allowed to be in attendance on the King as are not natives of other lands (*na anyatodesiyam*).
- Between joining forces with a ruler who is stronger than the King, or with two rulers of equal strength, it is better that two equal Kings join together.
- A King shall enter into a treaty and undertake a joint campaign always keeping in mind his own objectives and after analysing the clear and definite benefit or part benefit that will accrue to him.
- In the happiness of the subject, lies the King's own happiness and what is beneficial to the subject benefits the King.
- What is dear to the King is not beneficial to him, but what is dear to the subject is beneficial to the King.
- Power comes from the countryside, which is the source of all activity.
- The King shall thoroughly investigate all qualities of any person whom he is considering for appointment as a minister.
- The King should not make petitioners wait at the door of the court. He should be accessible to his people every day.
- An ideal King is one who has the highest qualities of leadership, intellect,

energy, and personal attributes and behaves like a *Rajarshri*. A *Rajarshri* is one who is ever active in promoting the *yogkshama* of the people and who endears himself to his people by enriching them and doing well unto them.

- A wise administrator would strive for an increase of income and a decrease in expenditure.

II PUBLIC FINANCE

- Wealth creation is crucial for establishing a welfare state.
- The root of wealth is economic activity and in the absence of fruitful economic activity, both current prosperity and future growth are in danger of destruction.
- 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.
- That which remains after deducting all the expenditures already incurred and excluding all revenues to be realised is net balance (*nivi*), which may have been either just realised or brought forward.
- Taxation by the state should take into consideration the conditions necessary for ensuring the stability and welfare of the taxpayer.
- The Chief Controller of Trading should generate profit and avoid losses.
- Total salary bill of the state should not be more than one-fourth (25%) of the revenue of the State.
- A King with a depleted treasury eats into the very vitality of the country.
- The wealth of the State is the totality of the surplus stored in the King's treasury, the commodity warehouse, the granary, the store for forest produce and the ordnance depots. Of these, the treasury is the most important; the King is advised to devote his best attention to it, because all the activities of the state depend on it.
- The treasury is ranked above the army because the army is dependent on finance; in the absence of resources, a (disaffected) army goes over to the enemy or even kills the King.

- The best treasury is one that has gold, silver, precious stones, and gold coins. It should be large enough to enable the country to withstand even a long period of calamities when there can be no income.
- A King who found himself in financial difficulties could collect additional revenue by special methods.
- The aim of an elaborate structure of punishments was not merely to maintain order but also to collect revenue.

III. AGRICULTURE

- Agriculture is the most important constituent of the economy.
- Three principal vocations are recognised as providing men with the means of livelihood namely, *krsi* (agriculture), *pasupalya* (cattle rearing) and *vanijya* (trade). The three together constitute *varita* (derived *vritti*, -livelihood).
- Where rain, free from wind and unmingled with sunshine, falls so as to render turns of ploughing possible, there the reaping of good harvest is certain.
- With respect to taxes on agriculture, avoid extremes of either complete absence of taxes or exorbitant taxation.

IV. MISCELLANEOUS

- Spiritual development is paramount for internal strength and character of the individual. Material pleasures and achievements come second.
- Society undergoes constant change, leaving behind those who say 'no' to change.

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"Kautilya's Arthashastra, as a treatise on the practice of management, economics and public finance, and trade and commerce, continues to be of relevance today, even after a lapse of hundreds of years, and the greatness of his thoughts lies in their continued applicability to the present economic order which is known to be dynamic and ever changing."

—Shri Jayantrao Patil, Minister for Home Affairs, Govt. of Maharashtra

"The relevance of Arthashastra to contemporary India remains unimpaired because, inter alia, it is a secular text that deals with the governance safeguard without presenting any overt philosophy or religion."

—Shri Srichand P. Hinduja, Chairman, Hinduja Foundation

"Written in 300 BC, Kautilya's Arthashastra is the oldest and one of the most exhaustive treatises on governance, administration and economics."

—Shri Arindam Chaudhuri, Dean - Center for Advanced Studies and Economic Research, Indian Institute of Planning and Management

Kautilya, also known as Chanakya, is India's most illustrious political economist of all time. He regarded economic activity as the driving force behind the functioning of any political dispensation. In fact, he went to the extent of saying that revenue should take priority over the army because sustaining the army was possible out of a well-managed revenue system.

Kautilya advocated limiting the taxation power of the State, having low rates of taxation, maintaining a gradual increase in taxation and most importantly devising a tax structure that ensured compliance. He strongly encouraged foreign trade, basing it on the premise that for a successful trade contract to be established, it had to be beneficial to all. He emphasised State control and investment in land, water and mining.

Kautilya was a true statesman who bridged the gap between experience and vision. For Kautilya, good governance was paramount. He suggested built-in checks and balances in systems and procedures for the containment of malpractices. Many postulates of Kautilya's philosophy of political economy are applicable to contemporary times.

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