

# ECONOMIC GOVERNANCE AND PUBLIC FINANCE IN KAUTILYA'S ARTHASHASTRA

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## Abstract

*The study attempts to explore the Arthashastra, an ancient Indian treatise on public finance, authored by Kautilya around 300 BCE during the Mauryan period. The Arthashastra covers a wide range of topics including administration, politics, ecology, and economics, providing insights into the economic and political conditions of that era. The treatise emphasises the importance of treasury management, revenue generation, and expenditure allocation for the well-being of the state and its citizens. It enumerates seven sources of revenue, including income from crown property, state-controlled activities, taxes, trade, fees and service charges, fines, and miscellaneous sources. The Mauryan state, guided by the principles of the Arthashastra, established a centralised and efficient administration with specific officials responsible for revenue collection and management. The study also explores the significance of fraud prevention, accounting, auditing, and budgeting in public finance. The Arthashastra serves as a valuable historical document, offering inspiration and guidance for modern public finance, emphasising the balance between state management and the welfare of the people.*

**Keywords:** *Fiscal policies, government resources, Mauryan period, public finance.*

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## INTRODUCTION

Kautilya's Arthashastra is an ancient Indian treatise on statecraft and governance, attributed to the scholar and political advisor Chanakya, also known as Kautilya or Vishnugupta. Composed around the 4th century BCE, the Arthashastra provides valuable insights into various aspects of governance, including economic governance and public finance. This ancient text offers a comprehensive theoretical framework for understanding the principles and practices of economic governance and public finance in ancient India. Kautilya's Arthashastra provides guidance for rulers and administrators in managing the economic affairs of the state. At the core of this framework is the concept of "arthashastra," which can be understood as the science of wealth or economics. According to Kautilya, the objective of economic governance is to ensure the prosperity and well-being of the state and its subjects. One of the fundamental principles in Kautilya's Arthashastra is the emphasis on balanced economic development. Kautilya recognised the importance of maintaining a diverse and self-sufficient economy, where different sectors, such as agriculture, trade, and industry, play a complementary role. He advocated for policies that promote the growth of each sector while ensuring overall economic stability and equilibrium. This principle reflects Kautilya's understanding of the interdependence of different economic activities and the need to foster their harmonious development. Kautilya's Arthashastra highlights the significance of effective taxation and revenue management for economic governance. Kautilya recognised that a well-functioning tax system is essential for financing the state's activities and maintaining fiscal stability. He advocated for a fair and equitable taxation system that minimises the burden on the people while generating sufficient revenue for the state. Kautilya also emphasised the importance of efficient tax administration to prevent corruption and ensure compliance.

Kautilya's Arthashastra emphasises the role of public expenditure and resource allocation in economic governance. Kautilya recognised that the state has a responsibility to provide public goods and services, such as infrastructure, security, and welfare measures, for the benefit of its subjects. However, he also cautioned against excessive expenditure and stressed the need for prudent fiscal management. According to Kautilya, the state should carefully allocate resources and prioritise investments that yield long-term benefits and contribute to the overall prosperity of the state. Kautilya's Arthashastra also provides insights into trade and commerce, highlighting their significance for economic development. The treatise discusses the importance of fair trade practices, regulation of markets, and protection of merchants' interests. Kautilya advocated for policies that promote domestic and international trade, encourage entrepreneurship, and ensure a conducive business environment. His emphasis on trade reflects an understanding of its potential to stimulate economic growth, create employment opportunities, and enhance the overall prosperity of the state.

### **Research Objectives**

The objectives of this study are to examine the principles and practices of public finance as outlined in the Arthashastra, understand the role of the treasury and financial management in the functioning of the state, analyse the sources of revenue and expenditure mentioned in the Arthashastra, explore the relevance and applicability of the principles of Arthashastra in modern public finance, investigate the impact of public finance on social welfare and economic development, and assess the effectiveness of financial management in ensuring stability and order in the state.

### **Research Methods and Methodology**

The methodology for the study is primarily a historical approach, aiming to analyse and interpret the ancient text in its historical context. The study also incorporate descriptive methods to present a comprehensive overview of the economic governance principles and practices outlined in the Arthashastra. An analytical approach is utilised to critically examine the text's relevance and applicability to contemporary economic systems and public finance. Public finance is the branch of economics that examines the role of the government in the economy. It evaluates the sources and uses of public funds by the government and the effects of its fiscal policies on the society. Therefore, public finance deals with how the government obtains and allocates its resources to meet its growing public expenditure. As Dalton put it: 'public finance is concerned with income and expenditure of public authorities'. The Arthashastra is an ancient Indian treatise that discusses the principles of public finance in depth. In India, human pursuits have traditionally been classified into four categories: Dharma, Artha, Kama and Moksha, which can be roughly translated as moral conduct, wealth, worldly pleasure and salvation. Artha is subordinate to Dharma. The term Arthashastra, which literally means 'the science of wealth', has a broader meaning than just economics. It encompasses the art of governance and statecraft. The Arthashastra is a comprehensive and pragmatic manual for rulers and administrators. It was composed around 300 BCE and covers various topics such as administration, politics, ecology and economics. The Arthashastra is attributed to Kautilya, who was the prime minister or advisor to Chandragupta Maurya.

The Arthashastra is a valuable source of information on the Mauryan period, which spanned from 321 to 185 BCE. The author was a contemporary of Chandragupta Maurya, the founder of the Mauryan empire. The treatise synthesises the ideas and practices of five schools of thought that existed at that time.[1] It reflects the economic and political conditions and theories of that era and their application to the existing situation. It also shows a close resemblance between the terms used in the Arthashastra and the edicts of Ashoka, Chandragupta's grandson and successor. This suggests that the Mauryan rulers were familiar with and influenced by the treatise. The Arthashastra provides a systematic and rational analysis of the economic and political aspects of governance and administration. It also reveals similarities between its policies and those of the Mauryan state. However, it is possible that there were some discrepancies between the ideal

prescriptions of the treatise and the actual practices of the state. The Mauryan period witnessed a significant transformation in the revenue administration of the country, which may have been guided by the Arthashastra. The literary and archaeological evidence indicates that the Mauryan period was marked by an expanding economy. There was a growth in various crafts, especially in relation to increasing trade and commerce. There was also a development of an agrarian economy that attained stability and productivity. Along with these economic changes, social organisation evolved along a pattern that remained relatively unchanged for many centuries.

The development of an agrarian economy in ancient India led to the recognition that a uniform and stable system of taxation was essential for the state. In this context, the Arthashastra of Kautilya provides a comprehensive and relevant treatise on public finance. Kautilya was aware of the importance of financial management by the state, as he realised that the fiscal strength of the state was crucial for both normal and emergency situations.[2] Kautilya adopted the saptanga theory of the state, which consists of seven elements: (i) Swami, the king, (ii) Amatya, the minister, (iii) Janapada, the territory, (iv) Durga, the fort, (v) Kosha, the treasury, (vi) Sena, the army, and (vii) Mitra, the ally. The state could function properly only when these elements were integrated and cooperative.[3] Among these elements, Kosha or treasury was given special attention, as Kautilya believed that a good state should have abundant and diverse resources to withstand calamities for a long time. This is also evident in the Mauryan state, which was established by Chandragupta Maurya under Kautilya's guidance.

The Kosha or treasury was the source of income and expenditure for the state. It had to be replenished through taxation and other means, so that the state could spend on the welfare of its citizens. Kautilya advocated a balance between state management and people's welfare, which was the essence of his Arthashastra. He did not limit his concern to human welfare alone, but also paid attention to animal welfare. He stated: "In the happiness of his subjects lies his happiness; in their welfare his welfare. Whatever pleases himself he shall not consider as good, but whatever pleases his subjects he shall consider as good." (1.19.34). Kautilya emphasised the duty of the ruler to provide stability and order for the people, so that commerce, trade and agriculture could flourish. This principle is reflected in Ashoka's Major Rock Edict VI, where he declares that his happiness depends on the happiness of his people.

In contrast to Kautilya's ethical approach to public finance, Joseph Stiglitz (2003), a Nobel laureate in economics, observed that the mainstream finance sector in modern times has lost almost any sense of moral responsibility. Mainstream finance is driven by greed and speculation, without regard for the social role and impact of finance. Therefore, it is argued that the Arthashastra of Kautilya should not be studied only as a historical document of ancient India, but also as a source of inspiration and guidance for modern public finance. The Arthashastra asserts that "All [state] activities depend first on treasury. Hence foremost attention shall be paid to treasury." Treasury or Kosha is the basis for all economic activities and state power. Without adequate resources, production and acquisition would cease. Kautilya says that treasury and army together, i.e., Kosadanda, can conquer the earth.[4] He also prescribes clear and transparent rules for treasury replenishment and expenditure. He identifies seven sources of revenue and fifteen heads of expenditure.

Kautilya's Arthashastra enumerates seven sources of revenue for the state, which reflect the diversity and complexity of the ancient Indian economy. These sources are:

1. Income from crown property: This included revenue from crown agricultural land (Sita), which was cultivated either directly by the state or leased out to tenants. Agriculture was the basis of the economy, as it provided food, employment and income. The crops grown on these lands (such as grains, beans, lentils, oilseeds, sugarcane, textile fibres etc.) constituted a major part of the revenue and were accounted for separately. This also included revenue from mining and metallurgy, which were considered as the source of wealth and power for the state. Kautilya states that "The wealth of the state has its source in the mining and [metallurgical] industry; the power of the state comes out of these resources. With [increased] wealth and a [powerful] army more territory can be acquired,

- thereby further increasing the wealth of the state" (2.12.37). This also included revenue from irrigation works and forests, which were essential for agriculture and other activities.
2. Income from state controlled activities: This included revenue from manufacturing industries such as textile, salt and alcoholic liquor, which were regulated and taxed by the state. This also included revenue from leisure activities such as courtesans, prostitutes and entertainers, betting and gambling, which were considered as sources of income as well as social control.
  3. Taxes in cash and in kind: This included various types of taxes levied by the state on different transactions, activities and commodities. Some of the taxes mentioned in the Arthashastra are: (i) Customs duty (sulka), which consisted of import duty (pravesya), export duty (nishkramya) and octroi and other gate tolls (dwarabahirikdeya), (ii) Transaction tax (vyaji), including Manavyaji (transaction tax for crown goods), (iii) Share of production (bhaga), including 1/6th share (shadbhaga), (iv) Tax (Kara), in cash, (v) Taxes in kind (pratikara), including labour (vishti), supply of soldiers (ayudhiya), (vi) Countervailing duties or taxes (vaidharana), (vii) Road cess (vartani), (viii) Monopoly tax (parigha), (ix) Royalty (prakriya), (x) Taxes paid in kind by villages (pindakara), (xi) Army maintenance tax (senabhaktham), (xii) Surcharges (parsvam). The Arthashastra does not always distinguish between Kara and Pratikara, as they could be paid either way depending on the commodity or service. For example, customs duty could be paid in cash or in kind, while butchers or farmers had to pay their taxes in kind.
  4. Trade: This included revenue from state trading, compensation payments and excess value realisation. The state engaged in trade both within and outside the country, and collected revenue from various fees and charges. The state also received compensation payments from foreign countries for damages or losses caused by them. The state also realised excess value from commodities that were sold at higher prices than their cost.
  5. Fees and service charges: This included revenue from various services provided by the state or its agents. Some of the fees and service charges mentioned in the Arthashastra are: weights and measures fee, stamping fee, ferry charges, port dues, land survey charges, coining fee, testing fee, escort charges and fixed charges.
  6. Fines: This included revenue from monetary fines imposed by the state for various offences or violations. The fines were of three kinds: (i) Danda (fines levied by heads of departments), (ii) Athyaya (fines levied by judges and magistrates), and (iii) Ayuktadanda (fines paid by government servants).
  7. Miscellaneous: This included revenue from various other sources that were not classified under any of the above categories. Some of these sources are: lost property, revenue from controller of temples and holy places, recovery from thieves, interest on commodities loaned, received as aids, presents, redemption of prisoners, reversion of property to state, court cases, debts, confiscated property, intestate property, treasure trove, saving from expenditure and unforeseen receipt.[6]

The above list shows that Kautilya gave a comprehensive and detailed account of the sources of revenue for the state. This can be correlated with the Mauryan state, which was the first empire in India that had a centralised and efficient administration. The Mauryan state appointed ministers and bureaucrats who had specific roles and responsibilities in financial management. The Mauryan state also followed the principles and policies of the Arthashastra in its revenue administration. The Mauryan administration had a well-organised and efficient system of revenue collection, which was based on the principles and guidelines of the Arthashastra. There were about 30 superintendents or Adhyakshas who were in charge of various sectors of revenue generation, such as agriculture, trade, mining, forests, etc. This indicates that the Mauryan state was primarily concerned with maximizing its fiscal resources. At the central level, the Samaharta was the chief revenue officer who acted as both the collector and the auditor general. He supervised the work of the Sannidhata, who was the treasurer and accountant of the state, assisted by the Karmakaras, who were clerks and accountants. The financial year started from the month of Asadh and had 354 days. The salaries of all the officials, high or low, were paid from the central treasury and Kautilya

devised a sophisticated system of wages based on rank and merit. At the district and village level, there were the Rajukas, Sthanikas and Gopas, who were responsible for assessing and collecting taxes from the people. Kautilya prescribed a detailed and comprehensive list of taxes to be levied on different activities, commodities and services in both rural (Janapada) and urban (Durga) areas. He also allowed for an emergency tax (Pranaya) that could be imposed by the king once in his lifetime in case of a crisis. In the urban sector, every profession was subject to taxation, including gambling, houses, liquor dens, etc. One of the remarkable features of the Mauryan revenue administration was the concept of conducting a census. Megasthenes mentions an urban committee that kept records of the population and Kautilya mentions officers like Yuktas and Gopas who had to maintain registers of households and individuals. The census operation shows that the assessment and expenditure of the state were based on a demographic survey. This has a lot of relevance even in the contemporary context. Kautilya was also aware of the possibility and prevention of misappropriation and corruption in public funds. He suggested various measures to check and punish such malpractices.

The Arthashastra emphasises the importance of fraud prevention and detection in public finance. It also provides a detailed description of budgeting, accounting and auditing in the state administration. The Arthashastra considers auditing and accounting as modern phenomena, but it shows that they were practiced in ancient India. The councilor in charge of budgeting had to estimate the revenue for the tax year by determining the expected revenue from each sector of activity under different heads of accounts, and then sum them up by place of activity to arrive at the total revenue. He also had to make deductions for expenditure on the king, standard rations for others and exemptions granted by the king. He also had to estimate the outstanding revenue by taking into account the works under construction, unpaid fines and penalties, dues recoverable and advances to be repaid by officials.[7] The account books had to record the date of transaction on the receipt side, and classify the revenue according to main heads of accounts, such as cost price, share (bhaga), transaction tax (vyaji), monopoly taxes, fixed taxes, manufacturing charges, fines and penalties. On the debit side, expenditure had to be classified under 11 broad heads, such as charitable expenses, palace expenditure, administration, foreign affairs, maintenance of granary, ordnance depots, warehouses, manufacturing expenses, labour charges, defence, cattle and pastures, forests and game sanctuaries and firewood, fodder and other consumables. The accounts had to be audited strictly and accurately.[8] Penalties were prescribed for discrepancies in accounting. High officials were responsible for submitting the accounts for their sphere of activity without any contradiction. Those who lied about the accounts were liable to pay a heavy penalty. Similarly, severe penalties were imposed on those officials whose activity resulted in a loss to the state, for lying about accounts, for not being ready for audit and for making contradictory statements in the accounts. The fear of harsh punishments deterred irresponsible auditors from falsifying audit reports. The state exercised absolute control over all aspects of economic activities in theory; but in practice, it allowed and even encouraged private enterprise. It recognised that the wealth of the state depended on the wealth of the people; therefore, it did not suppress individual initiative and profit in production. However, it also ensured that the economic welfare of the subjects and private businesses did not conflict with the welfare of the state. Kautilya integrated all economic, administrative, political, legal and social activities to strengthen the state.

Kautilya advocated a strong regulatory role for the state in the conduct of commercial activities, but he did not favor state intervention in the centralisation and planning of commercial activities. Kautilya believed that the market forces of demand and supply should determine the price, production and quantity of consumer goods. He stated: "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 evils of centralisation (sankuladosha)." [9] Thus, the Kautilyan state acted as a facilitator rather than a controller. It considered its duty to facilitate transactions, but it also deemed it important to regulate the nature of transactions for the maximum welfare of the state. From the above discussion, it can be inferred that Kautilya had devised ways of achieving excellence in economic and business administration. His foresight, apart from providing brilliant economic concepts, also



helped India in attaining a stable political setup under Chandragupta Maurya, through which India flourished and prospered.

### **Public Finance in the Arthashastra**

Public finance is the branch of economics that deals with the sources and uses of public funds by the state and the effects of its fiscal policies on the society. Kautilya recognised the importance of public finance for the strength and stability of the state, especially in times of war, famine and other calamities. He prescribed various principles and guidelines for the management of public finance, such as:

- The state should have a well-organised and efficient system of revenue collection, accounting and auditing. The state should estimate its revenue and expenditure for the tax year by taking into account various sources of income and heads of expenditure. The state should also maintain records of transactions, accounts and audits. The state should impose penalties for discrepancies, corruption and misappropriation in public funds.
- The state should have a diverse and comprehensive list of sources of revenue, such as income from crown property (agriculture, mining, forests, etc.), income from state controlled activities (manufacturing, trade, leisure, etc.), taxes in cash and in kind (customs duty, transaction tax, share of production, etc.), trade (state trading, compensation payments, excess value realisation), fees and service charges (weights and measures fee, ferry charges, port dues, etc.), fines (for offences or violations), and miscellaneous (lost property, interest on loans, presents, etc.).
- The state should balance its income and expenditure for the welfare of the state and the people. The state should spend on various activities such as charitable expenses, palace expenditure, administration, foreign affairs, maintenance of granary, ordnance depots, warehouses, manufacturing expenses, labour charges, defence, cattle and pastures, forests and game sanctuaries and firewood, fodder and other consumables. The state should also allow for an emergency tax (Pranaya) that could be imposed by the king once in his lifetime in case of a crisis.
- The state should facilitate but not interfere in the market forces of demand and supply that determine the price, production and quantity of consumer goods. The state should not impose any restriction on the time or place of sale of commodities that have frequent demand. The state should also avoid the evils of centralisation (sankuladosha) that hamper economic activities.

### **Impact of Public Finance on Social Welfare and Economic Development**

The Arthashastra shows that Kautilya was concerned with both social welfare and economic development as the objectives of public finance. He believed that the wealth of the state depended on the wealth of the people; therefore, he did not suppress individual initiative and profit in production. He also believed that the happiness of the king depended on the happiness of his subjects; therefore, he did not neglect their welfare and well-being. He suggested various measures to achieve these objectives, such as:

- The state should provide stability and order for the people, so that commerce, trade and agriculture could flourish. The state should also protect the people from external and internal threats, such as enemies, thieves and wild animals.
- The state should promote social justice and equity for the people, by ensuring fair and transparent rules and regulations for taxation, trade and other transactions. The state should also prevent exploitation and oppression of the weak and vulnerable sections of society, such as women, children, the elderly and animals.
- The state should foster social welfare and harmony for the people, by providing various services and facilities for their health, education, entertainment and spiritual needs. The state should also encourage moral conduct and ethical values among the people, by following dharma (righteousness) and avoiding adharma (unrighteousness).

### **Financial Management in the Arthashastra**

Financial management is the process of planning, organising, directing and controlling the financial activities of an organisation or a state. Kautilya recognised the importance of financial management for the strength and stability of the state, especially in times of war, famine and other calamities. He prescribed various principles and guidelines for the management of financial activities, such as:

- The state should have a well-organised and efficient system of revenue collection, accounting and auditing. The state should estimate its revenue and expenditure for the tax year by taking into account various sources of income and heads of expenditure. The state should also maintain records of transactions, accounts and audits. The state should impose penalties for discrepancies, corruption and misappropriation in public funds.[10]
- The state should have a diverse and comprehensive list of sources of revenue, such as income from crown property (agriculture, mining, forests, etc.), income from state controlled activities (manufacturing, trade, leisure, etc.), taxes in cash and in kind (customs duty, transaction tax, share of production, etc.), trade (state trading, compensation payments, excess value realisation), fees and service charges (weights and measures fee, ferry charges, port dues, etc.), fines (for offences or violations), and miscellaneous (lost property, interest on loans, presents, etc.).
- The state should balance its income and expenditure for the welfare of the state and the people. The state should spend on various activities such as charitable expenses, palace expenditure, administration, foreign affairs, maintenance of granary, ordnance depots, warehouses, manufacturing expenses, labour charges, defence, cattle and pastures, forests and game sanctuaries and firewood, fodder and other consumables. The state should also allow for an emergency tax (Pranaya) that could be imposed by the king once in his lifetime in case of a crisis.
- The state should facilitate but not interfere in the market forces of demand and supply that determine the price, production and quantity of consumer goods. The state should not impose any restriction on the time or place of sale of commodities that have frequent demand. The state should also avoid the evils of centralisation (sankuladosha) that hamper economic activities.[11]

### **Effectiveness of Financial Management in Ensuring Stability and Order**

The Arthashastra shows that Kautilya was effective in using financial management as a tool for ensuring stability and order in the state in the Mauryan period. He achieved this by:

- Providing a stable and sufficient source of income for the state to meet its needs and obligations. The state had a diverse and comprehensive list of sources of revenue that ensured a steady flow of income from various sectors and activities. The state also had a well-organised and efficient system of revenue collection that ensured accuracy and accountability.
- Maintaining a balance between income and expenditure for the welfare of the state and the people. The state had a realistic and transparent budget that matched its income with its expenditure. The state also had a flexible and responsive fiscal policy that allowed for adjustments in case of emergencies or contingencies.
- Promoting economic growth and development for the prosperity of the state and the people. The state facilitated but did not interfere in the market forces of demand and supply that determined the price, production and quantity of consumer goods. The state also encouraged private enterprise and trade by providing various services and facilities such as weights and measures, ferry charges, port dues, etc.
- Ensuring social justice and equity for the people by imposing fair and transparent rules and regulations for taxation, trade and other transactions. The state also prevented exploitation and oppression of the weak and vulnerable sections of society, such as women, children, the elderly and animals.

## CONCLUSION

The study attempted to explore the public finance, focusing on the principles outlined in the Arthashastra, an ancient Indian treatise on governance and economics written around 300 B.C. The Arthashastra emphasises the importance of the treasury (Kosha) in the functioning of the state and highlights the need for financial management to ensure stability and welfare. It discusses various sources of revenue, including taxes, trade, fees, fines, and state-controlled activities. The treatise also delves into the concept of audit and accounting, emphasizing the importance of transparency and fraud prevention. The relevance of the Arthashastra extends beyond its historical context, as the principles it espouses can be applied to modern public finance. The treatise's emphasis on financial management, revenue generation, and accountability aligns with the challenges faced by contemporary governments. The importance of a sound treasury and the need to balance state management with citizen welfare are enduring principles. The Arthashastra provides insights into the administration of the Mauryan Empire, with its elaborate system of taxation and revenue collection. The mention of census operations and the focus on fraud prevention and detection highlight the early recognition of the importance of accurate accounting practices and the potential for misappropriation of public funds.

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