

Public Finance Policy in Kautilya's Arthashastra

Dr. Ratna Amrit*

Associate Professor, Department of History, A. N. College, Patliputra University, Patna

Abstract – From time immemorial, the great aim of human endeavour has been classified in India as being four: Dharma, Artha, Kama and Moksha, roughly translated as moral behavior, wealth, worldly pleasure and salvation. Artha follows Dharma. As used in Arthashastra generally and by Kautilya, the last and greatest master of the science, Artha has a much wider significance than merely wealth.

The Arthashastra is essentially a treatise on the art of Government and is, by nature, aphoristic. It seeks to instruct all kings and is meant to be useful at all times. Because it is instructional its basis is the practice of Government. It deals with economics, administration, political ideas, ecology and various other topics.

Of the secular literature available on the period of Mauryas, the most important single source is the Arthashastra of Kautilya. The author was the prime minister or advisor to Chandragupta Maurya. Similarities between terms used in the Arthashastra and Asokan edicts would certainly suggest that the Mauryan rulers were acquainted with the book. Its importance lies in the fact that it gives a clear methodical analysis of economic and political thought current at that time and more than that, its application to existing conditions. In the administrative measures of Asoka we can see close similarity between the two.

Therefore, I begin with the assumption that the Arthashastra reflects the society and economy of the Mauryan period. At the same time one has to accept that though undoubtedly the general policy of the Arthashastra and that of the Mauryan state were very similar and administrative system of the Mauryas was largely inspired by the idea in the Arthashastra. It is however, reasonable to expect that there could be discrepancies.

It cannot be ignored that in the age of the Mauryas that a new era ushered in the revenue administration of the country. It further makes the assumption strong that Arthashastra of Kautilya was the guiding force. Kautilya's major contribution is in the area of public finance. He attached considerable importance to financial management by the State recognizing that the financial strength of the State is critical in normal times as also in times of war, famine and other calamities. This paper seeks to study The Public Finance Policy as reflected in Kautilya's Arthashastra and also relate it to the Mauryan period.

Keywords – Arthashastra, Public Finance, Kautilya, Expenditure, Tax

-----X-----

INTRODUCTION

Public finance is the study of role of the government in the economy. It is the branch of economics which assesses the government revenue and government expenditure of the public authorities and the adjustment of one or the other to achieve desirable effects and avoid undesirable ones. Thus in public finance we study the finances of the government, of how the government raises its resources to meet its ever increasing expenditure. As Dalton said: 'public finance entails spending on public expenditure'. The *Arthashastra* is a unique text that refers to in great detail the principles of public finance.

From time immemorial, the great aim of human endeavour has been classified in India as being four: Dharma, Artha, Kama and Moksha, roughly translated as moral behavior, wealth, worldly pleasure and salvation. Artha follows Dharma. As used in Arthashastra generally and by Kautilya, Artha has a much wider significance than merely wealth.

The Arthashastra is essentially a treatise on the art of Government and is, by nature, aphoristic. It seeks to instruct all kings and is meant to be useful at all times. Because it is instructional its basis is the practice of Government. It was written around 300

B.C. and deals with economics, administration, political ideas, ecology and various other topics.

Of the secular literature available on the period of Mauryas, the most important single source is the Arthashastra of Kautilya. The author was the prime minister or advisor to Chandragupta Maurya. The main body of the treatise and certainly many of the earlier books were written during or about the time of Chandragupta, though the books were edited and rewritten during the ensuing centuries and extracts may have been taken from earlier sources as five schools of thoughts are mentioned.[1]

It is now not so easy to sift the original from the later material but similarities between terms used in the Arthashastra and Asokan edicts would certainly suggest that the Mauryan rulers were acquainted with the book. Its importance lies in the fact that it gives a clear methodical analysis of economic and political thought current at that time and more than that, its application to existing conditions. In the administrative measures of Asoka we can see close similarity between the two.

Therefore, I begin with the assumption that the Arthashastra reflects the society and economy of the Mauryan period. At the same time one has to accept that though undoubtedly the general policy of the Arthashastra and that of the Mauryan state were very similar and administrative system of the Mauryas was largely inspired by the idea in the Arthashastra. It is however, reasonable to expect that there could be discrepancies.

It cannot be ignored that in the age of the Mauryas that a new era ushered in the revenue administration of the country. It further makes the assumption strong that Arthashastra of Kautilya was the guiding force.

It would appear from literary and archaeological evidence that the Mauryan period was one of an expanding economy. New possibilities of the development of various crafts on the large scale were being realized, particularly in the context of increasing trade and all its attendant commercial advantages. The benefits of an agrarian economy were also revealed for the first time on an extensive scale and this type of economy assumed a degree of permanency. Together with this economic change social organization developed along a pattern which was to remain comparatively unchanged for many centuries. The expansion of Agrarian economy accelerated the realization that a single predominant economy facilitated the evaluation of taxes. It is in this background, the Kautilya's Arthashastra finds its relevance.

He attached considerable importance to financial management by the State recognizing that the financial strength of the State is critical in normal

times as also in times of war, famine and other calamities.[2]

Kautilya adopted the time honoured seven limbs or Saptanga Theory of the State, i.e. the natural constituents of the State. The seven limbs are (i) Swami, the King, (ii) Amatya, the Minister (iii) Janapad, the Territory (iv) Durg, the fort (v) Kosha, the treasury (vi) Sena, the army (vii) Mitra, the ally. The State can function properly only when all the limbs of its politic are mutually integrated and cooperate with each other.[3]

Among the seven limbs of the state Kosha or treasury is given wide importance because a good State should be rich in gold and silver as well as big and variegated so that it may be capable of with standing calamities for long. This is also visible in Mauryan state.

The "Kosha" or treasury is a very important element of State whether it be ancient or modern times. It has to be replenished in form of taxation so as the State can spend on the welfare of its citizens. Only with a sound treasury can a balance be maintained between State Management and people's welfare which was the essence of Arthashastra.

Kautilya advocated welfare in all spheres. He did not talk about human welfare alone, but also paid attention to Animal welfare. He States "In the happiness of his subjects lies the king's happiness, in their welfare lays his welfare. He shall not consider good as only that pleases him but treat as beneficial to him whatever pleases his subject. "(iztk lq[ks lq[ka jkK% iztkuka p fgrs fgre~A ukRefiz;a fgr jkK%^ iztkuka rq fiz;a fgreA½ (1.19.34). Kautilya focuses on obligation of the ruler to the ruled and imposes upon the king, the obligation to deliver stability and order, so that commerce, trade and agriculture can flourish, leading to the welfare and well being of the people. This principle finds reflection in the MRE VI of Ashoka and the King inscribes that the welfare of the people is the welfare of the King.

Coming to the modern times, the Nobel prize winner Joseph Stiglitz (2003) saw the mainstream finance sector lose almost any sense of moral responsibility. Mainstream finance is about making vast amount of money very quickly and "getting out" at the right time. The old moral arguments about the social role of finance has become rhetorical.

The submission therefore is that the *Arthashastra* of Kautilya must be studied not only in the context of Early India but the basic principles can set the tone for modern public finance.

The Arthashastra states that "All [State] activities depend first on the Treasury. Therefore, a king shall devote his best attention to it." Treasury or Kosha has been told by Kautilya on the very basis for the

functioning of an economy. It is the wealth of the state. Without this wealth all activities of production or acquisition cease. He says from wealth causes the power of the Government (danda). The treasury and army together, i.e. Kosadanda, can acquire the earth.[4]

There should be several routes of treasury replenishment, which have to be transparently laid down. Thus Kautilya attached considerable importance to financial management by the State recognizing the financial strength of the State is critical in normal times as also in times of war, finance and other calamities.[5]

Kautilya has identified 15 heads of expenditure. At the same time, he enumerated seven sources of revenue. References to sources of revenue are scattered throughout the text, most of them are found in Book 2

1. Income from crown property- This included:

(i) Revenue from crown Agricultural land (Sita).

Agriculture, Kautilya believed was the basis of economy. Besides providing food grains to feed the population, it generates revenue and employment.

The State raised revenue both by direct cultivation and by leasing out land to tenants. The crops grown on these lands (grains, beans and lentils, oilseeds, sugarcane, textile fibres etc.) constituted for major part of revenue and were accounted for separately.

(ii) Revenue from mining and metallurgy

The importance of mining and metals in the economy and indirect by the following uses:

“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 wealth of the State (2.12.37).

(iii) Revenue from Irrigation Works

(iv) Revenue from forests.

2. Income from State Controlled Activities:

(i) Manufacturing Industries like textile, salt, alcoholic liquor

(ii) Leisure activity – Courtesans, Prostitutes and Entertainers, Betting and Gambling

3. Taxes in cash and in kind:

The complete list of taxes mentioned in the text are :

(i) Customs duty (sulka) which consists 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)

While *Kara* is generally assumed to be a tax paid in cash, and *Pratikara* that paid in kind, the text does not usually make a distinction between the two. For example, customs duty, expressed as a fraction, could be paid either way; only in the case of manufactured jewellery, a cash payment of 20% of the value added was to be paid as export duty. The taxes paid by butchers, or the production share paid by farmers, lessees of mines or fishermen must always have been paid in kind.

4. Trade: including state trading, compensation payments, and excess value realization.

5. Fees and services charges: including weights and measures, stamping fee, ferry charges, port dues, land survey charges,

coining fee, testing fee, escort charges, fixed charges.

6. Fines: Monetary fines were of three kinds:

- (i) Danda (Fines levied by Heads of Departments)
- (ii) Athyaya (Those levied by Judges and Magistrates)
- (iii) Ayuktadanda (those paid by Govt. servants)

These include special levies, taxes and collections. "A king who finds himself in great financial difficulty, may collect (additional) revenue (5.2.1).

7. Miscellaneous: including 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 unforeseen receipt.[6]

The above list shows that Kautilya gave an elaborate and detailed list of taxes. Here we can correlate with the Mauryan State. Never before or after the Mauryan Empire did the State appoint ministers and bureaucrats, all of whom had a role in financial management. There were nearly 30 Superintendents or *Adhyakshas* to administer the revenue collecting sectors, leading Prof. R.S. Sharma to conclude that the Mauryan administration was geared up to meet the revenue requirements of the administration.

At the centre, the Samaharta functioned as both the Collector and the Auditor General. He supervised the work of the Sannidhata, who looked after income and expenditure, assisted by the 'Karmakaras'. The financial year began from the month of 'Asadh' and had 354 days. The officials big or small were paid from the Central Exchequer and Kautilya worked out a sophisticated system of wages.

At the district and village level, were the Rajukas, Sthanikas and the Gopas, who after proper assessment, collected the taxes. An elaborate system of taxes has been worked out to extract resources from the Janapada (rural area) and Durga (urban area). Other than these was the emergency tax 'Pranaya' which the King could levy once in his lifetime. In the Urban sector, every profession was charged with responsibility of paying taxes, which included gambling, houses, liquor dens, etc.

What strikes the reader is the concept of carrying out Census. Megasthenes mentions an urban committee which kept the Census records and Kautilya speaks of officers like Yuktas and Gopas who had to maintain records. Census operation proves that

assessment and expenditure was done on the basis of demographic survey. This has a lot of relevance even in the present context.

Around two millenmum years ago Kautilya talked about how public funds can get misappropriated and how such malpractices could be contained. In the Arthashastra stress has been given both on fraud prevention as well as fraud detection.

This brings us to audit and accounting which has been given in details in Kautilyan Arthashastra. Audit and accounting is considered a modern phenomena, however, the Arthashastra gives a vivid description of budget accounts and audit.

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. 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.[7]

In the account books, every entry was to have the date of transaction on the receipt side, while revenue was to be classified according to main heads of accounts, viz. cost price, share (bhaga), transaction tax (vajji), monopoly taxes, fixed taxes, manufacturing charges, fines and penalties. On the debit side, expenditure was classified under 11 broad heads, such as charitable expenses, palace expenditure administration, foreign affairs, maintenance of granary, orinance depots, warehouses, manufacturing expenses, labour charges, Defence, cattle and pastures, forests and game sanctuaries and fire wood, fodder and other consumable. Strict audit of accounts was recommended.[8]

Penalties were prescribed for discrepancies in accounting. High officials were responsible for rendering the accounts for their sphere of activity without any contradiction in them. Those who told lies were liable to pay a heavy penalty. Similarly, elaborate 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. Fear of severe punishments kept irresponsible auditors on guard while they prepared audit reports.

In theory, the state had absolute control over all aspects of economic activities; in practice, it allowed and even encouraged the growth of private business. It was recognized that the wealth of a state depend 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 the 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, he did not believe that the state had a role in centralizing and planning commercial activities. Kautilya felt no need for 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 evils of centralization (sankuladosha).[9] Thus the Kautilyan State acted as a facilitator. It considered its duty to facilitate transactions, 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 seen that Kautilya had attempted to set down ways of achieving excellence in economic and business administration. His foresight, apart from giving brilliant economic concepts, also helped India in attaining a stable political setup under Chandragupta Maurya, through which India flourished and prospered.

CONCLUSION

The *Arthashastra* of Kautilya is indicative of major development in Indian administration. The *Arthashastra* is a work on 'Varta' a comprehensive word that embraces all economic activities. Retrieved by R. Shamasastri in 1904 A.D. and published in 1909, the most important aspect is its emphasis on public welfare even in an autocratic Agrarian State.

Kautilya reviewed the State as an institutional necessity for human advancement. The set up has some striking resemblance to the modern State where Union Territories are administrative units under Central rule and the States are under a Governor appointed by a King. Audit mechanisms were in place and civil servants were recruited to perform the duties of policy implementation. Under public finance management Kautilya lays down detail rules regarding the principles of taxation, rates of taxation and exemption from taxation. For e.g. the philosopher says that the King must softly collect taxes from the people, just like the bee softly sucks honey from the flowers, otherwise the source is damaged causing harm to the King and Kingdom.

He details the principles on the basis of which exemption is to be granted and uses the word 'Parihara' for exemptions. Kautilya mentions the measures to be taken by the King to develop agriculture and trade. In the former context he mentions the principle of 'Janapadanivasa' i.e.

bringing new land under cultivation and explains the principles of market to encourage foreign trade.

The *Arthashastra* describes the measures taken by the Government to encourage agriculture and construction of pathways to encourage trade. The Centralized management system of the State has been challenged, as Kautilya speaks of a smaller Kingdom as compared to the large Mauryan Empire.

The nuclear areas may have been centrally controlled, which gave way to more of regional control as one moved towards the core and outlying areas. More research needs to be done on the principles of public finance and governance in Early India and new vistas of policy and execution would become more evident.

BIBLIOGRAPHY

1. Romila Thapar, Ashoka & the decline of Mauryas, Oxford University Press, 1983, p. 9
2. Sailesh Haribhakti, Kautilya's Arthashastra: The way of Financial Management and Economic Governance, Jaico Publishing, Mumbai, 2010, p.7
3. L.N. Rangarajan, Kautilya: Arthashastra, Penguin books, N. Delhi, 1992, p. 212
4. L.N. Rangarajan, Kautilya: the Arthashastra, Penguin Books, N. Delhi, p. 5
5. Shailesh Haribhakti, Kautilya's Arthashastra, the way of Financial Management and Economic Grievance, Jaico Publishing, Mumbai, 2010 p. 7
6. L.N. Rangarajan, Kautilya: The Arthashastra, Penguin Books, New Delhi, 1992, p. 229-243
7. Sailesh Haribhakti, Kautilya's Arthashastra: the way of financial management and economic governance, Jaico publishing, Mumbai, 2010, p. 29
8. M.V.K. Rao, Studies in Kautilya, Munshi Ram Manohar Lal, Delhi, 1958, p. 31
9. Sailesh Haribhakti, Kautilya's Arthashastra: the way of Financial Management and Economic Governance, Jaico Publishing, Mumbai, 2010, p. 5

Corresponding Author

Dr. Ratna Amrit*

Associate Professor, Department of History, A. N.
College, Patliputra University, Patna