



Contribution of “Arthashastra” to the Development of Modern Concepts of Public Finance

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ABSTRACT: Kautilya’s academic work “Arthashastra” is a combination of political wisdom, theory, and the art of statecraft. This study is an attempt to trace the contribution of Kautilya to the development of some of the fundamental concepts in public finance. Kautilya contributed to the development of the idea of the State and its objectives, the State’s role and responsibilities, sources of revenue, expenditure, and welfare. This study attempts to consolidate the concepts from “Arthashastra” that elucidate the foundation of the modern theories of public finance. The study found that Kautilya’s work has contemporary relevance and it applies to modern public finance. Modern tax policy, expenditure policy, and welfare policy might reach a benchmark solution with the help of Kautilya’s work.

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INTRODUCTION

Ancient Indian writers and philosophers have produced literature that touches all aspects of life. Unfortunately, their work has not been acknowledged widely in modern works. India has approximately 5000 years of civilisation, and they have the Vedas and the Upanishads to guide the way of life. The workforce was divided into four segments known as “Varna” namely Brahman (one who generates knowledge), Kshatriya (one who provides security or Ruler), Veshya (one who is a trader), and the Sudra (one who is a service provider or servant), later on these arrangements has led to caste system in India. An understanding of this background is much required for the frame of the work contributed by Kautilya and his school of thought. Nadkarni (2013) noted that in ancient Indian philosophy, there are four goals of life: Dharma (moral or righteous conduct), Artha (prosperity or pursuit of wealth), Kama (sensual or worldly pleasures), and Moksha (spiritual liberation or self-realisation). The Artha and Kama are to be achieved under the light of Dharma, and to achieve Moksha, one has to follow the Dharma, so the Dharma remains occupied in the centre. According to Dasgupta (2016) Kautilya was an architect of the “Maurya” dynasty in India and served as a key minister of Chandragupta Maurya in Magadha c. 321 BC. He was also known as Vishnugupta and Chanakya. He uprooted the “Nand” dynasty and established an ideal governance. Kautilya’s work was not his original ideas; he quoted ideas from existing ancient literature and similar treaties of the past, which is why understanding the context of the circumstances, as well as existing knowledge, is essential to conceptualising the work.

Economic Ideas in India before “Arthashastra”: The history of economic ideas is remarkably old, tracing back to the very dawn of human civilisation. Throughout the ages, different streams of social science — including economics, sociology, political science, psychology, and ethics — have emerged as a result of mankind’s rational observation and thoughtful analysis of his surroundings. These diverse fields of knowledge have evolved over time through continuous inquiry, debate, and experimentation. The development of understanding across various sciences did not occur in isolated pockets; rather, it took place in multiple locations around the world where human civilisation was steadily nurtured and expanded. Notably, significant contributions to these fields have arisen from regions such as India, which played a crucial role in fostering the growth of scientific and philosophical thought. As human societies advanced, so did the depth and breadth of knowledge, leading to more sophisticated and interconnected ideas about how societies function, how economies operate, and how humans relate to each other and their environment. Similarly, in India, thinkers and scholars have made their observations on economic thoughts. Haney (1913) noted in his book “History of Economic Thought”, Eastern people also have economic thoughts, which are comparatively less materialistic and based on moral and religious codes. In Hindu economic ideas, a few fundamental concepts are given more weightage, including occupation, agriculture, interest, usury, labour and wages, property rights, taxation, weight and measures,

inheritance, monopoly, and the poor. One can trace the ancient Indian economic system to the Vedas, the Ramayana, the Mahabharata, Shukra, Brahaspati, and Kamandak.

Kautilya's Arthashastra: The Arthashastra was written in 300 BCE, and Rudrapatana Shamashastri discovered the book in 1905 CE. Samashastri (2019) noted that the Arthashastra is a compilation of 15 books or treaties that include 15 chapters and 180 topics. The book touches on the major issues of public finance, including Tax (Kara), Revenue (Kosh), Policy affairs (Niti), Danda (punishment), Disaster Management, Welfare, and many more. Aseem (1993) considered the Arthashastra as a compendium of policy and statecraft. Arthashastra means the science of wealth, but wealth is considered in a broad sense, not merely as material welfare. The book broadly compiles the idea of taxation, law, diplomacy, military strategies, economics, and bureaucracy, and advocates ethical conduct in state affairs. Saquib (2021) reviewed the Arthashastra as a historic book on state affairs, as it is about the economy, politics, military strategy, and diplomacy. Rangarajan (1992) noted that the study of Arthashastra is less critical from the point of view of history, but human's natural tendencies have not changed much. It provides guidance on productive enterprise, taxation, revenue collection, and budget. The book compiles the thread between economic and public administration states, and broadly, it talks about welfare measures; thus, its relevance is timeless.

Research Methodology: This study has used a qualitative research methodology called hermeneutics, which interprets ancient or classical literature. Muniapan & Rajantheran (2011) noted hermeneutics is not a well-defined field and it is concerned with the usage of language and the process of using language. This method is widely applied in philosophy, religion and theology, law, sociology, and international relations. Kautilya's Arthashastra was originally drafted in the "Sanskrit" language, which is one of the oldest in the history of civilization.

Basic concepts of public Finance in Arthashastra: The trajectory of public finance (Buchanan, 1975) considered public finance as post-Marshallian economics and restricted it to the theory of tax shifting and incidence (Marshall, 1930), which became an instrument for developing competitive price theory. However, with the development of public finance as a subject, this area has been marginalised. Brownlee (1955) reviewed the book of Gerhard Colm titled "Essays in Public Finance and Fiscal Policy" and noted that the book is an outcome of eighteen essays on public finance from 1934 to 1954. Musgrave & Musgrave (2004) designed framework of public finance around topics including tax systems, expenditure programs, budget procedures, stabilisation instruments, and debt services, the level of government, council, and voters. Young (2018) reviewed the book (Pigou, 1928) titled "A Study in Public Finance", noted that Pigou's work is free from academic padding.

Arthashastra is one of the discourses on political economy. Though it was in different spaces of time and different political systems, it raises some of the fundamental concepts of public finance, which are well nurtured in modern theories of public finance. The book is considered statecraft that deals with internal and external policies of the state. The evolution of major concepts of public finance groomed in Arthashastra can be identified as, (1) State, (2) Taxation, (3) National security, (4) Functions of State and Governance, (5) Public welfare, (6) Lawful policies, (7) Bureaucratic system, and (8) Disaster management.

State, National Security and Governance: Arthashastra states that the state has three powers personal or individuals (utsahasakti), prabhavshakti (Army and treasury), and mantrashakti (the power of counsel and diplomacy). Kautilya gives more weightage to the army and treasury as a state power over the power of the individual. The most important one is the state's power of counsel and diplomacy; it reflects the state's external or foreign policy dominancy. Musgrave & Musgrave (2004) answer to the question of why the role of the state is required in the economy, and why not all things can be left to the invisible hand. The existence of government is required as a safeguard to protect the rights of each market player, to provide a legal structure, to control negative externalities, and to bring economic stability. Sutra 6.1.1 defines the nature (prakrit) of the state, these are King or Ruler (Swami), governing Body or ministers (Amatya), territory containing fertile agricultural land, mines, forest, water resources, and communication system (Janpada or rashtra), fort (Durga or pura), treasury (kosa), army or military power (danda or bala), and ally nations (Mitra). Pigou (1928b) extended the state's function as a transfer of resources for the redistribution of income. Kausalya's philosophy of state is much more democratic as it emphasises the people's choice for the selection of the King. In sutra 1.19.35, the King was advised to look keenly for the management of the economy because the root of wealth is economic activities, and negligence of it might destroy future prosperity. Arthashastra (Sutra 4.1.61) allows making fun of countries, castes, families, schools, and love affairs for entertaining people in the form of poetry, drama or other form of art. Panikkar (1952) noted Arthashastra gave a practical framework to the state's policy, as it believed that the good policy should have good outcome and otherwise. The sutra 2.10.47 emphasises four policy weapons: Sham (treaty), Dan (offering, Donation or grants), Danda (Punishment), and Bheda (Discrimination). Further six policies are advocated as a measure of foreign policy, peace/treaty, war/injury, staying quiet/remaining indifferent, marching/argument of power, and seeking shelter or restoring peace.

Taxation and Public Revenue: Lawful Policies and Bureaucratic System: One chapter of the Arthashastra explains the ranks, conduct, and salary structure of government employees. This outlines a bureaucratic or administrative system. The words used for bureaucratic systems, including युक्त (a government officer), उपयुक्त (a subordinate official), तत्पुरुष (a servant), परिध (a tax), व्याजी (a tax of commission), रुहिक (a tax of commission) परिविशत (a cess of coin) and उच्छुल्क (free for all) indicate the presence of a systematic administrative system. Kangle (1963) clubbed the various sutra from 2.1.9 to 2.36.46, which were on the activities of the heads of departments related to administrative matters, such as the formation of villages, division of land, construction of forts, revenue collection and account department,

trade and business, construction of administrative infrastructure, vigilance on government officials, and standardization of weights and measures. Kautilya offers guidance for the conduct of courtiers, including award, reward, punishment, working hours, and consolidation of the kingdom.

In the Gupta Empire, the economy was in the primitive stages, so agriculture was the primary source of income for the state. The Arthashastra advocates a one-sixth (17%) tax on agricultural revenue in normal times, one-fourth in times of disaster and even a one-third (33%) tax in times of war or extreme crisis. The main reason for collecting taxes was to maintain an army, welfare measures, and even public celebrations. (1) *mulya*, price; (2) *bhaga*, share; (3) *vyaji*, a sort of sales-tax; (4) *parigha*, the exact nature of which is not clear, but which appears to be a kind of protective duty; (5) *atyaya*, penalty for violation of state monopoly; (6) *sulka*, custom duty (in the case, for example, of imported salt) or excise duty; (7) *vaidharana*, compensation for transfer of state rights of sale to private individuals; (8) *danda*, fine; (9) *rupa*, which seems to refer to the inspection fee of one-eighth percent; (10) *rupika*, which appears to be a charge for manufacture at 8 percent of the price; (11) *dhatu* metals; and (12) *panya* commodities manufactured from them.

Defence Management: According to Kautilya, one of the key responsibilities of the state is to ensure both internal and external security. This involves safeguarding the nation from threats that originate from within the country as well as invasions or attacks from foreign powers. Historically, the importance of strong defence mechanisms is evident through significant events such as the rise of the Gupta dynasty and the fall of the Nanda dynasty. The decline of the Nanda dynasty is often attributed to the negligence of King Dhananand regarding external threats, which ultimately led to the dynasty's downfall. During ancient times, the king held considerable power and was responsible for generating the revenue necessary for maintaining security and defence. This revenue was primarily collected through various means, including taxes imposed on subjects, a share of the production or profits from state-owned enterprises, prices obtained from selling government assets, and protection money from those seeking security and safety. These funds were vital in addressing the defence challenges faced during that era, where invasions and internal rebellions were common threats. Moreover, the policies suggested by Kautilya, especially those related to statecraft and defence, were sometimes criticised for their cameralistic approach, emphasising state control and regulation over economic and military aspects. This approach prioritised prudence and centralised management, aiming to strengthen the state's capacity to defend itself, but at times faced criticism for being overly cautious or rigid. Overall, defence management in ancient India was deeply intertwined with the political and economic policies of the time, reflecting a strategic effort to safeguard sovereignty and maintain stability amidst external and internal threats.

Welfare Economics: Henry Sidgwick and Thomas Hill Green Backhouse & Nisizawa (2006) initiated their contribution to welfare economics in the 1870s, and after Pigou and Marshall extended this legacy. Marshall developed the concept of welfare through consumer surplus. A. C. Pigou wrote two books, *Wealth and Welfare* (Pigou, 1914) and *The Economics of Welfare* (Pigou, 1920). Thus, Western economics were late to recognise the importance of welfare economics, a field that emphasises the well-being and happiness of society over mere profit and growth. In contrast, the Indian knowledge system historically integrated welfare concepts much earlier, dating back to the post-Vedic period, where the idea of the ruler's duty to ensure the welfare of his subjects was a fundamental principle. The concept was not merely theoretical but was actively applied by kings and rulers who saw their primary responsibility as being the protector and provider for their people. Kautilya, the ancient Indian statesman and philosopher, continued this legacy, emphasising the importance of welfare in governance. His ideas evolved from earlier contributions by sages and philosophers such as Brahaspati, Shukra, and Kamandak, who laid the foundation for statecraft rooted in duty, justice, and societal well-being. These Indian perspectives highlight a rich tradition of integrating moral and social responsibilities into political administration, contrasting with the relatively later development of welfare economics in Western thought, which gained prominence mainly in the 19th and 20th centuries as part of economic policy discussions.

प्रजासुखे सुखं राग्यमः प्रजानां च हिते हितम् ।

नात्मप्रिय हितं राज्ञः प्रजानां तु प्रियं हितम् ॥

The sutra 1.19.34 claims that the happiness of the king (state) lies in the welfare of its people. The central focus of the king's actions was the welfare of the people. King was assigned duty and he was authorised to look into the affairs of agricultural operations, military affairs, pricing policy, tax matters, constructing wells, pond and water management related issues, judicial matters and other welfare activities.

Even justice was an integral part of welfare. One of the verses in chapter 19 advocates that a king must not keep petitioners waiting at court and should remain accessible. He should prioritise matters concerning women, the elderly, minors, and learned people of learning. Urgent cases should be heard immediately to achieve justice.

CONCLUSION

Kautilya, also known as Chanakya, made significant contributions to the foundational concepts of public finance and economics, which have had a lasting impact on the development of economic thought in India and beyond. In ancient India, scholarly pursuits across various disciplines were approached holistically, considering the interconnectedness of different aspects of life. The Arthashastra, authored by Kautilya, exemplifies this integrative approach by serving as a comprehensive treatise that encompasses sociology, state governance, military strategy, economics, diplomacy, and other facets of statecraft. This multidisciplinary perspective allowed for a nuanced understanding of how a state functions and thrives.

The Arthashastra was not merely a manual for rulers but a reflection of the complex socio-political fabric of ancient Indian society. It provided detailed strategies for administration, fiscal policy, taxation, warfare, and diplomatic relations, all aimed at maintaining stability and prosperity within the empire. Its emphasis on prudent financial management and resource allocation contributed to the development of key ideas related to state economics and public finance.

Furthermore, Kautilya's work laid the groundwork for future scholars in understanding the importance of economic strength in national security and sovereignty. It underscored the necessity of a well-organised and efficient state apparatus for economic growth and societal welfare. Overall, the Arthashastra serves as a monumental contribution—a blend of practical governance and philosophical insight—highlighting the sophisticated understanding of economics and governance in ancient Indian civilization.

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