

Principles of Indian Economics

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Abstract

The present paper tries to make a judicious attempt in perceiving the central principles of economics in ancient India with focused attention on the Artha Sastra of Kautilya. The various definitions of economics by the leading economists of the modern days and western tradition is viewed upon and appraised together with the idea of economics from the spectacles of Kautilya. It shall be analyzed as to how the import of the modern thinkers of economics embed, though subtlety at times, in the writings of Kautilya. The central concepts of demand, supply and price, with their mutual interconnections shall be evaluated in the present paper. With brief illustrations on the creation of national wealth, the present paper aims to conclude with a note that the principle of economics inherent in Kautilya's Artha Sastra is worth enough to carry out a major research in mammoth size.

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The scope and definition of economics have been on the pedestal of debate, right from the advent of the very science of economics. Effort to arrive at a consensus of the boundary has given rise to heated debates on the issue, as prolonged and detailed as its aspects. Some of the well-known definitions of economics ever since it's advent as an independent branch, may be observed with due regards for a fair appraisal of the ancient Indian view of economics, particularly Kautilya with his magnum opus, the Artha Sastra.¹

The term "economics" may be traced from the Ancient Greek οἰκονομία (oikonomia, "management of household-administration") from οἶκος (oikos, "house") + νόμος (nomos, "custom" or "law"). It may be seen that the literal sense of the term very broadly refers to "rules of the house(hold)" or rather "the art and science of household management".² The

effort to recognize it both as a science in the positive aspect and as an art in the normative mode has been in vogue in the western tradition³, comparable to the prelude note of Kautilya's Artha Sastra.

A possible objection against Kautilya may be that he transposed many of the outside-the-wall spheres such as the polity and even defence in the realm of his Artha Shastra. However, a more careful upgradation in the 21st century economics has seen the trend of Economic Imperialism, which includes the connected social sciences as very much complimentary and the indivisible parts of the unitary existence of economics.⁴ It may be observed and appreciated that Kautilya has captured this spirit in his all-encompassing treatment of several branches.

Definitions of economics and the classical Indian view

The precursory note began with Adam Smith with his epoch-making work "The wealth of Nations" defining economics as:

"The science of wealth".⁵

Kautilya very clearly uses the term of "wealth" as one of the prime factors of economics.⁶ He recognizes money as a common mode of exchange in trade and as a means of beneficial.⁷

Paul Samuelson, one of the noted Nobel laureate in Economics in 1970, defines economics as:

*“The study of how a person or society meets its unlimited needs and wants through the effective allocation of resources.”*⁸

Kautilya reads agriculture, cattle-rearing and trade as to how the resources may be allocated to yield for the needs. Kautilya, however, does not seem to note at the needs as “unlimited”. The sense of unlimited as “infinite” seems to be overwhelming, as the lines of Kautilya notes at the needs of the society as not infinite, but only as a more desired gain out of the exchange.⁹

Alfred Marshall, the British economist who brought a new vision into the field of economics states:

" Economics is the study of mankind in the ordinary business of life; it examines that part of an individual and social action which is most closely connected to the attainment of and the use of the material requisites of well-being."

Such an all-pervasive definition quite satisfactorily fits into Kautilya who invokes all facets of trade and statecraft within the fold of his work.

Lionel Robbins, another British economist of repute defines economics as:

" Economics is a science that deals with the study of human behavior as a relationship between ends and scarce means which have alternative uses."

The classical Indian view on economics may be inferred from the more subtle sayings and direct-discreet terms as the art and science of meeting the ends, termed by Kautilya as “beneficial”, and scarce means as limited resources of agricultural and other resources.

Dimensions of economics

Micro-Economics: Kautilya’s elucidation of the directors of customs, yarns, agriculture, liquors and others individually is an illustration to his treatment of micro-economics¹⁰

Macro-Economics: Kautilya deals overall with the macro administration of the ruler or what may be juxtaposed as the ruling authority

Positive Economics: Kautilya, by and large, does not advocated to describe the history and state of affairs “then and there” unless as much needed examples. Hence, the positive economics is almost verbatim not the issue for Kautilya

Normative Economics: The Artha Sastra in its entirety is normative in nature

and tries to bring about the ideal state of
economical culmination. Hence, the Artha Sastra
may even be admired as the great attempt towards
economics.

Economic theory: Axioms or accepted theories of universal consensus is one
the favorites of Kautilya. Kautilya, for example, remarks
that the upholder of the order should neither be ruthless
so as to bring about a revolt nor too puny to be bullied
upon.¹¹

Applied economics¹²: The gamut of Kautilya's Artha Sastra is in the form of
practical application of the economics' theory. This may
be broadly seen in the perspective of modern economics'
four perspectives with an illustration each as:

Broad topics

1. Production of wealth
2. Exchange of wealth
3. Distribution of wealth
4. Consumption of wealth

Production of wealth

The production of wealth heavily depends upon the products' value in the market in terms of the common medium of exchange (money). Kautilya prescribes that the regulator of trade should first and foremost keep watch on the law of demand and supply exerting on the product.

Kautilya, very clearly spearheads the pivotal principle of economics that the price of the product rises in proportion with the demand of it.¹³ Proceeding further, Kautilya remarks that a surge of supply decreases the demand proportionally and thereby arresting the price rise. This law of the inverse proportionality of the supply to price is overtly spoken by kautilya.¹⁴ Such a similar inverse proportionality to demand as well is a matter of simple deduction as:

- i. A is directly proportional to B
- ii. B is inversely proportional to C
- iii. Hence, A is inversely proportional to C

Kautilya cautions that an untoward rise in the price may be a hindrance to the common man with the rise in inflation.¹⁵

Surcharges of trade:

1. With respect to commodities of volume measurement like the oil, the surcharge of trade is foretold as 16.66 %¹⁶

2. With respect to commodities of weight measurement like the grains, the surcharge of trade is foretold as 5 %¹⁷
3. With respect to commodities of counting measurement like maize, the surcharge of trade is foretold as 9.09%¹⁸

In case of deviance in customs and tolls, the following penalties have been prescribed¹⁹:

- i. For commodities without the stamp, the penalty is 200% of the price
- ii. In case of the stamp being forged, it is considered is even more an affecting offense to the nation's economy. Hence, the penalization is a whopping 800%!
- iii. In case of the mutilated stamp, the fine is restraint in the ware-house.
- iv. In case the authorized stamp is changed or changed in number, the penalty is one pana and a quarter for a load.²⁰

In case of the trader declaring less quantity, the penalties are as follows:

- i. The authority shall confiscate the goods
- ii. Or the fine may be a sweeping 800%!

The fine is equivalent to the juxtaposing of goods of higher and lower value.

As this illustration follows through out the work of Kautilya, the creation of wealth to the nation is enumerated throughout.²¹ It may be concluded in a short paper of this stature for the sake of brevity that the central principles of demand, supply, price and their mutual direct and inverse proportionality has been very well noted in the Artha Sastra. The creation of royal wealth by regularization and tolls is a matter of economic stability. The measures to check inflation as a warning tone in rise of price of commodity, as seen earlier is the genius of Kautilya of his era. Thus, a wealth of economics research awaits for the inspired spirits to dwell deep into the sea of Artha Sastra and to bring out gems within it to shine in the light of modern technicalities in all its glory.

END

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End Notes

¹ It is not a matter of surprise that the western world was amazed with the work of Kautilya in its first critical edition from the oriental research institute.

² [Harper, Douglas](#) (November 2001). "[Online Etymology Dictionary – Economy](#)". Retrieved October 27, 2007.

³ Postitive in the sense of a theoretical explanation of fact and normative in the idea of the ideal vision of a perfect economy

⁴ [Lazear, Edward P.](#) (2000). "Economic Imperialism," *Quarterly Journal Economics*, 115(1), p [p. 99–146](#). [Cached copy](#). [Pre-publication copy](#)(larger print.)

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⁵ Vide "The wealth of nations", 1776

⁶ Artha Sastra I.4.1

⁷ Ibid

⁸ Vide, the noble-winnign work of Samuelson

⁹ Ibid

¹⁰ Chapter 2, sections 21 to the end

¹¹ Artha Sastra 1.4.7-10

¹² Mainstream economics: the "orthodox" dealing with the "rationality-individualism-equilibrium

nexus". Heterodox economics: the "radical" dealing with the "institutions-history-social structure

nexus"

¹³ Artha Sastra, 2.16.1

¹⁴ Artha Sastra, 2.16.2

¹⁵ Artha Sastra 2.16.6

¹⁶ Artha Sastra 2.16.10

¹⁷ Ibid

¹⁸ Ibid

¹⁹ Artha Sastra 2.21.3

²⁰ This has been recognized by Kautilya himself as one Drona of measurement, vide 2.19.36. 200 palas of masa beans constitute a drona. Vide 2.19.29.

²¹ Artha Sastra, 2.22,