

# UNIT-1

## Introduction

- Apara Vidya deals with worldly knowledge which in present time are in the form of Art, Science, Commerce, Management, Technology, Engineering
- Para Vidya is of higher category of knowledge i.e. spiritual and metaphysical in nature
- Vedic texts suggest that wealth should be earned or collected honestly, used judiciously on merit consumption and for the welfare of all, and not just for self
- Agriculture was the main source of sustenance
- King used to collect Bali (Sacrifice or Tax) from the farm produce (normally one-sixth of the produce)
- animal husbandry, Crafts like Chariot-making, Carpentry, Tanning, etc. were also in practice
- Vedic sayings promote social and economic equality, however, they do not advocate for absolute equality
- During Maurya dynasty period, Agriculture was the backbone
- Tax structure was simplified and centralized but made Strict-and-fair for all
- talks about seven tenets of governance i.e. Satta
- Amatya, Swami, Janapada, Kosha, Durg, Mitra iti pratikriya and Dand
- He always advocated the six principles of Vedas –
  - Vasudha-Eva-Kutumbakam (Accepting the whole world as one and one's family)
  - Samarpan Bhaav (Dedication)
  - Lokasangraha (Welfare of all beings)
  - Shubh Laabh (Ethical Profits)
  - Nishkaama Karma (Deeds without greed)
  - Ati-Hyaastha-Varjayet (Shunning extremes)

## Arthashastra

- “Arthashastra” refers to the science of wealth, earth and polity, with “artha” being a broad term that encompasses various meanings such as material well-being, livelihood, productive economic activities, and trade
- The title “Arthashastra,” which means “the science of material gain” or “science of polity”, reflects its purpose of guiding the ruler on means to attain his goal with moral sanction
- Arthashastra summarises as:
  1. Your People Come First.
  2. People In Power Must Be Accessible.
  3. Hold People Accountable for their work.
  4. Don't Delay Your Decisions – Do The Right Thing At The Right Time
- Kautilya's Arthashastra lays focus on how the king should be? He had suggested for democratic style of ruling by the king
- King and the subjects of that kingdom are two sides of the same coin
- Kautilya believed that it is the dual responsibility of both state and the individual for the each other's well-being
- While the Arthashastra lays emphasis on the importance of the king's wealth, effectiveness and well-being, Kautilya's ultimate objective was to benefit the people through public welfare

## Taxation

- purpose of public revenue is not to satisfy the king's desires, but rather to serve as a means of enhancing the wealth of the nation. He acknowledged that the taxation is the primary source of revenue
- excessive taxation should be avoided
- increasing the tax base rather than the tax rate
- suggested like honey bee sucks appropriate amount of honey from flower, so that both could survive. Similarly, king should collect appropriate amount of tax which is enough to sustain the kingdom happily without destroying or harming tax giver
- implementation of tax holidays
- exempt individuals those who bring new land under cultivation from agricultural taxes for at least 2 years
- “ideal” tax system should possess certain characteristics,
  1. such as being easy to calculate

2. convenient to pay
  3. inexpensive to administer
  4. equitable in its burden
  5. neutral in its impact on economic behaviour
  6. generally not obstructive to economic growth and development
- Types of taxes
    - Customs duty
    - Tolls
    - Transaction Tax
    - Share of Production
    - Road Cess
    - Royalty
    - Taxes paid in kind by villages
    - Army maintenance tax
  - Kautilya believed that taxes should be collected when they become due, just as fruits are harvested when they ripen. Tax rates should not be set so high that people lose their motivation to engage or work more in productive activities, which will ultimately conclude with a downfall in overall economic activity and overall wealth
  - taxes were imposed based on the taxpayer's capacity to pay. Wealthier individuals were subject to higher taxes while lower-income groups were exempted. He believed that the tax system should be just, and tax rates should be in proportionate with individuals' capacity to pay, whether in terms of wealth, income, or sales revenue.
  - believed in the importance of providing a safety net for those facing hardships, social security for the elderly, supplemental security income<sup>3</sup> for children, and welfare payments for the poor. government servant passed away while on duty, their salary and food allowance would be provided to their wives and children
  - Taxes has to be collected in cash from skilled individuals and they should not be allowed to escape tax payment by pretending that the sales were made on someone else's behalf. Additionally, tax evasion was considered a serious crime in the Arthashastra, and the penalty for it was determined on the basis of the amount of tax evaded rather than the amount of income concealed
  - According to him, tax rates should be low enough to increase tax revenue. A tax rate of less than  $1/6$  reduces tax revenues. On the other hand, if the tax rate exceeds  $1/6$ , taxpayers will be overwhelmed. As tax rates rise, tax revenues increase, the supply of public goods increases, and the productivity of factors of production increases. Earnings increase sharply at first as the tax rate increases. However, after achieving optimal level of tax rate, revenue starts decreasing as it discourages the production. Thus, government has to be very careful in deciding the tax rate

## Good Governance

- He broadly describes "Order" as encompassing society and order in the sense of deterring and punishing criminal activity
- He said that as long as each 'Arya' follows his 'Svadharmā' with due consideration of his 'varna' and 'ashrama' and the king follows his 'Rajdharmā' social order will be maintained.
- Kautilya suggests that Judges should be impartial and while making decisions they should remain neutral between the King and his subjects.
- 1. 'Dharma', which is based on truth  
 2. 'Evidence', which is based on witnesses  
 3. 'Custom', i.e. tradition accepted by the people  
 4. 'Royal Edicts', i.e. law as promulgated.  
 Dharma was supreme when there were contradictions between various law
- Although Arthashastra's primary purpose and responsibility is human well-being, Kautilya nonetheless includes rules in his treatise to protect the environment and other living things. This is because Indian society values all living things based on their beliefs.
- A ruler must know how to use resources such as funds which contribute to economic development. Arthashastra emphasizes on the importance of irrigation and amenities for agricultural development and suggests to address it on a priority basis.
- Arthashastra sees economic governance as the end goal and political governance as the means to achieve it. However, because economic objectives cannot be achieved without political ones, political governance becomes an end in itself and economic governance becomes the means to achieve it
- corrupt officials can be identified by an increase in spending and a decrease in revenue collection

- An espionage network was established to detect financial misappropriation and judicial misconduct, with spies recruited for their honesty and good conduct. Whistle blowers were encouraged
- Kautilya acknowledged that it was impossible to completely eliminate corruption and that some level of corruption would always exist

## Foreign Trade

- one's neighbours are natural enemies, while the neighbours of those neighbours are friends
- the ultimate goal of a potential conqueror king is to achieve the happiness and welfare of their kingdom, which can be attained through the Mandala theory.
- twin objectives of foreign policy, namely, security and interest
- The conqueror should view the circle of states as a wheel, with himself as the hub and his allies as spokes. To advance his interests, the conqueror must establish a network of excellent allies both in the front and rear of his kingdom. He should maintain envoys and spies in all states within the circle Any failure to maintain secrecy will lead to failure, even if there are temporary successes
- Kautilya supports the use of tariffs for both imports and export.
- He proposed imposing heavy tariffs on foreign luxury goods and low tariffs on consumer goods. Items of great utility to the country should be exempt from import duties
- first to discuss the passport required to cross the border.
- Kautilya's Six-fold Policy is a framework for analyzing foreign policy.
  1. **Making peace:** If a king realizes that he is not as strong as his enemy, he should make peace or sign an agreement (progressed equally, declined equally, no change in their respective situations)
  2. **Waging war:** If a king has certain advantages such as superior forces and an impregnable fort on the border, he can achieve progress by waging war
  3. **Doing neither:** A king can achieve progress without waging war or making peace if neither he nor his enemy can harm each other's undertakings
  4. **Preparing for war:** A king can also make progress while preparing for war, but only if he can first ensure that his kingdom is well-protected before bringing about the enemy's ruin.
  5. **Seeking protection:** If a king is unable to protect his own kingdom he should seek help from another king
  6. **Adopting a dual policy:** A king can promote his own undertakings by making peace with one enemy while waging war against another to ruin their undertakings
- when progress can be achieved through either peace or war, peace should be preferred
- Kautilya assumes that neighbouring states are natural enemies, which is not always the case in contemporary international relations

## Relevance of Arthashastra in Modern Times

- Good governance and stability are two sides of the same coin.
- A ruler has stability when responsive, accountable, removable, and recallable. Otherwise, there is uncertainty
- recommended avoiding high taxes. If the tax rate is high, people will not be willing to pay taxes, and they will try to find tax evasion methods. Lower tax rates bring more revenue to the government
- Social welfare is the main focus of Kautilya's economic concept. The state was supposed to help the poor and helpless and actively contribute to the welfare of its citizens.
- focuses on the formation of human capital as it relates to modern times because without human capital growth, no development is possible.
- Arthashastra covers a wide range of economics, including infrastructure (road building, irrigation, forestry and fortification), weights and measures, labour and employment, trade and commerce, commodities and agriculture, land use and property law, money and coins, interest rates and credit markets, tariffs and taxes, government spending and the treasury
- Kautilya has always believed that neighbouring states were natural enemies, but this presumption can't be right always in contemporary times. His model is unstable and could lead to conflict, which would be self-destructive in the long run.
- Kautilya acknowledged the importance of agriculture while also recognizing the significance of industry, trade, and commerce in securing a nation's prosperity