

Summary on Kautilya's Arthashastra: Its Contemporary Relevance
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Introductory note

Nothing vindicates belief better than reality. Two thousand four hundred years ago, Kautilya compiled the Arthashastra and with it he proved to be a kingmaker as he enabled the inception of the Gupta dynasty. The Arthashastra endured the test of time and it has since withstood the test of credibility.

When a thinker demonstrates vision and foresights it is crucial and extremely useful to understand the elements of this thought that has present applicability. This has been our objective and the culmination of this effort is for all to see.

We will be enriching ourselves if we learn and grasp even a fraction of the wisdom that Kautilya embodied. Those involved in the project certainly feel enriched, and as our work demonstrates, this is a treatise that encapsulates in many ways even the complexity of our current world. The problems that existed then persist in a more widespread and magnified manner in the contemporary world.

Herein begins the relevance of studying the Arthashastra. Kautilya demonstrated an extremely vital imperative: governance, polity, politics and progress have to be linked to the welfare of the people. Interestingly, closer to recent times, Abraham Lincoln said, "Democracy is for the people, by the people and of the people". The Arthashastra's resonant theme holds even truer today and it is the upholding of this principle that stands at the core of attaining development.

In the following we give a summary of each chapter along with a précis of the various points of contemporary relevance that the Arthashastra embodies.

Chapter 1

Kautilya has provided an exhaustive and illustrative description of the duties, responsibilities and role of the king, prince(s), ministers, and other state officials. As for the state's political administration, Kautilya provided a full-fledged commentary as to how this should be effectively undertaken. He gave instructions about the defense of the state's boundaries, protection of the forts, and the manner in which the invasion by the enemy must be handled.

The Arthashastra classifies legal matters into civil and criminal and it specifies elaborate guidelines for administering justice in terms of evidence, procedures and witnesses. Furthermore, Kautilya strongly believed in Dandniti, though he maintained that penalties must be fair and just, and proportionate to the offence committed.

Contemporary Relevance:

Current times accentuate the present applicability of this because the need for a sound and comprehensive state administration has been accentuated by the propensity of the powerful to flout the law and do so repeatedly.

Chapter 2

Attainment of good governance entails that the objectives of the state are fulfilled and realized. This is possible through properly organized and guided administration. This principle is relevant even today. A government is good, if it is administered well. Kautilya suggests that good governance should avoid extreme decisions and extreme actions. Soft actions (Sam, Dam) and harsh actions (Dand, Bhed) should be taken accordingly. Kautilya opines in a most modern way - 'Sovereignty is practicable only with the cooperation of others and all administrative measures are to be taken after proper deliberations.' The King and ministers were supposed to observe strict discipline. Kautilya recommended a strict code of conduct for himself and his administrators.

Kautilya has seriously considered the problem of corruption. He has listed, in the Arthashastra, about forty ways of embezzling government funds. However, Kautilya is very practical about the problem of corruption. Kautilya feels that it is as difficult to discover the honesty or otherwise of an officer as it is to find out whether or not it was the fish that drank the water.

Contemporary Relevance:

1) This code of conduct is useful and applicable to modern executives. Even two and a half thousand years ago, Kautilya laid stress on capping at a quarter of the revenue, the salaries of the King and his officials. For good governance, all administrators, including the King, were considered servants of the people. They were paid for the service rendered and not for their ownership of anything. Compare this to the expenses on salary of Government employees today which constitutes over 50% of the revenue. Kautilya understood the link between the salaries paid to government functionaries and their productivity.

2) One of the core themes of this chapter is that the Arthashastra of Kautilya equates political governance with economic governance. The end is economic governance while political governance is a means. Good governance is basic to the Kautilyan idea of administration. Good governance and stability are inextricably linked. If rulers are responsive, accountable, removable, recallable, there is stability. If not, there is instability. This is even more relevant in the present democratic set up. Kautilya's precepts may have been in the context of the monarchical set up. However, present rulers and administrators should be endowed with similar qualities. In countries where they are, the progress has been meteoric.

Chapter 3

In stark contrast to the emphasis that the Arthashastra assigns to rural (village) development, agriculture, and the textile industry, the status quo in India is that these spheres have been neglected.

In the sphere of economic administration, India of today has much to learn from Kautilya's Arthashastra. Kautilya recommends severe penalties on the officials of public enterprises which incurred losses, and rewards for those who showed profits. "Profit" was a "must" in Kautilya's scheme of running a country's administration.

Contemporary Relevance:

Unlike in Kautilya's state where the king was accessible to his people everyday at least for one and a half hours, in India today it takes a long time even to get a "hearing."

Some of the ground rules and measures suggested in Arthashastra, particularly those which pertain to matters relating to budget, accounts and audit, are applicable to present day India. In Kautilya's state, the king could severely punish corrupt officials, however highly they were placed. In India, those in political office are rarely convicted even if they are corrupt or proved guilty of committing certain offences.

Chapter 4

Kautilya distinguished six different kinds of interests: compound interest, periodical interest, stipulated interest, daily interest, and the use of a pledged article. Indeed the idea of expressing interest as a percent originated in India. Thus overall the Kautilyan system of interest seems quite elaborate, complex and even modern.

In Arthashastra, there is a definite effort to formulate a wage policy based on the realistic understanding of the economic, social and political factors. The emerging policy must be just, and must be consistent with the interest of the state. In Kautilya, the State is a party to any labour or wage legislation together with farmers, merchants and industrialists.

Contemporary Relevance:

The policy suggested in Arthashastra attempts to strike a balance between the delicate interests of the parties involved. Kautilya indicates that although the state is in a privileged position of a monopolist, it should co-operate with the private sector for proper utilization of resources. Further, a strong private sector is a source of strength to the State. Some of the principles outlined can be useful guidelines in the formulation of new policies concerning labour reform and legislation.

Chapter 5

Kautilya identified several areas of State intervention to facilitate the economic life of the country. They are as follows:

1. The superintendent of slaughterhouse
2. The superintendent of prostitutes
3. The superintendent of ships
4. The superintendent of passports
5. The office of the city superintendent.

Kautilya's idea of the Passport corresponds to the modern version of this document that facilitates movement of people. This is perhaps the first instance of an institutionalized concept of passports that regulate the flow of people across borders. Kautilya said that 'whoever is provided with a pass shall be at liberty to enter into, or go out of, the country.'

Kautilya realized that the role of the State was to ensure that commercial activities do not violate laws or are harmful for the consumer and if the State did not establish and enforce codes of conduct, it would, in fact, raise transaction costs. The lack of trust and guarantee of quality would diminish commerce and increase search and verification costs for agents undertaking commercial transactions.

Kautilya explicitly states that 'Adulteration of grains, oils, alkalis, salts, scents, and medicinal articles with similar articles of no quality shall be punished with a fine.' The consumer/buyer is provided safeguards by Kautilya, i.e., 'the sale or mortgage of articles such as timber, iron, brilliant stones, ropes, skins, earthenware, threads, fibrous garments, and woolen clothes as superior, although they are really inferior, shall be punished with a fine.' Kautilya states that 'the Superintendent of Commerce shall fix a profit of five per cent over and above the fixed price of local commodities, and ten per cent on foreign produce. Merchants who enhance the price or realize profit even to the extent of half a pana more than the above in the sale or purchase of commodities shall be punished with a fine.'

Contemporary Relevance:

1) It is interesting to note that Kautilya tried to establish guidelines for professional service providers also, including weavers, washer men, boatmen, shipping agents, and even prostitutes.

Modern States are still grappling with the complexity of setting such 'services' oriented guidelines and in that light Kautilya's attempts to do so shows the sheer breadth of his vision at such an early point in history. He also established explicit guidelines for the practice of the medical profession, incorporating ideas that seem ahead of his time.

2) Kautilya is perceptive enough and flexible enough to realize that the State official might not be able to gauge the market, he thus states that 'in case of failure to sell merchandise at the fixed rate, the rate shall be altered.' Kautilya envisaged a role for the State to ensure that excessive price fluctuation detrimental to commercial activities did not occur. Kautilya showed a highly refined understanding of the law of demand and supply and the pernicious effects of gluts in the market.

3) Interestingly, Kautilya's *Arthashastra* is the first known treatise to discuss such concepts. The extensive research that has been undertaken about imperfect markets vindicates the importance that the visionary assigned to situations that could arise from a mismatch between supply and demand.

Kautilya recommended an interventionist policy to counter a situation of glut in the market; In this context, he stated that whenever there is an excessive supply of merchandise, the Superintendent shall centralize its sale and prohibit the sale of similar merchandise elsewhere before the centralized supply is disposed of.'

Chapter 6

Agriculture was the most important economic activity. Kautilya was of the view that cultivable land is better than mines because mines fill only the treasury while agricultural production fills both treasury and store houses. The *Arthashastra* spoke about the functions of a Superintendent of Agriculture and states that the King should understand the intricacies of agriculture.

Contemporary Relevance:

1) Government procurement policy, which guarantees a minimum price for rice and wheat crops to farmers, has created a bias in their favor and a distortion of cropping pattern, which is not market determined. At times, these procurement policies result in such surpluses of food grain that, given inadequate storage facilities for them, the beneficiaries of food subsidies are Indian rats.

2) Professionalising agriculture, especially for large farms, would be needed with professionally trained managers able to study global movement of prices, modern farming techniques and use of technologies such as satellite farming. Courses on farm management need to be more widespread. Similarly, agriculture is completely out of the purview of the tax regime in India. The agricultural sector that has been given a priority status for bank lending gets completely de-prioritized for taxation. As against this, the *Arthashastra* has highlighted the significance of taxes on agriculture and allied activities (though it was one of the sole major sectors contributing to state welfare).

3) *Arthashastra*'s advocacy to 'tax the richer farmer maybe something that needs to be done now when the Finance Minister is trying to find ways to increase the tax to GDP ratio.

4) The importance of irrigation and providing amenities could be taken up on a priority basis. The agricultural economy that has to compete with the international market continues to be at the mercy of the vagaries of the monsoon. Although India had the second largest irrigated area in the world, the area under assured irrigation drainage is inadequate.

5) Some land, which was fertile earlier, has become fallow because of inadequacy of fertilizers or the incorrect usage of fertilizers. Emphasis on organic farming, which obviates the need to use chemical fertilizers, is an obvious alternative. Given the fact that India has one of the natural factories for organic manure, one wonders why organic farming has not yet got the attention it deserves. Furthermore, this would

also help to prevent slaughter of cattle because if their manure provides a revenue stream to the farmer, he would be averse to slaughtering them. Systematic cropping pattern and irrigation system followed by the Kautilya Raj is what today's experts need to recognize. Farmers and consumers would benefit if all agricultural production were produced by ecologically sound and sustainable means.

6) Pricing and marketing of agro products and providing adequate infrastructure to the agricultural sector are crucial. Evidently, as in other spheres, many of the principles enumerated in the Arthashastra are applicable to the agricultural sector in India even as we write this.

Chapter 7 and Chapter 8 pertain to local and foreign trade

Kautilya considered trade the third pillar of economic activity and in consonance with this the Arthashastra details every aspect of trade

For instance, apart from promoting trade by improving infrastructure, the state was required to keep trade routes free of harassment by courtiers, state officials, thieves, and frontier guards. Kautilya appears to mistrust traders believing them to be thieves, with a propensity to form cartels to fix prices and make excessive profits as also to deal in stolen property. He prescribed heavy fines for discouraging such offences by traders and with a view to consumer protection. Further, the law on dealings among private merchants included:

- (a) Selling on agency basis.
- (b) Revocation of contracts between traders.
- (c) Traders traveling together and pooling their goods.

IV. Safety of goods in transit

It was also enjoined upon the frontier officers to ensure the safe passage of the merchandise and to make good any loss incurred. Responsibility to recompense loss to traders vested with the village headman barring, of course, goods that were stolen or sent away. Further if any property of trader was lost or driven away in an area between villages, the person responsible was the Chief Superintendent of Pastures. (CSP). In the regions, which did not fall under the control of CSP, the responsibility was that of Chora Raju. Finally, if the responsibility could not be assigned on any official, the people of the village within whose boundaries the loss had occurred, was collectively responsible to the trader.

Contemporary Relevance:

1) In recent times there has been considerable research about trade liberalization and the numerous ways in which this can be achieved. Kautilya's views on trade reflected that he grasped among other things a point that is extremely relevant even in the present era of globalised commerce and trade. That is: There is no autonomous mechanism that will ensure that a nation would benefit from trade in the absence of certain safeguards and policy measures.

2) It is thus seen that the importance of the trader was recognized by Kautilya as also the importance of the rule of law, by making restoration for any loss caused by its failure. At the same time, traders were prevented from oppressing people. This clearly shows that the welfare of the people was uppermost in the mind of the king.

3) The connotations of harassment and obstacles to trade may have changed. However, the fact that anti-dumping measures exist or that cartelization has to be coped with or adverse terms of trade have to be accounted for in certain sectors underscore that safeguards are essential even in current times and those responsible for managing these measures should be responsible.

Furthermore, Kautilya was cognizant of the fact that the terms of trade were not just dependent on the economics but also on other various parameters. The traders had to keep in mind the political or strategic advantages in exporting or importing from a particular country. The proliferation of free trade agreements in recent times underscores this point because there is a definite political dimension to trade treaties and agreements.

Chapter 9

Kautilya recommends that public servants, 'while engaged in work, they shall be daily examined; for, men are naturally fickle-minded and like horses at work exhibit constant change in their temper. Hence the agency and tools, which they make use of, the place and time of the work they are engaged in, as well as the precise form of the work, the outlay, and the results shall always, be ascertained... hence the chief officer of each department (adhikarana) shall thoroughly scrutinize the real amount of the work done, the receipts realized from, and the expenditure incurred in that departmental work both in detail and in the aggregate'.

Kautilya admitted that some degree of corruption would always exist, and cannot be scrutinized perfectly, 'It is possible to mark the movements of birds flying high up in the sky; but not so is it possible to ascertain the movement of government servants of hidden purpose.' He therefore recommends strictest punishment, both material and corporal, as a disincentive to cheat.

Contemporary Relevance:

In the Arthashastra, stress has been given both on fraud prevention as well as fraud detection. Kautilya had listed several ways by which public funds are misappropriated. Some of these frauds relevant in today's corporate environment are as follows:

(a) Falsification (of date) with a motive of personal profit: Showing a later date than the one on which income was received or showing an earlier date than the one on which expenditure was incurred and using the proceeds in both cases for personal profit for a period.

(b) Misrepresentation (of income received or expense incurred) with a motive of personal profit: (i) Revenue due on a given date is allowed to be collected at a later date for a consideration; (ii) Revenue not due till later is collected earlier by force or deceit but credited on due date; (iii) Revenue paid by one is credited in the name of another for a consideration; (iv) Revenue for treasury realized in the capacity of a collector is misappropriated by an individual by force or deceit.

(c) Discrepancies (arising out of willful fraud) in:

- personally supervised work
- account heads
- labour and overhead charges

- work measurement

Chapter 10

Though the kingdom was a feudal monarchy, it had a well structured administrative machinery, containing various departments and the heads of these departments were charged with well specified responsibilities; They were expected to run the team actively, efficiently prudently and profitably; The kingpin of administration was the King himself who was advised by a group of councilors, ministers and other high officials, who were carefully selected by the king himself after careful scrutiny of their character, background and leadership qualities.

Contemporary Relevance:

Though Kautilya wrote in the context of a monarchy and the governance that prevailed in his time, there are certain fundamental points of relevance that we can cull out of his propositions about the functioning of all those activities that may be categorized as those that come within the purview of the present day public sector units.

1. The Arthashastra emphasized that the King should build forts, canals, roads, and moats and as a matter of fact it describes with considerable detail the layout of each of these infrastructural constituents. It is not the precise applicability of each of these specifications but the fact that it is meticulously described in the Arthashastra which underscore that Kautilya recognized that efficient provision of these amenities entailed adherence to certain parameters.
2. The second aspect is Kautilya's exhaustive description of the duties and responsibilities of the entire gamut of functionaries within the monarchy ranging from ministers, councilors, and commissioners, to the officers at the lowest level of the hierarchy. Furthermore, the Arthashastra enumerates the measures such as penalties and a system of vigilance to ensure the efficient discharge of the responsibilities of the various tiers of governance. Penalties were also used for the enforcement of revenue targets and expenditure limits. Evidently, Kautilya understood the importance of accountability and transparency the lack of which in a number of public sector units has been a prime reason for the proliferation of loss making public sector enterprises.
3. Interestingly, one can draw discernible similarities between some of the provisions of the Arthashastra and the main principles of corporate governance. For instance, according to the Cadbury Committee's report (1992) on financial aspects of corporate governance, proper managerial accountability was the key to any system of corporate governance.

The Arthashastra spoke of the King appointing spies to ensure a system of vigilance that would be able to monitor the activities of various departments and although this may not be termed as an audit it would have served some of the purposes that an audit is supposed to fulfill. There has been extensive research on this subject in today's times. However, one of the central objectives of corporate governance is to ensure through certain managerial and legal provisions, accountability and transparency and this is also one of main tenets of Kautilya's Arthashastra

Chapter 11

Kautilya believed in the adage “*Yatha Raja Thatha Prajah*” (As the King is, so will be the people”). Therefore he laid down the condition that “an ideal King is one who has the highest qualities of leadership, intellect, energy and personal attributes”. According to Kautilya, the King had to thoroughly test the integrity of those whom he had appointed. Kautilya also cautioned the dangers inherent in King’s service.

Contemporary Relevance:

1) The king was not exempt from being endowed with certain qualities of leadership if he was to be able to provide effective and productive governance. Thus the political leaders have to set an example by adhering to high standards of conduct and functioning. In contemporary times there have been frequent reminders that it is not positions which sustain an individual however powerful he/she maybe but the person concerned that has to sustain power conferred not by abusing it but by using it in a constructive manner for the people concerned

2) Kautilya listed 34 heads of departments. Only those who had the specified qualifications were appointed to these high posts. Except in the case of *Raj Purohita*, the scribe (*Brahmin*) and army (*Kshatriyas*), there was no “caste” reservation for the post of high level officials.” Thus, upward mobility in the hierarchy was based on merit, suitability and fulfilling other qualifications laid down for these posts. In a conflict between meritocracy and the political economy of appointments, if the latter continues to be given precedence India’s potential of becoming an economic superpower will remain untapped.

Chapter 12

The emphasis assigned by Kautilya on efficient water management and the detailed instructions on how to do so contrasts with the grossly undertapped potential of this abundant natural resource. Millions trudge miles to obtain water in a country which has so much of it.

Contemporary Relevance:

The *Arthashastra* would be very instructive in the context of conservation of our water resources. It is unfortunate that in India, despite five decades of planning, efficient and equitable water management is still a pipedream.

Chapter 13

It is amazing to note the wide range of subjects and spheres in which education was imparted during Kautilya’s time. Medicine, mathematics, military education, commercial education, statecraft, the arts, architecture are some of the areas in which extensive training was provided. Some of the eminent institutions of learning that flourished during the time included Nalanda and Takshila.

Contemporary Relevance:

The emphasis that Kautilya assigned to human capital formation is increasingly validated in current times. A rule of thumb in the realm of economics is that development is not possible without human capital accumulation.