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**Pre-Kautilyan Period:
Crucible of Proto-Economic Ideas and Practices**

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Professor Emeritus and Chairman Dr. P.R. Panchamukhi, Director Dr. V.B. Annigeri, and, Faculty Members and Staff of Centre for Multi-Disciplinary Development Research (CMDR); I am indeed honoured and delighted to get the invite for delivering the Founder's Day Lecture given in memory of Vidyaratna Shri R. S. Panchamukhi, the Founder President of CMDR. I consider myself particularly fortunate, for the proceedings are being presided over by Prof. P.R. Panchamukhi who taught me Public Finance at the Gokhale Institute of Politics and Economics (GIPE), Pune. We are meeting after nearly three and a half decades since then! As Lord Rama tells Bharata in Ayondhya Kanda, “यथा काष्ठं च काष्ठं च ...”, i.e, “In an ocean, if a wave accidentally brings two logs together, another one separates them as accidentally as the first one.” But the two logs belong to the same stock of wood. I am lucky though, for the wave of time has brought me to Prof. Panchamukhi one more time to seek his blessings.

When I studied economics at the undergraduate and post-graduate level we were introduced to two books on economic history. One was the History of Economic Thought by Eric Roll and the other History of Economic Analysis by Joseph Schumpeter. These two books had references to Old Testament, New Testament, Greco-Roman contributions, Mercantilists, Physiocrats, and Classical economists. However, there were no references to Indian economic thought, ancient or medieval. As a student of economics, one always wondered why this was so? As a young adult busy trying to find a foothold in the society then, one ignores such curiosity and moves on in life. However, an American economist Mark Skousen remarked in one of his books published in 2016 that before Adam Smith, “Six thousand years of recorded history had passed without a seminal work on the subject [read economics] that dominated every waking hour of practically every human being.” This rather outlandish statement made

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me revisit my curiosity that I had brushed aside during my student days. I always wondered, then and now, that for a country of the size of continental proportions and having a recorded continuous history of more than 5 millennia, how is it that there are no references to Indian economic thought? My curiosity was further kindled by the comment that was made by the economist late Frank Knight way back in the 1950s. While reviewing the book *History of Economic Analysis* by Schumpeter, Knight had rued that Indian economic thought was not even mentioned in the otherwise grandly conceived book.

So I decided to check on the opinions and literature attributed to some of the modern Indian thinkers and economists. My efforts were not that encouraging though. For example, late Prof. Raj Krishna of Delhi School of Economics had described the very low GDP growth rates of Indian economy during the first 4 decades after independence as the Hindu Rate of Growth. The reference to the term Hindu was an innuendo for the drawbacks of the Indian civilizational values contributing to the low GDP growth! In fact, nothing could have been farther from the truth. Now we know that the low GDP growth rates of those times were due to the market-unfriendly socialistic policies of ‘licence raj’ imposed on the society by the then left-leaning economists and politicians. The self-deprecatory attitudes like that of Raj Krishna were fostered during the British colonial period and had continued thereafter. Another example of this is found in the writing of the late economist Deepak Lal. He had taken a millennial view of Indian economy in his book titled *The Hindu Equilibrium*. He blamed stagnation of Indian economy in the post-independence era on the Indian social order! Everything was being blamed then on Indian cultural and religious aspects of society and not the socialistic policies. Prof. B. R. Shenoy, a pro-market economist who had opposed the socialistic planning model was hounded out of India and he had to seek employment in Sri Lanka. Such was the Zeitgeist of the times.

For long, Kautilya was considered as a mere character, though a central one, in the Sanskrit play *Mudrarakshasa* by Vishakhadatta. It was only when a pundit from Tanjavur found a copy of Kautilya’s *Arthashastra* in the early part of 20th century that his historicity and importance as a statesman and economic thinker was established. The description from *Mudrarakshasa* that he was the prime minister to Chandragupta Maurya circa end of the 4th century BCE was now corroborated. But still, Jawaharlal Nehru described him in his book *Discovery of India* as India’s Machiavelli. Later, R. P. Kangle published a critical Sanskrit edition of *Arthashastra*, its literal translation, and a commentary in a 3-volume book in the late

1960s. From there on, many western and Indian authors researched on Arthashastra. It turns out, Machiavelli was a 16th century Italian diplomat who wrote a book *The Prince* as a guide in statecraft for the continuance of the king's rule. However, Kautilya was a much larger personality. He not only wrote Arthashastra 2 millennia prior to Machiavelli but wrote on wide range of matters related to economic aspects of government, commodity markets, labour issues, state administration, as also statecraft for continuance of a king. Therefore, it is Machiavelli who should at best be called as Kautliya of Italy.

Ancient Indian literature falls in two categories. Shrutu literature and Smriti literature. The former is considered as the sacred literature revealed to and by the ancient sages. The latter consists of contributions by men and women both on secular and religious matters. Kautilya's Arthashastra is a Smriti literature. Kautilya himself asserts that his contribution is a received knowledge based on treatises written by his predecessors. Among a few other, he refers to works by Brihaspati and Shukracharya. Unfortunately, the original contributions of these authors are lost or not rediscovered yet. Therefore, I wondered as to what would be the other proxy sources which would reflect the contributions of Kautilya's predecessors. To do this, I scouted for information in Vedas, Upanishadas, Ramayana, Mahabharata, and a few other secular texts. These texts throw light on many economic aspects including but not limited to the life objectives, life stages, and life occupations of individuals, concepts of state and economic policies, provision of public goods and market facilitation, prices, interest rates, taxes, and labour and land issues. The sources and the literature therein forms the crucible of proto-economic ideas and practices, which must have been developed by Kautilya later. I will turn to these proto-economic ideas now.

The conventional literature on economics assumes utility maximization and profit maximization as the sole unidimensional objectives of a household and a firm, respectively. The view taken by ancient Indians was, however, much wider. A person has four objectives in life (Purushartha) – Dharma (righteous conduct), Artha (acquisition of wealth), Kama (pleasure and love), and Moksha (liberation). These objectives are to be achieved as one goes through the four stages of life (Ashrama) – Brahmacharya (life of a student), Gruhasthi (a householder), Vanaprastha (retirement), and Sanyas (renunciation). While most of us follow these sequential stages, some may choose a particular stage out of own volition irrespective of the biological stages. That is, one may choose to remain in brahmacharya or seek renunciation early in life. Apart from the life-stages, life-objectives are also guided by the four life-occupations (Varna).

These occupations are - Brahman (knowledge seeker), Kshatriya (warrior & security personnel), Vaishya (businessman), and Shudra (artisan, cultivator & serviceman). Thus, a person chooses any one particular combination at a point of time from among 64 (4x4x4) choices available. This multi-dimensional concept is much more mature, holistic and wider than the singular preoccupation of utility or profit maximization. In fact, recent contributions in the field of behavioural economics have started paying attention to the multidimensionality of human objectives.

Dharma refers to righteous acts, truthfulness, non-injury, and charity. References to follow dharma are replete in ancient Indian literature. In Ramayana, Lord Rama advises Bharata follow the dharma of a Kshatriya while ruling the kingdom of Ayodhya in his absence. Even Kumbhakarna, before fighting against Lord Rama, pleads unsuccessfully to his brother Ravana to follow his dharma and avoid conflict with Lord Rama. In Mahabharata, Lord Krishna advises Arjuna to follow his own (swa) dharma as a kshatriya to wage war and shed weakness of the mind. The same Lord Krishna advises Arjuna that daan (charity) which is sattvik, i.e., done without any expectations of returns is dharmic. In Kathopanishad too, Nachiketa, son of Vajashrava tries to convince his father to give daan without any conceit. In fact, Rig-Veda the most ancient sacred text mentions that death comes in various ways even to a well-fed person, and riches come to her like the rolling of a cartwheel; therefore, the rich should give alms to the poor who become her friends in future troubles. Donation as an act of dharma was an appeal to reason and a voluntary act in ancient Indian literature. In contrast, in West Asian traditions, donation was made coercive by imposing it as a mandatory religious tax. It is called as tithe or tzedakah in Christian and Jewish faiths, respectively, which amounts to one-tenth of income being taxed as charity. In Islam it is called zakat which amounts to about 2.5 per cent of a household wealth.

The other objectives of life artha and kama, i.e., wealth creation and artistic pleasures and love were also given due consideration in ancient Indian literature. There is a famous and witty quote from Rig-Veda regarding desires. To give a few examples from it, the author says that we all follow desires like cows follow one after the other, like a frog looks forward to a flood, and just like a priest seeks worshippers! Similarly, in Mahabharata, while persuading Yudhishtira not to become a mendicant and take reins of the kingdom, Arjuna tells Yudhishtira that wealth brings about accessions of wealth, just like domesticated elephants are used to capture wild elephants. He further tells him that religious acts, pleasures, joy,

courage, wrath, learning, and sense of dignity, all these proceed from wealth. The simile of domesticated elephants and wild elephants very aptly captures the principle that capital begets capital. Then there are other texts such as Shri Sukta, Dice Hymn, Chamakam prayer which emphasize acquisition of material wellbeing and that too through right means. In the sphere of artistic expressions of life, much prior to Kautilya, two treatises by the name Nata Sutras were written which represented two Vedic branches of performing arts. Much later, in the early part of the common era, Bharata Muni would go on to write Natya Shastra which became the source of all modern schools of Indian classical dance, drama, and music. And, of course, an extreme form of materialistic worldview was professed by Charvak centuries prior to Kautilya. His hedonistic philosophy focused only on seeking happiness in this world, in whichever way it was possible, for he did not believe in either rebirth or in heaven and hell.

With hindsight, the four-fold classification of Ashramas into Brahmacharya (life of a student), Gruhasthi (a householder), Vanaprastha (retirement), and Sanyas (renunciation) was an early proto-economic expression of the life cycle hypothesis propounded by the modern day economist Modigliani. Modigliani refers to a person's life stages where he or she lives on borrowed money as a student, earns income during his household stage, and lives off the accumulated savings during the retired life. Of course, while these stages of life are primarily biologically driven, ancient Indian literature is replete with examples where the choice of Ashrama was a voluntary act in its functionality. That is, many sages like Adi Shankaracharya would remain bachelor and many others would seek Sanyas or renunciation early in their life. The choice of the ashrama, therefore, could also depend upon one's aptitude. Similarly, the four-fold classification of Varna was an early proto-economic expression of division of labour. Sacred text Gita clearly mention that varnas are formed based on guna-karma, i.e., aptitude and deeds of a person. The same point is emphasized in Mahabharata where sage Bharadwaj tells sage Bhrigu that all four orders mingle together and possess lust, wrath, fear, cupidity, grief, anxiety, hunger and toil. They also cannot be distinguished from one another, for all emit sweat, urine, faeces, phlegm, bile and blood. Created [equal] by Brahman, people have, in consequence of their acts, become distributed into different orders. Dr. Ambedkar too corroborates the idea of division of labour. In his collected writings he illustrates that Upanayana (commencement) ceremony of pupils used to be done at the end of 12 years at Guru's ashrama. Teacher would bestow varna on the pupils based on their learnings. This was akin to what Adam Smith had said, "Difference between a street porter and a philosopher is

not the cause of division of labour, but rather a consequence of it [due to education, customs and habits].

Ancient Indians also had a mature conceptualization of a state and its economic policies. Many janapadas (republics) and maha janapadas (great republics) existed in the Indian Subcontinent then. The treatise Aitareya Brahmana lists various kinds of states including but not limited to rajyam (state), maharajyam (great state), swarajyam (independent state), samrajyam (universal sovereign state), and a few others such as vairajyam (kingless republic). Today, description of these states appears in the hymn Mantra Pushpanjali which is recited by devotees of Lord Ganesha during Ganesha Chaturthi festival. This hymn can be best summarized as the earliest form of a national anthem. Dr. Ambedkar too has acknowledged that the republics in ancient India existed true to their spirit of people's representation in the working of the governments. Accordingly, to him, in ancient India, to govern themselves people of various communities would anoint one among them to lead the nation. Thus, a king was a people's representative. Being a people's representative, concern for the betterment of the citizens was always in the king's mind. Concern for public goods is expressed in Mahabharata, where sage Narada asks King Yudhishtira if he has constructed water tanks and lakes at periodic distances in arid regions and whether he gives loans to farmers at concessional rates. He also asks questions on provision of internal security for citizens and industries. Narada continues to ask if he takes care of the disadvantaged citizens including the blind, the dumb, and the lame. He advises Yudhishtira that protecting the country from external aggression is important, however, war should be the last priority, for it consumes public exchequer which can be used for other public goods. This advice compares well with modern India's policies of external relations vis-a-viz China and Pakistan. Narada checks with Yudhishtira whether or not his administrative expenses were about 1/4th, 1/3rd or at worst 1/2 of his income. This is akin to modern economists advising governments of not incurring revenue deficit.

To finance spending on government administration and on public goods, king had to raise money through taxes. However, there was a clear understanding that coercive taxation can act as a disincentive for work. In Mahabharata, the grand old patriarch of the Kuru clan Bhishma advises Yudhishtira that a king should tax subjects just like a bee sucks honey from flowering plants. When the bee sucks honey, it does not affect the bloom of the flower, and, in fact, it helps pollination and fertilization of a new plant. The purport of the simile is that a king should not tax too much which will affect incentive to work, and that the collected revenue

should be used for producing future public goods for the benefit of the citizens. Bhishma further states that tax burden should be enhanced gradually, like a person gradually increases the burden of a young bullock. Such similes are indicative of the innate understanding of the proto-economic concepts which we know today as the Laffer curve and progressive taxation. Compare these assertions to what J. B. Colbert, the finance minister of France in the 17th century had to say – “The art of taxation consists in so plucking the goose as to procure the largest quantity of feathers with the least possible amount of hissing.” If this definition of taxation has a hint of being exploitative, Bhishma’s advice is certainly symbiotic in nature.

If we scan the ancient Indian literature further, we also see that sages had given thought to workings of the market forces, prices, interest rates, and factors of production such as land and labour. In Rig-Veda one of the sages has described an incident involving bargaining over price. Here is the quote – “A customer is trying to buy wine (soma) from a priest as sacrificial offering. Customer bids low price and the offerings remain unsold for a mere price of ten cows. The needy buyer and shrewd seller both milk out the udder (i.e., bargain hard for the price).” Similarly, understanding of interest rate as a price of using services of someone’s excess funds was also known. Circa 700 BCE, Panini the Sanskrit grammarian had talked of daily and monthly compounding of interest rates in decimal terms. This was in stark contrast to the views held by the Greeks and the Romans. If Aristotle considered money as barren, i.e. capital cannot beget capital, Cato the Elder considered charging interest on borrowed money as bad as murder.

Issues related to land and labour were also covered in some of the ancient texts. Land is described in ancient writings through the Sanskrit words Vasudha or Vasundhara which convey the meaning that land was not wealth in itself but holds or creates wealth. In fact, there are 8 forms of wealth (Lakshmi) described in the literature but that does not include land. Treatises such as Purva Mimamsa written around 400 BCE clearly state that king does not own the lands of the state by virtue of being a king. His kingly power was only to govern the activities of the state. In the western religious tradition, God owns everything in the universe, and because the king was God’s representative on the earth, King could own all the land in the state. This principle is known as Eminent Domain. The land related acts in British India which India inherited had the provision of eminent domain which allowed state to confiscate land from citizens. In ancient Indian thought, a king never had the right of Eminent Domain, and, therefore, concept of private property could naturally emerge due to the absence of this concept.

In regard to labour market, ancient writers had thought through various forms of employment and labour unions which would protect interests of the workers. In Shukla Yajur-Veda written as far back as in 1000 BCE, various forms of employment have been recorded. They include, from acrobats to astrologers, basket-makers to butchers, carpenters to charioteers, dyers to drummers, horse hostlers to hunters, physicians to priests, weavers to warriors, and jewellers, goldsmiths, dancers, elephant-keepers and many more. Ramayana too lists various professions related to construction of roads. These include land surveyors, land plotters, diggers, mechanical operators, and quite a few other. Concern for labourers is exhibited both in Ramayana and Mahabharata. Lord Rama and sage Narada advise Bharata and Yudhishtira; respectively, never to delay payments of workers, else corruption would creep in. There were labour unions and professional guilds then. Called by various names such as nigama, sangha, or nikaya, the leaders of these unions were called Shreshthas. Shreshthas and their unions would help kings in forming state policies and represent king at different forums. Such activities reminds one of FICCI and CII, the modern day confederations of industries.

Let me conclude by saying that contribution of ancient Indian writings to the proto-economic ideas has been immense. Ancient Indian writers had not only thought of economic life of a person holistically in terms of purusharthas, ashramas, and varnas; but they had also referred to ideas of a welfare state, provision of public goods, workings of markets, prices, interest rates, labour relations, and many more. In the systematized mainstream history of economic thought, these contributions have not received their due recognition. Kautilya's contribution is being recognized belatedly by many scholars both Indian and foreign; however, what I have presented here today corroborates what Kautilya had to say – His was a received knowledge collated and built upon from the crucible of proto-economic ideas and practices that go many centuries prior to his times. While pointing out the contribution of ancient Indian writings, intention is not to thrust completeness and finality of those economic ideas. No whiggishness is attempted here. Schumpeter has said that one does profit from visiting the lumber room provided one does not spend too much time there! My attempt has been to let you peep into and stay in the lumber room for a brief period. It is said that science without history is like man without memory. Mine is an attempt to refresh that memory and bring out the contributions from our ancient writings. An early exposure to these proto-economic ideas to rest of the world could have perhaps hastened the development of classical economics as we know it today.

Quite a few proto-economic ideas from ancient Indian literature are relevant even today. When the Prime Minister of India appealed to Indians to give-up LPG subsidy so that the very poor can get a smoke-less cooking gas, he was appealing to the dharmic duty of an individual. When GST was introduced a few years ago minimizing the pain businesses had to go through to pay multiplicity of indirect taxes, it reminds us of Bhishma giving the simile of a bee collective honey from the flower. The fortuitous absence of Eminent Domain in the Indian subcontinent also reminds us to refrain from coercive power of the state in confiscating lands of the poor without due compensation. Modern economists urging governments to ensure that revenue deficit is zero are also resorting to the same principle expounded in ancient India. One can relate many more examples and principles of this nature from ancient Indian writings. But I must stop here.

Once again, I thank Prof P.R. Panchamukhi and Prof. Annigeri for inviting me to deliver the Founder’s Day Lecture given in memory of Vidyaratna Shri R. S. Panchamukhi, the Founder President of CMDR. I am humbled by your gesture. Trust I have attempted to do justice to the high standards of academic engagement Shri. R.S. Panchamukhi had laid down for CMDR. यथा काष्ठं च काष्ठं च... ” – I hope I get the opportunity to be alongside some other time in future.

General References

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