

भारतार्थशा स्त्रायण

**A Journey into the
Economics of India**

By

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ECO250: History of Economic Thought

Introduction

How deep is the well of Economics? To say that it came into being only after the dissolution of monarchies or with the establishment of regulated markets, is nothing short of ignorance. Economics has existed from the very moment humans started taking decisions beyond fulfilling basic necessities. With this in mind, a dive into the history of economic thought would surely be incomplete, if we were to overlook the ancient Indian संस्कृति.

In this inquiry, we will look at some of the timeless ideas from our ancient texts, as well as epics. While most of the translations were made by the author himself (refer to notes), a few of them are alas beyond his undergraduate capacity. The translations used for them have been faithfully acknowledged.

Puruṣārtha

At the root of all economic ideas, and at the outset of any foundational economic inquiry, lies the concept of individual motives. To analyse the behaviour of an individual, a firm or the society when faced by an economic choice, we first need to understand the objectives that drive their decisions. Adam Smith in his *Wealth of Nations*, proposed the concept of a self-interested economic agent ¹ with the sole objective of maximising his/her own welfare.

¹ Homo economicus

However, later studies would reject this ‘rational individual’ assumption, on grounds of other behavioural traits shown by humans while facing a decision.

In ancient Indian tradition, welfare was always understood to be multidimensional. The concept of Puruṣārtha ² (the objectives of people), can be traced back to the Vedas and Upaniṣads, where it included three objectives- Dharma (Righteousness), Artha (Wealth) and Kāma (Pleasures); with the later addition of Mokṣa (Liberation) in epics like the Rāmāyaṇa and the Mahābhārata. As our behaviourist friends rightly argue, there are several factors affecting an individual’s decision making like-

Fairness (Dharma);

Self-interest (Artha);

Impure Altruism, giving charity for Warm Glow ³ (Kāma) and;

Pure Altruism, involving absolutely no self-interest (Mokṣa) etc.

Varṇa System

According to the ancient Indian tradition, there exists a four-fold classification of people on the basis of their actions (and not their birth!) into *Brāhmaṇa* (Teachers, Researchers, Academicians), *Kṣatriya* (Protectors, Politicians), *Vaiśya* (Traders, Merchants, Manufacturers) and *Śūdra* (Service providers).

As per the Vajrasūcī Upaniṣad ⁴, it is the Karma (Actions) of the individual that determines their Varṇa. This system is nothing but a **Division of Labour**. The unfortunate aberration of this concept from a horizontal structure of actions, arising out of specialisation in a field, to a vertical caste system is an issue beyond the scope of this inquiry ⁵.

However, what is interesting to note is that along with providing the idea of such a system, the same ancient Indian tradition also questioned its social morality. This coexistence of opposing ideas was a recognized and respected aspect of our tradition.

² Refer to notes for dissolution of the compound.

³ Warm Glow was coined by (Andreoni, 1990). It involves philanthropy for a feel-good feeling or fame.

⁴ An important Sanskrit text that attacks the philosophical idea of a vertical caste-system.

⁵ Refer to (Deodhar, 2019) for more insight on this topic.

There is an interaction between Ṛṣi ⁶ Bhṛgu and Bharadvāja in the Mahābhārata, wherein Bharadvāja argues-

कामः क्रोधो भयं लोभः शोकश्चिन्ता क्षुधा श्रमः ।
सर्वेषां नः प्रभवति कस्माद्वर्णो विभज्यते ॥ 12.181.7 ॥

“Desire, anger, fear, cupidity, sorrow, anxiety, hunger and fatigue arises in all of us. How can the class of people (varṇa) be divided [on the basis of these]?” ⁷

He adds-

स्वेदमूत्रपुरीषाणि श्लेष्मा पित्तं सशोणितम् ।
तनुः क्षरति सर्वेषां कस्माद्वर्णो विभज्यते ॥ 12.181.8 ॥

“Sweat, urine, excrement, phlegm, bile and blood flows in the body of all. How can the class of people (varṇa) be divided [on the basis of these]?” ⁸

Theory of Price

The theory of price and determination of value is one of the most debated and discussed topic in the history of economic thought- from the views of the early classical thinkers (Adam Smith, Ricardo, Malthus, Mill) on the cost of production being the determinant of value, to the extreme views of Karl Marx, who believed that value depended only on the amount of socially necessary labour needed for production (Labour Theory of Value), to the marginalists and the Austrian school arguing that utility is what determines value (Subjective Theory of Value).

Meanwhile, a dualistic approach to value determination was already existing in ancient India. Śukrāchārya writes the following on value-

⁶ ऋषि

⁷ Refer to notes for word-by-word translation.

⁸ Refer to notes for word-by-word translation.

येन व्ययेन संसिद्धस्त द्वयस्तस्य मूल्यकम् ।

सुलभा सुलभत्वाच्चा गुणत्वगुण संश्रयैः ॥ 2.718 ॥

“Prices of commodities are high or low according as they are attainable with or without ease and according as they do or do not possess attributes.”⁹

Śukrāchārya is associating both- the cost of production [explained as ease of procurement, in fact व्ययेन (Instrumental, Singular, व्यय) means “by the cost”] as well as the perceived utility of the product [गुण] with value determination.

Public Finance and Taxation

The description of a public revenue structure and its nature is found throughout ancient Indian texts. In Śukranīti (originating in the Vedic Period), Śukrāchārya calls treasury as the basis of power and power as the basis of treasury.¹⁰ He believed that the best ruler is the one who expands his treasury using the funds from conquered states (Sharma, 1987).

In the Śānti Parva of the epic Mahābhārata, when the victorious Pāṇḍava brothers go to meet Bhīṣma (who lies on the bed of arrows), he counsels them on good governance and the duties of a king. In that interaction, he emphasizes on the importance of adopting a progressive tax structure and among several other things he mentions-

फलं कर्म च संप्रेक्ष्य ततः सर्वं प्रकल्पयेत् ।

फलं कर्म च निर्हेतु न कश्चित्संप्रवर्तयेत् ॥ 12.88.14 ॥

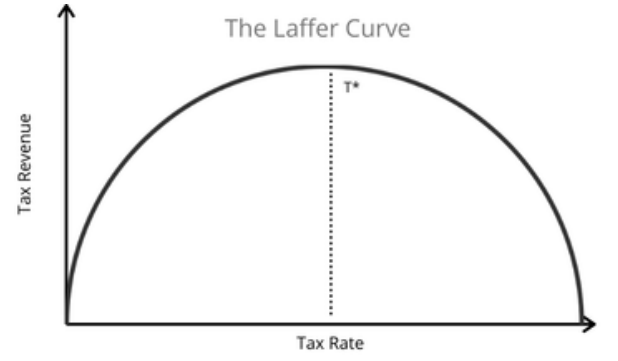
“Having seen the action and the fruit [outcome], thereupon, everything [regarding tax rate] should be fixed. Such a situation should not arise that [there is] disincentive for the action and the outcome.”¹¹

⁹ This translation is not done by the author but is taken verbatim from (Kumar, 1913).

¹⁰ बलमूलो भवेत् कोशः कोशमूलं बलं स्मृतम् । (Śukranīti, 4.130)

¹¹ Refer to notes for word-by-word translation.

This idea of fixing the tax rate depending upon the output of an economic activity and **making sure that it does not become a deterrent to them** finds its modern day parallel in the “Laffer Curve”¹². It theorizes that as tax rates are increased, initially there is an increase in the tax revenue. However, beyond a limit T^* , it discourages some economic trades to take place and as a result reduces total tax revenue.



Bhīṣma also mentions-

वत्सौपम्येन दोग्धव्यं राष्ट्रमक्षीणबुद्धिना ।

भृतो वत्सो जातबलः पीडां सहति भारत ॥ 12.88.18 ॥

“O descendant of Bharata, the nation should be milked by the intelligent [king] just like it is done by the calf. [If] the calf is nurtured, [it] becomes strong [and] can endure in hardship.”¹³

In a later verse, he says- “A king must milk (tax) the cow (nation) bearing the calf (people) in mind, without causing damage to the udders. As the nation progresses, the tax burden can be reduced. Or if desired, it can be increased progressively like the burden on a young bull is increased gradually”¹⁴ (Debroy, 2015).

While Śukrāchārya believed power to be the root of treasury, Āchārya Cāṇakya calls taxation as the root of treasury.¹⁵ He exhaustively delineates the tax structure to be adopted by a state, including the rates on different businesses adjusting for risk as well as prosperity; with special clauses for activities/people which should not be taxed. Though, the tax structure designed by him for a kingdom in 3rd century BCE may not be directly applicable to modern economies,¹⁶ the underlying idea of progressive taxation transcends the boundaries of space and time. In the 5th book of the Arthaśāstra, he mentions-

¹² Named after Arthur Laffer

¹³ Refer to notes for word-by-word translation.

¹⁴ Śānti Parva, 12.89

¹⁵ कोशमूलो हि दण्डः (Arthaśāstra, 8.1.47) This phrase has been adopted by Income Tax Department as their motto.

¹⁶ Nor is it the point. No rational reconstruction!

पक्वं पक्वमिवारामात्फलं राज्यादवाप्नुयात् ।

आत्मच्छेदभयादामं वर्जयेत्कोपकारकम् ॥ 5.2.70 ॥

“Just as fruits are gathered from a garden as often as they become ripe, so revenue shall be collected as often as it becomes ripe. Collection of revenue or of fruits, when unripe, shall never be carried on, lest their source may be injured, causing immense trouble.”¹⁷

In this verse, Cāṇakya says that the newly established businesses (bearing unripe fruit) should be provided an exemption from paying taxes, so as to support them in their incubatory stage. It is remarkable how his understanding of such economic incentives and protectionist policies, is still with us in forms like “Tax Holidays”.

Conclusion

Though the title of this work calls itself a journey, it would be wiser to consider it a short-trip; given the vast magnitude of unexplored works. The author would also like to apologize for any unimplied whiggishness, that could have arisen while drawing modern day parallels of ancient Indian economic ideas. The purpose of them was only to support the understanding of the texts. Having scratched just the surface of our timeless texts, the author recommends the readers to explore them in further detail, not to get bound by them, but to learn from what was, apply it to what is, for the betterment of what will be.

Remember-

सा विद्या या विमुक्तये

“That is knowledge which liberates”

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