



THE CASE FOR KAUTILYA: WHY THE ARTHASHASTRA IS THE FIRST BOOK OF POLITICAL ECONOMY

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Abstract

Books on the history of economic thought usually begin with Adam Smith and his book *The Wealth of Nations* (1776). They treat political economy as a European idea of the eighteenth century. This article argues that this starting point is wrong. The credit for founding political economy should go to Kautilya, the author of the Sanskrit book *Arthashastra*, which tradition places in the Mauryan court of the late fourth century BCE. The article builds on the work of the economist Balbir Singh Sihag and on a close reading of the text itself. It gives five reasons. First, the *Arthashastra* clearly names *vartha*, the economy of farming, cattle rearing and trade, as a separate science. Second, its ideas on taxation match the basic principles of modern public finance. Third, its rules for markets and prices come close to the modern idea of producer surplus. Fourth, its methods for watching over officials show a good understanding of incentives and of the problem of hidden information, which economists studied formally only in the twentieth century. Fifth, it joins *artha* (wealth) with *dandaniti* (governance), and this is exactly what “political economy” means, although the phrase was first used only in 1615 by Antoine de Montchrestien. The article also answers the main objection, which is the dispute over when the *Arthashastra* was written. It argues that the case for Kautilya remains strong even if the later dates are accepted. The article concludes that Kautilya deserves a place as a founder, not a footnote, in the global history of economic thought.

Keywords: Kautilya; *Arthashastra*; political economy; history of economic thought; Balbir Singh Sihag; taxation; public finance

1. Introduction: A Subject That Needs a Longer Memory

The history of economic thought is usually taught as a short story with a European beginning. It starts with the Physiocrats and the mercantilists of Britain and France. It then treats Adam Smith's *Wealth of Nations* (1776) as the real founding document of the subject. Earlier thinkers get only a small place. Aristotle is mentioned for his ideas on exchange and value, the medieval scholastics for the “just price”, and Ibn Khaldun for his views on taxes and trade. They appear as separate cases, not as part of one long tradition.

One tradition is almost completely missing from this story. This is the ancient Indian tradition of thinking about statecraft and material prosperity. Its best-known work is the *Arthashastra*, which is attributed to Kautilya (also called Chanakya or Vishnugupta). He was the minister who, according to tradition, helped Chandragupta Maurya to build the Mauryan Empire around 321 BCE.

This article argues that leaving out Kautilya is a mistake in the writing of history. It is not a fair judgement about the quality of his thought. Kautilya should be seen not just as an interesting early thinker but as a founder of political economy, in the same way that Smith is seen as the founder of the European tradition. The case rests on reading the *Arthashastra* on its own terms and on noticing what the text says about itself. No other ancient work, as far as we know, brings together a theory of taxes, rules for markets, careful design of administration and a named science of wealth tied to the science of governance. The sections below build the case step by step, answer the main objection, and conclude that Kautilya should be counted as a founder in the global history of economic thought.



Cover Page



2. Vartta as a Separate Science: The Basic Claim

The most important evidence for Kautilya's claim is also the easiest to miss, because the text states it so plainly. The Arthashastra begins by dividing knowledge into four branches. These are anvikshiki (philosophy and logic), trayi (the three Vedas), vartta (agriculture, cattle rearing and trade, that is, the material economy) and dandaniti (the science of governance and punishment). Vartta is treated as a real science. It stands beside the others and is not placed below them.

This is an important claim. It says that the study of production, exchange and people's livelihood deserves to be called an organised branch of knowledge, with its own principles, its own experts and its own right to the king's attention. European thinkers reached this view only in the eighteenth century, when political economy began to separate from moral philosophy in the writings of the Physiocrats and Adam Smith. On the traditional dating, that is about two thousand years after Kautilya.

Every science grows through moments when a body of practical knowledge is first given a name and recognised as a field of study. Kautilya's choice to name vartta as one of four sciences of statecraft is such a moment. He also insists that the king must learn this science and must depend on trained officials who know it, such as the samaharta (chief of revenue) and the sannidhata (chief of the treasury). It does not matter that this appears in a book on kingship and not in a separate book on economics. It reflects the idea of the Arthashastra that economics cut off from governance is a false and less useful idea. Section 6 returns to this point.

3. Fiscal Theory: How the Arthashastra Thinks About Taxes

If vartta shows Kautilya's priority in principle, his ideas on taxation show it in practical detail. The Arthashastra does not just list tax rates. It also tells us what makes a tax system good. Taxes should be easy for people to pay, simple to calculate, cheap for the state to collect, and fair to the taxpayer's ability to pay. These are close to what modern public finance calls the canons of a good tax system: administrative ease, fairness and economic efficiency.

The rates in the text follow these ideas. The usual land revenue is about one-sixth of the produce. This is a flat and simple levy, and it was fairly low for an ancient state. Merchants and artisans pay graded taxes according to their trade. The text also gives tax relief during famine, epidemic and war damage. It allows tax holidays of five years for land newly brought under irrigation. A text written more than a thousand years before any European example shows this kind of thinking, which is remarkable.

The tax holiday for new irrigation deserves special attention. It shows an understanding that taxes affect investment. If the state will gain in the long run from a private person's costs in the short run, the state should give relief for some time. This is how modern governments encourage investment in infrastructure even today. It is hard to explain such a rule except as real economic reasoning, which grew out of the practical needs of running a large farming empire and not out of any earlier theory.

4. Markets: Price Control and an Early Idea of Producer Surplus

Kautilya's view of markets goes beyond taxes. The text regulates prices, weights and measures, and the sharing of profit among producer, trader and state. Here the research of Balbir Singh Sihag has pointed to what may be the most striking example. According to Sihag, the Arthashastra describes a way of taxing market trade that works like an early form of what economists now call producer surplus. This is the gain a seller receives when the market price is higher than the lowest price at which he would have agreed to sell. The superintendent of trade, as Sihag reads the text, watches the gap between the price a producer would accept and the price the market gives, and the state levy is fixed with that gap in mind. It is not treated as one general tax on all market income. The concept was named and studied only by Alfred Marshall in the late nineteenth century. Harald Wiese, in his review of Sihag's book, accepts that this is an original and useful idea in the text, though he is more careful than Sihag about how much more can be claimed.



Cover Page



The rules for consumer protection also matter. The state fixes standard weights and measures under an official, and it punishes cheating, adulteration and false measures. So Kautilya did not see markets as machines that run well by themselves. He saw them as institutions that work properly only when the state keeps honest rules. This is closer to the institutional economics of the twentieth century than to the “leave it alone” reading that is sometimes wrongly given to Adam Smith himself.

5. Incentives and Hidden Information: Kautilya Before Mechanism Design

Another interesting part of Sihag's work is about how the Arthashastra deals with the problem of watching state officials. Tax collectors, treasury officers and heads of state enterprises have private interests. These may differ from the interest of the king, and the king cannot see everything they do. The text offers several solutions. Reports from different independent officials are checked against each other. Secret agents are used to verify the conduct of officials. Rewards and punishments are arranged so that honest reporting becomes the best choice for the official himself, and the king does not depend only on appeals to virtue.

This is close to what economists later called the problem of information asymmetry and incentive compatibility. In the twentieth century these ideas grew into mechanism design theory, for which Leonid Hurwicz, Eric Maskin and Roger Myerson shared the Nobel Prize in Economic Sciences in 2007.

We should be careful here. Kautilya did not have the mathematics of modern mechanism design, and this article does not say that he had. The claim is smaller but still important. Kautilya correctly saw the basic problem. A ruler who wants honest effort and honest reports from agents with different interests cannot depend on direct observation or on trust alone. He must design institutions, with competing sources of information and with consequences that match the right behaviour. Kautilya proposed practical institutional answers to this problem about two thousand years before economics began to study it formally. That diagnosis and those answers are themselves a real contribution to economic thought, whatever mathematical form later economists gave them.

6. Why “Political Economy”: The Unity of Artha and Dandaniti

It matters that this article defends the title “father of political economy” and not only “father of economics”. The difference shows what is special about Kautilya's work. Antoine de Montchrestien first used the term political economy in 1615, and the field has been revived and redefined many times since. At its core, it refuses to separate the creation of wealth from the use of state power. How a state taxes, regulates and organises economic life cannot be separated from how it governs, defends itself and follows its strategic interests.

This is exactly the basis of the Arthashastra. The text treats artha (material prosperity) and dandaniti (governance and coercive administration) as two sides of one science of rule. They are not two separate subjects that happen to be joined in one book. A full treasury is needed for military and diplomatic strength, and that strength is needed in turn to keep the treasury safe.

By this test, Kautilya has a stronger claim to have founded political economy than the figures normally credited in Europe. Montchrestien gave the phrase its name, but he worked inside a mercantilist framework that Adam Smith later spent much of *The Wealth of Nations* to take apart. Smith himself was a great original thinker on markets, the division of labour and value. But he wrote mainly as a moral philosopher interested in individual liberty and the unplanned benefits of free exchange. He treated the fiscal and strategic interests of the state as important but secondary. The Arthashastra is different. From its first page, it is built on the idea that wealth and power depend on each other and form one science. This idea gives political economy its own identity and its reason to exist as more than a branch of moral philosophy or of statecraft alone.



Table 1. Ideas in the Arthashastra and Their Modern Counterparts in Economics

What the Arthashastra says	Where in the text	Modern economic idea	When Western economics named it
Names vartta (farming, cattle rearing, trade) as a separate science	Book 1: the four sciences	Economics as a separate field of study	Late 18th century (Smith; Physiocrats)
Taxes should be easy to pay, easy to calculate, cheap to collect and fair	Book 2: duties of the treasurer and revenue officer	Canons of taxation in public finance	Late 18th–19th century (Smith; later public finance)
Five-year tax holiday for newly irrigated land	Book 2: revenue and farming administration	Investment incentives; tax relief by design	20th century (modern public finance)
Watching the gap between the producer's lowest price and the market price	Book 2: superintendent of trade	Producer surplus	Late 19th century (Marshall)
Checking officials through separate, competing reports	Book 2 and Book 5: conduct and monitoring of officials	Incentive compatibility; hidden information	20th century (mechanism design; Hurwicz, Maskin, Myerson)
Joining artha (wealth) with dandaniti (governance)	Throughout; the basic idea of the text	Political economy (wealth and state power together)	1615 (Montchrestien first uses the term)

Note: the last column shows when Western economics named or studied the idea formally. It does not show when such practices first existed in any society. The matches in the table are Sihag's readings of the text, and some, such as the producer surplus idea, are debated by other scholars.

7. Priority in Time: Kautilya Before Xenophon and Long Before Smith

Take the traditional dating, which places the work at the Mauryan court. Indian tradition has read and handed down the Arthashastra in this way for nearly two thousand years, and Sihag and others who defend Kautilya's priority also use this dating. On this dating, the Arthashastra was written in the late fourth century BCE. It would then be older than Adam Smith's *Wealth of Nations* by about 2,100 years, older than Ibn Khaldun's *Muqaddimah* by about seventeen centuries, and older than Montchrestien's use of the term political economy by almost two thousand years.

Xenophon's *Oeconomicus* is often named as the source of the word “economics”. It was written in Greece at about the same time as Kautilya, in the fourth century BCE. But the two books differ in scope. Xenophon's dialogue is about managing a private household and farm. The Arthashastra is about the economic administration of a whole empire. It brings together taxation, trade rules, coinage, famine relief and the management of labour in one system.

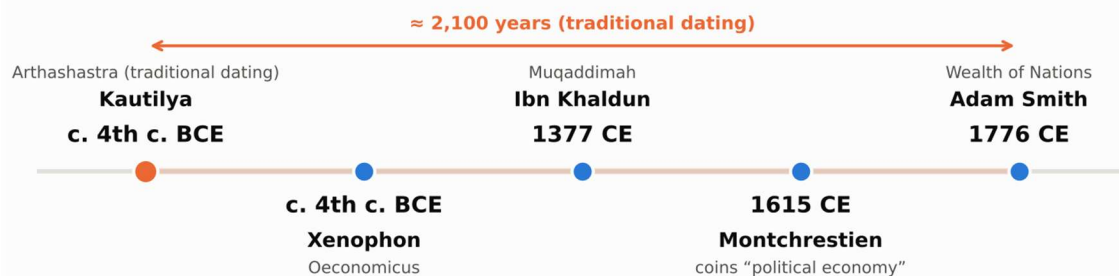
So Kautilya's claim does not depend only on being early. He is both early and the most complete. He shares his date at best with one Greek author of much narrower scope, and no other ancient author came close to his range and system for many



centuries. As far as we know, no other ancient work that has survived covers taxation, market rules, state enterprises and the design of incentives for officials so fully.

Kautilya's Chronological Priority Among Founders of Political-Economic Thought

On the traditional dating of the Arthashastra; Section 8 addresses the competing scholarly dating evidence



Source: author's synthesis; traditional Arthashastra dating per Kautilya tradition; other dates per standard secondary accounts of Xenophon, Ibn Khaldun, Montchrestien, and Smith (see References).

Figure 1. How early Kautilya comes among the main claimants to the title of founder in political economy, on the traditional dating of the Arthashastra.

8. Answering the Dating Objection

There is a serious objection to the case above, and honesty requires that we face it directly. Modern research on the Arthashastra has questioned the traditional dating. Thomas Trautmann (1971) studied the Sanskrit of the text statistically. Patrick Olivelle later proposed that the book was built in layers. According to this research, the Arthashastra was not written by one person at one time in the late fourth century BCE. It was put together, edited and expanded over several centuries, and the final form may belong to the second or third century CE. If this view is accepted in its strongest form, the gap between the Arthashastra and Adam Smith becomes smaller, and the claim of a two-thousand-year lead cannot be made in its most dramatic form.

Still, this objection is less damaging to the case of this article than it first appears. There are three reasons.

First, even the latest dating that scholars accept, which is Trautmann's date of about 250 CE, puts the text about fifteen centuries before Adam Smith and well over a thousand years before Ibn Khaldun. A very large lead remains even on the most cautious chronology. The dispute reduces the gap, but it does not come close to closing it.

Second, the layered theory itself, including Olivelle's account, says that the main administrative and economic material of the text, including much of its tax theory and market rules, draws on older sources and older administrative practice. This material may go back close to the Mauryan period. So the specific ideas on which this article relies need not belong only to the latest layer of the text.



Cover Page



Third, and most important, the argument in Sections 2 to 6 rests on the content and quality of the economic thinking, not on the name or date of the author. It does not matter whether a single minister of Chandragupta Maurya wrote the ideas in 300 BCE or a tradition of royal officials and scholars gathered them in the first three centuries CE. The thinking is of a depth, range and system that no other pre-modern work matched for a long time. Who should receive personal credit is a fair question for philology. But it does not reduce the case for treating the economic science of the Arthashastra as foundational.

9. Present-Day Relevance: A Living Tradition

The continuing use of Kautilya's ideas in present-day policy debates adds some support to the case, though it does not prove it. In India, writers and policy commentators now often refer to Kautilyan ideas on careful finance, self-reliance in key sectors and the link between economic strength and national security. These ideas are linked with schemes such as Atmanirbhar Bharat (self-reliant India) and the Viksit Bharat (developed India) 2047 vision. Some commentators also link Kautilya's tax principles with present debates on tariffs and trade strategy.

Such references should not be mistaken for scholarly proof of the historical claim. That claim depends on the textual and philological evidence discussed above, and not on how politicians or commentators use the text today. They do show, however, that the economic and strategic thinking of the Arthashastra is still useful for argument after more than two thousand years. It is not a text of only antiquarian interest. This is a small but real sign of the lasting strength of the framework that Kautilya built.

10. Conclusion: A Founder, Not a Footnote

This article has built its case step by step. The Arthashastra names vartta as a separate science of wealth. Its principles of taxation match modern ideas of efficiency, fairness and ease of administration. Its treatment of market trade comes close to the idea of producer surplus. It deals with incentives and hidden information in the monitoring of officials, even if in an informal way. And it joins material prosperity with the science of governance, which makes it political economy in the fullest and original sense of the term. Taken together, these points are hard to reconcile with the fact that the Arthashastra is almost completely absent from the standard history of economic thought.

Fairness requires one more point. As Section 8 showed, the exact size of Kautilya's lead in time is still debated among scholars. It depends on unsettled questions about how the Arthashastra was composed, and this article has not tried to settle them by its own authority. Readers should weigh that dispute together with the case made here, and should not take the "two thousand years" figure as beyond question. Even so, on the most cautious scholarly dating, and however the dispute is finally resolved, the main case remains. The Arthashastra is the earliest surviving systematic book of political economy in the full meaning of the term, and it comes well ahead of the way European tradition understood its own beginnings in the eighteenth century.

Kautilya deserves recognition in the global history of economic thought. He should not be seen as an interesting regional forerunner of ideas that Europe later developed on its own. On the evidence gathered here, he was the founder of political economy.

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Cover Page



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