

Looking at the Ancient Indian Economy Through the Prism of Kautilya's Arthshastra

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Abstract

प्रजासुखेसुखंराज्ञः प्रजानांच हितेहितम ।
नात्मप्रप्रयंहितंराज्ञः प्रजानांतुप्रप्रयंहितम ॥

In the happiness of his subjects lies the king's happiness;
in their welfare his welfare. He shall not consider as good only
that which pleases him but treat as
beneficial to - him whatever pleases his
subjects.

Modern-day India promises a bright future because of her achievements in science and arts. Our history is replete with extraordinary scientific achievements. Literary works such as Ramayana and Mahabharata, as well as mathematical teachers such as Aryabhatta and Varāhamihira, used to predominate. Kautilya is another outstanding proponent of politics and economics in this manner, and his book not only offers a view of the society of the time but well as its philosophical underpinnings. This paper attempts to understand the concept through a modern economic approach.

Kautilya was a wise, learned, and secular personality. Progressive and original in thought, he birthed the Arthashastra, a manual for promoting Yogakshema, or the peaceful enjoyment of prosperity, for all people. He viewed the economy as a system of interconnected, organic elements. He carefully examined every element on a micro level while also keeping in mind the overall objective of fostering shared prosperity. He employed both the market's invisible hand and the direct hand (the people) to their advantage (principles, policies, and procedures).

The Arthashastra is primarily a text about governing the state. There are fifteen books in this collection. The first five are about internal management, the next eight are on ties with neighboring countries, and the final two are general observations about that time period.

The subject of our investigation, Artha, literally translated as "wealth," is one of the four supreme goals prescribed in Hindu tradition. Individual materialistic well-being is simply one component of it, as the Arthashastra demonstrates, and it has a much larger meaning. Kautilya's brilliance and vision are attested to in The Arthashastra, a remarkable all-inclusive treatise on statecraft.

The Arthashastra discusses various practices in market governance, economics, and trade to ensure the happiness and well-being of the subjects (happiness index). Most of Arthashastra's wisdom is still relevant in the current context and is being adopted directly or indirectly by modern governments.

In the Arthashastra, Kautilya envisioned a welfare state. He discusses a gender-inclusive approach to labour participation, import promotion through tax breaks and higher profit margins, the importance of the treasury in allowing the kingdom to thrive during calamities, an elaborate price mechanism, regulation of monopolies via restricted profit margins, and a tax system.

Keywords: Ramayana, Mahabharata, Varāakshema, Kautilya, invisible hand, happiness index, welfare state, gender inclusivity, price mechanism, wealth. words, the treasury was a means to social well-being and not an end in itself.

Literature Review

1. A Western Perspective on Kautilya's 'Arthashastra': Does it Provide a Basis for Economic Science?

This paper tries to explore and draw parallels between Western and Kautilyan economic thought and, in doing so, also elaborates upon the varied aspects of the ideal Kautilyan economy. This paper makes some interesting observations and comparisons, such as those between the *Arthashastra* and Adam Smith's *Wealth of Nations* and the Kautilyan economic thought and Mercantilism. It concludes that whilst Adam Smith's advocacy of a liberal market economy is different from the mixed economic system secured by the monarchy espoused by *Kautilya*, both had the same conception of what constitutes the wealth of a nation, which is 'wealth with welfare'. Both agreed that money alone does not constitute a nation's wealth and that the nation's resources had to be developed by investments and other means to add to wealth (which covers in its spectrum both material and non-material well-being in the Kautilyan economy). It concludes that while Kautilyan economic thought had some aspects of Mercantilist thought, it was merely a mechanism to ensure the well-being of all the subjects of the state. In other

2. The Arthashastra of Kautilya and contemporary economics—the missing connection

The author of this paper attempts to relate aspects of contemporary economic theories to those found in the Kautilyan economy. He finds evidence that the Kautilyan economic theory supports the existence of rational behaviour, self-interest motivation, and market elements of a traditional commercial society, and he acknowledges Kautilya as the first political economist. Additionally, it contrasts the Keynesian theory and discusses how Keynes and Kautilya both emphasised that, despite the markets' crucial role in the economy, the state was still required to assure economic growth.

Objectives of the paper

The main goal of this paper is to learn about the ancient Indian economy through Kautilya's work and to understand the nature of India's economy at the time. The purpose of this paper is to answer the question of how relevant Kautilya's economic principles are in modern economics. Through his work, we'd like to learn more about Yogakshema, or peaceful prosperity. Although there is a wealth of information available on *Arthashastra*, few

works establish a link between modern and ancient economies. Our goal with this paper is to attempt to do the same.

Research questions

The purpose of this paper is to provide answers to the following questions:

1. What were the economic principles of *Kautilya*?
2. Why is the ancient Indian economy referred to as a welfare state?
3. How relevant are *Kautilya's* principles in today's economy?
4. What was the state of the Indian economy during the ancient period (particularly during the Mauryan empire)?
5. What distinguishes *Kautilya's* ethics-based economics from modern self-interest-based economics?

Methodology

Qualitative Research Methodology: The paper is a review of the Arthashastra, which is both descriptive and critical in nature.

Introduction

The Arthashastra is the first systematic text on political economy, and its literal translation is "The Science of Wealth." It aims to present principles and practices for generating and enhancing a country's riches. In order to demonstrate the true roots and growth of economic thought, the development of economics as a discipline must take into

consideration the economic concepts and ideas offered in the book. We can only fully grasp current methodological and conceptual challenges by first knowing previous methodological issues. His theory of economic growth is among *Kautilya's* most notable contributions. The King was crucial in fostering economic growth on both the micro and macro levels.

Results

1. Macroeconomic Kautilyan Theory

At the macroeconomic level, *Kautilya* mentions fiscal policy, economic growth, subsidies, and the treasury.

Economic Growth

Kautilya claims that economic growth is a complex phenomenon that results in more economic activity, with productivity acting as the primary driver. His text contains several examples that demonstrate how well-versed he was in the dynamics of economic progress. He states at the beginning of his theory:

'A king shall augment his power by promoting the welfare of his people; for power comes from the countryside which is the source of all economic activity: He shall build waterworks since reservoirs make water continuously available for agriculture; trade routes since they are useful for sending and receiving clandestine agents and war materials; and mines for they are a source of war materials; productive forests, elephant forest and animal herds provide various useful products and animals. He shall protect agriculture from being harassed by fines, taxes, and demands for labor'

In the context of economic growth, he also discusses the role of the state in promoting economic growth; mentions agriculture, fisheries, and mining as primary sources of wealth; talks about state-controlled prostitution; and also mentions what we now call aggregate demand and supply and efficiency wage theories.

Another important aspect of *Kautilya's* theory is the concept of diverse and sustainable economic growth. Only a diverse economy can ensure steady and prosperous economic growth. Private property and self-interest were important in promoting personal well-being and, consequently, state development. According to *Kautilya*, all subjects within the kingdom, from the King to the slave, were equally important for wealth creation. State and government officials' primary responsibility was to protect and uphold the invisible hand by encouraging material production and economic activities. Any government official who failed to do so was severely punished—for unfairly taxing farmers, allowing merchants to set unfair prices, and encouraging market monopoly behavior.

This is what Kautilya writes:

'In the happiness of his subjects lies his happiness; in their welfare his welfare. He shall not consider as good only that which pleases him but treat as beneficial to him whatever pleases his subjects.'

This statement implies that the *Arthashastra* represents a synthesis of the "invisible and visible hand" systems, with the King (representing the State) being in charge of resource allocation (the visible hand) and listening to his subjects' needs and motives (the invisible hand).

Fiscal Policy

Within the 'Treasury', fiscal policy and, in particular, treasury operations were well organized (*Arthakosh*). Budget accounts and budget policy were also carefully specified and planned. They were, in some ways, more detailed than modern states' existing budget policies. Despite the fact that the number and level of accounts are clearly defined and described under budget accounts, there is no concept of a national account in Kautilya's writings.

The credit side of the account, or the budget revenue sources, included revenues from:

1. Income from Crown property
 1. Crown agricultural lands (production and lease)
 2. Mining and metallurgy
 3. Animal husbandry
 4. Irrigation works
 5. Forests
2. Income from State-controlled activities
 1. Manufacturing industry – textiles
 2. Manufacturing/leisure industry (liquors)
 3. Leisure activities (courtesans, prostitutes, and entertainers)
 4. Betting and gambling
3. Taxes – in cash and kind
 1. Custom duty
 2. Transaction tax
 3. Share of production
 4. Tax in cash
 5. Taxes in kind
 6. Countervailing duties or taxes

7. Road toll
8. Monopoly tax
9. Royalty
10. Taxes paid in kind by villages
11. Army maintenance tax
12. Surcharges

4. Trade

1. State trading
2. Compensation payments
3. Excess value realization

5. Fees and service charges

6. Miscellaneous

7. Fines

The budget's debit, or expenditure side, was also carefully crafted.

Monetary Policy

Money circulation in the Empire served two functions: wealth accumulation as a form of 'oil' for trade and monetary sovereignty assertion. The Empire adopted a single currency (silver and copper coins known as *pannas*) to ensure the State's monetary sovereignty. The threat of inflation was mitigated by stringent measures related to money in circulation.

Price stability was important to *Kautilya*, the Mauryan Empire's chief economic policy architect, as was the relationship between the money supply and price stability (or inflation). State officials were obligated to control inflation and price stability while controlling money because, according to him, mixing genuine coins with counterfeit ones would result in the

depletion of the government's treasury. As a result, the stock of coins in circulation in the Empire would outgrow the stock of goods held by the government in commodity warehouses and granaries (treasury).

Trade Policy

Import and export policies were both subject to a stringent trade control system. Merchants were important for trade. According to *Kautilya*, price distortions caused by high-profit margins or other speculative behavior should be strictly controlled (money fines and taxes). *Kautilya* was unconcerned about the balance of payments.

Peculiar policy: Promotion of imports (globalization). Imports were geared toward generating wealth. Commodities that were not produced domestically or were only available at high prices

(due to high production costs) were imported by incentivizing importers by the virtue of price subsidies as well as spot and future mechanisms. Only strategic and intrinsically valuable commodities could be imported. Useless goods that did not promote wealth creation were prohibited. Imports also served as a market protection measure. During market shortages, merchants were encouraged (via price subsidies and preferential customs duties) to import more goods in order to build a buffer stock. Higher-than-market prices were awarded to attract more goods into the country.

Following the creation of the buffer stock, excess supply on the market was sold at a lower price in order to re-establish price equilibrium. A comparative advantage system was used to

advance exports to profitable regions and areas while avoiding unprofitable areas. Exporting commodities to potential future allies or strategic trade partners was an exception. To facilitate and protect trade activities, a comprehensive system of trade tariffs, import rates, trade duties, price subsidies, and trade control was established.

Tax Structure:

The tax system ought to be fair and just (referred to as *sulka*). *Kautilya* believed that the tax shouldn't be higher than 16–20%. Exception: Articles of conspicuous consumption (up to 50% tax). In an emergency, taxes served as a means of paying the budget deficit. It resembled the progressive tax system in use today.

Subsidies

Subsidies in the form of grants were to be provided to those who constructed reservoirs and other public facilities.

Reserves/Surplus/Deficit

The treasury has been identified as an important component of the state, and *Kautilya* has advised that it be large enough to allow the kingdom, i.e., the population, to thrive in times of calamity or low income.

Wage and Labor Markets

Productivity, according to *Kautilya*, was an important source of economic growth. According to his theory, productivity is determined by the level of division of labor,

wages, incentives, and inequality. The Kautilyan economy operated in accordance with efficient wage theories, with the state being forced to pay wages higher than the average market wage in order to increase productivity and future revenue of the state.

Measures were taken to restore equilibrium when MPL (marginal productivity of labor) and real wages were out of sync. Wages were pushed down to the level of productivity wage equilibrium. Wages were paid to workers in accordance with the division of labor and specialisation theories, as evidenced by the following quote:

'Spinning shall be carried out by women and weaving should be carried out by men (ropes, protective wear straps, and similar articles shall be made by specialists in their manufacture). The Chief Commissioner shall come beforehand to an agreement with artisans regarding the amount of weaving required to be done in a given period, and regarding corresponding wages needed to be paid. Incentives shall be given to weavers of special types of fabrics, such as those made from silk, fine yarn, wool from deer, etc.'

2. Microeconomic Kautilyan Theory

Market System/Pricing Mechanism

Kautilya's perspective on the price mechanism was similar to that of the classical school of economics (the theory of invisible hands). Under the watchful eye of state intervention, supply, and demand forces were active in the market. Looking at *Kautilya's* market system, we can say with certainty that the market had a high level of state interventionism. The government followed a fixed profit margin rather than a fixed price policy.

Market Economy

Kautilya attempted to establish a moral market economy. He has spoken extensively about consumer rights and consumer protection. Punishments were established to protect consumers. Locally produced and imported goods were to be sold for the public's benefit.

In the event of an excess supply of a commodity, a buffer stock was to be created by paying a price greater than the current market price (by the government). When the market price reached the support level, the buying price was to be adjusted in accordance with the circumstances. In the event of an economic glut, commodity sales were to be canalized (via state-controlled outlets), and merchants were to sell only from accumulated stock until it was exhausted, on a daily wage basis (no profit margin for them). Unaccounted-for surplus stocks in merchants' hands were to be sold for the benefit of the public. Even a large profit was to be foregone if it was likely to cause public harm.

There was to be no artificial scarcity created by the accumulation of commodities that were always in demand; they were to be available at all times (essential commodities) and not subject to restrictions on when they could be sold.

Market failure and governmental failure, in *Kautilya's* opinion, were identical twins with a shared stomach. Market failure could not occur in the absence of government failure, and government failure could not occur in the absence of moral failure and poor organizational design. *Kautilya* believed that the forces of a privately guided market were an interest in and of themselves and that the invisible hand, in turn, could not look after the public interests. As a result, government intervention was required

to correct the market's negative public externalities. The price mechanism in the Empire was to be set by supply and demand forces rather than the government. If something went wrong, the government was there to control and correct it.

Kautilya's economy was a typical mixed economy built on five market economy pillars:

1. Private ownership and property rights
2. Price system
3. Entrepreneurship
4. Competition
5. Moral-hazard problem.

Interest rates and profit margins

$i=f(\text{risk, uncertainty, mpl, purpose of loan})$

A positive relation between risk, uncertainty, and interest interest on loans was supported by *Kautilya* but should be regulated by the state. Students were exempt from paying interest. The profit theory is similar to Knight's profit theory, which states that profit is the reward for uncertainty.

3. Welfare Economics

Scholars working on *Kautilya's* writings frequently refer to the Mauryan Empire's economy as a "socialized monarchy" or "state socialism," while others refer to it as a regular welfare state.

The *Arthashastra* demonstrates to historians and economists that a welfare policy mechanism

existed in the ancient Mauryan empire. The duties of the state have been emphasized as being a guardian of the public's welfare, thus advancing their economic well-being and preserving

Dharma. (Affiliation to the welfare state) *Kautilya's* goal was to maximize the happiness of the state's constituent elements by increasing their material and non-material well-being.

Since the economy has to function in harmony with *Dharma*, we have enough evidence to prove this statement:

- a) **Empowerment of women:** Despite the fact that women were assigned a subservient role in the *Arthashastra* according to the standards of the time period in question, they were still guaranteed rights and protection from maltreatment and injustice.

Two of the many safeguards/rules that *Kautilya* enlists for the same are as follows:

1. Wives and widows whose husbands had gone on long journeys were allowed to remarry.
2. Wives may leave their husbands' homes if they are mistreated.

- b) **Women's Employment:** Women were active participants in the *Kautilyan* economy, contributing to the labor force as agriculturists, actors, alcohol industry workers, noble attendants, and state spies. *Kautilya* took steps to further

promote their employment and thus boost the economy's growth, one example being the decision to reserve spinning, a sector of employment for women, particularly those with no other options (widows, old women, crippled women, etc.).

- c) **Employment Schemes/Opportunities:**

Kautilya suggests that the King or government can increase their power by promoting the welfare of the people through the construction of forts, trade routes, and other structures that serve the dual purpose of a) employment and b) augmenting existing economic processes. It was the responsibility of the government to protect productive capital while also increasing it by investing in new capital such as new mines, factories, and so on.

- d) ***Kautilya* had argued for regulations for the protection of elders, and the welfare of animals, widows, and children.**

'Protection of the weak: He should therefore investigate the affairs of temple deities, hermitages, heretics, Brahmins versed in the Vedas, cattle, holy places, minors, the elderly, the sick, the defenseless, and women, in that order, or according to the seriousness or urgency of the issue. Child and elderly, social protection: The King should maintain children, aged persons, and persons in distress when these are helpless, as also the woman who has borne no child and the sons of one who has (when these are helpless). The

state supports and benefits: Brahmins, wandering monks, children, old persons, sick persons, carriers of royal edicts and pregnant women should cross with a sealed pass from the Controller of shipping (free of charge).

Equality before the law: The judges themselves shall look into the affairs of gods, Brahmins, ascetics, women, minors, old persons, and sick persons, who are helpless when these do not approach (the court), and they shall not dismiss (their suits) under the pretext of place, time or (adverse) possessions. Protection and privileges in the labor market: Superintendent of Yarns should get yarn spun out of wool, bark-fibers, cotton, silk-cotton, hemp, and flax, through widows, crippled women, maidens, women who have left their homes and women paying off their fine by personal labor, through mothers of courtesans, through old female slaves of trekking and through female slaves of temples whose service of the gods has ceased.

Elderly to child protection: The elders of the village should augment the property of a minor till he comes of age, also the property of a temple. Finally, If a person with means does not maintain his children and wife, his father and mother, his brothers who have not come of age, and his unmarried and widows sisters, a fine of twelve panas (shall be imposed) except when these have become outcasts, except the mother.

Social security and well-being were both private and public concerns. The head of the household owed it to the members of the household to look after them and ensure their well-being. The State, on the other hand, was responsible for providing job support and

assistance to the head of the household so that he could care for his family.'

- e) Like Adam Smith, Kautilya emphasizes qualitative and quantitative measures to enhance productivity.

'The root of wealth is (economic) activity and lack of it (brings) material distress. In the absence of (fruitful economic) activity, both current prosperity and future growth will be destroyed. A king can achieve the desired objectives and abundance of riches by undertaking the (productive) economic activity.'

- f) Kautilya mentions some principles of fair trading like the creation of buffer stock to ensure fair prices; prohibition of artificial scarcity, limiting profit margins, etc.

Peculiar: Education and health care were not state concerns, but rather matters of private concern. This is clear from the government's organizational structure, which has no departments and Chief State Officers in charge of education and health administration.

4. Modern Relevance

The treatise includes studies of numerous significant economic and political issues as well as the Kautilya's various perspectives that are still relevant today. The following are some key prescriptions of the *Arthashastra* that are still applicable in the current Indian scenario.

- The budget policy procedure for a fiscal year that includes all departments (entities) and that report responsibilities are elaborated under the Chancellor's

supervision, is in no way inferior to the procedure used in today's economies around the world.

- Like Ricardo and other modern western economists, Kautilya believed strongly in international trade.
- Kautilya's perspective on the price mechanism was similar to that of the classical school of economics (the theory of invisible hands). Under the watchful eye of state intervention, supply, and demand forces were active in the market. When we compare the current market system to the one that existed during *Kautilya's* time, we come down to a single critical point: what degree of governance do we need? Looking at *Kautilya's* market system, we can say with certainty that it had a high level of state interventionism. The government followed a fixed profit margin policy rather than a fixed price policy.
- *Kautilya* underlined the importance of paying close attention to afforestation in the realm of forestry. To improve the nation's forest reserve, he advised the development of monocultures of a few desirable tree species. Protection of both established and young woods was given top priority. Anyone caught starting a fire in the elephant and wood forest would be thrown into the flames. He offered advice on how to maintain recreational woodlands properly. The responsibility of the Superintendent of the Forest was to actively engage forest residents in promoting forest resources. These guidelines from the *Arthashastra* are unquestionably still applicable today.
- *Kautilya* believed that the standard rate of interest should be set at 15% per annum. A deterrent penalty was administered for charging excessive interest. Additionally, he advised against the excessive use of standard balances, weights, and measurements. It was not allowed to sell products where they were being produced. A regularisation of product promotion was attempted. For the purpose of promoting trade and business, proper transportation facilities were established. In order to quicken the pace of economic development, the *Arthashastra* focused on offering accessible loans and marketing tools. Such authors' recommendations are still applicable in the current Indian and international economic systems.
- According to the *Arthashastra*, army personnel, and other government employees' dependents should receive support. Additionally, both male and female subjects who were old and disabled would receive maintenance. The subjects received every piece of aid available throughout the famine. Such social security policies are still relevant today.
- In order to achieve expansion and stability in farming, *Kautilya* advised providing the greatest amount of irrigation capacity. In the area of agricultural output, he also advocated the establishment of a regularised marketing system. The selling of agricultural products was to be conducted using uniform weights and measurements. These recommendations are still applicable in the modern era.

- The *Arthashastra* outlines a practical espionage method. The Institute of espionage oversaw the surveillance of peasants and officials under the king. Additionally, a certain group of spies was given the task of spying on the activities of different spies of different grades. Even in the modern era, maintaining an efficient espionage apparatus is important.

Some philosophical approaches, however, have no place in the modern world. For instance, The *Arthashastra* outlined the necessity of maintaining a powerful army to protect the nation from the invasion of hostile kings, to uphold national peace, and to prey upon underdeveloped and poorly run sovereign kingdoms. The idea of occupying weak and poorly run sovereign states no longer has weight in the modern world.

The King had the unrestricted authority to reign. The monarch and his *Darbar* received services from the highest caliber of prostitutes (Court). The monarch and his courtiers drank wine without hesitation. Slaves worked for their owners. The *Varna* (Caste) system received top priority. Government agencies adopted discriminatory laws. *Brahmanas* were given exceptional privileges. *Sudras* and *Vaishyas* worked in agriculture, but they were disarmed. A different group of individuals was employed for the purpose of crop protection. Religious discussions were required as a prelude to key activities, and villagers were typically not permitted to engage in communal entertainment. These approaches are obsolete in a contemporary economy.

The subsistence allowance/salary for the various cadres of the King's slaves varied greatly. The

commander (chief), minister (Prime), and a select few others received 48000 panas annually, while menials (the lowest cadre) received 60 panas as well as some money in kind. In contrast to a servant

in the lowest cadre, a King's servant in the top cadre received a very high wage. The system had significant disparities, hence it is no longer relevant in the present era.

It is important to note that since the *Arthashastra* was written roughly 23 centuries ago, there has been a significant change in the fundamentals of the economy. Infrastructure changes are laying the groundwork for quick development. In order to achieve the green, white, and blue revolution across the nation, Indians are increasingly embracing the most modern production processes. Industrial production is advancing at a new pace. Our large-scale industries are utilizing the most recent computerized technology. As a result, the key characteristics of the Indian economy today have completely changed from the time the *Arthashastra* was penned. It follows that it is only inevitable that many *Arthashastra* prescriptions have lost some of their relevance.

Conclusion

The arguments presented in this paper leave no doubt that the *Arthashastra* conceals significant contemporary relevance for modern economic theory.

Kautilya's economic thought is unquestionably a watershed moment in the advancement of economic science in the fields of labor economics, growth theory, international

economics, marketing, public policy management, fiscal and monetary policy, welfare economics, and so on. We can see from his writings that his doctrines were founded on historical facts and hypotheses, which served as the foundation for pre-classical economic schools. He can be considered the first preclassical economist. His doctrines are the result of his analytical and synthetic work, inspired by the mighty Mauryan Empire's economic realities.

Kautilya's contribution to economics is commendable, as we can learn not only about the methodological problems of the time, the scope of their inquiry, and the reality of their assumptions, but also about the methodological, epistemological, and practical problems of modern economics by studying *Arthashastra*. Finally, we can say with certainty that the *Arthashastra* is an important systematic study of the time's political economy. Economic concepts and variables identified in the Kautilyan model leave no doubt that these are the same standard exogenous and endogenous variables that comprise any modern economic model.

Acknowledgement

We would like to thank Hans Shodh Sudha for providing us with this opportunity. We would also like to thank our Principal, Dr Rama, and the Department of Economics, Hansraj College, for supporting us in our endeavour.

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