

ORIGIN OF THE SCIENCE OF ECONOMICS

A QUEST

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INTRODUCTION

It is generally maintained that the systematic study of economics started from 1176 with the publication of the famous work, “An Enquiry into the Nature and Causes of the Wealth of Nations” by Adam Smith who has been universally hailed as the founding father of Economics. But the fact remains that “Adam Smith is a mystery in a puzzle wrapped in an enigma. The mystery is the enormous and unprecedented gap between Smith’s exalted reputation and the reality of his dubious contribution to economic thought” (Rothbard, 1995, p.435). In the opinion of Rothbard, who is internationally recognized as the leader of the Austrian School of Economics in the United States, Adam Smith was scarcely the founder of economic science. The science of economics existed much before him. This may be traced back to the period of medieval scholastics and, in its modern form, since Cantillon. He also argued that Adam Smith “originated nothing that was true, and that whatever he originated was wrong, ... Adam Smith was a shameless plagiarist, acknowledging little or nothing and stealing large chunks, for example, from Cantillon. Far worse was Smith’s complete failure to cite or acknowledge his beloved mentor Francis Hutcheson, from whom he derived most of his ideas as well as the organisation of his economic and moral philosophy lectures” (Rothbard, 1995, p.435).

ECONOMIC IDEAS DURING SIXTEENTH TO EIGHTEENTH CENTURY

Prior to Adam Smith many economic concepts and theories developed during the period from early 16th century to the middle of the 18th century. To mention a few, reference may be made here to two major schools of thought, popularly known as Mercantilism and Physiocracy and special mention may be made of Richard Cantillon who is the most fascinating character in the history of economic thought. According to

W. Stanley Jevons, the book of Cantillon entitled, “*Essai sur la nature du commerce*” published in the year 1755, is the ‘first treatise on economics’. Charles Gide referred this work of Cantillon as the first systematic treatment of political economy. Rothbard stated Cantillon to be the first person to engage himself in the sophisticated modern analysis of market pricing. According to Cantillon, demand interacts with the existing stock to form the prices. To him it is the demand not the cost of production which determines price. Cantillon’s remarkable contribution to economic thought is that he was “the first to stress and analyse the entrepreneur” (Rothbard, p.351). He also propounded a (long run) theory of wages and gave views on the growth of population, money and many other economic concepts.

ECONOMIC IDEAS IN BUDDHIST LITERATURE

Some of the economic concepts and ideas also find place in the Buddhist literature during the period from 5th to 6th century B.C. Among these the *economic enterprise* and *price and taxation* are the main issues discussed in this literature. There has been reference to some general principles of right conduct on the part of all the householders. The householder who succeeds in acquiring wealth by lawful and honourable means and through his own energy and effort, who does not run into debt and retains ownership of his property, which enjoys both material wellbeing and independence, and who uses his wealth to perform good deeds is commended by Buddha (Dasgupta, 1993). Some specific economic activities such as sale of meat, living creatures, wine, poison, arms and armaments were however forbidden. As far as the analysis of the problem of price formation is concerned there has been no attempt in this literature on a systematic basis. However, there are a large number of references in the literature as to how prices of goods are determined. In this connection it may be mentioned that the first price offered by the buyers is rejected by sellers as being too low. The buyers then gradually raise their bid till a point of agreement is reached where demand price equals that of the supply price. This bears similarity to modern analysis of price determination by interaction between buyers and sellers in a competitive market situation. Regarding the concept of optimal rate of taxation there are some scattered remarks. Buddha believed that taxes should be as low as possible and never be higher

than one sixth of gross production. The argument was that low taxes stimulate production while high taxes encourage corruption among the tax collectors. This anticipates the modern textbook version of taxable capacity and principles of optimal taxation.

ECONOMIC IDEAS IN SANSKRIT LITERATURE

Sanskrit literature reveals that the study of economics existed even much before Buddha. Some economic concepts and theories were found to be discussed at length by Kautilya in his famous work, *Arthashastra*. In the words of Shama Shastri, “From Indian epigraphical researches it is known beyond doubt that Chandragupta was made king in 321 B.C. and that Ashokavardhana ascended the throne in 296 B.C. It follows therefore that Kautilya lived and wrote his famous work, the *Arthashastra*, some where between 321 and 300 B.C. (Shama Shastri, 1988). R.G. Bhandarkar viewed that *Arthashastra* was composed probably during 2nd century A.D. whose author is popularly known as Chanakya on account of his having been a native of Canaka region in Punjab (N.P Unni). In the authoritative judgment of Ganapati Sastri, the author of *Arthashastra* was as Kautilya because he was of Kutila Gotra and since he was born as Chanaka he was called Chanakya and his parents baptized him as Vishnugupta (Rao, 1979).

However, the very existence of Kautilya and his famous work *Arthashastra* became a point of controversy among the western scholars. Winternitz Jolly Keith criticized tooth and nail and branded his (Kautilya) name as a symbol of political strategy and treachery. Jolly even went to the extent of asserting that *Arthashastra* is a piece of literary forgery and it must be the work of a *Pundit* given to pedantic classifications and definition rather than that of a practical statesman of the stature of Chandragupta’s Minister (Unni, p.8). But these views of western scholars were contradicted by T. Ganapati Shastri by giving enough explanation. Besides, there are numerous references to Kautilya and his work in Jain, Buddhist and Brahmanical literature. Thus, there is ample evidence to establish the authenticity of the author and his treatise. Some of the important economic concepts and theories of Kautilya are presented in the following paragraphs to emphasize the importance Sanskrit literature in the study of evolution of economics:

REVENUE CLASSIFICATION

Kautalya has given reference to a number of sources of revenues of the kingdom. What strikes most and corresponds to the modern system of classification of revenues and an original contribution of Kautalya to the study of public finance is his conception of tax and non-tax revenues. As far as tax revenue is concerned, he has mentioned two different sources, namely tax under the heads of forts and tax collected from country parts. Fort tax includes tax collected at the gates, tolls, fines, seals, passports, liquor and tax on slaughter of animals; taxes on artisans, prostitutes etc. Tax under country parts includes tax on agricultural produce, religion tax and tax imposed on merchants and the superintendents of rivers, ferries, boats, ships, pasture, grounds, towns, etc. The non-tax revenue constitutes the revenue collected from different mines extracting gold, silver, and diamond, pearl, etc. and it also includes revenue from wet fields, forests and that from herds like cows, buffaloes, horses and others.

THEORY OF TAXATION

Kautalya in his so-called Contract Theory of Taxation maintains that the main objective of collection of tax and non-tax revenues is to protect subjects from foreign aggression and to maintain law and order in the kingdom. It is significant to mention that a tax did not mean the same thing at the time of Kautalya as it means today. At present, tax is treated as a compulsory contribution by the people independent of any direct return or service to them from the State. According to Kautalya, there was a contract between the tax payers and the king for the payment of taxes. This contract relationship as stated by Rao was consistent with the *Aryan Dharmic* tradition which was a unique and distinctive feature of Indian public finance (Rao, p.133). The contract relationship was so vital and sacred that the tax payer was entitled to claim refund of taxes in cases of even partial failure of protection. In the opinion of Rao the theory of taxation as propounded by Kautalya was more like the modern theory of prices. The argument was that the taxes were imposed like the prices charged by public authority for rendering specific services and supplying goods.

The analysis to the theory of taxation of Kautalya and its interpretation by different scholars seems to be misleading. The theory can neither be called as contract theory of taxation nor does it have any resemblance with the modern theory of prices. It

would be improper to call an arrangement of payment of taxes as contract. It is inconceivable to think of a contract between subjects and a king who is an autocrat and not a democrat by tradition. Again the modern theory of prices based on the principle of exclusion cannot be compared with the theory of taxation given by Kautilya. This is because the objective of taxation during the period of Kautilya was to provide pure social goods in the form of protection from external aggression and maintenance of internal law and order. Since these are all pure social goods exclusion principle does not apply and, thus, can be consumed equally by all; and no one can be prevented from enjoyment of these goods whether one pays or not. However, the taxation theory could have been compared with that of the price theory had the objective of tax collection been to provide impure social goods such as Public Park where exclusion principle applied with the introduction of an entry fee.

The theory of taxation propounded by Kautilya, however, stood the test of modern criticism in so far as it satisfied the canons of taxation. The tax was certain and not arbitrary as far as time, manner and amount of payment was concerned. The land revenue was fixed at one-sixth share of the produce; duties on exports and imports were fixed on ad valorem basis. The general rate of import duty was fixed at 20 percent. Transit duties such as road cess and ferry charges were fixed and discrimination was shown only in cases of goods borne in the list. There was absolute certainty with regard to amount of taxes on trades and professions; and all tolls were determined after careful consideration. All arbitrary exactions were condemned. As a matter of principle taxes were not realized in a painful manner.

The most significant aspect of his theory of taxation was that it was based on the principle of equity and justice. The tax payers were required to pay in proportion to their respective abilities. Ferry charges, tolls, head charges on goods carried by men or animals conformed to the canons of equity and remission and exemptions as measure of relief in times of distress recognized the principle of justice. Learned Brahmins, women, minors, and students, diseased persons, dumb and blind were exempted from taxation. In some cases like land revenue and water rates, canons of benefit was the prime consideration for fixation of taxes. Thus, benefit theory of taxation was very much inherent in his analysis.

Kautalya also devoted a few sections of his work on war taxation. He introduced an element of arbitrariness into his financial system during the period of emergency like war, famine etc. During crisis he prescribed for increasing of land revenue from one-sixth to one-fourth. He was in the opinion of demanding grain, vegetable, fruit, fish etc in large quantities and the goldsmith, prostitutes, merchants and traders were expected to pay a heavy toll during these periods. This means that Kautalya wanted to have a built-in-flexibility in the fiscal system resembling the modern theory of anti-cyclical and anti-inflationary tax policy.

LAND DISTRIBUTION POLICY

Kautalya suggested a clear-cut policy of land distribution. He was of the view of granting *Brahmadeya* lands to priests, spiritual guides and those who learned Vedas and/or performed sacrifices for their livelihood. *Brahmadeya* lands were exempted from land revenues. He made provisions for distributing land to Superintendents, Accountants, Veterinary Surgeons, Physicians, Messengers etc on the condition that those people would have no right to alienate land. They could neither sell nor mortgage the lands allotted to them. These land grants seem to have assumed the nature of perquisites extended to the officers and employees of the State. The people who wanted to cultivate land and were ready to pay tax were given prepared lands. Others who were ready to prepare lands themselves for cultivation were also not prevented from doing so. The most remarkable point to note is that he was in favour of confiscating lands from those who possessed land and did not cultivate themselves but leased out. This sounds very modern as it prevented absentee landlordism. Besides, the regular tax paying cultivators were encouraged by supplying them with money, seeds and cattle services (S. Shastri, p.46).

CONCLUSION

Available literature and their analysis reveal that evolution of economic concepts and theories started much before Adam Smith. Economic ideas of Kautalya during 321 to 300 B.C. are one of the oldest in the history of economic literature. The analysis also reveals that his ideas centered on the study of public finance and public policy including the policy of land distribution as a part of macroeconomic study. Probably the analysis of microeconomic problems did not find place in his writings due to the prevailing

economic situation when role of market was quite limited owing to the wide prevalence of the barter system and poor transport and communication. Moreover, overwhelming importance given to the State power in preference to individual interests and interactions also prevented microeconomic analysis in the days of Kautilya.

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