



Tax Administration of Kautilya and Adam Smith

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Abstract: *Rahn, Wagner and P-W theories are related to the government's tax administration and public welfare. An increase in GDP is positively related to public expenditure and enhancing the welfare of the nation. Adam Smith and Kautilya have also contributed to this field. A state should impose a tax to generate revenue for state protection and public welfare. The present study deals with it.*

Key words: *Kautilya, Adam Smith, Tax administration, Economic Growth,*

Introduction:

It is the government that imposes taxes and collects revenue from various sources. These revenue are spent on both development and development Heads of the state. There is a two ways inter-action between the government and public. Public pay taxes and government spends it for state protection and public welfare. In this regards, both Kautilya and Adam Smith, have their own views. The present study deals with it.

Need of Study:

The ancient economic history has its own importance. There were various economic thinkers on the basis of which ideas King tried to rule the territories. Kautilya and Adam Smith are among these thinkers. One should know how these thoughts are still relevant.

Data Sources:

The present study is fully based on texts without data.

Theoretical Frameworks:

Richard W. Rahn, Wagner and Peacock –Wiseman theories may be associated with. There will be economic development when GDP increases but Rahn says that after certain points, the rise in the GDP becomes counterproductive. Wagner says that there is positive relationship between public expenditure and income of the country. There is a smooth economic growth. However, P-W theory says that there is no smooth growth in the economy. Adam Smith and Kautilya were in the view of imposing taxes of the public to run the state affairs.

Analysis and Discussion:

Both Kautilya and Adam Smith have their own economic views associated with economics of the government for the welfare of the public. It is the government responsible for collecting taxes or fees or penalties for generating revenue to be spent on direct or indirect benefits of the public. In this regard, Kautilya has an edge over thoughts of Adam Smith proving superiority of former over later.

Original thought: The ideas of economic growth, canon of taxation and undesirability of monopolies have been taken by Adam Smith from Kautilya' Arthashastra (Sihag, 2016). It shows that Kautilya's thought is original while Adam Smith's ideas is taken from former. That is why it has been rightly observed "Adam Smith's *The Wealth of Nations* does not contain anything that may qualify as original" (Sihag, 2016). It has been strengthened by the study of Barber(1967) in which it has been expressed that Adam Smith has collected the different

Table-1: Tax Administration of Adam Smith and Kautilya

s.no.	Issues	Adam Smith	Kautilya
1	Year	9 March 1776	350-275 BCE
2	Book	An Inquiry into the Nature and Causes of the Wealth of Nations	Arthashastra
3	Original thought (Sihag, 2016 and Barber, 1967)	Does not qualify as original	Qualify as original ideas
4	Scope of Economics (Sihag- 2016 and Drekeimer- 1962 and Spengler,-1971).	Narrow	Wide
5	Systemic Risk	Did not talk preventive measure to handle it	Talked about both preventive and remedial measures to handle it.
6	Role of Machine and Capital (Sihag, 2016)	Man creates less without machine and capital	Man creates nothing without machine and capital
7	Labour	Adding the value in the subject is labour	Start a work is labour that creates value of land
8	Economic Growth	Land, labour, capital and institutions are sources of economic growth when they create value.	Land, labour, capital and institutions are sources of economic growth when they create value in ethical manner
9	Capital	A man creates less without capital.	A man creates nothing without capital.
10	Institutions or system	Economic growth depends on the institution of distributive justice	Economic growth depends on the institution of sharing development with contributors in it.
11	Fixation of income tax	Government should not fix the percentage of tax but it should be made only certain. It should not be arbitrary in nature.	Government should fix the percentage of tax to be paid. It was 1/6 th of income during Kautilya Period.
12	Benefit to tax payers	Government should spend the tax revenue on the protection of state.	Government should take care of welfare of tax payers
13	Tax economy	Government should focus on minimal taxation from public.	Government should increase tax collection and minimise expenditure.
14	Record keeper of taxes	No record keeper, no magistrate	Magistrate to inspect performance of record keepers in collecting taxes
15	Convenience of tax payers	Tax should be collected at a time when it is convenient to tax payers	Avoid tax that is not due. One should pluck ripen fruit and avoid unripen one.

Source: Created by author

materials and has expressed it in his own language. Adam Smith has borrowed basic ideas, mentioned below, from the Kautilya's Arthashastra. **First**, the factors affecting economic growth are land, labour and capital. **Second**, four basic cannons of taxation are certainty, benefit, economy and convenience. **Third**, economy should be protected from concentration of monopoly power.

Scope of Economics: Adam Smith and Kautilya have different views on the scope of economics. Adam Smith says that it is narrow while Kautilya emphasised on wide scope of economics. Adam Smith emphasised on *Artha* (material well-being that brings bliss) while Kautilya focussed on *dharma* (ethics) that brings both bliss and prosperity. Adam Smith talks about human security while Kautilya says about Yogakshema that teaches peaceful enjoyment of prosperity. Adam Smith viewed that **root of wealth is creation of rich people** while Kautilya said it is **productive economic activity** (Sihag- 2016 and Drekeimer- 1962 and Spengler,-1971).

Systemic Risk (break down of economy): Adam Smith did not talk about the diligence power of the king in forecasting calamities. Kautilya viewed that King should be diligent in forecasting to avoid future risk. The remedial measures to handle systemic risk are to minimise aggression, famines and moral decay.

Role of Machine and Capital: Adam Smith was in the favour of using machine because it helps in producing more quantity. Kautilya said “man without wealth does not get it even after hundred attempts”(Sihag, 2016).

Labour: Kautilya has emphasised on labour as human efforts. A king who believes in labour starts work but a king who believes in fate does not start work. A labour creates value. Adam Smith has emphasised on the labour that adds the value in the subject. Both Adam Smith and Kautilya made no difference between labour augmenting and labour saving. Both believed that capital and labour are complement.

Economic Growth: Kautilya was in the belief that there are three factors of economic growth-land, labour and capital. Capital is an essential part of economic growth without which a man can not create the value. “Man, without wealth, does not get it even after a hundred attempts” (Sihag, 2016). While, Adam Smith was in the belief that capital is only supporting hand to facilitate labour to create value for economic growth. Here one may note “Machines facilitate and abridge labour, and enable one man to do the work of many”(Sihag, 2016).

However, there are some **similarities between Adam Smith and Kautilya**. First, both of them have treated labour and capital as complementary goods showing no importance of one without other. Second, there is no distinction between labour augmenting and labour saving mechanism. Capital increases labour productivity and saves labour.

Institution or system: Administrative system of the economy plays an important role in the economic growth. Kautilya was in the belief of maintaining the institution that share economic growth among the factors contributing in it. Adam was in the belief of distributive justice. Both Kautilya and Adam Smith were in the favour of strong administration that supports distributive justice of economic development.

Conclusion:

Tax cannon discussed by Kautilya and Adam Smith are very much relevant even today for tax administration and running the day to day life of the government. Kautilya may be termed as original thinker on the basis of which Adam Smith has developed economic thoughts needed for tax administration.

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