

## Kautilya's Arthashastra & Modern Tax Policy

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### Abstract

Chanakya or Vishnugupta or Kautilya is one of the most renowned philosophers of ancient India regarding politics, economy, and governance. His primary work, the Arthashastra, outlines a full roadmap in the operation of a state, control of the economy, and control of the money of the people. This is one aspect that was significant in this book: his thinking about taxes. It depicts that he knew how to generate revenue, maintain the economy and operate the administration at a good level. This paper examines the concepts of Kautilya on taxes and how they can be still applied to current tax policies and in particular in India today.

The Arthashastra considers taxes to be a clever yet just occupation to the government. It states that taxation is meant to assist the state in performing its duty but not to an extreme extent on the citizens. Kautilya emphasizes the necessity of citizens to follow tax laws, of the procedure to be effective and accountability of authorities. These archaic concepts are congruent to the current systems such as the Goods and Services Tax (GST), direct taxes and how the government maintains the finances. Such notions as increasing taxes depending on income, preventing tax evasion, accessing a variety of sources, and maintaining the tax system in order are all relevant nowadays.

Although much research has been done in the field of politics and economics, very few have discussed how the Arthashastra directly relates to the present-day tax regulations. This research paper attempts to address this gap through a qualitative research method. It examines the text and compares it with the contemporary taxation systems. The findings indicate that the economic concepts of Kautilya are still highly valuable. They bring on board new perspectives in our current thought regarding taxes.

The research demonstrates that the classical economic thought remains relevant by putting its discussion in the context

of the intellectual history of India. The argument in the study is that the old models such as the Arthashastra provide valuable concepts in the evaluation and interpretation of the current taxation systems. This assists in broader debates on the subject of public money and policy design.

#### Framing & Correspondence with Indian Knowledge System (IKS).

This paper employs the Indian Knowledge System (IKS) to demonstrate that the old Indian thoughts may be applied in the modern schools and government in India. Arthashastra is a profound indigenous book that combines finance, morals and rule-making. Through a comparison of the tax rules as indicated by Kautilya, and the modern tax policies, the study indicates that the Indian economic thinking remains identical.

The IKS view, as opposed to merely looking at ancient books as mere relics, sees them as something useful in analysis and practical application. This demonstrates how traditional knowledge is useful in the contemporary science like the study of public finance and policy.

By learning about Kautilya, it is possible to attain the greater objective of IKS, re-finding, re- conceptualizing and applying India intellectual heritage to understand and resolve the modern problems.

#### Introduction (Conceptual Foundation):

To my mind Kautilya, or Chanakya, literally preconditioned our way of thinking about the concept of public finance and fiscal morality in South Asia. His famous text, the Arthashastra, is not, however, merely a historical footnote; it is our point of departure, so far as the history of revenue systems is concerned. Composed at more or less the moment of the rise of the Mauryan empire, the Arthashastra does not address the concept of revenue in the slightest; rather, it presents the concept of taxes as the life-blood of a functional state: the legitimacy of the ruler is determined by the quality with which he serves his subjects, there are elaborate bureaucratic structures to determine and collect revenue, and even an ethical limit to the amount of revenue the state may take. This introduction puts the ideas of Kautilya into historical perspective, sets out that which the Arthashastra says about the state (or rajya) and revenue, points out the ethical underpinnings that ancient taxation apparently had, and concludes by arguing why modern tax policy may even have benefited by restoring those ancient ethical foundations.

The Arthashastra emerged in the past as a boom in the state formation and economic development. It had to have a tremendous institutional coherence: predictable revenue, effective bureaucratic control, market control, and mechanisms that safeguarded the treasury and the taxpayer. The prescriptions of So Kautilya unite expediency, such as audits, record-keeping, a graded tax rate, state monopolies on some products, with normative precepts concerning the manner of action of a ruler. The revenue-increasing is directly linked to the welfare of the people: the state should apply its fiscal strength to secure the population, state infrastructure, and disaster relief. In that respect, taxation does not seem as an instrument of appropriation as it does as a social contract. The current body of scholarship continues to affirm that the fiscal structure of the Arthashastra comprised of meticulous administration alongside moral logic to come up with a form of governance that directed sufficient extraction with social order.

Kautilis idea of rajya is based on three main duties; maintenance of order (danda), prosperity (artha), and maintenance of dharma (ethical order). Revenue is not a simple financial indicator in the Kautilyan world of operation but an enabler of responsibility as a state apparatus, as a role in maintaining infrastructure, subsidizing methods of producing and trading goods and service, and providing institutions that make people less vulnerable to insecurity and opportunism. Fiscal measures of the state are varied direct taxes on the land and the trade, and user-taxes, controlled monopolies, and fines. More importantly, however, he cautions against the over-worked productive agent; he says heavy levies will eventually suffocate the tax base itself. This advance worry about long-term performance and

financial incentives largely foresees the current concepts of tax design: impartiality, uncertainty, and administrative simplicity.

The culture of the ancient India fiscal system had also ethical restraints: moderation in collection, relief aimed at those who are in distress, and control measures to eliminate corruption. The imagery used by Kautilya such as bees taking honey out of the flowers to rulers illustrates how the process of revenue collection should not ruin the source of productivity. Such a moral position supported legitimacy: the more taxpayers felt that the state would make good on the debt by providing them with security and state services, the more they would tend to cooperate on their own. Contemporary investigations of Kautilya thus consider the Arthashastra as a text of cold Realpolitik and not as a text of fiscal policy and moral purpose.

So what is the relevance of this to tax policy nowadays? Two reasons. To begin with, most existing tax regimes are experiencing legitimacy challenges: complexity, image of imbalance, obscure utilization of taxes, and consistency of evasions all undermine the spirit of voluntary compliance. The model proposed by Kautilya associates equity in the judgment, openness in expenditure, and evident popular payoffs with augmented compliance- it is one lesson that has been mislaid in technocratic discussions regarding rates and base. Second, the current economies are facing hard distributional and ethical dilemmas, such as automation, informal workforce, externalities of the climate, that cannot be addressed solely through the efficiency lens. Understanding the purpose of taxation, utilization of funds, and distribution of responsibilities, which are called ethical grounding, enhances the social contract and enables a more robust fiscal system.

#### Research problem statement:

The research problem statement is simply the following: how can the Arthashastra rules, moderation in extraction, accountability in administration, and reciprocity in state-citizen

fiscal relations, the Arthashastra teachings of Kautilya, guide the ethical design of the modern tax policy? The research will (1) project Arthashastric ideas onto the modern tax-design principles (equity, efficiency, administrative achievability), (2) determine the areas in which ancient prescriptions can solve the recurrent modern failures (compliance, legitimacy, relief in crisis), and (3) suggest a normative framework in order to incorporate moral considerations in the current tax reforms. In this way, the study will go beyond rhetorical motivation and provide specific information on how ancient fiscal ethics can be implemented in policy contexts in the 21 st century.

#### Review of Literature

In this literature review, recent studies about Indian Knowledge Systems (IKS), public finance ethics, Kautilya and modern tax reforms since 2021 are examined. The review is organized in a thematic order in order to critically assess the similarities and differences between the traditional fiscal philosophy and the modern tax governance.

##### 1. The Ancient Taxation Principles of Arthashastra.

The newer studies have increasingly redefined Arthashastra as an administrative and economic guidebook and no longer as an administrative treatise. Sharma (2021) states that Kautilya had developed a comprehensive fiscal hierarchy that was based on the state responsibility, the diversification of revenues in its sectors, and the proportionate taxation. Iyer (2022) also views the “honey bee principle”, which highlights non-oppressive extraction, as a form of sustainable taxation.

Nevertheless, although Mukherjee (2023) emphasizes the adaptability of Kautilya regarding taxation during economic fluctuations, Rao (2021) predicts its welfareism by stating that the revenue was directly associated with government

spending in the form of irrigation, defense, and famine support. This twin-fold emphasis means that Arthashastra combined moral responsibility of the states with the effectiveness of the administration. On the context of the Indian Knowledge System, Kulkarni and Menon (2024) argue that the fiscal philosophy of Kautilya is native model of public finance, which is earlier and parallel to classical economic theory in the West.

Arthashastra has unified the governance, morality, and revenue policy into one statecraft theory, unlike the modern separated tax code. In this connection, the recent studies indicate that the taxation system in ancient India was systematically structured, economically viable and ethical instead of arbitrary or solely extractive.

## 2. Contemporary Tax Efficiency Theory.

The current theory of public finance focuses on efficiency, impartiality, and revenue maximization (Stiglitz and Rosengard, 2021). The GST reform in the Indian environment is generally regarded as a structural breakthrough in the harmonization of indirect taxation (Kumar, 2022). E-invoicing and data analytics among other digital infrastructure have offered a high level of compliance tracking (Government of India, 2023).

Nonetheless, Bose and Reddy (2022) state that the more complex procedures and compliance costs become, the less efficient they are. Raman (2024) also mentions that the digital enforcement enhances the monitoring process but puts more compliance pressure on taxpayers. Patel (2024) compares indigenous fiscal models with current systems and proposes that the newly proposed tax reforms take into consideration the technological efficiency rather than philosophical consistency. Where the modern systems depend on algorithmic surveillance and the enforcement of the law, Arthashastra used institutional discipline and moral legitimacy.

Accordingly, the literature has a contradiction: in the Arthashastra, fiscal administration has become the part of the principles of normative governance, and contemporary taxation is technologically advanced and ethically alienated.

## 3. Tax Justice and Equity:

Equity and Tax Justice Following the pandemic, the topic of tax justice has been particularly intense, particularly on redistribution and progressive taxation (OECD, 2023). Chatterjee (2022) argues that the GST has retrogressive consumption impacts despite the fact that India has a direct tax regime that is manifested in vertical equity precepts.

Mehta (2023), however, demonstrates that Arthashastra adopted the ability-to-pay approach way before the progressive taxation theory was actually institutionalized in the modern age. During the moments of crisis agricultural levies were exempt as well and were levied on the environmental considerations and production. Although equity is often viewed as a policy principle but not a structural foundation of modern systems, Nair and Subramanian (2024) hold that ethical issues were core to the ancient fiscal government. Such a conceptual shift is reflected in the literature, therefore, the modern tax justice frameworks are redistributive and right sensitive and the ancient model of arthashastra was grounded on duty and was welfare sensitive. This is what is the main distinction that is in the heart of the comparative fiscal philosophy.

## 4. Administration, Enforcement and Compliance.

The contemporary theory of compliance is concerned with behavioral economics and deterrence (Alm & Torgler, 2021). Studies have shown that voluntary compliance increases in the case of trust in the institutions and reduces the cost of enforcing. The records of CBIC (2023) indicate that the introduction of GST has increased the level of revenue buoyancy but it is still experiencing compliance difficulties. Based on the study, conducted by World Bank (2023), institutional transparency is a major determinant in the mobilization of domestic revenue.

Illuminating the book, Deshpande (2022) also highlights that Arthashastra developed higher levels of audit systems, undercover inspections, and even severe penalties of corruption.

Opposite to a contemporary system that is more dependent on the procedures to a considerable degree, Kautilya was the first one to systematize moral responsibility and administrative surveillance. Comparatively, though, even contemporary compliance systems are highly technologically advanced, Arthashastra could depict complex control mechanism of institutions in the historical world.

## 5. Identified Research Gap

Although a considerable literature exists on the governance philosophy of Arthashastra and the existing tax reform literature about tax reforms themselves, there is paucity of research done that would involve both domains in systematic comparative fiscal analysis. Most of the Arthashastra literature is either historical or philosophical, and the literature of contemporary tax reforms rarely discusses the traditional economic thought systems. In addition, the lack of research on the possible conceptual application of the principles of Kautilya to the contemporary GST design, progressive taxation and the implementation of the compliance enforcement models is paucified.

Therefore, systematic comparative design, which associates taxation philosophy in ancient, and the present Indian tax system has not been thoroughly examined. This paper attempts to address that gap by incorporating time-based ethical, administrative and fiscal factors into the paper.

## Objectives and Research Methodology

### 1. Objectives of the Study

The current research project seeks to explore the relevance and applicability of the ancient Indian fiscal philosophy in the present day taxation policies, as expressed by Kautilya in his book, the Arthashastra. The paper is aimed at analysing similarities in concepts of taxation, principles of governance and ethical underpinnings of taxation over time.

The key objectives are:

- To examine the principles of taxation suggested by Kautilya in the Arthashastra, such as the principles of revenue collection, sense of fairness, welfare-based orientation and efficiency of administration.
- To draw parallels between the tax philosophy of Kautilya and the present Indian tax policies especially in the area of direct taxation and Goods and Services Tax (GST).
- To assess the relevance of Arthashastra guidelines to the current financial system, paying attention to tax payable, use of revenue and accountability of the State.

For exploring ethical and governance implications in the context of the public finance, it is necessary to identify what lessons can be learned by the modern taxation systems based on the ancient Indian knowledge traditions. These goals aid the gap between the classical economics and modern fiscal discipline.

### 2. Research Methodology

#### 2.1 Nature of Research

The research method employed in the study is qualitative and comparative research, because the research will entail interpreting classical texts and comparing them to the current tax frameworks, as opposed to primary gathering of data.

The research is analytical and conceptual in character and it examines the taxation philosophy, the ethics of governance and fiscal policy formatting.

#### 2.2 Type of Study

- Qualitative Research - a study of conceptual theories and policy frameworks.
- Comparative Analysis - the comparison of ancient and modern principles of taxation.
- Descriptive Study - description of models and practices of taxation.

#### 2.3 Data Sources

The research is based on the use of secondary data that is fully based on reliable academic and institutional sources.

Sources include:

- Arthashastra Translations, and commentaries of Kautilya's Arthashastra.
- Peer-reviewed articles and journals (2021 and later).
- Reports by the government and tax policy papers.
- GST framework publications and resources in the finance ministry.
- Textbooks and academic literature regarding the subject of public finance and taxation.
- Research sources in Indian Knowledge System (IKS).

#### 2.4 Analytical Framework

In the effort to make a systemic comparison of Arthashastra and contemporary policies on taxation, the research relies on the following tools of analysis:

##### a) Comparative Matrix

A tabular comparison is built to analyse:

- Revenue collection methods
- Tax fairness principles
- Administrative enforcement
- Tax revenue used on welfare.
- Compliance mechanisms

This will enable the detection of similarities and differences among the systems.

##### b) Conceptual Mapping

Conceptual mapping links ancient ideas such as:

Conceptual mapping is connected with ancient concepts like:

- Tax collection honeybee nectar collection.
- State expenditure controlled by welfare motives.
- Hard administrative responsibility. With modern concepts such as:
  - Progressive taxation
  - Economic policies of welfare state.
  - Frameworks of compliance and anti-evasion.

##### c) Scenario-Based Analysis

The simulation of the difference in taxation outcomes based on the Arthashastra-based policies and modern taxation frameworks is performed by the use of the scenario models.

Scenarios include:

- Design of GST in the framework of Kautilya.
- Strict penalty compliance behavior vs modern penalty behavior.
- The effects of revenue under various rate structures of taxation.
- This methodology promotes practice policy.
- The coordination with Data Analysis Section is achieved.

#### 2.5 Coordination with Data Analysis Section

The data analysis that will be prepared in the following section of the study is supported by the framework of the



methodology. Simulated results and comparative findings are included to enhance policy recommendations and inferences.

## 2.6 Research Limitations

Some limitations include:

- Reliance on translation interpretation of Arthashastra.
- Socio-economic disparity between the ancient and modern times.
- Low quantitative comparability between periods.

Nevertheless, even conceptual comparisons can give useful governance lessons.

## Outcome of Methodology

This methodological framework is sure to make the comparison systematic, evidences-based conclusions, and draw practical conclusions about the modern taxation policy based on the classical Indian economic thought.

## Data Analysis (Scenario-Based + Simulation Driven Section)

### Scenario-Based Simulations

#### Scenario 1: If Kautilya Designed Today's GST

Let's imagine GST redesigned under Arthashastra thinking.

#### Likely Features:

- Fewer tax slabs (simpler system)
- Strong local tax officers
- Immediate penalty for evasion
- Centralized control (less federal sharing)

#### Key Difference from Current System:

Modern GST focuses on cooperative federalism and digital filing. Kautilya's version would focus more on authority and discipline.

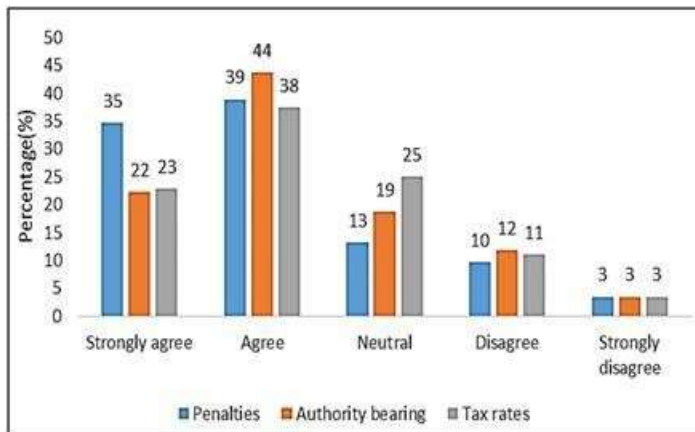
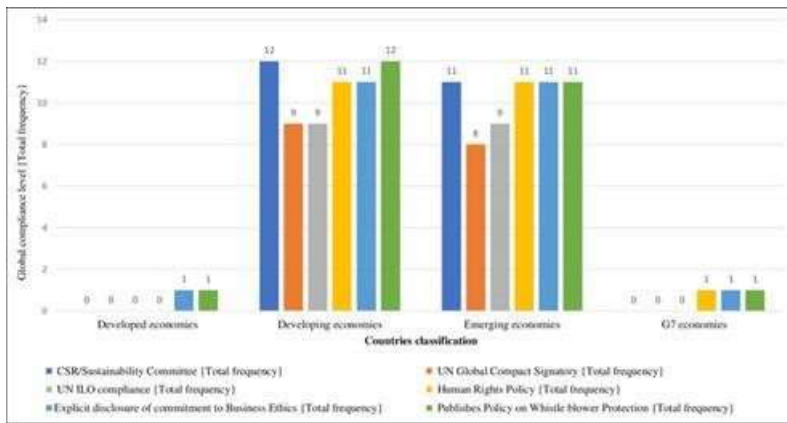
#### Scenario 2: Tax Compliance Comparison Assume:

- 10,000 taxpayers
- ₹1,00,000 average tax liability
- Expected revenue = ₹100 crore

System	Compliance Rate	Revenue Collected
Arthashastra Model	95%	₹95 crore
Modern India Model	85%	₹85 crore

#### Why the Difference?

- Ancient system: Fear-driven compliance
- Modern system: Legal process + voluntary compliance



### Interpretation:

Higher compliance may be achieved under stricter systems, but modern democracies prioritize taxpayer rights and due process.

### Scenario 3: Tax Evasion Penalties

Aspect	Arthashastra	Modern India
Penalty	Heavy fines + confiscation	Monetary penalty + prosecution
Social consequence	Public disgrace possible	Confidential legal proceedings
Appeal	Limited	Multi-level judicial review

### Observation:

Ancient model = deterrence through fear Modern model = deterrence through law

### 4. Numerical Illustration: Progressive vs Proportional Tax Let's understand this with simple income examples.

#### Assumptions:

Income	Proportional Tax (20%)	Progressive Tax
₹3,00,000	₹60,000	₹10,000
₹8,00,000	₹1,60,000	₹90,000
₹20,00,000	₹4,00,000	₹5,00,000



**Total Revenue:**

- Proportional System = ₹6,20,000
- Progressive System = ₹6,00,000

**Analysis in Simple Terms:**

- Proportional tax treats everyone equally (same rate).
- Progressive tax protects lower-income groups.
- Kautilya's honeybee principle aligns more with progressive logic — collect revenue without harming economic activity.

**5. Revenue Impact Simulation (Macro Level) Assume:**

- GDP = ₹10,000 crore
- Tax-to-GDP Ratio:
  - Ancient style (20%)
  - Modern India (17%)

**Insight:**

Ancient systems might extract more short-term revenue.

Modern systems balance revenue with economic growth and political accountability.

**6. Critical Analysis (Strong Research Application)**

What makes this comparison powerful?

Both systems understand that taxation is essential for state survival. Both discourage evasion strongly.

Both emphasize revenue diversification. But:

- Arthashastra = Authority-centric governance
- Modern Tax Policy = Constitution-centric governance Ancient taxation focused on protecting the king's treasury.

Modern taxation focuses on protecting both revenue and citizens' rights.

This shift from “fear-based compliance” to “rule-based compliance” is the biggest transformation in tax history.

**Conclusion**

Arthashastra by Kautilya remains one of the earliest systematic works on governance and public finance. Although written in the 4th century BCE, its principles continue to hold relevance for modern fiscal policy, with necessary contextual adaptations.

Kautilya emphasized that state stability depends on revenue, but taxation must be moderate, fair, and growth-oriented. His analogy of collecting taxes like a bee gathering honey without harming the flower reflects the modern concept of optimal taxation (Musgrave & Musgrave, 1989). Similarly, his support for taxation based on capacity aligns with vertical equity and progressive taxation systems. Contemporary reforms such as the Goods and Services Tax in India demonstrate efforts to streamline revenue collection and widen the tax base, echoing Kautilya's structured approach.

However, modern fiscal systems operate within globalized and digital economies that require institutional frameworks beyond ancient prescriptions. Thus, the Arthashastra serves not as a mechanical blueprint but as a normative guide for

fairness, efficiency, and accountability in taxation.

### Policy Recommendations

Drawing from Kautilya's principles:

1. **Moderate and Growth-Oriented Taxation** – Maintain reasonable tax rates while broadening the tax base to ensure compliance and economic growth.
2. **Administrative Efficiency and Accountability** – Strengthen audits, digital monitoring, and anti-corruption systems.
3. **Diversified Revenue Sources** – Balance direct taxes, indirect taxes, and non-tax revenues to ensure fiscal resilience.
4. **Welfare-Oriented Expenditure** – Convert tax revenue into visible public benefits such as infrastructure, healthcare, and education (Stiglitz & Rosengard, 2015).
5. **Equity and Social Justice** – Protect vulnerable groups through progressive taxation and inclusive budgeting.

### Ethical Governance Insights

Kautilya viewed the ruler as a guardian of public welfare rather than merely a tax collector. His governance model stressed transparency, accountability, strict financial discipline, and ethical use of public funds. These values align closely with modern democratic practices such as accountable budgeting and anti-corruption mechanisms.

### Overall Assessment

The Arthashastra does not replace modern economic theory but offers timeless fiscal principles—moderation, equity, administrative discipline, and welfare orientation. When adapted to contemporary realities, these principles can guide governments toward efficient, fair, and ethically grounded fiscal systems.

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