
Cash Management in Arthashastra – It's relevance to Modern Economy

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Study of history is the useful foundation for present pavements of success in various branches of knowledge. One among these vast areas is the concept of cash management in enterprises in India. It is old enough tracing back to B.C. There was a well-established trade contact between the cities, states and foreign countries also. At that time Sanskrit was the official language and the vast knowledge and experience of those people in various fields was transformed to us through Sanskrit language. We can find many treaties in Sanskrit on the two strong issues; today's much sought Administration and Management Concept. Arthashastra of Kautilya in 321 B.C. is magnum opus among them. Many theories defined and redefined by Kautilya can be applied to the betterment of enterprises of modern India as mentioned below;

In the beginning of Arthashastra itself, Kautilya makes it very clear about the reason for composing this work as, 'It is the quintessence of all the Arthashastras composed by former teachers in the whole world for the acquisition and protection of the earth.'¹ Thus he has dealt elaborately with all the possible best practices for the acquisition, protection and sustainable growth of the land (Earth).² Here Kautilya mentions that before him, there were many scholars in science of politics whom he often quotes whenever necessary.

Kautilya insists mainly on the requisite qualities of the king. According to him, a king must possess the knowledge of four sciences as Philosophy, Three Vedas (Rk, Yagur and Sama) Economics and science of Politics.³ He knew that one who has to manage various levels of administration as financial, political, social, moral etc has to be erudite in these.

He strongly admits that all undertakings of the state depend upon the finance i.e. cash management. According to him, Artha is the pre-eminent and Dharma and Kama come next to it.⁴ Artha is the main resource for all the necessary activities of the ruler. It is prominent

than army because the army has to be maintained by treasury. Earning, possession, accumulation of money has to be co-ordinate by money management. The root of wealth is well planned economic activity and lack of it causes material distress. In the absence of fruitful economic activity, both current prosperity and future growth are in danger of destruction.⁵ Therefore a king should devote his best attention to it.⁶

Here the king though is the sole monarch, is also a paid worker and his salary is fixed. The income of state depends on seven factors as city, country, mines, irrigation, work, forest, cattle herds and trade links. Taxes were charged at suitable time following the principle.

Main attention is on the self-restraint factor that is considered as the most important feature for the ruler such as, 'Control over the senses, which is motivated by training in the sciences, should be secured by giving up lust, anger, greed, pride, arrogance and foolhardiness. Absence of improper indulgence in the pleasures of sound, touch, color, taste and smell means control over the senses; or the practice of this science gives such control. Because the whole aim of this science is control over the senses.'⁷

Kautilya knew that only one person can never perform entire duties. Though the Administrator makes the policies, it is the Manager who puts them into action. So the king has to take the assistance and co-operation from others and move towards the path of progress. Therefore, Kautilya prefers the king to appoint ministers and listen to their opinion for smooth administration as, 'Sovereignty can be successfully carried out only with the help of associates. One wheel alone does not pull the cart.'⁸ He believes in the team work as he proclaims that the superintendent should do his duty assisted by the accountants, writers, examiners, receivers of balance and supervisors and the ruler should monitor all the activities regularly.

After describing qualifications of the ruler and ministers, Kautilya concentrates on appointing the councilors as the Leads; as they are the concerned persons in the working place connecting workers and the common people. He explains the excellences of ministers and also gives the definition of councilors as, "A native, of noble birth, influential, well trained in the arts, possessed of foresight, intelligent, persevering, dexterous, eloquent, brave, possessed of a ready wit, endowed with enthusiasm and dignity, endurance, upright, friendly,

firmly devoted, endowed with character, strength, health and spirit, devoid of procrastination and fickleness, amiable and not given to creating animosities – these are the excellences of a minister. One, lacking in a quarter and a half of these qualities is in the middle and the lowest type respectively”⁹

Kautilya, even after explaining the terms and conditions to appoint assistants, doesn't forget to caution that after their appointment also, the ruler must test their promptness through proper channels in each section when they are working. For the betterment in finance features, these tests are very essential.

He who causes loss of revenue eats the king's wealth, he who double the revenue eats up the country and he who spends all the revenue without bringing any profit eats up the labor of workmen. Those officials who do not eat up the king's wealth but increase it in just ways and are loyally devoted to him should be made a permanent in service.¹⁰

Along with the central administrative structure, the main works deal with various levels of enterprises as the working of mines, establishment of factories and storehouses, trade and commerce, revenue and its collection, public markets, construction of dams and irrigation, civil and criminal law, judicial proceedings, foreign policy etc.

At the end, Kautilya proclaims the purpose of composing Arthashastra,¹¹ ‘Thus this science, expounded with these devices of a science has been composed for the acquisition and protection of this world and the next. This science brings into being and preserves spiritual good, material well-being and pleasures and destroys spiritual evil, material lose and hatred. This science has been composed by him who in resentment quickly regenerated the science and the weapon and the earth that was under the control of the Nanda Kings.’

The views of Kautilya about the state mentioned above match the rules of today's enterprises. Modern thinkers suggest that one should be appointed as a Manager who is endowed with managerial skills through the interview constituting a committee of experts. The four prominent functions are 1.Planning 2. Organizing 3. Motivation 4. Control. The officers are to be appointed to work under the guidance of Manager as per their individual capacity. They must undergo various tests as subject knowledge, communicative skill, language skill, group discussion and lastly interviews. There will be selection and elimination process after each session. Then the process of Training starts. The best training to them will

be given to incorporate the skills required for that particular field. It is like disciplining not only body, but mind and intellect.

Kautilya prescribes the training schedule for the kings and the princes which are equally applicable to the Executives.¹² Absence of training in the learning of doctrines are the cause of man's vices. An untrained person devoid of learning is not able to visualize faults in the vices. Training till today is one of the most important management functions as it has direct bearing on human resource development. Training has the potential for leading towards excellence in management. Thus approach of Kautilya is the most accomplished one.

The qualities of managerial skill have relevance not only to the professionals, but also for those who take the task of managing any enterprises. Kautilya says, 'Time comes once to a person waiting for an opportunity. Such time is difficult for that person to get once again when he wants to do the work.'¹³ 'Wealth will slip away from that childish man who constantly consults the stars. The only guiding star of wealth is itself; what can the stars of the sky do?'¹⁴ He believes only in human endeavor and is very modern and relevant to present generation.

According to Kautilya, 'A person who is a specialist in some field should be assigned the same work.'¹⁵ It can be the basic rule for the recruitment and placement of the personnel. So along with qualifications, aptitude should be considered as criteria. In the process, 'The wise man should not despise anyone. He should use the sensible sentence of even the child.'

In his period, the industrial system was in advanced condition. Factories manufacturing textiles, metallic products, arms and ammunitions, chariots were in existence. Mining work was in progress. Trade and commerce took a great deal in both land and water routes. So naturally the relationship of employee and employer community took a special place in Arthashastra. His motto was social and financial security to both the parties.

He says that the proper incentives and motivational schemes should be there to attract the persons towards enterprises as 'When starting mills for weaving clothes from kshauma, dukula, silk yarn, hairs of ranku and deer and cotton yarn, the Superintendent of Yarn and Textiles should gratify the workers by gifts of perfumes and flowers and by other means of showing goodwill. He should bring about the production of variety of cloth, bed sheets and coverings. He should start the factories of armors by artisans and craftsmen expert in the

line.’ Because the people should perceive the industries for better benefits than their previous works with respect to wages along with non-monetary rewards.

He takes precaution about the ownership of the industries. He prefers the state to own these for the better administration. ‘The state should set up the work in mines, factories, forest produce, elephants and cattle herds and should establish land routes, water routes and ports etc for trade.’ Since now the government cannot own entire enterprises and the world is literally a global village, a huge bunch of individual enterprises and corporate system are in this field.

Kautilya owes the responsibility of protecting the workers. He prefers to give a fair wage to the workers in the interest of both the parties. ‘In accordance with the capacity of the city and countryside, the wages of the workers should be fixed quarter of the revenue or at a rate that may enable the works to be carried out. Employer should pay due regard to the body and income of workers earned as wages, so that no harm is caused to either the material advantage or the spiritual well-being of the workers.’¹⁶

The principles discussed here are the forerunners of the modern theory propounded by the Supreme Court of India where ‘capacity to pay’ have been accepted as the basis for wage fixation. Kautilya’s thought is more precise and practical; he has suggested a ratio between the revenue and expenditure on wages. The quantum of wages is close to the principles of economics as well as social justice. He was concerned with their entire necessities which are Indian holistic concept. These modern concepts were in vogue in India centuries back.

One more feather to his caps is he knew the gross root level problems and tried to solve them. He protected the financial status of entire family of the workers. Kautilya points out that, ‘To watchmen in the vegetable garden and in fruit and flower enclosures, the cowherds and serfs and laborers should be supplied food in accordance with the number of dependents on them and also be paid wage of one and a quarter pana per month. The artisans should be given food and wages in conformity with their work.’ This is the ideal concept of fair wages.

He says that various amounts of food and wages should be fixed for regular and casual employees according to their skill, work. ‘Workers should receive wages as agreed upon. If they are not agreed them, they should be paid in conformity with work and time.’ He describes wage agreements also as ‘In the matter of examination of conch shells, diamonds,

gems and necklaces of pearls and corals, the employer should make valuation through experts in the line making an agreement with them as to the amount of work, time allowed or available and wages.’ Introduction of new factor of time is indicative of important phenomena of work study, job analysis and time study, which are considered to be basically modern methods, but existed way back in 300 B.C.

Kautilya forwards another theory of wage fixation as ‘Wages should be fixed after ascertaining the fitness, coarseness or mediocre quality of yarn and the largeness or smallness of quantity. After finding out the amount of yarn, the Superintendent should favor the workers with oil, myroblan and unguents.

On festive days, the workers should be made to work by honoring and providing them gifts. In case of diminution in the quantity of yarn, there shall be diminution of wages according to the value of the yarn. Thus the wages were dependent on productivity, quality and quantity. Different incentives were there to promote the work. Those who did extra work were recognized. Kautilya took care for the employees as ‘In case of non-payment of wages, the fine is one-tenth or six panas. In case of denial, the fine is 12 panas or one-fifth.’

The present Payment of Wages Act 1936 regulates fair and timely payment of wages of workers, makes similar provisions, thus regulates the obligations of both the employers and employees. The Industrial Disputes Act 1948 says that if the worker reports to the employer for work and if the employer does not give the work, the employee can be ‘laid off’ and the worker should be entitled for half the wages without work. Kautilya has already noticed this factor as ‘If the employer does not give the work when the worker has presented himself for the work, the work can be considered as done, say the teacher. ‘No’ says Kautilya. Wage is for the work done, not for what has not been done. If after allowing even a little work to be done, the employer does not allow it to be done further; his work should be considered as done.’¹⁷ Here Kautilya puts the theory of ‘No work, no wages’ policy which may look harsh but is very practical in certain circumstances to run enterprises. If the employers supported by the Government adopt this policy, many unnecessary strikes may not begin. It may be only transitory policy, but essential nowadays because the workers do the strikes until the acceptance of demands, create problems to entrepreneurs, common people and also to themselves. Further they demand for the wages for the strike period also.

Kautilya cares for not only the employer and employees, but for their families too. His suggestions have to open the eyes of the modern Government and entrepreneurs as he states, 'The worker who without taking care of the subsistence of the father, mother, wife and other dependents, spends the wages the way he likes, he should be arrested and kept in handcuffs. He should be made to clean the roads and pathways. Half of his wages should be given to the dependents. If the worker does not complete the work in stipulated time and standard specifications, he does not hesitate to put fine on them as 'Worker not doing the work after receiving the wages should be fined 12 panas and detention till the work is done.' 'If the worker exceeds the time limit for the work to be done, there should be reduction in wages by one quarter and double that should be the fine. For carrying out the work otherwise than as ordered, there should be a loss of wages and doubles that as fine.'

Fines constitute one of the legal deductions under the Payment of Wages Act. Fine for workers was according to their offence. He warns the employees to take care of employer's family in unusual situations as 'Of those dying on duty, the son and the wife will receive the food and wages. His minor children, old and sick persons should be helped. The employer should grant the money and do honor on times of death, illness and birth ceremonies.'¹⁸ It is interesting to note that then the birthday celebration of workers was in practice.

In the present industrial situation, such protection as employment of the ward of the deceased employee has appeared on the scene only a couple of decades back. Prior to that, the only protection available was compensation under The Workmen's Compensation Act 1923. Trade unions are there to protect the welfare of the workers. Labor unions were a kind of partnership. Monetary transactions were rendered easy due to these unions. They had various kinds of workers, artisans, technicians etc. They used to undertake the work from employers. This was a democratic method. After finalizing the deal with employer, the union used to give the list of workers to them. Afterwards the union was not free to change the workers without the consent of employer. The worker was also not free to leave the union at that stage. This type of labor union was in reality a partnership concept. Kautilya points as 'Workers forming unions or partners in an undertaking should divide the wages as agreed upon or in equal proportion.'¹⁹

The practical and effective method for overall success of industrial undertakings was viewed by him as 'As between a small but quick gain and a large gain after a long time, the

small but quick gain is preferable, if in consonance with the undertaking, the place and the time, so say the teachers. 'No' says Kautilya. A large gain after a long time is preferable, if not liable to disappear and if in the nature of a seed, in the reverse case the former.'²⁰ Usually the people are tempted by small and quick gains. In the industrial relation, general tendency is to find an ad-hoc solution. In this temptation, the management may adopt policy of appeasement. This may not work out. 'When the gain is equal, there should be peace; when unequal, war is considered desirable for the equals, weak and stronger.' Though the main intention is regarding kingdoms, it is equally applicable to the enterprises. When both parties act wisely and keep the interest of both as equal, there is harmony that lasts long.

The expenditure list of 15 category includes expenses of worshipping Gods and ancestors, the harem, establishment of ambassadorial staff, the storehouses, the armory, the warehouses, the stores of raw materials, manufactories, laborers, cavalry, chariots and elephants, storage of firewood and fodder etc. Kautilya was clear that all the government activities have to be conducted through the increase in income and decrease in expenditure. Therefore, it was the responsibility of the king to test the loyalty of these officials again and again. In this instance, Kautilya gives the illustration of horses in harness with the higher officials.

Current, outstanding and derived from other sources is the threefold income. What comes in day-to-day is current income. What belongs to the last year or what is transferred from other sphere of activity is outstanding income? What is lost and forgotten, fines imposed on employees, extra income, compensation from loss, gifts, property of a person involved in a riot, property of an issueless person and treasure- trove is income derived from other sources. Balance due to disbandment and from undertakings given up in the middle because of sickness, is return from expenditure. Accretion, viz., increase in the price of commodities at the time of sale, excess in weights and measures called surcharge or the increase in price because of competition for purchase, -this is also income.

Current expenditure, that arising out of current, gain and that arising out of gain- this is fourfold expenditure. What is spent from day-to-day is current expenditure. A receipt from officers, servants after a fortnight, a month or a year is gain. That arising out of these two expenditures and out of gain respectively. This is expenditure.

What is left over after calculation of income and expenditure from the total of revenue items is the balance, received and carried forward. Thus the wise administrator should fix the revenue and show an increase in income and decrease in expenditure and should remedy the opposite of these. He emphatically opposed the harsh and exorbitant financial measure except in the time of acute scarcity and financial stringency.

The Superintendent of Accounts should have the accountant's office. There in many departments, the description of the work carried on and off the results realized in several manufactories; the amount of profit, loss, expenditure, delayed earnings, the amount of vyaji (premia in kind or cash) realized, the status of government agency employed, the amount of wages paid, the number of free laborers engaged pertaining to the investment of capital on any work; likewise in the case of gems and commodities of superior or inferior value, the rate of their price, the rate of their barter, the counter weights used in weighing them, their number, weight, cubical measure, the history of customs, professions, transaction of countries, villages, families and corporations, the gain in the form of gifts to the king's courtiers, their title to possess and enjoy the lands, remission of taxes allowed to them; the gains to the wives and sons of the king in gems, lands, prerogatives and provisions made to remedy evil portents; the treaties with, issues of ultimatum to, and payments of tribute to or from, friendly or inimical kings all these should be entered in prescribed registers.

From these books, the Superintendents should furnish the accounts as to the forms of works in hand, of works accomplished, of parts of works in hand, of receipts, of expenditure, of net balance and of works to be undertaken in each of the several departments.

350 days and nights were a working year. Accounts should be submitted at the end of month Ashada (about middle of July) Due to several reasons, if the government officer fails to do the assigned work in given period, the fine should be proportional to the guilt. If the accountant has not prepared the table of daily accounts, he may be given a month extra for it. Then he should be fined at the rate of 200 panas for every month. Then the table of daily accounts submitted by him along with the net revenue should be checked with reference to the regulated forms of righteous transactions and precedents by applying such arithmetical process and by espionage. It should be verified with reference to days, months, and year.

The receipts should be verified with reference to the place and time, time pertaining to them, the form of collection, the amount of the present and the past produce, the person who has paid it, the person who has caused its payment, the officer who has fixed the amount payable, the office who received it.

The expenditure should be verified with reference to the cause of the profit from any source, in the place and time pertaining to each item, the amount payable, the amount paid, the person who ordered the collection, the person who remitted the same, the person who delivered it and finally who received it.

There were about 40 ways of embezzlement listed. Under these circumstances, the persons involved as the treasurer, the prescriber (nibandhaka), the receiver (pratigrahaka) the ministerial servants of the officer should be separately examined. If anyone who tells the lie, he should be punished equal to the chief officer (yukta) who committed the offence. He prescribed heavy fines for faults of traders to care for consumer protection.

Kautilya listed ways of public funds misappropriated. Now also one can notice these misappropriations;

1. Falsification of date with a motive of personal profit,
2. Misrepresentation of income received or expense incurred with a motive of personal profit
 - a) Revenue due on a given date is allowed to be collected at a later date
 - b) Revenue not due is collected earlier by force or deceit but credited on due date
 - c) Revenue paid by one is credited in the name of other for a consideration
 - d) Revenue for treasury realized in the capacity of a collector is misappropriated by an individual by force or deceit
3. Discrepancies arising out of willful fraud in personally supervised work, account heads, labor and overhead charges, work measurement.

He prescribed heavy and exemplary punishments for defaulting officers. When works-officer in front of accounts-officer made contradictory statements which revealed his intentional manipulations in accounts, he was to be punished with highest amercement. If

account-officer intentionally evades submission of accounts or when directed by king, he submitted the accounts after making changes and adjustments in entries, he was to pay first amercement.²¹ The most plausible ground for enhancement in punishment in such a case was that in addition to dishonesty and falsehood, if the clerk by tampering with records, had attempted to cheat also.

If the treasury- officer practiced defalcation, he was to be treated as a robber, execution was right punishment. Those who helped him in carrying out his evil design were offenders. They were punished with fines equal to half value of amount defalcated.²² Defalcation includes hindrance, lending, concealment, causing loss, wrong use, interchange and depletion of treasury.

These above-mentioned ancient thoughts could supplement the modern thoughts about the management of the enterprises including cash management. His theories regarding the king can be applied to the qualities of entrepreneurs. His rules about the assistants, workers, welfare of the entire circle are noteworthy.

Kautilya was far ahead of his time. He is a philosopher, guide, statesman and economist for all time. He is like father of many latest ideas in many fields. His above mentioned many concepts regarding the cash management of a country applies aptly to modern small and medium enterprises. The entrepreneurs can utilize this treasure of economic knowledge to their areas to prosper. So the theories of Kautilya are relevant to modern aspiring generation.

Reference: Arthashastra of Kautilya, 321 B.C.

1. I.1.1
2. I.I.4.3
3. I.XV 1.2.1
4. I.I.7.6-7
5. I.I.19.35-36

6. II. 8.1-2
7. I.6.1-3
8. I.7.9
9. I.9.1-2.
10. II.9.13,15,17 II.9.36
11. XV. 1.71-73
12. I.5.12-15
13. II.6.31
14. IX .4.26
15. Chanakyasutram 117
16. V.3.1,9
17. III.14.6-9
18. V.3. 28-30
19. III.14.18
20. VII.9.50-52
21. II.7.24-25, 34
22. II.5.17-18

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