

Role of Public Sector in Economic Development A Comparative Analysis of Adam Smith's and Chanakya's Views

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Abstract: *Ancient treasures of Indian knowledge are preserved with mankind in the form of books. Unfortunately modern students and scholars of management are not being benefitted by the knowledge of ancient scholars which can help in making their work style more efficient and can bring success and prosperity to their business. This study is a step towards the exposure of this treasure. The paper looks at this innate knowledge system and how its teachings can be adopted in present day's business management. Scope of the paper is a comparative analysis of Adam Smith's philosophy and Chanakya's philosophy. According to Chanakya, the ultimate objective of any economy is not to benefit the king (the state) but to benefit the subject or the common people. He takes into account economic, political, diplomatic, social, military and other factors that affect the economy of a nation. According to Raddar Datt and Sundharam Adam Smith conceived of the role of the state in 'Atomistic Capitalism' in which every individual was considered to be the best judge of his/ her welfare. Social welfare was the sum total of the welfare of the individuals.*

Keywords: Economy, Adam Smith, Chanakya, Kautilya, Role of the state, Public Sector, Management scholars, ancient management

1. Objective

The study compares Indian management ideas given by Chanakya against western management thinker Adam Smith.

2. Methods and Material

Literature of both the management thinkers – Chanakya and Adam Smith has been studied for the purpose of this paper. The author has referred to Chanakya's Arthshastra translation and Adam Smith's work. Earlier analysis of various scholars has also been studied.

3. What is Public Sector?

According to William Lillie, "The state resembles a living body or a work of art in having its various parts closely connected with one another, and may be described as an „organic unity“. "A state acts in many ways just as an individual acts. It issues commands, spends money and owns property just as individuals do. In this paper we are taking the state as the Governing body of a geographic region, which is also called public sector. In the discussion ahead, both these names will be used interchangeably as Chanakya has named it „King" and Adam Smith has named it „The state". But both of them mean the public sector by these two terms.

Role of Public Sector in an Economy

In a developing economy, the public sector acts as a senior partner in the process of development and undertake investments in such areas in which the private sector is unwilling or unable to take such investments.

Role of Public sector in India

Public Sector was the main player of economic growth when India got independence. All the major businesses were in the hands of Government, especially heavy industries like oil, steel and necessary services like water, electricity etc.

This sector has helped in economic growth and stability in India since then by generating employment opportunities, research and development etc. balanced development of all the regions could be observed under this dominance of public sector because it does not work for merely profits nor is it charitable, instead it is striving towards making India a self-dependent economy. Major plants to be mentioned in this context are Steel plants, fertilizer factories, Machine Tool plants etc.

According to Amartya Sen and Jeane Dreze, "India has insufficient and ineffective government activity in many fields like basic education, healthcare, social security, land reforms and the promotion of social change. This inertia contributes to the persistence of widespread deprivation, economic stagnation and social inequality." In India public sector was expected to contribute effectively to the social uplift but the operations actually resulted in a number of state failures. Raddar Datt opines that "A serious change against the operations of public enterprises is that they were used for private purposes. Deliberately ignoring the objectives for which they were established." But even after all these shortcoming, the public sector provided 71% of employment in the entire organized sector. But eventually the Government of India thought of reducing the role of the public sector and started the process of opening more and more areas for the private sector.

Adam Smith on the Role of the State in an Economy

"Market stands for voluntary exchange, under contract, for mutual advantage. Since every individual maximizes his/her welfare in the process of exchange, the market mechanism maximizes welfare through the operation of the „invisible hand". The principal function of the state is to ensure that individual observes the sanctity of the contract or the commercial transactions. Thus Adam Smith (1776) assigned to the State the following functions:

- 1) Protecting the society from external aggressions – the defense of the country.
- 2) Maintenance of the law and order within the society.

- 3) Enforcement of the sanctity of contract entered between different individuals for commercial transactions.
- 4) Since the market does not ensure the provision of public goods, the state must maintain public works in the form of infrastructure and also public education. It may also provide some help to the poor.

Although Adam Smith did mention the provision of public works and education as the legitimate duties of the state, but it did not carry conviction with the people of that epoch, because his entire philosophy was based on „highly atomistic capitalism“ and his philosophy was treated as one of state minimalism.” Ruddar Datt and Sundharam

Chanakya on the Role of King (the state) in an Economy

Chanakya was the main advisor of the kings of Magadha for three generations and his philosophy of management was successfully installed in Mauryan dynasty. He stressed the development of agriculture for the economic development of a nation, but at the same time agriculture was not to be considered the only source of income for the nation. He also discusses the purpose of Economics and Duties of the King: Good fiscal management is paid supreme importance by Chanakya. He emphasized that all avenues of economic activities should be used optimally to make the treasury rich and richer. But at the same time this treasure was not meant to be used in the luxuries of king and his family, but he was supposed to take a fixed amount from this treasure as his expenditure on servants. This limit was a quarter of his total revenue.

Chanakya used a comprehensive system of taxation. Many sources of state revenue are listed by Chanakya. Areas of expenditure of these revenues were mainly protection of the citizens by Social services, Building of forts, Roads, Other transports, Plantation of colonies, Plantation of villages, Building asylums, orphanage and educational institutes.

The king was also advised to build infrastructure in terms of roads, market towns and seaports etc. This was the duty of the king to ensure the social security of the subject. Apart from this disabled, unfortunate and handicapped were also under the state's care, along with the family care. The „unfortunate“ consisted of bala (children, orphans), the aged, the infirm, the afflicted, helpless with maintenance. Food security was also the king's responsibility. Three steps are discussed in Arthshastra:

- Agricultural stocks were kept in the royal granaries.
- The king directed the retention of half the annual produce for the relief of distress
- Provided poor persons with food and seed corn to enable them to start farming

Comparative Analysis of Adam Smith and Chanakya's Approach

King was the Governing body in Chanakya's era. His activities and Chanakya's advices to the king have been taken as the policies for the public sector. Adam Smith's theory came into existence in 1776, while Chanakya's era was the golden history of Mauryan dynasty – approximately 2300 to 2500 years ago. The author is surprised to see that in

his conception of the factors that influence the wealth of nations, Chanakya was well ahead of western thinkers. It took around 2000 years for western economic thought to reach and then possibly surpass the level of economic sophistication which Chanakya had given in Arthshastra. Many scholars find his principles of taxation relevant in today's political economies also. We can compare the theory of these two management thinkers as per the following points:

- 1) Both the scholars – Chanakya and Adam Smith speak of social welfare and social security of the subject. They agree on this point that defense is the duty of public sector. Maintenance of law and order is considered to be the state's responsibility by both of them. Chanakya and Adam Smith start with the only purpose of welfare of the subject. Chanakya emphasizes that the duty of the king is to protect the people, maintain peace and justice and be active in providing economic assistance to individuals and groups. These services then become the logical reasoning behind taxation.
- 2) In Chanakya's time, food security was the state's responsibility as agricultural stocks were kept in the royal granaries, while Adam Smith considers the sum total of all individual's welfare.
- 3) Main occupation in Chanakya's era was agriculture, hence all the revenues were collected from the farmers. Food security was also the king's responsibility as agricultural stocks were kept in the royal granaries. The king directed the retention of half the annual produce for the relief of distress and provided poor persons with food and seed corn to enable them to start farming. In Chanakya's era, agriculture was in both public as well as private hands. The king was advised to carry on mining and manufacturing operations, exploit timber and elephant forests, offer facilities for cattle breeding and commerce. Adam Smith was born in the era when services industry had started sprouting in America.
- 4) Basic need in Chanakya's era was food while in Adam Smith's era it had shifted to education. Poverty was also an issue of priority for the state. Adam Smith uses the term „Help to the poor“ while Chanakya believes in providing economic assistance to the individual.
- 5) Enforcement of the sanctity of contract entered between different individuals for commercial transactions has been advocated by Adam Smith. Chanakya
- 6) Taxation was introduced by Chanakya which is accepted by Adam Smith as it is, because taxation based on logical reasoning had become a rule by Adam's time.

4. Conclusion

Both the thinkers – Chanakya and Adam Smith lay stress on social security and defense of the people of their ruling area to be handled by the state.

Chanakya was in favor of an economic system where private and public sector both were equally active and working for the economy and the society. He was of the view that a strong private sector is a course of strength to the state. He discusses an undeclared social contract between the king and the subject.

5. Suggestions and Recommendations

Modern management scholars and practitioners should study ancient management literature and use ancient approaches to solve modern business or economic problems. The two theories may act as complementary to each other. The two theories can work as a consultant on several matters related to the role of public sector in an economy. The corporate world should learn how to apply the two theories for practical solutions to day to day problems of modern problems faced by the state.

6. Limitations of the Study

Difference in time period of both the scholars is vast, hence their views could have been based on their current economic environment, but a theory has to be universal by nature, hence these two have been discussed in the same paper.

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