

## Vedic Economic Features : Modern Application

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1. Can Vedic Economics teach us anything usefully applicable to modern conditions? Yes, a lot, like all aspects of the Vedic Tradition.

In Ancient India, Economics did not form a distinct science or sector of life but was an integral aspect of Dharma, which as religion or law or duty regulated daily life and man's relations to other men in society, to the environment and to god(s).

The aim of all dharmic practices was to attain man's highest good *śreyas* or *niḥśreyasa* through outer and inner development in skill, virtue, knowledge and spiritual growth. In fact this was the aim of the other two phases, called *artha* and *kāma*, the end being *mokṣa* 'full liberation' or 'union with the Absolute *brahman*'.

Even those who do not believe in any metaphysics but think that human life begins at birth and ends at death – even they want to live without too much trouble, unhappiness and suffering and so they must order their life politically and economically, or would like to have it ordered, so as to have comfort and happiness. Although full emancipation or union with the brahman is the axis of the Vedic Tradition, the Tradition gives many guidelines how to arrange society for a trouble-free life. (Much of what follows was examined in Kazanas 2010).

2. The aim of liberation was pursued through the four orders or *āśramas* (= *bramacārin*, *gṛhastha*, *vanaprastha* and *sannyāsin*) with various devotional, meditational yogic and other practices.

These practices are summed up in the systems Yoga, Vedānta etc. as *ahiṃsā – satya – asteya – brahmacarya – aparigraha* (*Yoga-sūtra* 2.30): non-injury towards all creatures; practising truth; non-stealing; continence or purity; not grasping possessions. All five have economic/social repercussions: avoidance of all actions that might harm others; keeping one's word and honouring one's contracts; not taking what does not belong to one; not adulterating things, relations and laws; not amassing more than what one needs.

3. What belongs to one is one's property. *Manusmṛti* states seven lawful *dharmya* modes of obtaining *āgama* property/wealth *vitta*: *dāya* inheritance; *lābha* receiving as donation or finding in the ground; *kṛaya* purchase; *jaya* conquest or gambling; *prayoga* lending at interest or return to any investment; *satpratigraha* gifts from good people; *karmayoga* work generally (10.115). Gautama gives almost identical modes in 10.39-42.

Manu alone of all ancient lawbooks says that a field belongs to the person who first clears it of wild-growth – with the analogy of a deer belonging to the hunter who pierced it with a dart (M9.44).

In the 17th century John Locke stated (*2nd Treatise Concerning Civil Government* §26,31) the same principle.

4. However, Locke makes a distinction, where Manu does not. Locke distinguishes between land and things produced: "Though the earth ... be common to all men, yet every man has a property in his own person: this nobody has a right to but himself. The labour of his body and the work of his hands, we may say, are properly his. Whatever he removes out of the state that

*nature hath provided ... he hath mixed his labour with and joined to it something that is his own, and thereby makes it his property. Man has by his labour removed the thing from the common state placed by nature and so excludes the common right of other people ... at least when there is enough and as good left in common for others”.*

Thus, land is different from products generated from it with labour, like metal ore, stones, wild animals or plants: land cannot be produced nor be removed from its natural place by any amount of work.

This differentiation is not made clearly by Manu but other sources in the Vedic Tradition do distinguish land.

**5.** We must distinguish also between possession and ownership. It is one thing to possess land for habitation and/or work and another to own it and so have the right of sale or alienation.

Being a goddess, Earth/land could not be owned or sold.

In *Śatapatha Brāhmaṇa* it is Yama as *kṣatra* ‘rulingpower’ and the Fathers *pitaras* as the clan that give permission to a man to settle on a piece of land; the consent of the clansmen is necessary (7.1.1.3-4). In the same text king Viśvakarman Bhauvana wanted to give land to his priest, whereupon goddess Earth sprang up and reproached him: “No mortal should give me away! Thou wast foolish” (13.7.1.14-5).

Although individuals had exclusive possessions of land for habitation and/or work (as in *Ṛgveda* 8.33-6 where the girl Apalā refers to her father’s cultivated field), the land belongs to the community and is guarded by the king – as king Pṛthu protects his wife (or daughter) Pṛthivī (Manu 9.44 and *Mahābhārata* 7.69) – who must practice *brahmacarya* ‘continence, purity’ and *tapas* ‘spiritual exercise’ (*Atharva Veda* 11.5.17). The king may give a piece of land to a new settler but only as representative, and having the consent, of the clansmen of the entire tribe.

Incidentally, what would government be like today, if ministers and other state-officials practiced *brahmacarya* and *tapas*? ...

**6.** Why is so much importance laid on land belonging to the community? Jaimini of *Pūrva Mīmāṃsā* said: “*The earth...is common to all beings enjoying the fruit of their own labour; it belongs ... to all alike ... There should be left some for everyone*” (6.7.3).

Then Nārada states : “*A householder’s dwelling and his field are considered as the two fundamentals of his existence. Therefore let not the king upset either of them; for that is the root of householders*” (11.42). Indeed, if the king and his government did not ensure the safety of the householder’s access to land for habitation and work to obtain food and other means for living, he would be failing in his primary duty (above §5, end; Manu 7.2 *sarvasya... parirakṣaṇam* ‘protection of the whole realm’). Thus from Manu 8.237 and Baudhāyana 3.1.17 we learn that a belt of land around the village or town was left unoccupied and held communally. There, the new householder, or a hermit, took up his dwelling building his house or occupying an empty one. (Also, *Āpastamba* 2.22.8-9.)

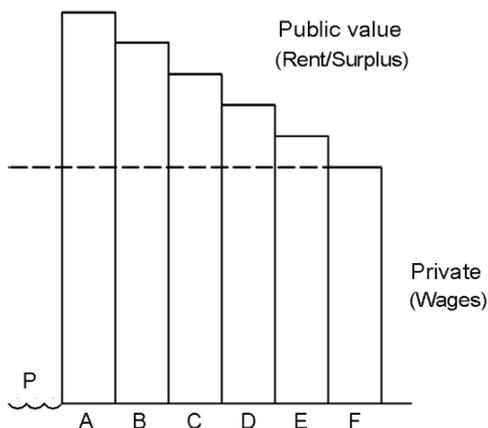
Today governments fail abysmally in that they do not ensure that people have easy access to land. It is not necessary today that land should be given freely or cheaply to people, nor that there should be redistribution of land. Easy access for all who want it could be ensured, as we see below, through a specific mode of taxation.

7. Taxation provides the revenue for the king's (=government's) expenses – both to maintain himself and perform his duties towards the people. The different texts give different modes/systems of taxation, most of them haphazard and often unjust. These are like the modern prevalent systems that weigh heavily upon private enterprise, initiative and work in general: the more you work, produce and earn, the more tax you pay.

Adam Smith formulated four canons for taxation: a) the collection of taxes should not cost much; b) they should be certain, not arbitrary; c) they should be collated at taxpayers' convenience; d) all should pay in proportion to their ability and means (*Wealth of Nations* 5.2.2.1). Henry George 200 years later agreed with the first three but for the fourth wanted the tax not to fall on production but on the surplus (1879:408). We shall see below what the surplus is.

Manu gives an important principle that aims at justice and care of the taxpayer: “*After due consideration, the king should so always arrange the taxes in his realm that both he himself and the performer of work receive their just reward*” (7.128). Manu does not elaborate how this is to be effected. Although Gautama does give a good hint, we must consult some economists of the 19th and 20th cent. in the West to see how the two sides receive their just reward.

8. Following Alfred Marshall, professor of Political Economy at Cambridge (1890 *Principles of Economics* London, Macmillan, ch 5.3-4), Henry George (1879) and others, the late Dr R. Burgess, director of the Economic Study Association in London, divided the value of land, and by extension of production, into private value and public value. Private is the value that is due to man's labour, as when a farmer cultivates a field in a remote region with few of the advantages found in central areas. Public value is due to the advantages that accrue to central areas because of public services (roads, water-supply, drainage etc) and nearby markets, rail or sea transport etc, thanks to the development of the community. (See *Public Revenue without Taxation* London, Shephard-Walwyn, 1993.)



In our diagram P is a port and A-F are zones of productive units having the same size and using same labour and capital. Obviously those farthest from the centre (Port) enjoy fewer advantages and therefore produce less. Other economists used (and use) the terms (economic) Rent for the public value and Wages for the private, which is the reward of labour. Rent or public value is also termed ‘surplus’ or ‘sitevalue’.

The public or site value or rent or surplus is obviously the excess product of the more advantageous locations over and above the less productive ones at the margin of production (whether agricultural, industrial, commercial, financial and other enterprises).

This public value/rent/surplus is according to most economists the most appropriate object of taxation, as this method would leave untouched the private value or wages (=the reward of labour) and would not cause distortions like unemployment and inflation or bureaucracy and corruption. (See §11, below.)

It is also obvious that the locations/sites in the central areas with the bigger public value or rent/surplus (A, B) will fetch a greater price than those at the margin (E, F). Therefore one need

tax only the site values (according to their estimated annual rental value). And this is called LVT for Land Value Taxation.

LVT refers to the value of vacant, unimproved land, i.e. the surface of the plot, the site itself, without the cultivations on it, buildings or mines or other material effects of human labour.

**9.** Thousands of years before now, lawgiver Gautama ordained that the king should live on the surplus: *adhikena vṛtti* ‘his revenue or means of life should be through the surplus’ (10.30; one should consult sūtras 24-9 which are all on taxation and the king’s function). This may sound strange but only because our thinking has been conditioned by the arbitrary tax rates of 1/6<sup>th</sup> or 1/8<sup>th</sup> etc. given in the sources. There is more, however.

Taxing the surplus or public value has many advantages. It is a simple and easy method since land values everywhere are easily ascertainable by assessors. It is also just in that the individual, or the enterprise, receives his, or its, own product and the community receives back what it has contributed by its existence and advancement in knowledge, technology, services etc. Then, this tax, unlike all other taxes (on incomes, profits, goods and services etc), cannot be shifted onto the ultimate consumer through augmented prices. But also, no landowner can afford to hold (for whatever reason) his land out of use since he will have to render the tax even if the land is not being used; so landowners will have to use their lands fully or sell/rent/give them to someone else who will do so.

This idea appears in a rule by Āpastamba: “If any person holding land does not exert himself and hence bears no produce, he shall, if rich, be made to pay what ought to have been produced” *kṣetram pariḡrhyotthānābhāvāt phalābhāve yat samṛddhas sa bhavi tad apahāryaḥ* (2.2.28.1). Taxation is not on actual but on estimated production or on the capacity of the piece of land; so the site is put into full use.

A similar measure is found in Kauṭilya’s *Arthaśāstra* : If settlers on new lands do not produce enough according to the estimated capacity of the sites, they shall lose their sites to others and shall make good the loss of taxes to the State (2.1ff).

**10.** Two more aspects should be mentioned.

The first concerns loans and interest. The subject of usury is not mentioned in the *Rgveda* and *Atharvaveda* nor in Āpastamba’s lawbook. Money-lending and interest would arise only when money, a common currency, is used in trade and other economic transactions. Āpastamba refers to ‘barter’ and ‘trade’ *vanijyā, vinimaya, vi-ava-har-* but mentions no money, buying or selling (1.20.10-16). The verb *vi-krī* is used but it could mean simply ‘offers for exchange’, as in many other contexts. Gautama, who is much later, does mention usury for Vaiśyas (10.49) and interest-rates (*vṛddhi*, 12.29). Interest is an unnecessary claim on wealth – except only where there is inflation and then the rate should relate to the inflation. But often interest itself is a cause of inflation.

The second aspect concerns care for the environment. Vasīṣṭha (19.11-12), Manu (9.279, 281-285), Bṛhaspati (19.25-29) and Nārada (11.15) give many guidelines to safeguard a natural environment keeping land in good condition, roads free and waters clean.

**11.** Many economists today admit the virtues of LVT and promote it through the media and the Internet. There are staunch opponents as well, landowners and land-speculators – understandably.

Much indebted to the French “Physiocrats” of the 18<sup>th</sup> cent (Condorcet, Quesnay, Turgot), Adam Smith, the father of modern Economics, wrote that ground-rents (=public value) are “the species of revenue which can best bear to have a peculiar tax imposed upon them”, whereas all other taxes are shifted onto consumers through inflated prices of commodities and services and cause various distortions (*Wealth of Nations* 1776: 5.2.2.1-3). Since then, all economists agree that LVT is an equitable tax (T. Paine, J. S. Mill, J. Galbraith, R. Lipsey, M. Friedman, P. Samuelson *et al*) and some state unequivocally that it alone should provide public revenue (R. Burgess, F. Harisson, M. Hudson, J. Stiglitz *et al*). See for example: T. Paine (1797 – “*Every proprietor of ... land owes to the community the ground-rent*” (p 418, *Agrarian Justice* in M. Phillip (ed) *Thomas Paine ... Oxford, OUP 1995*). See also p 524 in Atkinson A. and Stiglitz J. *Lectures on Economics* London, MacGraw 1980); LVT is the only tax necessary to finance public welfare services. Even Marx had postulated as first measure for the establishment of the proletarian democracy the collection of all rent/surplus for public expenditure (*Communist Manifesto* Section B, end).

LVT has been partly implemented with excellent results in places like Hong Kong, Australia, Denmark etc and some States in America like Pennsylvania and California.

**12.** The most important teaching of Vedic Economics, as for instance in Āpastamba’s Lawbook, is that a man should pursue disciplines pertaining to Self-realisation (*adhy-ātmikān yogān* 1.22). These disciplines consist in good deeds like liberality *dāna*, in restraining negative feelings like anger, envy, malice etc, and in intellectual, devotional, meditational and various other yogic practices, like the five *yamas* enunciated in §2.

It is generally thought that we need to find a good, effective system of economy which will have no booms and busts, no poverty and injustice. This is a very naïve notion. The five *yamas* (*ahimsā-satya-asteya-brahmacarya-aparigraha*) do constitute excellent rules of conduct and have been known for millennia. (In the Christian and Judaic traditions they correspond to five commandments: thou shalt not kill, bear false witness, steal, adulterate and covet others’ possessions!) Corruption, trouble and injustice have appeared because the good laws were not followed and people allowed ambition and greed to govern their behaviour. If people are greedy and corrupt they shall corrupt the finest constitutions, the best laws and justest economic systems.

For a just and happy society, people must be educated thoroughly in honesty, truthfulness and goodness. Socialism, capitalism, (neo-)liberalism and similar politico-economical systems will not avoid corruption and injustice if people are not trained from childhood in ethical conduct.

*ātmalābhān-na paraṃ vidyate* ‘Nothing is found higher than Self-realisation’ states Āpastamba (1.22.2).

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