



Would Arthashastra-inspired policies have led to better Economic Outcomes for Post-Colonial India?

Aaditya Sengupta Dhar

aadityadhar@ecolemondiale.org

Ecole Mondiale World School, Mumbai, Maharashtra

ABSTRACT

After independence from Britain in 1947, the Indian government's economic policies under Prime Minister Nehru intended to lay the foundations for a new, prosperous nation. However, until the reforms of the 1980s and 1990s, India's economy struggled with a notoriously low "Hindu rate of growth" and the stifling bureaucracy of the "License Raj." Nehruvian policy took inspiration from Western Socialist doctrine, discarding ancient Indian economic insights, such as those enshrined in Kautilya's Arthashastra. Written in the fourth century BCE, the Arthashastra is widely regarded as a seminal text on economy and statecraft in the ancient world. Its approach, focusing on market and trade-friendly policies, in many ways, contrasted with the Nehruvian approach. This paper examines the extent to which the implementation of the Arthashastra's tenets would have led to better economic outcomes for post-independence India, focusing on the early years of independence in the 1950s and 60s. It models this through an analysis of likely economic outcomes based on experience in other countries and post-liberalization India. The paper critically examines the social, political, and economic context of post-independence India and their impact on economic policy, concluding that while there was some sound rationale for the Nehruvian policies India adopted for its post-colonial economy, a progressive, if not immediate, implementation of the Arthashastra's ideas would have advanced the arrival of growth and prosperity in India. Moreover, it concludes that this debate transcends questions of economics, pointing more broadly to how India can learn from the wisdom of its past as it moves forward on its path of progress instead of only looking westward for inspiration and role models.

Keywords: Indian Economy, Indian History, Economic History

1. INTRODUCTION

"At the stroke of the midnight hour, when the world sleeps, India will awake to life and freedom."

The first Prime Minister of independent India, Jawaharlal Nehru, uttered these words minutes before midnight on 14 August 1947. The 15th of August would bring India independence, and his words immortalized the nation's joy at its long-awaited deliverance from British rule.

India was reborn. It was restarting, reawakening after two centuries of colonial rule, which had stripped its economy of around \$45 trillion¹, leaving it with a poverty rate of 80%² and a literacy rate of 12%³. As Nehru looked to the uncharted mists of the future, he, with millions of others, dreamed of a nation unfettered by the past that could rise above the darkness of imperialism and poverty.

A strange dichotomy characterized India's independence. On the one hand, India was a new nation, emerging from the tumults of two centuries of colonial rule. On the other, it was ancient civilization revitalized after centuries of stasis and suppression. Written around 350 BCE, the ancient Indian text *Vayu Purana* defines *Bharatvarsha* as the land "south of the Himalayas and north of the oceans."⁴ The land of *Bharatvarsha* had pulsed with the vigor and life of a glorious civilization that composed sprawling epics and was the world's center of learning, with a rich tradition of scholarship in astronomy, mathematics, philosophy, and economics.

¹ "Independence Day: How the British Pulled off a \$45 Trillion Heist in India." *The Economic Times*, 15 Aug. 2023, economictimes.indiatimes.com/news/india/independence-day-how-the-british-pulled-off-a-45-trillion-heist-in-india/articleshow/102746097.cms?from=mdr

² Guruswamy, Mohan. "India at 70: The Good and Bad of India's Growth Story." *Hindustan Times*, 15 Aug. 2017, www.hindustantimes.com/opinion/india-at-70-the-good-and-bad-of-india-s-growth-story/story-Y2aLsMN1nbQVr8mmI4kPON.html.

³ Garhwal, Pauri. "From Independence to Now: A Comprehensive Analysis of the Journey of Literacy Rates in India." *The Academic*, vol. 2, no. 10, Oct. 2024.

⁴ Tagare, Ganesh Vasudeo. *The Vāyu Purāṇa*. Motilal Banarsidass, 1987.

Moreover, it was an economic powerhouse. In his book *Contours of the World Economy*, British economist Angus Maddison estimates that India was the world's largest economy from 300 BCE to around 1500 CE and controlled 33-35% of global GDP at the dawn of the Common Era⁵. Ancient India's seminal text on this subject, a historic work on economics and statecraft unlike any in the ancient world, is the *Arthashastra*, written by Kautilya, advisor to the Maurya emperors. The text provides many sophisticated insights into the management of an economy and society. It is especially invaluable because scholars believe it was written around 300 BC when the Mauryan Empire was ascending, an empire that would take the Indian economy to its zenith. As Maddison writes, the rise of the Mauryas marked "the first time that India was unified under one ruler," laying the foundations for rapid growth in the coming centuries. The *Arthashastra* is, to a great extent, the only surviving embodiment of that age's economic wisdom and insights.

The ancient concept of *Bharatvarsha*, though, was re-manifesting after being suppressed for many centuries by invaders and wars that had fragmented it into over 500 princely states, largely erasing notions of a common identity and a shared history. To many, by 1947, the memories of ancient glory were distant. At independence, though, India had the opportunity to reclaim its past, to draw from its reservoir of forgotten, untapped knowledge. Nehru's government thus found itself at a crossroads- to chart the way ahead, would it consult the wisdom of the ancients, immortalized in works such as the *Arthashastra*? Or would it seek to relieve itself of the weight of millennia of complex history to begin its journey afresh?

Nehru chose the latter path.

In his book *The Discovery of India*, he wrote, "Our lives are encumbered with the dead wood of the past; all that is dead and has served its purpose must go."⁶ The West greatly influenced his thinking. He studied at Cambridge and practiced law in Britain and was thus exposed to the Western theories and philosophies of the day and found in them the opportunity to chart a new course for India, liberated from the "dead wood" of the past.

This attitude shaped his approach to leading the nation, including his economic policy. As Member of Parliament and diplomat Pavan Varma wrote, in the government's narratives, "India's past became some kind of dark cesspool threatening to hold the country back from progress towards the shining utopia of a rational, industrial, and scientific state."⁷ Thus, Nehru took inspiration from the West- primarily from the communism of the USSR and the Fabian Socialism of Britain. Arvind Panagariya of Columbia University writes in his book *The Nehru-Era Economic History and Thought* that Nehru was a "radical socialist, bordering communist."⁸ These principles would define his economic policy.

In shunning the past, did Nehru and his government miss an opportunity to learn from rich sources of knowledge like the *Arthashastra*? To what extent would India's economic outcomes post-independence in the 1950s and 60s have been better had Nehru taken a very different approach and adopted the principles of the *Arthashastra*?

2. A CRITICAL ANALYSIS OF POST-COLONIAL INDIA'S ECONOMIC POLICIES

To understand this, we must first examine the tenets and outcomes of the policy India adopted. The Nehru government's philosophy emphasized ending poverty and building the economic and industrial foundations for a nascent nation. To this end, its core tenets were, as Panagariya summarizes, "socialism, self-sufficiency, and heavy-industry development."

Socialism, inherently, meant restricting the private sector and keeping the economy public sector-oriented. The idea of a capitalist system of growth, profit, and innovation was anathema. Centralized planning drove the government's pursuit of these aims, with the Second Five-Year Plan of 1956 kickstarting the development of the public sector and the era of the Licence Raj. A pun on the imperialist "British Raj," this phrase evoked the suffocating nature of the regulations and license requirements imposed on private enterprise. Nehru once told the renowned industrialist JRD Tata, "Never speak to me of profit. It is a dirty word." In the name of socialism and the eradication of profit, India lost out on growth, which infamously settled at around 3.5% for decades. This was dubbed the "Hindu rate of growth," revealing India's image as a nation inherently doomed to stagnate. To put this in perspective, Pakistan, inheriting a similarly imperialism-battered economy, managed a GDP growth of 6.7% in the 1960s⁹.

In the following years, government control only tightened. Acts like the 1969 Monopolies and Restrictive Trade Practices Act and the 1976 and 1982 Industrial Dispute Act amendments, intended to create fairer competition and protect workers, created an excessively stifling system. As journalist Amit Varma writes, "It became virtually impossible to lay off employees, and unions became immensely powerful."¹⁰ The fact that regulations increased as companies expanded curbed growth and prevented the emergence of economies of scale.

⁵ Angus Maddison. *Contours of the World Economy, 1-2030 AD : Essays in Macro-Economic History*. Oxford University Press, 2007.

⁶ Nehru, Jawaharlal. *The Discovery of India*. Viking, 2004.

⁷ Varma, Pavan. "India's Textbooks Were Written with Nehru in Mind. It Rejected the Past." *ThePrint*, 9 Aug. 2021, theprint.in/pageturner/excerpt/indias-textbooks-were-written-with-nehru-in-mind-it-rejected-the-past/711578/. Accessed 9 Jan. 2025.

⁸ Panagariya, Arvind. *The Nehru-Era Economic History and Thought & Their Lasting Impact*. Oxford University Press, 2024.

⁹ Muhammad Iqbal, Anjum, and Sgro Pasquale Michael. "A Brief History of Pakistan's Economic Development." *Real-World Economics Review*, no. 80, 2017.

¹⁰ Varma, Amit. "Profit's No Longer a Dirty Word: The Transformation of India." *Econlib*, 4 Feb. 2008, www.econlib.org/library/Columns/y2008/Varmaprofit.html.

Extremely high taxation, intended to redistribute income, also constricted the economy, reducing consumer spending and constraining businesses. By the 1960s, the income tax rate for the highest slab was 74.75% - 82.5%, and by 1973-74, it was an unbelievable 97.5%¹¹.

Additionally, the government's focus on heavy industry had several unintended consequences. The Second Five-Year Plan, driven by the views of Nehru and his advisor Prasanta Mahalanobis, focused largely on heavy industry. As economist Andrew Shonfield said, it showed the government's intention to "reduce the proportion of agricultural investment and to increase that of industrial investment,"¹² a compromise made necessary by the limited quantity of capital available. Moreover, India's approach was at odds with a more conventional ISI (import-substitution industrialization) model. Had India followed such a model, as Panagariya explains, it would have progressed gradually from assembly activities to components production before developing the capabilities for heavy industry development. Instead, Nehru "went for exactly the opposite of the sequence that the ISI model recommended." In the Second Five Year Plan, more than half the amount allocated to industry went to steel alone, with most of the rest going to other forms of heavy industry. This was damaging- Panagariya emphasizes that "Nehru's decision to frontload his development model with...heavy industry at a time when investable capital was highly scarce" was "the real key to the failure" of the economy. It also led to a sudden reduction in agricultural investment, which left India defenseless when droughts hit in the 1960s, compelling it to live off foreign aid and import 10 million tons of food over two years. As economist Swaminathan Aiyar wrote, in the 1960s, "Any major drought meant India was dependent on food aid."¹³ Nehru himself was to admit, six months before his death, that "Though we all know that agriculture is essential and basic, it has been rather neglected."¹⁴

Furthermore, the lack of diversification of industrial development, which was largely oriented around heavy industry, constrained the employment opportunities available for unskilled labor. Panagariya writes, "The result was a painfully slow transition of workers from below-subsistence agriculture into industry and services."¹⁵ Indeed, the proportion of the workforce in agriculture was 69.7% in 1971, unchanged from 20 years earlier. This hindered poverty alleviation efforts. As Gaurav Datt of the World Bank wrote, "The period up to the mid-1970s was characterized by fluctuations in poverty without a trend."¹⁶

However, it is important to understand the context in which the government adopted these policies. India was a nascent, crippled economy with woefully inadequate infrastructure for progress. In this context, the government prioritized industrialization as a way to lay the foundations for future growth and facilitate the growth of the primary sector, too. Policies of import substitution and self-reliance were a part of this approach, allowing the nation to work towards having self-sufficient and highly productive industries.¹⁷

The data shows the extent of the skew towards the secondary sector. In 1950-65, the Trend Growth Rate of GDP for the Secondary Sector was an impressive 6.8%, compared to 2.6% for the Primary Sector¹⁸. Economist Pulapre Balakrishnan captured the positive impact of the focus on industrialization when he wrote, "The Indian economy had been transformed from a colonial enclave to one with at least some of the prerequisites for sustained long-term growth."¹⁹ It equipped India with these prerequisites for growth by giving it "an extremely diverse industrial structure and high degree of self-sufficiency"²⁰, as economist Gary Pursell writes.

Perhaps the pro-heavy industrialization and self-reliant approach contributed to economic growth in later decades. However, the overall stagnation of the economy and lack of poverty reduction till the 1980s and 1990s indicate that the benefits of industrial capabilities could not compensate for the suffocating impact of the government policies, including the very policies that fueled the development of these capabilities.

Data indicates that relatively low income inequality was another positive aspect. In 1961, the top 1% of earners owned only 13% of wealth, compared to 39% in 2023²¹. Bharti et al. from the World Inequality Lab attributes this to a "broadly socialist policy agenda pursued by the Indian government till the 1980s." The lack of reduction in poverty during this period, though, indicates that this lower level of inequality was caused by general stagnation and paucity of wealth as opposed to growth or social mobility.

¹¹ BusinessToday.In. "A Chronology of Income Tax since 1950s." *Business Today*, 3 July 2009, www.businesstoday.in/magazine/trends/story/a-chronology-of-income-tax-since-1950s-245045-2009-07-03.

¹² Bareau, Paul, et al. "India's Second Five-Year Plan." *International Affairs*, vol. 33, no. 3, July 1957, pp. 301-9, <https://doi.org/10.2307/2605450>.

¹³ S. Anklesaria Aiyar, Swaminathan. "Twenty-Five Years of Indian Economic Reform." *CATO Institute*, 26 Oct. 2016, www.cato.org/policy-analysis/twenty-five-years-indian-economic-reform.

¹⁴ Balakrishnan, Pulapre. "The Recovery of India: Economic Growth in the Nehru Raj." *Economic and Political Weekly*, May 2007.

¹⁵ Panagariya, Arvind. "Nehru's Real Big Mistake: Heavy Industry Wrongly Got Priority in 1950s. So Even at 75, India Isn't Rich." *Times of India Blog*, 19 Aug. 2021, timesofindia.indiatimes.com/blogs/toi-edit-page/nehru-real-big-mistake-heavy-industry-wrongly-got-priority-in-1950s-so-even-at-75-india-isnt-rich/.

¹⁶ Datt, Gaurav. *POVERTY in INDIA 1951-1994: TRENDS and DECOMPOSITIONS*. World Bank, Aug. 1997, documents1.worldbank.org/curated/en/253831468049773494/pdf/900360WP0Pover00Box385299B00PUBLIC0.pdf. Accessed 22 Apr. 2024.

¹⁷ Panagariya, Arvind. *India's Trade Reform*. India Policy Forum, 2004, www.brookings.edu/wp-content/uploads/2016/07/2004_panagariya.pdf.

¹⁸ Balakrishnan, Pulapre. "The Recovery of India: Economic Growth in the Nehru Raj." *Economic and Political Weekly*, May 2007.

¹⁹ Balakrishnan, Pulapre. "The Recovery of India: Economic Growth in the Nehru Raj." *Economic and Political Weekly*, May 2007.

²⁰ Panagariya, Arvind. *India's Trade Reform*. India Policy Forum, 2004, www.brookings.edu/wp-content/uploads/2016/07/2004_panagariya.pdf.

²¹ Kumar Bharti, Nitin, et al. *INCOME and WEALTH INEQUALITY in INDIA, 1922-2023: THE RISE of the BILLIONAIRE RAJ*. World Inequality Lab, 2024, wid.world/www-site/uploads/2024/03/WorldInequalityLab_WP2024_09_Income-and-Wealth-Inequality-in-India-1922-2023_Final.pdf.

Overall, the policies seemed to have constrained India's economy more than they strengthened it. Where did the government go wrong? There is a lot to say about specific errant economic policies, but could there have been a more fundamental error- the neglect of the wisdom of the ancients?

3. AN EXPLORATION OF THE *ARTHASHASTRA*'S ECONOMIC TENETS

At its core, the *Arthashastra* called upon governments to support private enterprise, profit, trade, and growth while selectively enforcing state regulations to establish checks and balances for the welfare of society.

Kautilya places a lot of emphasis on both aspects. When writing that the king must "remove all obstructions to economic activity," he explained this by saying, "In the absence of fruitful economic activity, both current prosperity and future growth are in danger of destruction."²² As Skare writes in the *Journal of Philosophical Economics*, there is evidence in the text that this approach facilitated a "fully operational market economy" with the "supply and demand forces...to set the price mechanism"²³ millennia before the idea of the free market arose in Western thought.

Kautilya wrote of encouraging tax breaks and constructing infrastructure like highways and canals for more efficient transport. He even wrote of the state's duty to implement the efficiency wage theory- paying workers above the market rate to incentivize productivity. These wages depended on an individual's productivity- for instance, Kautilya wrote that, in a Yarns factory, "ascertaining the fineness, coarseness or medium quality of the yarn, and the largeness or smallness of quantity" was essential for setting a wage.²⁴

To a great extent, as Skare writes, Kautilya's faith in market forces indicated his belief that "Private property and self-interest had a strong role in promoting personal welfare and, in turn, state development"- an idea reminiscent of Adam Smith's "invisible hand" in modern capitalism. However, Kautilya also gave a strong justification for the need for state intervention to guide and temper the capitalist force of growth. He writes, as Skare summarizes, that "forces of a privately guided market were an interest in itself, and the invisible hand, in turn, could not look after the public interests."²⁵

With this in mind, the state discouraged monopolistic practices and established price controls. Furthermore, it used limits on profit margins to prevent excessive profits, which, Kautilya believed, would lead to "unfair income redistribution." Skare even finds evidence of a "detailed and well-organized price support scheme for agricultural products."²⁶

Overall, his summary of the *Arthashastra*'s ideal economic system being a "sum of the 'invisible and visible hand' system"²⁷ captures the essence of Kautilya's economic ideas. Kautilya envisioned a system guided equally by the state (the visible hand) and the market forces (the invisible hand).

One key tool of the "visible hand" was taxation. Taxation was crucial for revenue- Kautilya wrote that "All undertakings depend on finance. Hence, foremost attention must be paid to the treasury." However, he cautioned against overzealous taxation. Recognizing that high tax stifles growth, he advised that "Just like a leech, calf, and bee draw only small... quantities from their respective feeds... a King should...take from his subjects, very small amounts of taxes."²⁸ Based on this idea, he proposed a tax rate of 1/6 across personal and industrial contexts, which Srivastava of the National Institute of Finance and Public Policy refers to as the "Manu-Kautilya tax rate"²⁹. This is relatively low compared to modern India's Personal Income Tax Rate of 42.74%³⁰ and a Corporate Tax Rate of 34.94%³¹. The Manu-Kautilya tax rate, Srivastava finds, is "not arbitrary" and is founded on modern ideas of the Laffer Curve, which indicates that a very high tax rate does not maximize revenue as it disincentivizes work and productivity. Instead, a moderate tax rate leads to maximum revenue, balancing between incentivizing work and extracting revenue from the available income.

Another key aspect of the State's efforts to fuel growth was economic diversification. Skare finds that Kautilya believed "Only a diversified economy can assure stable and prosperous economic growth." Indeed, Kautilya wrote of several industries, including agriculture and fishery, mining, textiles, salt, jewelry, and arms. However, as Skare comments, it is clear that Kautilya saw agriculture as "the main source of economic growth" and food security as the fulcrum of a stable, prosperous economy.

²² Kautilya. *Arthashastra*. Fingerprint! Publishing, 2021.

²³ Škare, Marinko. "The Missing Link: From Kautilya's the *Arthashastra* to Modern Economics." *Journal of Philosophical Economics*, vol. 6, no. 2, May 2013, <https://doi.org/10.46298/jpe.10645>.

²⁴ Kautilya. *Arthashastra*. Fingerprint! Publishing, 2021.

²⁵ Škare, Marinko. "The Missing Link: From Kautilya's the *Arthashastra* to Modern Economics." *Journal of Philosophical Economics*, vol. 6, no. 2, May 2013, <https://doi.org/10.46298/jpe.10645>.

²⁶ Škare, Marinko. "The Missing Link: From Kautilya's the *Arthashastra* to Modern Economics." *Journal of Philosophical Economics*, vol. 6, no. 2, May 2013, <https://doi.org/10.46298/jpe.10645>.

²⁷ Škare, Marinko. "The Missing Link: From Kautilya's the *Arthashastra* to Modern Economics." *Journal of Philosophical Economics*, vol. 6, no. 2, May 2013, <https://doi.org/10.46298/jpe.10645>.

²⁸ Kautilya. *Arthashastra*. Fingerprint! Publishing, 2021.

²⁹ Srivastava, DK. *On The Manu-Kautilya Norms Of Taxation: An Interpretation Using Laffer Curve Analytics On The Manu-Kautilya Norms Of Taxation: An Interpretation 2 Using Laffer Curve Analytics*. 1999, www.nipfp.org.in/media/pdf/working_papers/WP_1999_172.pdf.

³⁰ India Personal Income Tax Rate | 2004-2020 Data | 2021-2022 Forecast | Historical." *Tradingeconomics.com*, Trading Economics, tradingeconomics.com/india/personal-income-tax-rate.

³¹ "India Corporate Tax Rate." *Tradingeconomics.com*, TRADING ECONOMICS, 10 Oct. 2022, tradingeconomics.com/india/corporate-tax-rate.

This conviction is evident in quotes from the *Arthashastra* like, “cultivable land is better than mines because mines fill only the treasury while the agricultural production fills both the treasury and storehouses.”³² The Indian government post-independence, living “ship-to-mouth”, would have done well to heed these words. Interestingly, agriculture is the most state-controlled sector in the *Arthashastra*’s model, with “all activities involving land... under the control of the Chief superintendent of the State”, which managed land disposition and ensured it was allocated equitably and productively.³³ This demonstrates how crucial Kautilya believed it was to ensure that agriculture was as efficient and orderly as possible.

Trade was also a crucial part of his vision of growth. To encourage imports, Kautilya recommended that the government keep taxes on imports lower than on domestic production (1/5 vs 1/6). On top of this, he advises that “mariners (nāvika) and merchants who import foreign merchandise...be favored with remission of the trade taxes, so that they may derive some profit.”³⁴ Cultivating positive relations with foreign traders was part of the attempt to encourage imports. Thus, Kautilya asserted that suing foreign traders in the event of a dispute be prohibited, though he deemed it acceptable to sue local partners. Besides fostering ongoing economic growth, Kautilya also saw good trade ties as insurance against shortages, during which the government incentivized imports to build a buffer stock, selling the surplus.³⁵

However, trade was not free- as in other areas, the state intervened to ensure that it was economically and strategically beneficial. A core aspect of this was the application of the principle of comparative advantage- of exporting only if the economy could provide goods at a lower opportunity cost than others. Indeed, Skare writes that Kautilya developed “a modern and complex theory of international trade and comparative advantage in no sense inferior to Ricardo’s.” Kautilya writes of the government applying such principles to export “to regions and areas generating profits while unprofitable areas were avoided.” It barred traders from engaging in unprofitable exchange. However, “Exception was made in the case of...possible future allies or strategic trade partners.”³⁶ The government also established a system of “tariffs, import rates, trade duties, price subsidy and trade control” to regulate the market.

A final key aspect of the *Arthashastra*’s model was social welfare. The work emphasizes that it is the “king’s utmost duty to look after progress and welfare of people of his country.” This includes the duty to “maintain children, aged persons and persons in distress” and the distribution of a royal “sealed pass from the Controller of shipping (free of charge)” to “wandering monks, children, old persons...” for protection. There is even reference, Skare says to the distribution of free grains to the unemployed, and the “responsibility to provide job support and assistance to the head of the household.”³⁷ As he writes, “The State’s welfare policy was mainly oriented to the needs of the helpless” to “enable them to retain a social status equal to that of average people.” However, the *Arthashastra* does not mention any government department or officers for education or health, which are seen as essential today. The broad idea of social welfare, though, is very advanced for its time.

Now, we must consider whether the *Arthashastra*’s theories, which clearly contrast with Nehruvian ideas in many ways, would have led to better economic outcomes for post-independence India.

4. MODELING THE ADOPTION OF THE ARTHASHASTRA’S ECONOMIC TENETS IN NEWLY INDEPENDENT INDIA

Interestingly, while India’s economy in the first three decades of independence had little in common with the *Arthashastra*’s model economy, India eventually adopted policies more in line with Kautilya’s recommendations. Studying how these new policies affected India’s economy could help us make inferences on their possible impact had they been implemented earlier in the 1950s or 1960s.

One aspect was the change in attitudes towards the private sector. Dani Rodrik of Harvard University and Arvind Subramanian of the IMF posit that the shift occurred in the 1980s and that “the trigger for India’s economic growth was an attitudinal shift on the part of the national government in 1980 in favor of private business.”³⁸ The government created this perception with a few reforms that eased business, including the exemption of large industries from investment licensing requirements and the amendment of the MRTP (Monopolies and Restrictive Trade Practices) Act, which led to a quintupling in the revenue limit above which a firm needed state approval for expansion or mergers. At this time, in the 1980s, GDP growth finally began to accelerate, averaging 5.6 percent.

This strongly indicates that a more balanced approach that used a “sum of the visible and invisible hand,” like the one the *Arthashastra* proposed, would have led to greater growth in post-independence India.

³² Kautilya. *Arthashastra*. Fingerprint! Publishing, 2021.

³³ Škare, Marinko. “The Missing Link: From Kautilya’s the *Arthashastra* to Modern Economics.” *Journal of Philosophical Economics*, vol. 6, no. 2, May 2013, <https://doi.org/10.46298/jpe.10645>.

³⁴ Kautilya. *Arthashastra*. Fingerprint! Publishing, 2021.

³⁵ Škare, Marinko. “The Missing Link: From Kautilya’s the *Arthashastra* to Modern Economics.” *Journal of Philosophical Economics*, vol. 6, no. 2, May 2013, <https://doi.org/10.46298/jpe.10645>.

³⁶ Škare, Marinko. “The Missing Link: From Kautilya’s the *Arthashastra* to Modern Economics.” *Journal of Philosophical Economics*, vol. 6, no. 2, May 2013, <https://doi.org/10.46298/jpe.10645>.

³⁷ Škare, Marinko. “The Missing Link: From Kautilya’s the *Arthashastra* to Modern Economics.” *Journal of Philosophical Economics*, vol. 6, no. 2, May 2013, <https://doi.org/10.46298/jpe.10645>.

³⁸ Rodrik, Dani, and Arvind Subramanian. *From “Hindu Growth” to Productivity Surge: The Mystery of the Indian Growth Transition*. NATIONAL BUREAU OF ECONOMIC RESEARCH, 2004, <https://doi.org/10.3386/w10376>.

With regards to trade, too, the government began adopting *Arthashastra*-esque policies in the 1980s, including reducing the share of canalized imports (imports with government monopoly) from 67% to 27%, incentivizing exports with Replenishment Licenses, and increasing the number of capital goods types given the export license (OGL license) from 79 to 1329³⁹. These policies seemed to have boosted the economy- an increase in the imports-to-GDP ratio from 4.1% to 6% in 1976-90 coincided with rapid GDP growth⁴⁰. Arvind Panagariya writes that India's case in this period is evidence of how "low and/or declining barriers to trade constitute a necessary condition for sustained rapid growth"⁴¹, an insight that would have resonated with Kautilya. Perhaps establishing a trade-friendly environment earlier would have brought this growth sooner after independence.

Another key question on which Nehruvian and Kautilyan thinking clash is the question of which sector should be the basis of growth- agriculture or heavy industry.

Modern economists have often corroborated Kautilya's belief in the importance of agricultural development for sustained economic growth. As economists John W Mellor and Uma Lele wrote, "It is unlikely that employment and income of the poor can be increased successfully without expanded foodgrain supply."⁴² Driven by this idea, economists like Irma Adelman advocated for ADLI (agriculture-demand-led industrialization), with increases in farm income fueling demand and providing production linkages for industrialization through raw materials⁴³.

India after the initial post-independence years is a great case study of this model, helping us understand the social and economic opportunities missed due to the focus on heavy industry in the 1950s and 1960s.

Although the Green Revolution began in 1965, India, due to its weak agricultural sector, took time to capitalize on innovations such as new fertilizers, HYVs (High-Yield Varieties), and pesticides. Thus, India made little progress in agriculture between the mid-1960s and mid-1970s, a period that Fujita of Kyoto University calls the "lost decade"⁴⁴. However, by the Second Wave of the Green Revolution, which lasted from the mid-1970s to the mid-1980s, the agricultural sector had benefited enough from the innovations to begin growing. Agricultural wages thus increased by 37-47% in 1977-88⁴⁵. As a result, poverty finally fell, from 55% to 35% over the 1970s and 1980s⁴⁶. These rising rural incomes did, indeed, fuel demand. Market surveys conducted by the Indian Council of Applied Economic Research showed that after the 1980s, rural households owned more than half of consumer durables (household goods), with the rural market expanding much faster than the urban market due to the newly boosted incomes⁴⁷. Overall, Fujita finds that the second Green Revolution "was vital in creating a market in rural areas for non-agricultural products and services, establishing a foundation for rapid economic growth after the 1990s."⁴⁸ This indicates that more focus on agriculture to drive growth rather than on heavy industry would likely have been beneficial in the 1950s and 1960s.

A similarly significant shift was seen in India's taxation policies. From 1974-75 onwards, the government reduced rates. In the next two years, they pulled marginal rates down to 66%, which, by 1997-98, had morphed into three brackets of 10, 20, and 30%.⁴⁹ They also implemented several reforms, such as the MODVAT (Modified VAT) tax which deducted excise duties paid on industrial inputs, reducing costs and incentivizing production. The relaxation of this oppressive tax regime was crucial in the change of the economy's fortunes- as author Gurcharan Das wrote, the "dropped tax rates" were central to India's liberation "from a rapacious and domineering state."⁵⁰ Besides fostering freer private enterprise and expansion, the tempered tax rates also, in line with the

³⁹ Panagariya, Arvind. "India in the 1980s and 1990s: A Triumph of Reforms." *IMF Working Paper*, International Monetary Fund, Mar. 2004, www.imf.org/external/pubs/ft/wp/2004/wp0443.pdf.

⁴⁰ Panagariya, Arvind. "India in the 1980s and 1990s: A Triumph of Reforms." *IMF Working Paper*, International Monetary Fund, Mar. 2004, www.imf.org/external/pubs/ft/wp/2004/wp0443.pdf.

⁴¹ Panagariya, Arvind. "India in the 1980s and 1990s: A Triumph of Reforms." *IMF Working Paper*, International Monetary Fund, Mar. 2004, www.imf.org/external/pubs/ft/wp/2004/wp0443.pdf.

⁴²W Mellor, John, and Uma J Lele. "Growth Linkages of the New Foodgrain Technologies - ProQuest." *Indian Journal of Agricultural Economics*, vol. 28, no. 1, 2025, www.proquest.com/openview/6e92c8244a9d3e80ab43549b57a3fa35/1?pq-origsite=gscholar&cbl=1818936.

⁴³ Fujita, Koichi. *The Green Revolution and Its Significance for Economic Development -the Indian Experience and Its Implications for Koichi Fujita*. JICA Research Institute, June 2010, www.jica.go.jp/Resource/jica-ri/publication/workingpaper/jrft3q000000231s-att/JICA-RI_WP_No.17_2010.pdf.

⁴⁴ Fujita, Koichi. *The Green Revolution and Its Significance for Economic Development -the Indian Experience and Its Implications for Koichi Fujita*. JICA Research Institute, June 2010, www.jica.go.jp/Resource/jica-ri/publication/workingpaper/jrft3q000000231s-att/JICA-RI_WP_No.17_2010.pdf.

⁴⁵ Fujita, Koichi. *The Green Revolution and Its Significance for Economic Development -the Indian Experience and Its Implications for Koichi Fujita*. JICA Research Institute, June 2010, www.jica.go.jp/Resource/jica-ri/publication/workingpaper/jrft3q000000231s-att/JICA-RI_WP_No.17_2010.pdf.

⁴⁶ Datt, Gaurav. *POVERTY in INDIA 1951-1994: TRENDS and DECOMPOSITIONS*. World Bank, Aug. 1997, documents1.worldbank.org/curated/en/253831468049773494/pdf/900360WP0Pover00Box385299B00PUBLIC0.pdf.

⁴⁷ Fujita, Koichi. *The Green Revolution and Its Significance for Economic Development -the Indian Experience and Its Implications for Koichi Fujita*. JICA Research Institute, June 2010, www.jica.go.jp/Resource/jica-ri/publication/workingpaper/jrft3q000000231s-att/JICA-RI_WP_No.17_2010.pdf.

⁴⁸ Fujita, Koichi. *The Green Revolution and Its Significance for Economic Development -the Indian Experience and Its Implications for Koichi Fujita*. JICA Research Institute, June 2010, www.jica.go.jp/Resource/jica-ri/publication/workingpaper/jrft3q000000231s-att/JICA-RI_WP_No.17_2010.pdf.

⁴⁹ Sharma, Rishabh. "When Indira Gandhi Brought 97.5% Income Tax Rate." *India Today*, 26 Apr. 2024, www.indiatoday.in/history-of-it/story/india-income-tax-rate-975-indira-gandhi-yb-chavan-congress-lok-sabha-elections-2531881-2024-04-26. Accessed 10 Jan. 2025.

⁵⁰ Das, Gurcharan. *India Unbound*. Anchor, 2002.

Arthashastra's ideas and the Laffer Curve, increased revenue. M Govinda Rao of the Institute for Social and Economic Change found a "steady increase in the tax-GDP ratio"⁵¹ in the 1970s and 1980s, generating revenue that could fuel more investment in growth.

Another way to understand the potential impact on the Indian economy of the *Arthashastra*'s policies is to look at other newly independent, emerging economies that were implementing some of them- the Southeast Asian countries. The "Asian tiger economies"- Singapore, Hong Kong, South Korea, and Taiwan- consistently grew at around eight percent⁵², while Malaysia averaged 6.5% growth in the first four decades after independence⁵³. Extensive free trade drove their rapid development, especially their EOI (Export-oriented industrialization) approach. Foreign direct investment (FDI) was also crucial, growing from 16% to 33% in 1970-90 in the four Asian Tiger Economies⁵⁴. By adopting an open, trade-friendly stance contrasting with India's, these countries got a head-start in their path of development.

Based on the above, it may seem clear that the Indian government should have gone back to India's ancient roots and applied many aspects of Kautilyan economic principles. However, economic policies are not devised in vacuums but in a political and social context. Kautilya formulated his theories when India was a vast, stable, wealthy empire, while Nehru's government inherited a poverty-ridden, dilapidated nation. Thus, the government post-independence saw a self-reliant, socialist approach as a stable way to begin restoring the country. Moreover, the government wanted to stay clear of the tumults of the Cold War and thus led the Non-Aligned Movement (NAM).

For Nehru, an essential part of maintaining India's independence in the Cold War era international order was limiting foreign trade. As Panagariya explains, Nehru was convinced by his knowledge of the history of imperialism that "international trade inevitably gave rise to imperialist tendencies" due to how, historically, "capitalist nations needed colonies as the sources of raw materials." Since Nehru saw international trade as an imperialist tool, he also believed India would tacitly be accepting this imperialist order by freely trading with the West. When justifying the push to develop all heavy industry indigenously, he asserted that "to import them from abroad is to be slaves of foreign countries."

In some ways, this belief is understandable. Southeast Asian nations that had been growing faster than India, largely due to free trade with and foreign investment from the West, were getting embroiled in proxy wars due to foreign powers' aggressive pursuit of their interests in the region. These included the 1948-60 Malaysian Emergency and the Vietnam War. In these countries, free trade with the West became a mechanism for increased foreign involvement and, ultimately, the perpetration of devastating conflict.

Also, the East Asian nations' EOI and FDI-driven growth proved less secure than most imagined. The 1997-98 Asian Financial Crisis, which plunged around 18 million Indonesians into poverty in its first year, was proof of this.⁵⁵ Carson and Clark of the Federal Reserve identify "increased reliance on foreign savings" in the absence of domestic development as a key cause. Due to these foreign savings, the countries had maintained a "strong growth record" which had "masked important vulnerabilities"⁵⁶. Had India over-enthusiastically adopted similarly open and trade-friendly policies post-independence, it may have had similarly short-lived and unsustainable growth. Thus, there seems to have been merit, if not in Nehruvian policies, at least in the mindset of seeking self-sufficiency and stability to work towards future growth rather than fervently pursuing short-term gains.

Moreover, India's battered, underdeveloped state post-independence created pressure, which the government responded to by keeping a stronger grip on the economy's reins. The Partition of 1947 also scarred Indian society, killing around two million⁵⁷ and leaving around 15 million displaced⁵⁸. Even post-independence, India continued to be beset by tumults- tensions on the border with Pakistan, which erupted in war in 1965 and 1971, and with the Portuguese, who obstinately held on to Goa till 1961. In this political climate, the urge to keep the economy state-controlled is perhaps understandable.

Critics may also question the lack of government efforts to work towards the welfare of those in poverty. India, here too, was constrained by a crippled economy. It was a food-deficit country well into the 1960s, forced to import food or ask for aid. India had, as many commentators say, a "ship-to-mouth existence," struggling to feed its population⁵⁹.

⁵¹ Rao, M. Govinda. "Tax System Reform in India: Achievements and Challenges Ahead." *Journal of Asian Economics*, vol. 16, no. 6, Dec. 2005, pp. 993-1011, <https://doi.org/10.1016/j.asieco.2005.10.003>.

⁵² Young, Alwyn. "The Tyranny of Numbers: Confronting the Statistical Realities of the East Asian Growth Experience." *National Bureau of Economic Research*, vol. 110, Mar. 1994, www.nber.org/papers/w4680.

⁵³ Malaysia. U.S. Department of State, 2017, 2009-2017.state.gov/outofdate/bgn/malaysia/144561.htm#.

⁵⁴ Severns, Charlotte. *The Development of the Four Asian Tigers*. Borgen Project, 6 Mar. 2021, www.borgenmagazine.com/development-of-the-four-asian-tigers/.

⁵⁵ Baker, Richard. *Indonesia in Crisis*. East-West Center, May 1998, www.files.ethz.ch/isn/28415/api036.pdf.

⁵⁶ Carson, Michael, and John Clark. "Asian Financial Crisis." *Federal Reserve History*, Federal Reserve Bank of New York, 2013, www.federalreservehistory.org/essays/asian-financial-crisis.

⁵⁷ Mohsin, Moni. "'The Wounds Have Never Healed': Living through the Terror of Partition." *The Guardian*, 2 Aug. 2017, www.theguardian.com/world/2017/aug/02/wounds-have-never-healed-living-through-the-terror-partition-india-pakistan-1947.

⁵⁸ "Partition: Why Was British India Divided 75 Years Ago?" *BBC News*, 15 Aug. 2022, www.bbc.com/news/world-south-asia-62467438.

⁵⁹ Little, Dave, and Mausam Budhathoki. "How China's Appetite for Salmon Could Reshape Global Seafood Markets — New Research." *Down to Earth*, 8 Jan. 2025, www.downtoearth.org.in/food/how-chinas-appetite-for-salmon-could-reshape-global-seafood-markets-new-research.

Today, the Indian government is providing free rations to 800 million Indians for five years⁶⁰, something Kautilya would approve of. It would have been impossible for India to do this in the 1950s or 1960s.

Indeed, this drive for stability is perhaps what preserved India's democratic system, while that of Pakistan, which had once outpaced it in economic growth, crumbled. Pakistan was rocked by military coups in 1958, 1977, and 1999 and is today struggling with political instability, poverty, inflation, and various other issues. Its GDP growth in 2024 was merely 2.4%⁶¹, and it struggles with the highest debt-to-GDP ratio for a major economy⁶².

5. CONCLUSION

Overall, in a purely economic sense, applying Kautilyan policies would likely have improved India's fortunes in the years immediately following independence. However, looking at the context- India's socio-political and economic state and the fate of some others (Southeast Asian countries and Pakistan) who adopted more free-market and trade-friendly policies early on- helps us understand the government's urge to maintain stability, guiding the economy with the steady hands of the state. As Panagariya sums up, "Although the credit for this steady growth without...goes to the macroeconomic stability and policy credibility that the government provided, the blame for the relatively low rate of growth...must be assigned to the myriad microeconomic distortions...that straitjacketed India's entrepreneurs."⁶³ Perhaps, to preserve macroeconomic stability without sacrificing growth, the best option would have been to progressively incorporate aspects of the *Arthashastra's* model instead of waiting till the 1980s and 1990s. This would have kickstarted India's development earlier, benefiting billions and building the foundations for even faster growth in the following decades.

The core learnings from this transcend questions of India's economy post-independence or even the exploration of the intersection of economics and history this essay attempts. In 1947, India was at a fork in the road. One path had been blazed by the ancients long ago, which India could have taken, guided by the knowledge of thinkers like Kautilya. The other path was inspired by contemporary Western thought. India chose the latter. Perhaps it would have done better to take a middle path, learning from the world around it while not losing sight of the value of its past wisdom and ancient culture.

Today, India continues to face a similar choice. The India of 2025 has little in common with the India of 1947- it is the world's fastest-growing major economy⁶⁴, projected to become the third-largest global economy in three years⁶⁵. Staying anchored in the past, even as we look to the future, could be the key to our continued success, as it could have been post-independence. While reaping the benefits of globalization, we should remember our roots and avail ourselves of the wisdom that once catapulted India along a similar path of growth, making it the biggest economy in the ancient world.

6. SCOPE FOR FURTHER RESEARCH

Future researchers could build off the findings of this paper by engaging in further primary research, specifically among policymakers and economists associated with the Indian government's economic policies, especially in the pre-liberalization era. This would yield more insights into why certain policies were adopted and others overlooked from the point of view of policymakers. A second strand of research could be among current students of economics or business to understand the extent to which they are aware of the *Arthashastra's* tenets and potential relevance to the modern economy. This would help researchers understand the extent to which future policymakers and business leaders are equipped to combine the ancient wisdom of the *Arthashastra* with contemporary economic thinking, or whether we are at risk of losing this wisdom.

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⁶⁰ "Free Foodgrains for 81.35 Crore Beneficiaries for Five Years: Cabinet Decision." *Pib.gov.in*, Ministry of Consumer Affairs, Food & Public Distribution, 2023, pib.gov.in/PressReleaseIframePage.aspx?PRID=1980689.

⁶¹ "Pakistan Missed GDP Growth Target; Achieves 2.38 % against Envisaged 3.5 % in FY 2023-24: Economic Survey." *The Economic Times*, 11 June 2024, economictimes.indiatimes.com/news/international/world-news/pakistan-economy-to-grow-2-4-in-fiscal-year-2024-economic-survey-shows/articleshow/110913698.cms?from=mdr.

⁶² "How Bad Is Pakistan's Debt Crisis and Can the IMF Save It?" *The Economic Times*, 14 Feb. 2024, economictimes.indiatimes.com/news/international/business/how-bad-is-pakistans-debt-crisis-and-can-the-imf-save-it/articleshow/107692424.cms?from=mdr.

⁶³ Panagariya, Arvind. *India's Trade Reform*. India Policy Forum, 2004, www.brookings.edu/wp-content/uploads/2016/07/2004_panagariya.pdf.

⁶⁴ Ziady, Diksha Madhok, Hanna. "India GDP: The World's Fastest-Growing Big Economy Is Living up to Its Billing | CNN Business." *CNN*, 29 Feb. 2024, edition.cnn.com/2024/02/29/economy/india-gdp-growth-economy/index.html.

⁶⁵ "India Seen to Emerge as an Economic Superpower in Impending Problem-Ridden Global Financial Landscape." *The Economic Times*, 25 May 2024, economictimes.indiatimes.com/news/economy/indicators/india-to-emerge-as-an-economic-superpower-amid-impending-global-economic-landscape/articleshow/110418764.cms?from=mdr.

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