15 Ethical Taxation and Good Governance in Chanakya's Arthashastra: An Indian Knowledge System Perspective

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Abstract

Taxation is considered an essential part of state government since antiquity and is used to establish public welfare and economic stability as well as to create effective systems of government. Chanakya's Arthashastra, one of the first comprehensive texts on governing, provides a detailed structure to determine how to ethically tax (based upon the concepts of justice and fairness, moderation, accountability and the welfare of the people). Chanakya's perspective did not just look at taxation for the purposes of revenue collecting the state, but rather that it is considered a moral duty of the state and requires balance between the interests of the state and citizen. The focus of this chapter will be to establish the concept of ethical taxation in the context of good governance through the lens of the Indian Knowledge System (IKS). The chapter will illustrate that the Arthashastra provides a holistic approach to governance where ethical taxation builds public confidence, promotes administrative efficiency, and creates a sustainable and inclusive development strategy. Through the integration of IKS principles and modern discussions about governance, the chapter will show how Chanakya's fiscal philosophy is still relevant today to a variety of stakeholders, including policymakers, scholars, and public administrators, who are looking for ethical, culturally based methods and opportunities for the twenty-first century.

Keywords: Chanakya, Arthashastra, Ethical Taxation, Good Governance, Indian Knowledge System, Public Finance, Fiscal Ethics, Public Administration, Accountability, Sustainable Governance.

Introduction

Governments have depended on taxation as a resource for governance ever since organized societies began to emerge. Taxation is a way for governments to raise revenue to pay for law enforcement, provide public services like schools or roads, develop infrastructure, and ultimately improve the quality of life of their citizens. But taxation is much more than a way of generating revenue for governments. Taxation represents an ethical or moral contract between the government and its citizens, and an equitable and transparent taxation system will help build public trust, foster voluntary compliance with tax obligations, and ultimately support sustainable development.

In addition to taxation being a significant component of modern public finance, the ideals surrounding taxation existed in ancient Indian civilization long before modern theory was developed. Arthashastra contains rules and principles of administration, fiscal policy, diplomacy, justice, and regulation of the economy. Chanakya considered tax to be the most important tool for achieving wealth and success for the government (ruler) and its citizens. His analogy of how a government should collect tax like a bee collects honey from flowers without damaging the flower is a metaphor for moderate, fair, and sustainable taxation.

Ethical Taxation: A Contemporary Challenge

Modern governments across the globe are faced with major difficulties designing tax systems that are equitable, efficient, and ethically justified. Issues such as tax evasion, corruption, illicit financial flows, disproportionate tax burdens, and declining public trust in the effectiveness of government fiscal systems have raised real concerns about how to effectively tax citizens for government services. Citizens have come to expect increased levels of transparency, accountability, and responsible use of resources in exchange for the taxes they pay to their governments.

Given these increased expectations from citizens, there has emerged a new focus on the ethics of taxation as an overarching objective in public finance and public governance. Taxation should be viewed from the standpoint of fairness in its collection, proportionality in its burden to the taxpayer, administrative integrity (i.e., no corruption) in the administration of tax laws, transparency in the management of tax revenue, and effective/exclusive use of public resources for the benefit of society as a whole. The tenets that define ethical tax policy align closely with those established by Chanakya in his famous fiscal philosophy, where he put forth the idea that taxes should promote economic growth as opposed to the oppression of citizens with excessive taxes. The rediscovery of these indigenous tenets has important lessons for governments today as they deal with challenges in governance.

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Indian Knowledge System and Governance

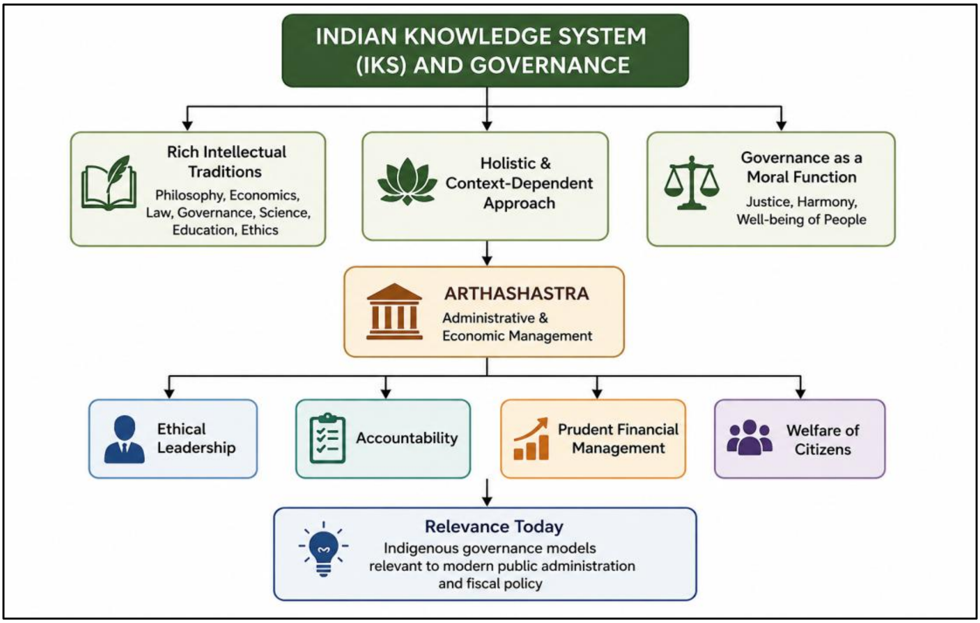

Figure 1: IKS and Good Governance

Source: Curated by the author

The Indian Knowledge System (IKS) reflects India's enormous intellectual traditions related to philosophy, economics, governance, law, education, science and ethics. Therefore, the IKS promotes an all-inclusive (holistic) and context-dependent (or situated) way of organizing societies and integrates moral values into the practical functioning of governance. Therefore, the IKS sees governance not only as a political function, but also as a moral function that is toward achieving justice, harmony in society, and the well-being of the people.

Within the IKS, the Arthashastra is a central text regarding administrative and economic management, as it includes an in-depth discussion of administrative and economic management. It proposes ethical leadership by government officials, accountability of government officials, prudent financial management, and the welfare of citizens as the basis of a successful government. A review of Chanakya's thought through an IKS lens therefore indicates that indigenous governance models continue to be relevant to current debates regarding public administration and fiscal policy.

Conceptual Foundations of the Indian Knowledge System

- **Meaning and Evolution of the Indian Knowledge System**

IKS is the accumulated knowledge of India which has developed over many thousands of years in areas such as philosophy, economics, governance, law, medicine, education, religion and applied ethics. This body of knowledge is based primarily on the ancient texts of India from the Vedic period (c.1500 BCE) and includes works such as the Vedas, Upanishads, Smriti texts and the Arthashastra (an ancient text that analyses different government systems). Other than the fact that IKS has been around for millennia, it also differs from modern knowledge structuring by integrating ethical or moral principles into administration and thereby ensuring that all economic or political decisions will benefit society. In recent times, IKS has been the subject of increased academic and policy interest as many scholars believe that IKS could provide culturally appropriate, sustainable approaches to governance problems.

- **Governance in Ancient India**

The principle of Rajadharma defined the ethical obligations of the sovereign towards the state and its subjects and was, therefore, the basis of governance in ancient India. As a trustee of the common good, the ruler was seen as a guardian rather than an autocrat. The main duties of the ruler were to provide law and order, administer justice, protect the subjects' lives and property, provide for their economic well-being, and create conditions for social harmony. A key element of governance was fiscal administration, given that without sufficient public revenues, a state could not adequately finance the defense of its people, infrastructure, public services or provide for their welfare. Ancient Indian philosophers warned against arbitrary taxation and misappropriation of public funds; they advocated for accountability, impartiality, and administrative integrity.

- **Economic Thought in Ancient India**

In ancient Indian economic philosophy Artha (wealth) is considered as one of the four Purusharthas (goals of life). However, it is understood that the creation of wealth must occur in accordance with Dharma (righteousness) to achieve social justice and sustainable development. Various Classical Indian texts discuss various aspects of economic administration, which includes, but is not limited to; agriculture, trade and commerce, taxation, labor, resource management, and public finance. The primary purpose of economic policy is not only to generate revenue but also to create prosperity for both the population and the government. This ethical framework is what separates ancient Indian economic philosophy from those focused solely on generating revenue.

- **Chanakya's Contribution to Indian Political Economy**

According to Chanakya's philosophy, he was also named as Kautilya or Vishnugupta and is known as the principal expositor of the Political Economy of India via the Arthashastra. The Arthashastras therefore provide a comprehensive framework around various areas of governance such as: Public Administration; Diplomacy; Law; Financial Management; and other aspects of Government Operation. Chanakyas considered Economic Stability to be the basis for Political Power. He also attached great importance to the efficient management of revenue, financial integrity;

transparency in the fiscal decision-making process; and accountability/responsibility in Government. A key feature of Chanakyas Fiscal Theory is his 'Ethical Tax' principle, whereby he stated that Taxes should be imposed in a fair, reasonable manner and in a manner that does not cause hardship to Citizens, drawing an analogy between the taxation system and Bees who take honey from Flowers without damaging the Flowers.

Literature Review

The Arthashastra has been thoroughly investigated as a seminal text on economics, the state, and administration. While many researchers have analyzed Chanakya's contributions to statecraft, economic management, and administrative organization, few have attempted to examine the ethical dimension of taxation within the broader context of the Indian Knowledge System (IKS). This review synthesizes the literature under five themes to establish the research gap which this chapter intends to address.

- **Studies on the Arthashastra and Statecraft**

R. Shamasastry’s 1909 discovery and translation (to English) of the Arthashastra eventually led to an unprecedented level of scholarly engagement. Subsequent critical editions by R. P. Kangle (1970-1980) firmly established the Arthashastra as a systematic treatise on governance, administration, diplomacy, law and public finance. Kangle argued that the Arthashastra presents an integrated framework of political economy in which the prosperity of the state is directly related to the efficiency of its administration; the stability of its economy and the welfare of its citizens.

In contrast, L. N. Rangarajan (1992), developing this theme, emphasized the Arthashastra’s practical orientation. Rangarajan highlighted the detailed nature of Chanakya’s prescriptions regarding administrative organization, financial management, judicial systems and fiscal regulation, and concluded that for Chanakya, governance was a combination of ethical responsibility and administrative efficiency, with economic management being necessary to maintain political stability. Scholars researching comparative politics have also looked into Chanakya's influence on political philosophy. Roger Boesche (2002) compared Chanakya and Machiavelli, indicating that both were pragmatists when it came to governing; however, Chanakya placed a higher value on societal welfare, creating wealth, and creating stable institutions. Patrick Olivelle (2013), more recently, translated and did historical analysis of the Arthashastra with a focus on how complicated the document is in terms of its treatment as some type of governing document, law document, and political economy document rather than simply being a book on statecraft.

- **Literature on Taxation in the Arthashastra**

Taxation is one of the main themes in Chanakya’s economic philosophy. Kangle (1972) noted that the Arthashastra outlines a complex fiscal system consisting of agricultural taxes, customs duties, trade taxes, mining revenues, forest products, and state-owned enterprises. Kangle argues that revenue generation enables the state to provide services such as defence, justice, infrastructure and welfare activities; however, high rates of taxation can reduce economic productivity. Rangarajan (1992) elaborated that Chanakya endorsed a balanced taxation system, with taxes being predictable, moderate, and based on the taxpayer’s ability to pay. A well-known analogy for levying taxes like honey being collected from flowers (without damaging them) has been interpreted as representing an equitable and sustainable tax system. This analogy captures Chanakya's view that the long-term viability of an economy is based on the sustainability of productive economic activity rather than simply maximizing revenue in the short term.

- **Ethical Governance and Public Administration**

A lot of scholarships have been written about the Art of War from the standpoint of governance and state administration. According to Boesche (2002), Chanakya established a highly structured system of administration, based on merit-based appointments to positions of authority, the professionalization of institutions, and financial accountability through regular audits and ongoing supervision of public officials, as well as through a variety of other means. Chanakya's model of governance is often cited to be pragmatic in its approach, but its goal was to promote both stability of the state and welfare of the public.

- **Indian Knowledge System and Indigenous Governance**

The Indian Knowledge System (IKS) has become an important interdisciplinary area of research, which is focused on reviving India's indigenous intellectual traditions to address contemporary issues. The literature on IKS describes it as a holistic framework that includes ethical values, governance, economics, education, and environmental sustainability. Within the IKS framework, governance is seen as a process that values righteousness, justice, and social welfare rather than just being concerned with institutional efficiency.

Scholars have increasingly come to consider the Arthashastra one of the foundational texts of indigenous governance, and because of its emphasis on ethical leadership, welfare-oriented administration, prudent financial management and public accountability, it has much in common with the principles of good governance today. However, most of the literature on IKS focuses on the philosophical or educational aspects, but very little attention has been paid to Chanakya's fiscal philosophy as an example of indigenous knowledge.

- **Research Gap**

The available literature suggests that there is limited study regarding ethical implications of taxation in the Arthashastra, with the majority of the research on Arthashastra being focused on political, administrative, and fiscal issues while lacking sufficient consideration regarding systematic ethical criteria for taxation in both the past and present as well as their application to ethics and governance under the Indian Knowledge System (IKS). The goal of this chapter is to fill these gaps in the literature by presenting Chanakya's Values that serve as a basis for ethical taxation from an IKS perspective and to provide clarity on their relevance to the advancement of ethical and sustainable public governance.

Ethical Taxation in Chanakya's Arthashastra

Taxation has a pivotal role in Chanakya's Arthashastra, mirroring his perspective on a successful nation based on effective fiscal policy and good governance by design. As compared to modern views of only generating revenue for the purpose of the government, Chanakya thought of taxation as a moral obligation and responsibility of administration. For Chanakya, the financial well-being of the nation was critical for maintaining law and order, the defense of the kingdom, the encouragement of commerce, and the welfare of the citizens. Tax-collecting authority must be balanced against tax-collecting obligationthat is; the state was permitted to levy taxes; however, it also had the obligation to collect tax in a fair, transparent manner, and without causing undue hardship on the people.

- **Philosophy of Taxation**

Taxation is one of the central elements of good governance according to Arthashastra, rather than just a means of obtaining money from people. Chanakya believed that the state's revenue would be used to pay for necessary functions of the state, including defense, justice, infrastructure, irrigation, disaster relief and public services. As such, the revenue generated by taxation is viewed as being held in trust for the public good, rather than belonging to the ruler personally.

To illustrate this point, Chanakya used the analogy of a ruler collecting taxes like a bee collecting honey from flowersdelicately and without harming the flowers. This analogy represents the concept of moderation or sustainability in taxation. According to Chanakya, excessive taxation leads to decreased economic productivity, a lack of trust in government, and a decline in the amount of revenue collected by the state. Conversely, moderate taxation encourages production of goods and services, promotes compliance with tax laws by individuals, and contributes to long-term prosperity of society.

- **Principles of Ethical Taxation**

Chanakya's fiscal philosophy is based on several ethical principles that continue to remain relevant in contemporary public finance.

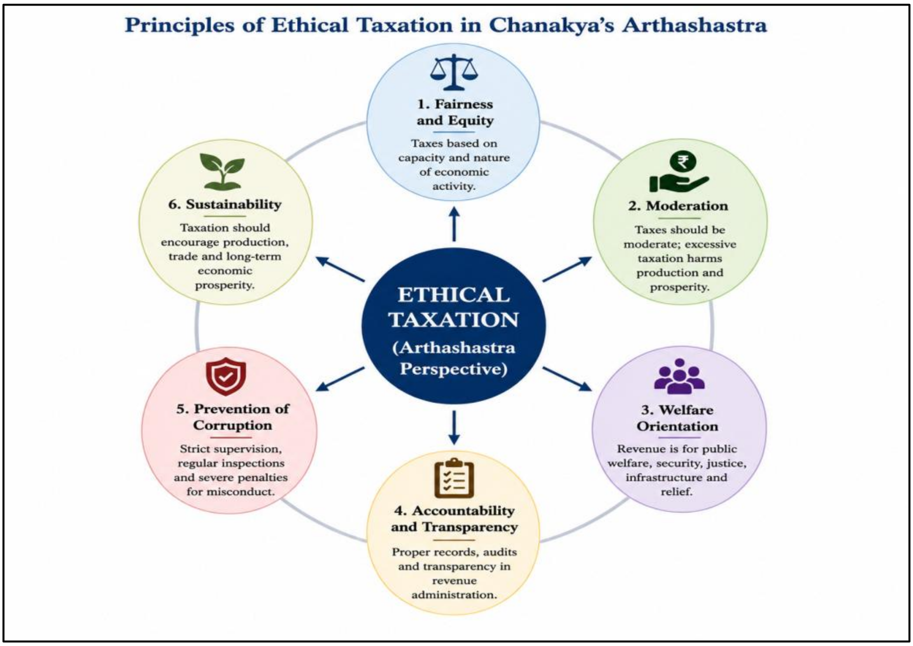

Figure 2: Principles of Ethical Taxation

Source: Curated by the author

- **Equity and Fairness**

The Arthashastra identifies one of the primary principles of taxation as equitable/justice. Taxes were to reflect the nature of the economic activity being taxed, as well as the ability of taxpayers to pay. The different economic sectors, such as agriculture, trade, mining and manufacturing, have their respective productivity levels and hence, their economic importance were considered in establishing tax rates. Therefore, there was an effort to avoid arbitrary or unjust taxes.

- **Moderation in Tax Collection**

Chanakya warned against over taxing. He believed that over taxing would discourage production, decrease business activity and result in public displeasure with taxing authorities (i.e., government). However, a fair system of taxation encourages economic development while providing a continuing source of revenue for the government and citizens.

- **Welfare Orientation**

Taxes were only considered a valid source for collecting revenue from the citizens if they can improve the welfare of those citizens. The state had to use taxes to create public goods such as roads, irrigation systems, defense operations, law enforcement operations, and disaster management operations. Thus, taxes can be viewed as part of a reciprocal agreement between the state and its citizens.

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▪ **Accountability and Transparency**

The Arthashastra specifies several different processes for keeping financial records, auditing accounts, and supervising the actions of revenue officials. Chanakya argued that every time public funds are exchanged, there should be an accompanying record of that exchange with verification of the exchange. The processes outlined in the Arthashastra provided mechanisms for holding government employees accountable and minimizing opportunities for financial misconduct.

▪ **Prevention of Corruption**

Recognizing that there was a potential for corruption to occur within the revenue administration, Chanakya advocated for the imposition of strict monitoring systems and severe penalties for any employee found guilty of embezzling or abusing their public office. Frequent inspections, independent audits, and stringent legal penalties were viewed as necessary to ensure that public resources were protected and that citizens maintained their trust in their government.

- **Tax Administration in the Arthashastra**

The Arthashastra discusses a well-organized revenue administration system. Revenue assessment and collection, treasury record maintenance, and the supervision of financial transactions were all the responsibilities of separate officials in charge of each area. The duties of these officials were well defined so the administration could function effectively without abuse of authority.

Chanakya insisted on meticulous bookkeeping; frequent audits; and constant oversight of all financial officers. All revenue records were also regularly verified, and all discrepancies were thoroughly investigated. These administrative structures show that transparency and accountability were seen as crucial elements within fiscal governance.

- **Ethical Taxation as the Foundation of Good Governance**

According to Chanakya, ethical taxation is vital in order for governments to effectively function. A tax system that is fair, open, and clear helps build public trust in government and promotes taxpayers' willingness to comply with the law. In addition, ethical taxation provides the revenue needed to finance governance and development. On the other hand, unjustified taxation and corrupt practices undermine the legitimacy of the state and endanger the stability of government.

From the viewpoint of the Indian Knowledge System, taxation is not only an economic transaction (the exchange of money for goods) but rather an ethical agreement between persons in authority and the general population. In this instance, the ruler's ethical responsibility is to collect taxes in a judicious manner and allocate public funds for the improvement of the common good. Hence, this mutual obligation engenders trust among people; promotes social cohesion; and guarantees that the state as well as its citizens will enjoy long-term economic prosperity.

Good Governance in Chanakya's Arthashastra

Currently, Good governance is a core value in contemporary administration, focusing on inclusion, transparent decision-making, responsible actions of government entities, effectiveness, fairness in distribution of resources, and consistency in government procedures (rule of law). Many elements of good governance were established over time; however; the basis of good governance was laid long ago by political philosophers in ancient India. The political philosopher Chanakya highlighted good governance by outlining in detail how government should work; he emphasised the need for ethical leadership, effective administrative practices, proper fiscal management of resources, and overall good (public) welfare. Chanakya did not think about government as an entity that governs or has power over the population; rather, his belief of government was that it is the responsibility of the government to ensure the safety, prosperity and welfare of its' population.

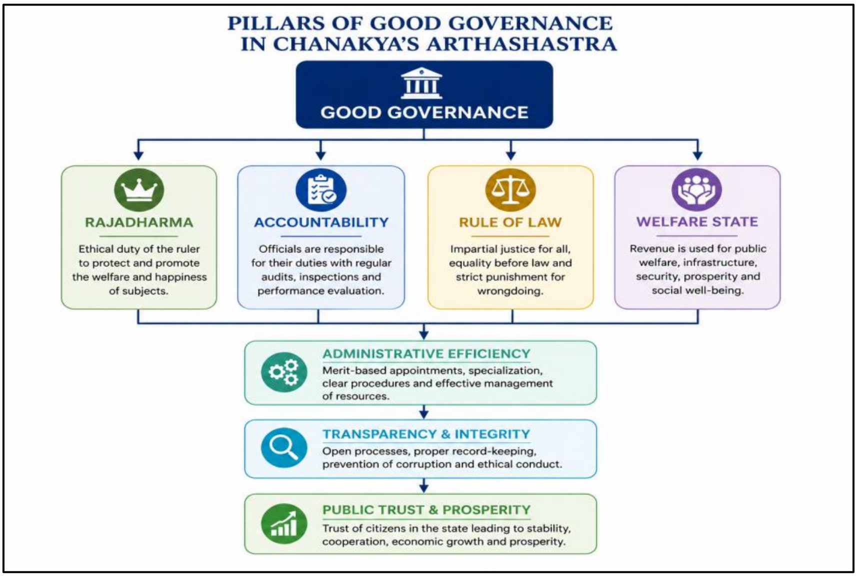

Figure 3: Pillars of Good Governance

Source: Curated by the author

- **Rajadharma: The Ethical Duty of the Ruler**

Rajadharma is an important ethical concept surrounding how to govern in accordance with the Arthashastra. Chanakya proposed that a ruler's main responsibility was to fulfill the needs of his people and country, as well as having no other purpose. The king must enforce just laws, maintain order, defend the kingdom, generate revenue through trade and industry, and provide for the well-being of society.

Chanakya said, "The king's happiness is in the happiness of his subjects; the king's welfare is in the welfare of his subjects." His statement adequately illustrates the

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emphasis on social welfare in governing. The validity of a government leader's authority to rule is determined by how well he protects the citizens' interests and administers justice without prejudice. For that reason, governance is seen as a public trust rather than a privilege.

- **Welfare-Oriented Governance**

The Arthashastra states that the public money collected as taxes from citizens is meant to be used for the welfare of society as a whole, and should also support the improvement of infrastructure (irrigation system, roads, defence), education, health care, and agriculture, among other areas. Chanakya believed that the wealth of the country would be dependent upon the wealth of its people. The state has the responsibility to support agriculture, encourage trade, regulate the markets, prevent drought/ famine, and maintain stability in the economy. This indicates that the welfare state model was not new at the time of Chanakya, as there were complementary goals for economic development to be achieved in a welfare state.

- **Accountability and Transparency**

One of the primary features of Chanakya's system is accountability in administration. The Arthashastra contains detailed guidelines on the organisation of the bureaucracy and the specific responsibilities of various officials including those administering justice, collecting revenue, maintaining accounts and conducting military operations. Each official was responsible for performing the duties assigned to them properly.

Chanakya stressed that systematic record keeping, periodic audits, inspection of financial records, and verification of accountants' records would promote transparency and accountability in relation to public administration. The records of the treasury were to be kept with care by treasury officials; independent verification of treasury records would restrict opportunities for fraud or the misuse of public funds.

- **Anti-Corruption Measures**

Acknowledging that corruption poses a major threat to good governance, Chanakya's extensive focus on reducing instances of financial misconduct is clear. Public officials could misuse their power if they are not being monitored closely, according to Chanakya. Monitoring officials requires continuous monitoring, unannounced visits and review, third-party reviews, and criminal penalties for embezzlement, bribery, and abuse of power, according to the Arthashastra.

Chanakya's comparison of corrupt officials to a fish in water, because it is so difficult to determine if a fish is drinking water or not, indicates that the same limitation applies when trying to detect corruption. Therefore, the elements needed for good governance include strong oversight, ethical trade/customs practices, and institutional safeguards.

- **Administrative Efficiency**

According to Chanakya's philosophy, effective administration is necessary for political stability as well as economic prosperity. Thus, he advocated merit-based appointments through the Arthashastra, specialization among various administrative roles, decentralizing responsibility, and continuously monitoring the performance of officials.

The structure of the administrative departments responsible for tax collection, agriculture, trade, mining, forestry, defense, and construction projects all relied on clearly defined policies and procedures. Regular reports, inspections, and evaluations of performance provided the means for the government to maintain system efficiency while also eliminating delays and opportunities for corruption.

Ethical Taxation and Good Governance: An Integrated Indian Knowledge System Framework

Taxation and good governance are two concepts which tie closely together within Chanakya's Arthashastra. Chanakya did not view taxation as just another financial activity; rather, he saw taxation as part of the overall governance system that will support the state's stability, prosperity, and well-being. With respect to IKS, governance is based on Dharma (righteousness). Rulers have a responsibility to act as a trustee of public resources and to ensure that tax revenue and public expenditure will be used for the benefit of society as a whole. Ethical taxation provides the financial resources needed to support governance, while good governance provides assurance that these resources will be raised, accounted for, and spent responsibly and transparently.

- **Interrelationship between Ethical Taxation and Good Governance**

The Arthashastra explains how a nation can prosper if it has an efficient and ethical tax system. If a state has a fair and accountable government, then those who pay taxes to the state can expect that the government will treat all citizens fairly. An ethical tax system improves the level of confidence of citizens in the government because they believe that taxes are not just necessary revenues to fund government operations, but fair and equally levied against all citizens. Conversely, a good government (e.g., one that is transparent, compliant and uses taxpayer funds for legitimate public services) further enhances the level of voluntary tax compliance by increasing public revenues to provide for the necessary administrative and developmental functions of the state, creating the foundation of sustainable governance.

- **The Indian Knowledge System Perspective on Fiscal Governance**

In the Indian Knowledge System, governance is based on the qualities of Dharma, appeal and social welfare. A key source of these principles is the Arthashastra, which attests to the notion that all public funds (or revenue) are owned by the government and may only be spent on public purposes. Rulers are required to maintain fiscal prudence, prevent corruption and distribute resources fairly among their citizens.

Chanakya (also known as Kautilya) believed that ethics and economics were two sides of the same coin and complement each other rather than conflict with one another. Fiscal policy should provide the basis for Economic development; therefore, fiscal policy should enhance economic development, but at the same time provide adequate protection for the citizens' welfare. This holistic approach represents a fundamental difference between the Indian Knowledge System and other economic systems where taxation policy is driven solely by revenue generation, demonstrating that efficiency and social responsibility must co-exist; thus creating an integrated system of governance.

- **Conceptual Framework: Ethical Taxation–Good Governance Nexus**

Based on the principles discussed in the Arthashastra, an integrated conceptual framework can be developed to explain the relationship between ethical taxation and good governance.

Figure 4: Conceptual Framework of Ethical Taxation and Good Governance from an IKS Perspective

Source: Curated by the author

The framework demonstrates that ethical taxation serves as the starting point for a virtuous governance cycle. Fair taxation strengthens public trust, which encourages voluntary compliance and improves revenue collection. Efficient and transparent management of these resources enhances governance quality, ultimately contributing to sustainable economic development and social welfare.

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Contemporary Relevance and Policy Implications

Modern-Day Relevance and Impact on Policies In today's world, Chanakya's teachings on ethical taxes are still relevant to the way we run our governments and administer our countries. By focusing on fairness, moderation, transparency, and accountability, Chanakya provides guidance for creating citizen-focused tax systems that are efficient. An ethical tax system promotes voluntary compliance, decreases tax evasion, and builds confidence in the government and its ability to carry out its responsibilities. By developing a tax administration foundation of equity and transparency, combined with digital governance, governments can improve both revenues and efficiencies of tax administration.

The Arthashastra considers taxes not simply as a revenue stream to support a state's operations but also as a means of ensuring the welfare of the public. Chanakya believed that taxpayer dollars should be used responsibly, for example, to educate, provide healthcare, build infrastructure, provide social security, and promote economic development within an entire society. This not only gives a government legitimacy, but it also fosters a stronger relationship between citizens and their government.

Conclusion

Chanakya's Arthashastra is one of the most significant texts in Indian intellectual history assessing politics, governance, public policy, and economics. This chapter explored the intersection of ethical taxation and good governance from the viewpoint of Indian Knowledge System (IKS), demonstrating that Chanakya understood taxation as an ethical obligation to support the welfare of society and to promote sustainability through good governance, and not just as a means of generating government revenue. Furthermore, the principles by which he espoused ethical taxation, fairness, moderation, accountability, transparency, and responsible use of public resources continue to be relevant in today's society. The chapter illustrated how ethical taxation and good governance are mutually supportive. A well-functioning, transparent tax system increases voluntary compliance by individuals and fosters trust in their government, while good governance ensures that the management of public revenues is done with efficiency and that funds are used for the benefit of society as a whole. Chanakya's application of this integrated approach emphasizes that the happiness of the state cannot be separated from the happiness of its citizens. Chanakya's governing principles embody the broader values of Indian Knowledge Systems that govern economic administration on ethical principles, justice, and social responsibility.

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