



A Hermeneutical Study of Manusmriti and Adam Smith's Canons of Taxation

Sakshi Agrawal and Umesh Holani***

ABSTRACT

This paper brings to light some discussion about the origin of the Canon of Taxation, proposed by Adam Smith. It has been widely stated in literature that Adam Smith borrowed all major ideas from various sources. For example, Ferguson exposed Adam Smith for falsely claiming the pin factory example. It aims to continue the process instigated by Ferguson by ascertaining the sources of economic growth, and principles of taxation, which are very similar to the 'Manusmriti'. It is claimed that Adam Smith picked up those ideas from the 'Manusmriti' that have been given approximately twenty-two hundred years before Smith indicated in the Appendix. We hope that this process would continue until all sources of Adam Smith were identified and duly acknowledged.

Keywords: *Canon of taxation; Manusmriti; Hermeneutics Study.*

1.0 Introduction

Manusmriti presents itself as a discourse given by Manu (Svayambhuva) and Maharishi Bhrigu on dharma topics such as duties, rights, laws, conduct, virtues and others format which is compiled into 12 chapters of stanzas, which total 2,694. There is a lot of controversy about the time period of Manusmriti. This is a work which is believed to be dated from the 2nd century BCE to 3rd century CE (Wikipedia, 2022). Manu was the originator of social systems, as a king, he organized and structured the society by implementing these systems, like other systems, the tax system which he had determined, has been going on almost the same till today, it is known from this It happens that Manu's systems and Manusmriti have the highest recognition in the society.

**Corresponding author; Research Scholar, Department of Commerce and Business Studies, Jiwaji University, Gwalior, Madhya Pradesh, India (E-mail: agrawalsakshi159@gmail.com)*

***Professor, Department of Commerce and Business Studies, Jiwaji University, Gwalior, Madhya Pradesh, India (E-mail: umeshholani32@gmail.com)*

Economist Dr. D.K. Srivastava, chief policy advisor at EY India “Manusmriti is generally recognized as one of the most ancient texts as the principle of governance in India; Kautilya himself acknowledges having drawn from it extensively”.

Supreme Court Justice B. N. Srikrishna observed here that the rule of law was not an imported doctrine and was prevalent in the society during early Vedic period. Elaborate references of it were found in scriptures such as Veda, Upanishad, sage Yajnavalkya's Smriti, Manusmriti, Mahabharata (Vyas Maharshi), Ramayana and Kautilya's Arthashastra etc, Justice Srikrishna quoted Prof P V Kane as saying, “India need feel ashamed or fear a comparison of its ideals and theories of state with the ideals and theories of western countries in ancient and medieval times. The ancient Hindus made their own contribution to political thought, though unfortunately western scholars of the 19th century like Max Muller, Weber and Roth were concerned most with Vedic and allied literature and either they did not know or ignored the vast literature on politics contained in Sanskrit and Pali works.

Even James Wilson, British India's first finance minister, quoted from Manu while introducing the Income Tax Act in 1860 for levying income tax in the country.

It's really surprising that there's almost a solidarity that there's nothing in Adam Smith's *The Wealth of Nations* that qualifies as an original. Adam Smith expressed it in his own language by simply collecting material from various sources and also tried to synthesize it with some inconsistencies. when the source was so obvious that it could not be hidden. Smith, (1776/1976) As an illustration, in emphasizing the importance of division of labor, he used the example of the pin-factory, although he did not acknowledge its source but reproduced it as he had found it in the French *Encyclopédie* (1755). Adam Smith borrowed key ideas both from western and non-western sources, but avoided acknowledging them. (Prasch, 1991) If his borrowed wings were returned to the owners, the undeserved title of “father of economics” would also fly away with wings. Adam Smith personally administered the burning of his confidential papers to terminate not only his unfinished manuscripts but also the proof relating to the sources of his writings.

An *Essay on the History of Civil Society*, (2022) Adam Ferguson's *Essay on the History of Civil Society* was published in 1767, Smith accused Ferguson of “having borrowed some of his ideas without owning them, ‘to which Ferguson is said to have replied that he had borrowed nothing from Smith, but much from some unnamed French source “where Smith had been before him.” (Hamovy, 1968). However, a Scottish philosopher Adam Ferguson, a contemporary of Adam Smith exposed Adam Smith for falsely claiming the pin factory example. It aims to continue the process instigated by Ferguson by ascertaining the sources of economic growth, and principles of taxation, which are very similar to the Manusmriti.

2.0 Objectives of the Study

The objectives of the study are as follows:

- To understand the link between Adam Smith's Canons of taxation and Manusmriti.
- To gain insight on the origin of principles of taxation in perspective of Manusmriti.

3.0 Review of Literature

Kumar & Arora (n.d.) Identifies the political & administrative ideas and policies given by Manu, the summary of manusmriti has been structured in this article with special reference towards duties & functions of a king i.e. 1. Dandaneeeti 2. Taxation 3. Justice and Judicial System 4. Inter-State Relations 5. Morality and Religion. And has a short idea on comparison of Manu- Kautilya's political thoughts and the author finally considers Manusmriti is superior to the other dharmashastras.

Amarjothi & Azhakaraja (2013) In India, the traditional of taxation has been in force in one form or another from ancient times. The word "kara", which refers to taxes, finds mention in the Srimad Bhagvatam. When Chanakya aphorized in the Artha Shastra, "Kosha moolo danda", he made the important point that the treasury and its inflows are the sources of a government's might. Indeed, the Sanskrit word „danda“, which translates to the sceptre, is the manifest form of a government's identity, consciousness and conscience. Manu, the ancient sage and lawgiver, lay down that traders and artisans should pay one-fifth of their profits in silver and gold, while agriculturists, depending upon their circumstances, were to pay one-sixth, one-eighth or one-tenth of their produce, public administration in India during the latter half of the 19th century saw large shifts and overhauls in its structures and processes. In July 1860, James Wilson, the first Finance Member of the Governor General in Council, quoted thus from the authority of Manu while introducing the act for levying income tax in the country, "As the leech, the calf and the bee take their food little by little, even so must the King draw from his realm, moderate annual taxes."

Sihag (2016) This paper augmented that Adam smith's idea on "the wealth of nations" is not original but is borrowed from Kautilya's Arthashastra, Ferguson exposed Adam Smith for making a false claim related to the pin-factory example. It is intended to continue the process initiated by Ferguson by identifying paragraphs on sources of economic growth, canons of taxation and undesirability of monopolies, the core of The Wealth of Nations, which are textually quite similar to those in The Arthashastra. Adam Smith personally supervised the burning of his confidential papers to destroy not just his incomplete manuscripts but also evidence related to his sources. Nevertheless, at least in three areas, Adam Smith's debt to Kautilya is clearly recognizable: 1) identification of

land, labor and capital as the sources of economic growth; 2) the four canons of taxation: a) certainty of tax liability, b) tax liability in proportion to benefit (income), c) economy in collection and d) convenience to the tax payer in making payment; and 3) undesirability of monopolies.

Iyer (2016) In this paper the researcher proposed to study the GST in Ancient period. The study's objective is to understand service tax frame in Ancient India and relate the Ancient frame with proposed GST framework. In India, the tradition of goods and service taxation has been in force in one form or another from Vedic times. In the light of Vedic indirect taxation framework the GST suggested is expected to be very much effective. Kalidasa in the Raghuvansha says thus of King Dileepa: —*It was only for the good of his subjects that he collected taxes from them, just as the Sun draws moisture from the Earth to give it back a thousand fold.* Hence the GST will be a turnaround strategy. In the present economic world GST plays an important role in bring together the fiscal resources of a country.

Kumar (2016) The study tries to explain the nature and structure of taxation and revenue collection, as narrated by Vyasa, Manu, Kautilya and Shukra in their monumental classics, with a perspective on financial administration and public finance in ancient India. The plans for societal development and overall progress of the state can be materialized only when the condition of public finances is conducive to the state's efforts in this direction. Ancient Indian political thinking has always considered the issue of public finance to be of prime importance, and this is why the Mahabharata, Manusmriti, the Arthashastra and Shukranitisar provide detailed descriptions of the ways and means of creating an abundant treasury (Kosha), which is the inseparable part of the seven organs of the state machinery (Saptanga). These treatises discuss the methods of revenue collection, along with describing the modes of taxation, with specifications for levying normal and additional taxes in different conditions and for different categories of citizenry.

4.0 Background of Study

The principles of taxation were introduced by Adam Smith in his famous book "The Wealth of Nations". These principles of taxation define a number of rules and principles on which a good taxation system can be built. Although these principles of taxation were introduced some time ago, they are still used today as a foundation for discussion on the principles of taxation.

Adam Smith presented 4 canons of taxation, which are also commonly referred to as the *Main Canons of Taxation*:

- Canon of certainty (be certain and not arbitrary)

- Canon of Economy (should be minimum or small)
- Canon of convenience (to be convenient to pay)
- Canon of Equality (progressive taxation)

Manusmriti is teaching of Manu to Bhrigu and later to other sages and presents itself as a document that compiles and organizes the code of conduct for human society. This article attempts to link both these aspects and to find the early origin of taxation in reference to Manusmriti.

5.0 Research Methodology

This is a qualitative study and the methodology used is Hermeneutics. Hermeneutic studies emphasize subjective interpretation in the study of the meaning of texts, arts, cultures, social phenomena, and ideas. The strategy thus forms the opposite of the research strategy it emphasizes. Objectivity and independence from interpretation in the formation of knowledge.

5.1 Data mining and methods

The secondary data needed for the study was collected from text analysis of the Manusmriti, data from various related websites, journals, books and more.

5.2 About hermeneutics approach

The term hermeneutics is an expression derived from ἑρμηνεύς, hermeneuo, an approach to translation or interpretation. This term is an English model of the ancient Greek work hermeneus (“translator, interpreter”) (Beekes, 2009). Hermeneutics is also known as interpretation, an expression derived from the Greek God Hermes interpreting the messages of the Gods. The scope of hermeneutics also includes the investigation and interpretation not only of ancient texts, but also of human behavior generally, including language and patterns of speech, social institutions, and ritual behaviors. Hermeneutics is widely applied in many fields of social science such as philosophy, religion and theology, law, sociology, and also international relations.

6.0 Limitations of the Study

- Hermeneutics is a subject to interpretation of the individual. The interpretations given to the verses depend on the understanding of the individual. The present study may have the researcher’s limited understanding of the Manusmriti.

- The researcher has tried the interpretation only for four principles of taxation by Adam Smith not all the nine principles added afterwards.
- The author has provided interpretation based on her understanding of Manusmriti and may be subject to discussion.
- This article has nothing to do with the Controversial Verses of Manusmriti.

7.0 Analysis and Interpretation

Table 1: Canon of Taxation

	Manusmriti	Adam Smith
Canon of Equality (progressive taxation)	“When there was no order in society and only the law of the jungle prevailed, people [were unhappy and being desirous of order] made Manu, the son of Vivasvat, their king. Having well considered (the rates of) purchase and (of) sale, (the length of) the road, (the expense for) food and condiments, the charges of securing the goods, let the king make the traders pay duty. (Ch. 7, V. 127)	(Bk. V, Ch. II, p. 350) “The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; That is, in proportion to the revenue which they respectively enjoy under the protection of the state.
Certainty of Tax (Be certain, not arbitrary)	(Ch. 7, V. 128) After (due) consideration the king shall always fix in his realm the duties and taxes in such a manner that both he himself and the man who does the work receive (their due) reward. (Ch. 7, V. 130) A fiftieth part of (the increments on) cattle and gold may be taken by the king, and the eighth, sixth, or twelfth part of the crops.	“The tax which each individual is bound to pay ought to be certain, not arbitrary.”
Economy (should be minimum or small)	(Ch. 7, V. 129) As the leech, the calf, and the bee take their food little by little, even so must the king draw from his realm moderate annual taxes.	(p. 351) “Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state.”
Convenience of Payment (To be convenient to pay)	(Ch. 7, V. 137) Let the king make the common inhabitants of his realm who live by traffic, pay annually some trifle, which is called a tax.	(p. 351) “Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay.”
compliance	(Ch. 7, V. 80) Let him cause the annual revenue in his kingdom to be collected by trusty (officials), let him obey the sacred law in (his transactions with) the people, and behave like a father towards all men.	None

Source: Author own compilation

8.0 Manusmriti and Adam Smith on Taxation

Manu emphasized certainty of taxation, proportional income tax, convenience of payment and economy in the collection of taxes. Additionally, Manu was concerned about tax exemption for people below poverty line. He believed that while living in the state, no poor person should die after suffering from hunger. Another principle of taxation is that of compliance, which states that the annual tax or part due to the king from the people of the nation should be collected by religious, expert and loyal officials. Regarding taking taxes, follow the scriptural limits and treat the subjects like their father by treating them as sons. Adam Smith appreciated the tax system in India and other countries.

9.0 Concluding Observation

It is indeed an irony that today we accept the principles and theories given by foreign scholars as correct, but their source is ancient Indian scriptures, the author has tried to publish this truth through this paper and identifies the greatness of Dharmasutras like Manusmriti. After a thorough study, the laws of all those taxations which are about 3000 years old from modern times but are unknown due to ignorance, Manusmriti is often a law of conduct that is considered to be controversial because of some foolish section of the society. And that which is excluded without reading. Objectivity here needs to be given that approval should be given only to the thinker who actually creates the new idea and not to the one who imitates it and tries to claim ownership. Adam Smith himself took credit for giving the laws of taxation and hiding their source, which is accepted worldwide without any truth. As researchers, it is our duty to do research in such a way that it gives new direction and new knowledge to the society. The author considered the Manusmriti to be the basis of today's laws of taxation and suggested that ancient literature and scriptures be read and their greatness brought to light.

References

Amarjothi, P., & Azhakaraja, C. (2013). A study on Indian revenue generators. *IOSR Journal of Humanities and Social Science (IOSR-JHSS)*, 12(2), 1-7.

An Essay on the History of Civil Society. (2022, October 23). Retrieved from https://en.wikipedia.org/wiki/An_Essay_on_the_History_of_Civil_Society

Beekes, R. (2009). *Etymological dictionary of Greek*. Netherlands: Brill Publisher.

Hamovy, R. (1968, August 1st). Adam Smith, Adam Ferguson, and division of labour. *Economia*, 35(139), 249-259.

Iyer, C. H. (2016). Indirect taxes in ancient India: A conceptual review. *Episteme: An Online Interdisciplinary, Multidisciplinary & Multi-cultural Journal*, 5(1), 100-107. Retrieved from <http://episteme.net.in/web.content/d.73/content/408/attachments/10-Indirecttaxes.pdf>.

Kumar, A., & Arora, V. (n.d.). M-16 the political theory in Dharmshastra-mannu. P-07. *Political Theory and Thought: Western and Indian Traditions*. Retrieved from <http://egyankosh.ac.in/handle/123456789/55948>.

Kumar, S. (2016). *Taxation and revenue collection in ancient India: Reflections on Mahabharata, Manusmriti, Arthashastra and Shukranitisar*. UK: Cambridge Scholars Publishing.

Prasch, E. R. (1991). The ethics of growth in Adam Smith's wealth of nations. *History of Political Economy*, 23(2), 337-351.

Sihag, B. S. (2016). Kautilya's Arthashastra: A recognizable source of the wealth of nations. *Theoretical Economic letters*, 6, 59-67.

Smith, A. (1776/1976) *An Inquiry into the Nature and Causes of the Wealth of Nations*. Edited and with an Introduction, Notes, Marginal Summary, and Index by Edwin Cannan. The University of Chicago Press, Chicago.

Wikipedia, C. (2022, March 12). Retrieved from <https://en.wikipedia.org/w/index.php?title=Manusmriti&oldid=1076745462>.

Weblinks

<https://www.ciat.org/principios-de-la-tributacion-equidad-e-igualdad/?lang=en>

<https://www.tomorrowmakers.com/tax-planning/income-tax-india-interesting-history-article>

https://www.academia.edu/4814675/A_Study_on_Indian_Revenue_Generators