



Ethical Foundations of Economic Behaviour in Indian Knowledge Systems: A Review

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Abstract:

This paper examines how ethical principles embedded in Indian Knowledge Systems (IKS) shape economic behaviour and decision-making. While classical economic theory assumes context-independent rationality, behavioural insights highlight the influence of social norms, moral considerations, and cultural values on choices. The study analyses key ethical concepts from classical texts, including dharma (duty), karma (consequences of actions), artha (material prosperity within ethical bounds), and lokasangraha (collective welfare), interpreting them through the lens of behavioural economics. These principles correspond to modern concepts such as bounded rationality, risk assessment, fairness, reciprocity, and intertemporal choice, demonstrating that decision-making is socially embedded and ethically guided. The review also explores implications for policy design, public finance, welfare programs, and financial inclusion, emphasizing the relevance of culturally sensitive and morally informed economic interventions. By bridging ancient Indian ethical thought and contemporary behavioural theory, the paper underscores the enduring significance of IKS for understanding economic behaviour and promoting socially responsible, sustainable decision-making.

Keywords: Indian Knowledge Systems, Ethical Behaviour, Economic Decision-Making, Dharma, Karma, Artha, Lokasangraha, Behavioural Economics

1. Introduction

Understanding economic behaviour requires more than analysing material incentives or market mechanisms. Traditional economic theory, particularly classical rational choice models, assumes that individuals are utility-maximising agents who make decisions independently of context or social norms (Simon, 1955). However, behavioural economics has challenged this assumption, demonstrating that cognitive biases, ethical considerations, social norms, and cultural values significantly influence decision-making (Kahneman & Tversky, 1979; Thaler, 2016). In this context, Indian Knowledge Systems (IKS) offer a rich intellectual tradition that integrates ethics, morality, and social responsibility into economic and governance practices, providing a culturally grounded framework for understanding human behaviour.

Ancient Indian texts such as Kautilya's Arthashastra, Dharmashastras, the Upanishads, Bhagavad Gita, Mahabharata, Ramayana, Panchatantra, and Jain-Buddhist literature provide extensive guidance on ethical, social, and economic conduct (Rangarajan, 1992; Sharma, 2018). For instance, the Arthashastra emphasises strategic decision-making, risk management, and incentive structures within the bounds of ethical governance, illustrating an early understanding of context-sensitive rationality (Manrai & Goel, 2017). Similarly, the Bhagavad Gita and the Upanishads highlight dharma (duty), karma (consequence of actions), and self-restraint, emphasising that ethical deliberation and long-term consequences should guide economic and social decisions (Bhat, 2019). Epics like the Mahabharata and Ramayana, along with fables from the Panchatantra, provide narratives demonstrating fairness, reciprocity, and social obligations, underscoring the moral dimensions of economic choices (Mukherjee & Chatterjee, 2020).

The integration of these ethical principles with economic decision-making resonates with modern behavioural concepts such as bounded rationality, fairness, intertemporal choice, risk preferences, and moral motivations (Sinha & Ghosh, 2017). By embedding economic choices within social, ethical, and institutional frameworks, Indian Knowledge Systems prefigure several insights that contemporary behavioural economics seeks to explain. These texts also provide a foundation for understanding collective welfare, ethical governance, and sustainable economic practices, which are increasingly relevant in today's policy-making and development contexts (Rao & Parameswaran, 2019).

This review paper aims to synthesise literature on the ethical and cultural foundations of economic behaviour in Indian Knowledge Systems, examining classical texts and contemporary interpretations. By linking traditional ethical frameworks with behavioural economic insights, the paper argues that decision-making is socially embedded, morally guided, and contextually informed, offering valuable perspectives for both theory and policy. The study highlights the enduring relevance of ancient Indian ethical thought in understanding human economic behaviour and shaping culturally sensitive interventions.

2. Literature Review

1. Classical Texts: Arthashastra, Dharmashastras, Upanishads, and Other Sources

Ancient Indian texts provide comprehensive guidance on ethical, social, and economic behaviour, reflecting a sophisticated understanding of human decision-making in various contexts. Kautilya's Arthashastra is perhaps the most systematic treatise on governance, statecraft, and economics in ancient India. It details principles of strategic decision-making, risk management, incentives, resource allocation, and ethical governance, illustrating how rulers and officials were expected to integrate ethical considerations with pragmatic strategies (Rangarajan, 1992; Manrai & Goel, 2017). The text emphasises that decision-making should account for social norms, probabilities of success, long-term consequences, and ethical obligations, aligning closely with concepts like bounded rationality and risk assessment in modern behavioural economics.

The Dharmashastras, including the Manusmriti, Yajnavalkya Smriti, and Narada Smriti, focus on duty, social obligations, and ethical conduct. These texts outline rules for wealth accumulation, trade, taxation, and redistribution while highlighting moral duties and fairness, providing a framework for understanding how social norms and ethical constraints guide economic behaviour (Sharma, 2018).

Philosophical works such as the Upanishads and the Bhagavad Gita further stress the importance of ethical deliberation, self-restraint, and long-term consequences (Bhat, 2019). The Bhagavad Gita, for instance, discusses the balance between action (karma) and ethical responsibility (dharma), providing insights into intertemporal choice, moral motivations, and value-guided decision-making. Similarly, epics like the Mahabharata and Ramayana contain narratives illustrating fairness, reciprocity, and consequences of ethical or unethical actions, while the Panchatantra and Hitopadesha employ fables to teach lessons on negotiation, trust, and social cooperation (Mukherjee & Chatterjee, 2020). Collectively, these texts suggest that economic behaviour in ancient India was embedded in ethical, social, and institutional frameworks, highlighting the interplay between material objectives and moral considerations.

3. Modern Research Linking IKS to Economic Behaviour and Ethics

Contemporary scholarship has increasingly examined the relevance of Indian Knowledge Systems (IKS) to economic behaviour and ethics. Several studies argue that ancient principles such as dharma, karma, artha, and lokasangraha prefigure behavioural concepts like bounded rationality, time preferences, fairness, and social norms (Rao & Parameswaran, 2019; Sinha & Ghosh, 2017). For instance, Kautilya's guidance on incentives, punishment, and reward is interpreted as an early understanding of loss aversion and reward sensitivity, while the Bhagavad Gita's emphasis on moral duty reflects ethically motivated choice and long-term planning. Research in cultural economics and behavioural ethics demonstrates that norms and ethical values derived from IKS influence individual and collective economic decisions in

Indian contexts. Empirical studies show that decisions on cooperation, trust, and social exchange often align with principles from classical texts, suggesting that ethical and cultural factors significantly shape economic behaviour alongside material incentives (Mukherjee & Chatterjee, 2020).

4. Existing Work on Ethics, Morality, and Social Norms in Decision-Making

A large body of literature in behavioural economics and development studies underscores the importance of ethical and social norms in shaping economic choices. Concepts such as reciprocity, fairness, reputation, and moral preferences influence behaviour in trade, negotiation, and governance, echoing ethical prescriptions found in ancient Indian texts (Henrich et al., 2001; Thaler, 2016). For example, fairness norms in social and market interactions correspond to the emphasis on dharma and reciprocity in the Mahabharata and Dharmashastras. Similarly, intertemporal choice and patience, central to both the Bhagavad Gita and Upanishads, align with studies on time discounting and future-oriented behaviour in behavioural economics. Overall, the literature indicates a strong convergence between ancient Indian ethical frameworks and modern insights into bounded rationality, pro-social behaviour, and culturally influenced decision-making. This suggests that revisiting classical texts can enrich both theoretical understanding and empirical research in economics by integrating cultural, ethical, and normative dimensions into the analysis of economic behaviour.

5. Ethical Principles in Indian Knowledge Systems

Ancient Indian texts provide a structured framework for understanding economic behaviour through ethical and moral principles. These principles, embedded in classical literature, offer insights into decision-making that balance material objectives with social and moral obligations. Key principles include dharma, karma, artha, and lokasangraha, which continue to inform contemporary discussions in behavioural economics.

1. Dharma: Duty and Morally Guided Decisions

Dharma refers to the ethical duties and responsibilities of individuals within society, guiding behaviour beyond mere self-interest. In economic decision-making, dharma emphasizes fairness, honesty, and adherence to social norms, shaping choices in trade, governance, and community interactions (Sharma, 2018). The Bhagavad Gita, for instance, advocates acting according to one's duty without attachment to outcomes, illustrating a balance between moral obligations and practical action (Bhat, 2019). By integrating dharma, decision-makers are encouraged to consider ethical implications alongside material gains, aligning with behavioural concepts such as pro-social behaviour and moral preferences.

2. Karma: Consequences of Actions and Long-Term Thinking

Karma emphasizes that every action has consequences, highlighting the importance of foresight and responsibility in decision-making. Economic actions are therefore not isolated but have repercussions over time, encouraging a long-term perspective (Rao & Parameswaran, 2019). For example, leaders and traders were advised to consider the societal and economic consequences of their decisions, such as taxation or resource allocation, to ensure sustainable outcomes (Rangarajan, 1992). From a behavioural economics perspective, karma aligns with intertemporal choice and time discounting, reinforcing patience, delayed gratification, and consideration of long-term benefits over short-term gains (Sinha & Ghosh, 2017).

3. Artha: Pursuit of Material Prosperity within Ethical Limits

Artha represents the pursuit of wealth, resources, and material prosperity, but always within the bounds of ethical conduct. The Arthashastra provides guidance on governance, trade, and economic planning that integrates artha with dharma, ensuring that wealth accumulation does not violate social and moral norms (Manrai & Goel, 2017). In modern behavioural terms, artha relates to goal-directed behaviour, incentive structures, and utility maximization under normative constraints, highlighting that rationality is guided by both material and ethical considerations.

4. Lokasangraha: Welfare of the Community Influencing Individual Choices

Lokasangraha, or the welfare of the community, emphasizes that individual economic behaviour should promote collective well-being and social harmony. The Dharmashastras and epics like the Mahabharata illustrate the importance of aligning personal gains with societal welfare, reinforcing cooperation, trust,

and reciprocity (Mukherjee & Chatterjee, 2020). Behaviourally, this principle maps onto social preferences, fairness norms, and reciprocity, showing that decisions are socially embedded and influenced by the anticipated effects on others. Policies and economic practices guided by lokasangraha encourage sustainable and equitable outcomes, integrating ethical considerations into rational decision-making.

Table1: Ethical Principles in Indian Knowledge Systems and their Behavioural Interpretation

Ethical Principle	Key Concepts	Behavioural Economics Interpretation	Application
Dharma (Duty & Morally Guided Action)	Duty towards society and family, Honesty and fairness- Ethical conduct in trade and governance	Pro-social behaviour, moral preferences, fairness, ethical decision-making	A trader adhering to fair practices even at short-term loss to maintain trust and reputation
Karma (Consequences of Actions)	Accountability, Long-term consequences, Cause-and-effect reasoning	Intertemporal choice, delayed gratification, future-oriented decision-making	A ruler avoiding over-taxation to ensure sustainable economic stability
Artha (Material Prosperity within Ethical Bounds)	Wealth creation, Resource allocation, Incentive structures	Goal-directed behaviour, reward sensitivity, loss aversion under normative constraints	Officials motivated by bonuses but deterred from corruption through penalties
Lokasangraha (Collective Welfare)	Social responsibility, Community well-being, Cooperation and reciprocity	Social preferences, fairness, trust, cooperation	Policies promoting public goods or equitable distribution of resources
Ahimsa (Non-violence / Ethical Restraint)	Avoid harm to others, Ethical consumption and trade	Socially responsible decision-making, externality consideration	Avoiding exploitative labour practices or harmful trade practices
Satya (Truthfulness / Honesty)	Transparency, Accurate information in decision-making	Reduces information asymmetry, supports trust-based interactions	Transparent reporting in governance or markets to ensure compliance
Shauch (Purity / Ethical Discipline)	Self-restraint, Avoiding unethical gains	Self-control, bounded rationality, avoidance of impulsive decisions	Ethical savings, responsible financial behaviour
Dana (Generosity / Charity)	Redistribution, Support to vulnerable sections	Pro-social giving, social preferences	Welfare schemes, voluntary donations, corporate social responsibility
Nyaya (Justice / Fairness)	Equity and impartiality, Rule of law	Fairness norms, moral decision-making, reciprocity	Just taxation, dispute resolution in trade or governance
Tapas (Discipline / Self-Regulation)	Control over desires, Long-term planning	Delayed gratification, intertemporal choice, disciplined consumption	Saving or investing resources rather than short-term consumption

The table highlights how ancient Indian Knowledge Systems provide a comprehensive ethical framework that systematically guides economic behaviour. Principles such as dharma, karma, artha, and lokasangraha, along with complementary concepts like ahimsa, satya, nyaya, and dana, illustrate that

decision-making in Indian tradition was morally guided, socially embedded, and context-sensitive. When interpreted through a behavioural economics lens, these principles correspond to modern concepts such as bounded rationality, fairness, reciprocity, risk assessment, and intertemporal choice, demonstrating that ethical, social, and long-term considerations were integral to rational decision-making. The framework emphasizes that economic actions are not purely materialistic but are influenced by ethical duties, social norms, and collective welfare, offering important lessons for designing culturally sensitive, ethically informed, and socially responsible policies. Overall, the table provides a structured synthesis linking classical Indian ethical thought with contemporary behavioural insights, reinforcing the enduring relevance of Indian Knowledge Systems in understanding economic behaviour.

6. Behavioural Economics Perspective

Behavioural economics provides a useful lens to interpret the ethical principles outlined in Indian Knowledge Systems, highlighting how human decision-making is influenced by cognitive, social, and moral factors. The concept of bounded rationality illustrates that individuals make decisions under cognitive and informational constraints, reflecting Kautilya's emphasis on collecting intelligence, weighing probabilities, and anticipating the behaviour of others (Simon, 1955; Rangarajan, 1992). Similarly, ancient texts implicitly account for risk and uncertainty in economic behaviour, advising rulers and traders to plan strategically, assess potential threats, and consider long-term consequences, which parallels modern understandings of risk preferences and strategic decision-making (Bhat, 2019; Manrai & Goel, 2017). Social norms, reciprocity, and fairness are central to both classical Indian thought and behavioural economics, as maintaining trust, cooperation, and ethical conduct was essential for social stability and collective welfare (Mukherjee & Chatterjee, 2020). Finally, principles such as karma and dharma reinforce intertemporal choice, encouraging individuals to balance short-term gains with long-term ethical and social outcomes, similar to contemporary research on time discounting and patience in decision-making (Sinha & Ghosh, 2017; Rao & Parameswaran, 2019). Collectively, these insights demonstrate that economic behaviour in the Indian ethical framework is socially embedded, morally guided, and context-sensitive, anticipating key behavioural economics concepts long before their formal articulation.

7. Implications for Policy and Governance

The ethical principles embedded in Indian Knowledge Systems offer significant insights for designing ethically informed and socially responsible economic policies. By integrating concepts such as dharma, karma, artha, and lokasangraha into policy frameworks, decision-makers can ensure that economic interventions not only maximise material outcomes but also promote fairness, social welfare, and long-term sustainability (Rangarajan, 1992; Sharma, 2018). In the domain of public finance and welfare programs, these principles suggest the importance of equitable taxation, ethical resource allocation, and incentive structures that encourage compliance while maintaining social trust (Manrai & Goel, 2017; Bhat, 2019). Similarly, policies for financial inclusion and market participation can benefit from the emphasis on reciprocity, cooperation, and ethical behaviour, fostering trust between institutions and citizens, which is critical for effective governance (Mukherjee & Chatterjee, 2020). Beyond practical applications, these ethical foundations highlight the need for sustainable and culturally sensitive economic decision-making, where interventions respect social norms, long-term consequences, and collective welfare. Incorporating insights from Indian Knowledge Systems into modern policy design not only enriches theoretical understanding but also enhances the effectiveness and legitimacy of economic programs, particularly in culturally diverse and tradition-oriented societies (Rao & Parameswaran, 2019; Sinha & Ghosh, 2017).

8. Conclusion

This review demonstrates that Indian Knowledge Systems (IKS) provide a robust ethical and cultural framework for understanding economic behaviour that goes beyond narrow material incentives. Core principles such as dharma (duty), karma (consequences of actions), artha (material prosperity within ethical limits), and lokasangraha (collective welfare) reveal that decision-making in ancient India was

deeply socially embedded, morally guided, and contextually informed. By systematically linking these principles with key concepts from behavioural economics such as bounded rationality, risk assessment, reciprocity, fairness, moral preferences, and intertemporal choice- the study highlights a strong convergence between ancient ethical thought and contemporary behavioural insights. The analysis further shows that economic actions, when guided by ethical norms and social responsibilities, can enhance social welfare, promote sustainable outcomes, and strengthen trust and cooperation within society. These insights challenge the universality of context-free rational choice models and underscore the importance of culturally grounded approaches to economic analysis. Revisiting Indian Knowledge Systems thus enriches both theoretical and applied economics by integrating ethical considerations, social norms, and long-term perspectives. Such an approach offers valuable guidance for designing culturally sensitive, ethically informed, and socially responsible policies and governance frameworks in contemporary economic contexts.

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