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Dharma, Justice, and Economy: The Ethical Foundations of the Ancient Indian Debt System in special reference to *Yajńavalkyasmṛti*

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Abstract: *This paper discusses the regulation of debt in ancient India as articulated in the Smṛiti šãstras with particular reference to the Manusmṛti, Yãjńavalkyasmṛti and Nãradasmṛti of a sociological standpoint. It is reasoned that the concept of debt (ṛṇa) in early Indian jurisprudence was not conceived as a mere economic exchange, but rather as a moral and social duty, embedded within the normative framework of dharma. The analysis of juridical categories of ṛṇādāna (lending and recovery), vṛddhi (interest), pratibhū (guarantor), and ādhi (pledge), shows how financial relations were systematically regulated through ethical injunctions, graded interest rates, evidentiary standards, and royal supervision. The Yajńavalkyasmṛti, and more specifically, the section of the text known as Vyavahãra, contain a coherent and systematic legal framework, an advanced phase of legal rationalization. The relatively high recovery rates of Manu and Nãrada in procedural focus further bring out a dynamic development of the thought of law. The Smṛti books were all aimed at creating a balance between the rights of creditors and the protection of debtors to ensure that there was no exploitation and to safeguard the economic circulation. The regulation of debt, therefore, served as a mode of social cohesion, moral responsibility and statecraft that illuminates the ethics of economic life within ancient Indian society.*

Key Words: *Debt, Vṛddhi, Yajńavalkyasmṛti, vyavahãra, Pratibhu, Ặdhi. Interest, Economy.*

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Introduction

Smṛtišãstra is a monument well established in the history of the ancient Indian intellectual tradition. These treatises were inspired by the Vedas and were a systematic codification of a vast array of injunctions in religion, ethics, society and statecraft. In the government of the individual, in the administration of justice, in the relations of the family, in the dealings of commerce--in every department of human activity, the sagacious pen of the lawgivers found an organized outlet. Illustrious examples of this tradition are the Manusmṛti and the Yãjnavalkyasmṛiti and Nãradasmṛti; they are not merely manuals of religious observance, but they are living documents, which reflect the social order of ancient India.

Debt in ancient India was such a natural requisite in agriculture, trade, and domestic life, that it was not even mentioned in many of the Hindu epics. The Smṛikãra strictly controlled it with fixed rates of interest, regulations on pledges, and legal processes. They were fair by outlining rights and duties, and conceived debt not as finance but as a moral and social duty as defined in dharma.

A creditor who invests capital in the form of a loan may reasonably claim interest for the use of the money so advanced. The term commonly used for interest is *vṛddhi* ("increase"). In the Pãṇini-sūtra "*kusīdadaśaikādaśāt şţhan-şţhacau*"[1], the affixes *sthan* and *sthac* are prescribed after the words *kusīda* and *daśaikādaśa* in the sense of lending for base or improper motives. The expression *daśaikādaśa* literally denotes the lending of ten coins on the condition that the borrower should repay eleven. This represents an interest rate of ten percent. The use of the term *garhyam* ("reprehensible") in the preceding rule suggests that such a rate of interest was not viewed favorably. In comparison with other Smṛti texts,the structure of *Yājñavalkyasmṛt* is more coherent and methodically arranged. Divided into three sections—Ācāra (conduct), Vyavahāra (legal procedure), and Prāyaścitta (expiation)—the *Vyavahāra adhyãya* systematically expounds judicial processes, civil law, and detailed regulations concerning debt. The classification of debts, prescribed limits of interest, the necessity of written documents, the authority of witnesses, and the role of royal power are all articulated with doctrinal clarity.

Dharma, Justice and Ecoonomy as per Yãjnavalkyasmṛti:

The Yãjńavalkyasmṛti represents an extensively integrated vision in which dharma (moral order), justice (*vyavahāra*) and economy (*artha*) are not separate domains but mutually sustaining principles within a single socio-legal construct.

On its own basis, Dharma gives the moral backbone of all economic action. Financial transactions can never be considered as morally neutral; in fact, they are entrenched within a set of duties and obligations that bind individuals to society. Borrowing involves not only a contractual relationship but also an ethical obligation of repayment, and lending is limited by norms that forbid exploitation, excessive interest (*vṛddhi*), and unjust gain. Through this, economic behavior will be internalized in the moral consciousness of individuals, making material exchange a righteous action.

Justice (*vyavahãra*) is the institutionalized form of dharma. It renders ethical standards into the tangible legal processes and enforceable regulations. The methodical organization of debts, the control of interest, the recourse to documentary and oral evidence, and the authoritative image of the king altogether evidence a sophisticated juridical system designed to guarantee fairness. The king, as the protector of dharma, applies the principle of repayment, punishment of default and safeguarding of both the creditor and debtor against injustice. Justice, therefore, is the balance between ideals of morality and social practice, keeping in balance the economic relations.

Economy (*artha*), in its turn, functions within the framework of *dharma*, which is itself safeguarded by justice. Although the Yãjńavalkyasmṛti recognizes the need to have economic activity under ethical control and legal regulation, it nevertheless accepts the need to have credit in the economic activity to provide the economic activity with moral discipline and legal provisions. Guarantor (*pratibhū*) and pledge (*nikśepa*) are systems of providing structured protection to guarantee trust, accountability, and continuity. This system forms a coherent synthesis in which dharma guides, justice regulates, and economy sustains the social order.

Law of Debt (*Ṛṇādāna-vidhi*)

In the second chapter of the *Yājñavalkya Saṃhitā*, the venerable sage Yājñavalkya expounds twenty heads of litigation (*vyavahārapādas*) within twenty-five sections. Among these, *ṛṇādāna* (debt) is discussed first. The very term *ṛṇādāna* carries a dual connotation: the granting of a loan and the recovery or realization of that loan. It thus signifies not merely the act of advancing money, but equally the legitimate means of its restitution. Smṛti literature addresses both dimensions with clarity—stipulating the rules governing loans, the permissible rates of interest, and the evidentiary value of written documents and witnesses, while also prescribing the penalties to be imposed upon a defaulting debtor (*adhamarṇa*).

In this regard, a comparison between the *Yājñavalkyasmṛti* and the *Manusmṛti* is particularly illuminating. Though Yājñavalkya provides systematic and jurisprudentially refined regulations concerning debt adjudication, Manu's stance appears comparatively stringent. The *Manusmṛti* authorizes the creditor (*uttamarṇa*) to employ multiple recovery methods: first, through *dharma*—moral persuasion and social censure; second, through *vyavahāra*; legal recourse before the royal court; and third, through stratagem or device, even "by whatever means possible," as expressed in Manusmṛti[2], which further adds the use of force as a final measure.

In the *Naradasmṛti*, Ācārya Nārada delineates sevenfold regulations concerning the giving and receiving of loans. What may or may not be lent, by whom, to whom, and in what form, with the rules for delivery and receipt, are comprised in law under the title of Recovery of a Debt -

"Ṛṇaṃ deyam adeyaṃ ca yena yatra yathā ca yat|
dāna-grahaṇa-dharmābhyāṃ ṛṇādānam iti smṛtam"||[3]

The verse discloses that in the ancient Indian jurisprudence, debt was not left to informal or purely economic considerations, but a well-articulated normative framework governed debt. It formalizes the relationship of credit in a system of moral and legal responsibility. It is a sign of an early effort to rationalize economic conduct with prescriptive regulation that was based on dharma.

More importantly, the default treatment evidences the moralization of economic obligation. The inability to pay back is not only perceived as financial inability but as a moral and ethical infraction thus raising debt to the status of social and moral responsibility. The enactment of penal policies is an expression of a dual system of enforcement- internal through moral regulations and external through the authority of the royal power. The separation of the obligations between debtor and creditor further implies a moderate juridical method that controls both the liability and the rights in order to maintain the fairness, discipline, and stability in economic life.

Interest (Vṛddhi)

In this section, Ācārya Yājñavalkya commences with a discussion on *vṛddhi* (interest) and its prescribed rates. In the case of secured loans (*sabandhaka ṛṇa*), the creditor may receive one-eightieth part of the principal as interest. For unsecured loans (*abandhaka ṛṇa*), interest is graded according to social order: two, three, four, and five percent respectively *from Brāhmaṇa, Kṣatriya, Vaiśya*, and *Śūdra* debtors. Merchants who borrow for hazardous forest trade ventures are liable to pay ten percent interest per month.

"aśīti-bhāgo vṛddhiḥ syān māsi māsi sabandhake |
varṇa-kramāc chataṃ dvi-tri-catuṣ-pañcakam anyathā" ||[4]

When a loan is contracted upon the pledge of property, specific regulations apply. If a female animal is given as security, its offspring shall be taken by the creditor as interest. In the case of garments and certain other movables, the increase may extend to double or even triple the principal. Should the debtor, having pledged repayment, subsequently default, the creditor is entitled to recover the debt in accordance with dharma. The king shall not obstruct such recovery; rather, he shall penalize the defaulting debtor and ensure payment to the creditor.

"prapannaṃ sādhayed arthaṃ na vācyaḥ nṛpater bhavet |
sādhyamāno nṛpaṃ gacchan daṇḍyo dāpyaś ca tad-dhanam" ||[5]

The text provides a system of a highly stratified regulation of debt based on the social hierarchy, pragmatism of laws, and economic ethics. Fundamentally, there is an endeavor to strike a balance between contractual duty and maintenance of social order. The principle that debts between creditors of the same social order must be repaid in sequence, i.e. earlier loans must be repaid before others. But repayment is restructured based on the hierarchical status when creditors are of different varnas with the Brãhmaṇa being the first to be repaid. Here we can see a strong subjugation of economic equality to social-religious hierarchy, in which financial rights are mediated by the ritual rank.

The role of the king is both fiscal and judicial. The system entrenches the role of the state in resolving interpersonal financial disputes by making the creditor pay a ten percent fine on recovered debt and an extra five percent litigation cost. This twofold extraction implies that justice is not only corrective but also revenue-generating which strengthened royal control over economic transactions. The clauses about indigent Brãhmaṇas and unwilling creditors exhibit a subtle sense of ethics. Allowing gradual repayment not only safeguards vulnerable debtors but also punishes creditors who refuse to repay at a gradual rate, curbing further exploitative tendencies of creditors. The device of using a neutral intermediary to stop the accumulation of interest is an early form of financial arbitrage, and so demonstrates procedural sophistication.

The family liability regulations also demonstrate the difference between personal and collective liability. Household maintenance debts bind heirs, and highlight the joint family as an economic unit. On the other hand, personal debts are personal and thus the best way to ensure that family members do not have an unnecessary burden is to keep personal debts personal. But this is applied selectively to those occupational groups where the wives are directly contributing to the economy, e.g., cowherds or artisans. In this case, the liability of a spouse is understood, which is an implicit recognition of the economic involvement of women.[6]

The text ultimately reveals a layered legal consciousness that integrates hierarchy, fairness, and practicality. While it upholds *varṇa*-based privilege, it also introduces regulatory mechanisms to prevent abuse, protect vulnerable parties, and ensure continuity of economic life.

"pratipannaṃ striyā deyaṃ patyā vā saha yat kṛtam |
svayaṃ kṛtaṃ vā yad ṛṇaṃ nānyat strī dātum arhati" ||[7]

Guarantor (*Pratibhu*)

If a father departs abroad without repaying his debt, or falls into misfortune, or dies, his sons and grandsons are bound to discharge it. Should they deny the liability, the creditor may establish the claim through witnesses and recover the amount. All heirs who succeed to property through inheritance must satisfy ancestral debts. Even the heir of a sonless man, and a capable son who has received no share of parental wealth, remain obligated to repay such debts. In the *Vyavahāra* (judicial procedure) section of the *Yajnavalkyasmriti,* the institution of the *pratibhū* (guarantor) is discussed in connection with loans. *Pratibhūtva* signifies an undertaking made with another person for the sake of trust, as explained in the Mitākṣarā). At the time of advancing a loan, a third person, approved by both creditor and debtor, may be appointed as surety; such a person is termed a *pratibhū*.

Yājñavalkya recognizes three kinds of guarantors. (1) The *darśana-pratibhū*, who undertakes to produce the accused person before the court when required. (2) The *pratyaya-pratibhū*, who vouches for the debtor's credibility, especially when the creditor hesitates to lend due to limited acquaintance; he assures the creditor of the debtor's integrity and financial capacity. (3) The *dāna-pratibhū*, who guarantees repayment, declares that if the debtor defaults, he himself will discharge the debt. If a guarantor in the first two categories fails in his obligation—by absconding or breaching trust—the king shall compel him to pay the creditor the due amount. In the case of a *dāna-pratibhū*, if the debtor defaults, both the guarantor and his sons are liable to repay. However, upon the death of a *darśana* or *pratyaya* guarantor, his sons are not bound. If multiple guarantors exist, liability shall be apportioned proportionately among them -

"darśane pratyaye dāne prātibhāvyaṃ vidhīyate |
ādyau tu vitathe dāpyau itarasya sutā api" ||[8]

If a person voluntarily and with goodwill undertakes the office of guarantor for another, any payment made by such a surety is to be regarded as a *prītidatta*—a friendly or willing payment. The Smṛti texts state that, in certain circumstances, the guarantor of a debtor may be required to pay double the amount. Yet this rule of double payment is not universally applicable; in specific cases, distinct rates of increment (*vṛddhi*) are prescribed. For instance, where a particular rate of increase is fixed for certain goods, and the guarantor discharges the liability, the debtor must immediately reimburse the guarantor together with the stipulated increment. Thus, in the case of cattle or a woman pledged, the offspring constitutes the increase; in the case of grain, the amount may rise to threefold; for garments, fourfold; and for liquids or essences, eightfold. Repayment to the guarantor with such specified increase is therefore legally sanctioned. If a *darśana-pratibhū* (appearance-guarantor) fails to produce the debtor at the appointed time, he shall be granted three fortnights (approximately one and a half months) to trace him. Failing this, he must pay the entire sum.

Mortgaged Article (*Ặdhi*)

The term *ādhi* is derived from the verbal root *ā-dhā* with the suffix *ki*; thus, *ādhīyate iti ādhiḥ* that which is placed or deposited is called *ādhi*. In the *Vyavahāra* section of the Yājńavalkya Smriti, the concept of *ādhi* is discussed under the topic of loans. In matters of credit, two principal means of securing trust are recognized: the *pratibhū* (guarantor) and the *ādhi* (pledge). The valuable property deposited by the debtor to inspire the creditor's confidence constitutes the *ādhi*. Ācārya Nārada defines *ãdhi* indicating that it is so called because a right in the debtor's property is established in favor of the creditor.

Ādhi is of two kinds: *kṛtakāla* (for a fixed term) and *akṛtakāla* (without a fixed term). In *kṛtakāla ādhi*, upon expiry of the stipulated period, the debtor's ownership ceases and the creditor's right becomes established. In *akṛtakāla ādhi*, however, ownership does not lapse; the pledge remains until the debt is repaid. Both types are further classified as *gopya* (custodial) and *bhogya* (usufructuary). In *gopya ādhi*, the creditor merely safeguards the property without enjoyment. In *bhogya ādhi*, the creditor is entitled to enjoy its produce, such as fruits from orchards or crops from fields pledged as security.

ādhi praṇaśyed dvi-guṇe dhane yadi na mokṣyate |
kāle kāla-kṛto naśyet phala-bhogyo na naśyati ||[9]

If a *gopya ādhi* (a custodial pledge not meant for enjoyment) is nevertheless used by the creditor, the debtor shall not be liable to pay any interest. Even slight unauthorized enjoyment entails forfeiture of substantial interest, since the creditor has violated the prescribed rule. In the case of usufructuary pledges, such as serviceable oxen, if they become unfit for use, no further increment is to be charged. However, objects like copper vessels, if deformed, perforated, or broken, must be restored to their former condition. Likewise, if a custodial pledge is damaged, it must be made good as before; yet if it has been enjoyed, interest is remitted. Should the pledge be entirely destroyed, the debtor must pay its value together with interest. But if destruction occurs through divine calamity or royal action, without the debtor's fault, he is not liable for its value.

gopyādhi-bhoge no vṛddhiḥ sopakāre 'pi hāpite |
naṣṭo deyo vinaṣṭaś ca daiva-rāja-kṛtād ṛte ||[10]

Secret pledgings do not increase, and interest is not paid on useful or useless items pledged. In case the pledge is lost, damaged, or destroyed it must be repaired or compensated, but there is no liability in case the loss was caused by fate, or royal action. If money lent upon a pledge accrues, together with interest, to twice the principal, the debtor's proprietary right in that pledge ceases. However, in the case of fruit-bearing land, orchards, and similar property, mere lapse of time does not extinguish the debtor's ownership.

The passage delineates a precise legal conception of pledge (ādhi), grounding its validity in material custody rather than merely formal or testimonial evidence. By insisting that a pledge becomes operative only when physically held and acknowledged by the creditor, the rule privileges possession as the basis of enforceability.

The asymmetry in valuation—where a valuable object secures a small loan or vice versa—reveals an awareness of economic imbalance. The provision that repayment may be compelled upon the doubling of the debt, while simultaneously protecting the pledge from forfeiture, introduces a corrective mechanism against potential exploitation. Thus, the framework balances creditor rights with safeguards against disproportionate loss.

Relevance, Utility and Limitations of the Ancient Indian Debt System to the Modern Economy Rule

The debt system expressed in Yājñavalkyasmṛti, Manusmṛti and Nãradasmṛti is very much contemporary in that it is a combination of ethics and economic regulation. The concept of debt is not the contractual obligation alone but a moral obligation based on dharma. Controlled interest, dependence on documentation and witnesses, and state regulation are some of the main features of the modern contract law and financial governance, and especially the balance between creditor rights and debtor protection.

It is useful as it provides an initial prototype of ethical finance. The *pratibhū* (guarantor), *ādhi* (pledge), and graded interest institutions are analogous to modern suretyship and secured lending, and a primitive sense of risk differentiation. The presence of provisions to allow gradual repayment expresses care to vulnerable debtors, and the inclusion of moral accountability with legal enforcement offer valuable lessons to modern microfinance and socially responsible credit regimes.

However, there are also limitations of the system. Its reliance on hierarchy founded on *varṇa* (caste) involves inequitable treatment contrary to the current concepts of equality and human rights. Moralization of default ignores structural economic realities, and the issue of liability by the family challenges the issue of individual autonomy. Additionally, the lack of institutional banking systems and authorization of coercive recovery means limits its applicability in the context of modern legal systems based on due process.

Conclusion

The Smṛti Literature presents the system of lending in ancient India as a normatively regulated institution that integrates economic practice with ethical and juridical principles. Rather than treating debt as a purely financial transaction, these texts conceptualize it as a mechanism embedded within dharma, where personal conduct, social accountability, and religious duty converge. The detailed prescriptions regarding sources of debt, interest rates, modes of documentation, evidentiary standards, and penalties for default indicate a high degree of legal consciousness and institutional organization. Credit, therefore, functions not only as an economic tool but also as a stabilizing force within the social order.

Within this framework, the Manusmṛti adopts a distinctly moralistic stance. Repayment is framed as an ethical obligation, and default is interpreted as a violation of dharma rather than mere insolvency. The text prioritizes moral persuasion but also legitimizes judicial intervention and strategic enforcement, thereby affirming creditor rights while maintaining social equilibrium. This approach reflects an early synthesis of moral theology and legal authority.

In contrast, the Yājñavalkyasmṛti demonstrates a more systematic juridical orientation. Its Vyavahāra adhyāya articulates a structured classification of debts, regulated interest norms, and clearly defined procedural standards. The emphasis on written documentation and the adjudicatory role of the king suggests a transition toward formalized legal rationality and administrative coherence.

The Nāradasmṛti further advances this trajectory by foregrounding judicial procedure. Its detailed treatment of witnesses, oaths, and court protocols reflects an institutionalized model of dispute resolution, where legal processes are standardized and authority is centralized.

Taken together, these texts reveal a layered and evolving system in which moral obligation, legal procedure, and royal authority are interwoven. Debt regulation emerges not merely as an economic arrangement but as a comprehensive juridical construct that sustains social order and reflects the broader philosophical foundations of ancient Indian polity.

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