

IBN KHALDUN: THE FORGOTTEN FATHER OF ECONOMICS?

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There is not much mention of fourteenth century Islamic thinkers in standard economic textbooks. Joe McCaffrey redresses that deficit here. Whilst caution should be taken in reading history backwards, an enlightening discussion emerges on the economic thought of Ibn Khaldun. His focus was wide-ranging: it incorporated theories of price and value, production, the role of government, taxation and the population cycle. These issues continue to preoccupy economists, and an engagement with Ibn Khaldun's arguments will surely place them in greater historical context.

Introduction

Had Wali ad-Din Abu Zaid 'Abd ar-Rahman (1332 – 1406) b. Muhammad Ibn Khaldun al-Hadrami al-Ishbili (Ibn Khaldun for short) been born on the northern coast of the Mediterranean Sea instead of Tunisia, it is less likely that his work would have been overlooked. During his lifetime – Islam's golden age – Ibn Khaldun developed a sophisticated theory of price and value, a theory of production and a modern analysis of the role of government. In addition to this, he produced a pre-Malthusian theory on population. While primarily an historian and a sociologist, he sought to explain the world around him in clear and concise language. These statements then explained economic concepts, even though the main purpose of his writing was not economic.

Fortunately for the economic historian, there has been a twentieth-century revival in interest in Ibn Khaldun's writings. Arthur Laffer (2004) credited him as the first writer to spot the Laffer Curve. Ronald Reagan quoted him in a press conference in support of supply-side economics. Arnold Toynbee, the economic historian, described his book, *The Muqaddimah*, as 'undoubtedly the greatest work of its kind that has ever yet been created by any mind in any time or any place' (quoted by Rosenthal in Ibn Khaldun, 1967: xxxv). The aim of this essay is to describe, appraise and critique his economic writings as they compare both to his contemporaries and to later economists.

Price Theory

Ibn Khaldun offered a developed analysis of price theory in his work. He analysed the interaction of supply and demand in the quantity produced and the price of goods. Of course, he was a man of his time, and the main type of production he was concerned with was agrarian. However, his writings betray a more 'modern' understanding of the workings of the market. He divided goods into two categories: necessities and luxuries. In the case of necessities, they are in plentiful supply, since 'nobody would neglect [to provide for] his own food or that of his establishment for a month or a year' (Ibn Khaldun, 1967: 276); people will

therefore hoard the necessities and since food is in abundant quantity, the price will be low. On the other hand, luxury goods are not produced as widely because they are not needed by the public, and so there is a shortage of such goods. Prices are therefore set indirectly because of the goods' uses, but not intentionally. Grains and other foodstuffs are cheap because they are produced in great quantity, not just because they are necessities. While this is not as succinct as the analysis of the difference in price between water and diamonds, as expressed by John Law and later Adam Smith, it does utilise, like them, the interaction of supply and demand.

This argument applies not just to goods, but to labour as well. As he explained, 'profit is the value realised from labour' and 'this differs according to the [varying degrees of] need for [a particular kind of labour]' (ibid.: 308). Thus, while he believed that judges were important and noble members of society, he argued that they are not worthy of a large wage because their position is not a general concern to the people as a whole, but for specific concerns and disputes and the minority of the population who take a particular interest in their religion. As such, his analysis did not differentiate between labour and goods.

Production

'Human social organisation is something necessary. The philosophers expressed this fact by saying: 'Man is "political" by nature.' That is, he cannot do without the social organisation for which the philosophers use the technical term 'town' (*polis*).' (ibid.: 45)

In Ibn Khaldun's theory of production, social organisation is essential. Individuals must work together to organise their production, even in agriculture. One person cannot produce enough food for one day on his own, as that food 'could only be obtained only after much preparation such as grinding, kneading and baking' (ibid.). Moreover, agriculture cannot take place without tools made by blacksmiths, nor cooking without utensils made by a potter. Thus, man cannot survive alone, but needs the help of others: 'through co-operation, the needs of a number of persons, many times greater than their own number, can be satisfied' (ibid.).

However, in Ibn Khaldun's writings, this co-operation is more than a necessity. By subdividing the individual tasks and jobs in an economy, the work can be done more efficiently. Specialisation is necessary because the mind is not capable of learning more than one craft fully as 'habits are qualities of the soul' (ibid.: 318) and so once one craft has been imprinted on the soul, the soul is less prepared to master another. Subdivision of labour according to skills offers the most efficient route to production. Indeed, workers who come together will be able to produce a surplus on top of their sustenance, and the surplus can be traded for luxuries. Thus, prosperity arises through subdivision of labour and specialisation of skills. By comparison with his fellow Muslim judge, Ibn Taimiyah, Ibn Khaldun's analysis is highly developed. Ibn Taimiyah stated that:

‘Mankind’s welfare in this world or the Hereafter cannot be achieved without getting together and co-operating. So there should be co-operation and association to achieve good and alliance to remove injury. Thus it is said that man is by nature a social being.’ (quoted in Islahi, 1988: 248)

Unlike Ibn Khaldun, Ibn Taimiyah did not develop the idea any further, nor pay any attention to the economic implications of this fact. By comparison, Ibn Khaldun’s explanation covered the reasons why man must act in groups and considers the advantages of social organisation that benefit all. Where Ibn Taimiyah’s work was historical and sociological by nature, Ibn Khaldun’s had elements of economic thought.

Finally with regard to the theory of production, he argued that demand creates its own supply. Increased demand generates supply and improves the quality of goods. He disagreed that supply influences demand, as ‘man cannot afford to give away his labour for nothing’ (Ibn Khaldun, 1967: 316) and cannot take such risks. He added that the mechanism by which demand creates supply is through the marketplace of *ideas* in the town. When a good is very much in demand, then it is imported for sale. People within the town see that it earns a high price, and they become eager to learn the necessary crafts so that they too can produce the goods. Once this happens, the good is in plentiful supply. On the other hand, if a good is not in demand, people will not want to learn the craft and it will die out if it previously existed in the town.

Role of government

Government is necessary in Ibn Khaldun’s work to ensure property rights for all subjects, so that they will be able to pursue market decisions without fear. Protection for capitalists, either through rank or personal connections, is necessary to allow them to carry out business:

‘Attacks on people’s property remove the incentive to acquire and gain property... When attacks on (property) are extensive and general, affecting all means of making a livelihood, business inactivity, too, becomes general.’ (ibid.: 238)

Clearly, property rights are essential to a properly functioning state. In addition, Ibn Khaldun showed himself to be pre-Keynesian in his analysis of government expenditure. He argues that the ruler should always be careful with public expenditure, because so many of his subjects depend on that expenditure:

‘[When they stop spending], business slumps and commercial profits decline because of the shortage of capital. Revenues from the land tax decrease, because the land tax and taxation depend on cultural activity, commercial transactions, business prosperity, and the people’s demand for gain and profits. It is the dynasty that suffers from the situation, because under those circumstances the property of the ruler decreases in consequence of the decrease in revenues from the land tax. The dynasty is the greatest market, the mother and base of all trade, the substance of income and expenditure... Furthermore, money circulates between subjects and

ruler, moving back and forth. Now if the ruler keeps it to himself, it is lost to the subjects.’ (ibid.: 237-8)

This argument is reminiscent of Keynes’ Theory of Aggregate Demand and the government expenditure multiplier. The government has the power to stimulate the economy or to cool it down through its fiscal policy, and it is very important that the economy is kept in a healthy state for the subjects and for the ruler. In addition, the circular flow of money demonstrates the trickle down effects of fiscal policy and the multiplier. Cuts in public spending result in decreased demand for goods and crafts, and hence decreases earnings from land, such that landowners lose even if they were not targeted.

Taxation

‘It should be known that at the beginning of a dynasty, taxation yields a large revenue from small assessments. At the end of the dynasty, taxation yields a small revenue from large assessments.’ (ibid.: 230)

The Muqaddimah also contains a sophisticated analysis of the impact of taxation on the economy. To express this, Ibn Khaldun took a sociological approach, explaining the reasons for different levels of taxation. As a state emerges from nomadic Bedouin culture, it initially is very basic and guided by religious law, which discourages heavy taxes. As the civilisation develops, the society becomes sophisticated and there is a greater demand for crafts; the leaders become monarchs and they exact taxation to pay for these crafts. As time passes, the civilisation becomes more sophisticated; its leaders continue to increase the burden of taxation on their subjects. Eventually, Ibn Khaldun argued, the civilisation taxes itself out of existence and the state collapses.

Ibn Khaldun’s analysis is a predecessor to Arthur Laffer’s 1981 discussion. Laffer argues that an increase in the tax wedge ‘reduces the demand for, and the supply of, productive factors’ (Laffer, 1981: 33). He argues that a change in the tax on labour will affect the quantity of labour supplied and demanded, which will in turn affect the quantity of capital employed and the price of capital. Thus, an increase in the tax wedge on labour will get the following responses:

- (1) more revenue will be collected per worker employed, thus tending to increase revenues;
- (2) less workers will be employed, thus lowering revenue;
- (3) less capital will be employed, thus lowering revenue (Laffer, 1981: 36).

As a result, an increase in taxation results in progressively decreasing increments in total revenues, until the point at which revenue is maximised. From that point on, further increases in taxation levels only serve to decrease the total revenue, as less production takes place. From this analysis, we have the Laffer Curve.

As K. V. Nagarajan notes, ‘it is impossible to separate the effects of taxation and the position of the dynasty in its lifespan’ (Nagarajan, 1982: 118). Ibn Khaldun stated that ‘the ruler and his entourage are wealthy only in the middle period of the dynasty’ (Ibn Khaldun, 1967: 235). After that period, however, as the dynasty’s demand for luxuries increases with the development of civilisation, taxes increase until they become a heavy burden on the subjects. At this point, the ruler responds to decreasing revenues with even greater taxes, and the economy – and therefore the entire dynasty – collapses under the pressure. This is a clear exposition of the second half of the Laffer Curve. While it is reasonable to argue that Ibn Khaldun ‘did not imply that reducing taxes will *reverse* the decline of the dynasties, since he held that high takes were an *effect* of the ruler’s basking in luxury while maintaining an army’ (Nagarajan, 1982: 118), the analysis is more than simply a sociological one. In other places in *The Muqaddimah*, Ibn Khaldun argued against the damage luxury goods do to people and to dynasties. In this section, he explained the downfall in economic terms, as the increases in taxation cripple the economy out of existence. It is for this that Laffer credited Ibn Khaldun with the first exposition of the phenomenon (Laffer, 2004).

Population

Production is determined by the population. A highly populated city can produce a greater surplus than a less populated one as already discussed through division of labour and specialisation. The greater the population, then, the more luxurious the surroundings will be, as surpluses can be traded for luxury goods. This then in turn fuels further population growth, due to, for example, rural migration. As a result, population growth leads to a virtuous circle of luxury and further population growth.

However, there is a physical limit to the size of cities, and at that point problems begin to arise. Urban pollution becomes a problem. Moreover, the sedentary lifestyle in cities does not prepare the body for the increased influx of infection. As a result, ‘the incidence of illness is great in towns and cities’ (Ibn Khaldun, 1967: 327). In addition, population growth increases the demand for food and other agricultural produce, while simultaneously decreasing the rural agricultural labour supply.

‘If nothing is stored, people must expect famines. The price of grain rises. Indigent people are unable to buy any and perish. If for some years nothing is stored, hunger will be general.’ (ibid.: 256)

Thus, the town comes to be at the whim of the weather, such that if the weather is not suitable for crops, famine sweeps across the town. A population cycle is thus evident, and this in turn determines the path of the economic cycle. This population cycle theory is somewhat similar to that of Malthus and his limits on the population growth of the world.

Conclusion

‘He discovered the virtues and the necessity of a division of labor before Smith and the principle of labor value before Ricardo. He elaborated a theory of population before Malthus and insisted on the role of the state on the economy before Keynes. The economists who rediscovered mechanisms that he had already found are too many to be named.’ (Boulakia, 1971: 1117)

Unlike many of his contemporaries Ibn Khaldun did not focus too much on religious doctrine.¹ While he believed in the correctness of Islam, he restricted himself to just a small number of praises for God. The work is primarily secular, the analysis economic and factual, and the argumentation fair and accurate. The result is a work to rival those of any of the classical ‘fathers of economics’.

However, while his writings may be said to be more sophisticated than his contemporaries and many of his successors, to describe him as the Father of Economics would be inaccurate. Despite the existence of mechanisms to transmit the writings of the Islamic authors throughout Europe, very few of the ideas found their way into later economic writings, except through independent rediscovery.² This is to the detriment of the development of economic thought, as ‘looked at from the classical Greek and Roman level of economic commentaries and insight, the works of the Muslim masters represent a quantitative and qualitative benchmark’ (Baeck, 1994: 118). However, it can be truly said that Ibn Khaldun is one of the great economists of pre-Smithian times.

¹ For example, Ibn Taimiyah wrote extensively on the theological and societal worthiness of Islam’s ban on usury. See Islahi, 1988 for further information.

² Baeck (1994: 118-120) gives a description of the translation and transmission centres in Tarazona, Toledo, Catalonia and the Langue D’Oc regions.

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