

Economics of Ibn Khaldun: Revisited¹

Introduction

A close look at the writings of the Middle Eastern and North African scholars who lived in the Middle Ages (roughly between A.D. 476-1500) reveals an immense body of theoretical knowledge pertaining to the humanities, and behavioral and social sciences. A partial list of the scholars who wrote on these issues includes names such as Abu Yusuf (8th century), Abul-Fadl Al-Dimishgi (9th century), Al-Farabi (10th century), Al-Ghazali (11th century), Nasiruddin Tusi (13th century), Ibn Taimiya (14th century), and Ibn Khaldun (14th century).

In this tradition, Abdel Rahman Ibn Khaldun of Tunis (1332-1406), who was a diplomat, jurist, historian, politician, sociologist, and economist is the most prominent figure. Unlike the writings of his predecessors and contemporaries, his writings on economic topics transcend the tradition of making disjointed remarks on and isolated references to important questions of political economy. Ibn Khaldun's rationalistic approach to economic reasoning, his power of abstraction, and his pioneering works in developing economic models are unparalleled among the writers of Medieval times.

Ibn Khaldun was introduced to the West in the early 19th century when some of his writings were translated into French by Silvestre de Sacy in 1806 (Schmidt 1967). In the field of economics, primarily due to the efforts of Nashat (1945), Issawi (1950), Spengler (1964), Boulakia (1971), Essid (1987), and Kuran (1987), Ibn Khaldun is relatively well known. Nashat's work is an abridged version of his dissertation in Arabic which was presented to the faculty of the d'Economie Politique at the University of Fouad el Awal in Egypt.

Nashat makes an effort to appraise Khaldun's economics in light of economic theory known to him in the 1940's. His analysis, however, contains certain errors, omissions, and misinterpretations in evaluating Khaldun's economics. Issawi's treatment of Ibn Khaldun's economic ideas is mainly for

the purpose of introducing his thought to English readers in the form of selected, translated passages from *al-Muqaddimah*²

The articles by Spengler and Boulakia do not discuss the technical details that are integral to the development of economic theory in *al-Muqaddimah*. Essid and Kuran correctly see Khaldun's economics in the context of a broader Khaldunian socio-political-historical system; nevertheless, in dealing with the subject, they both confine their comments to some general statements pertaining to Ibn Khaldun's contribution to theory of politico-economic cycles, and by doing so, they neglect Khaldun's many other contributions to economic theory.

This paper aims at a searching, critical evaluation of the economic aspects of the Khaldunian system. It will attempt to place Khaldun's economics in the context of the intellectual history of economics by taking an inventory of his knowledge of economic theory. Simultaneously, I recognize that Khaldun's economic ideas were developed in the context of his discovery that there is a pattern to historical development of societies, after or just prior to completing his writing of, *The Book of Examples and Register of Subject and Predicate Dealing With the History of the Arabs, Persians, and Berbers*.

A general methodological note is in order at this point. I agree with Essid (1987) and Kuran (1987) that Khaldun's was a unified theory in matters of state and sovereignty. At the same time, I deny the validity of Essid's argument that taking the absolutist approach³ in studying separate aspects of Khaldun's writings, in isolation from his system as a whole, will fragment its unity.

Essid writes

Later commentators, dazzled by the importance of Ibn Khaldun's works, plunged into analyzing isolated aspects of his writings from the points of view of specific fields of knowledge and, in the process, fragmented its unity. (Essid 1987, 90).

Essid does not show why focusing on one aspect of the system, while recognizing the totality of it, will fragment its unity. By taking an absolutist approach in studying Khaldunian economics I intend to verify whether his contribution to economics stands on its own feet.

Of course the absolutist approach has its critiques. Some historians of economic thought may dismiss the absolutist approach of judging past theories with modern theoretical standards as too harsh. The absolutists may respond by asserting that following the relativist approach in doctrinal history and not recognizing the theoretical contributions of early writers will result in what Paul Samuelson called "the sophisticated-anthropomorphic sin." (Blaug 1962, 1)

In this context and to avoid such a sin, I shall first discuss Ibn Khaldun's thought on various economic topics, and then relate his work to that of Greek philosophers and of more recent Western writers who have rediscovered the idea(s). Furthermore, I shall use modern theory to identify the principal weaknesses in Ibn Khaldun's theories. It shall become clear that this approach establishes Ibn Khaldun as a first rate economic theorist even using the high scientific standards of the 20th century.

Ibn Khaldun's Epistemology

Before discussing some of Ibn Khaldun's economic ideas, a note on his methodology is in order.

Ibn Khaldun was a rationalist who demanded 'proofs' in support of ideas. With reference to the methodology of his predecessors Ibn Khaldun wrote:

Ibn Al Mokafa came across some of the questions treated by us but his work is lacking in proofs... [and] Judge Al Tartouchi classified his book in a manner similar to us; however, he collects well known sayings in support of his assertions and does not investigate the truth by means of rational arguments...(Nashat 1945, 381)

Unlike many other Moslem scholars, Ibn Khaldun was not interested in explaining the socio-economic realities by asserting that their occurrence was the fulfillment of the Will of Allah. In contrast, Ibn Khaldun had a keen understanding of the law of causality, and was interested in discovering the natural laws which he believed governed development of societies. He wrote:

We find the universe governed by an accurate system through which prevails the law of cause and effect...(Nashat 1945, 382)

And furthermore,

That we must study human society and distinguish its essential features from its accidental ones and trace the social laws that are at work within it and use them as criteria as to the value of historical assertions...(Nashat 1945, 380--381).

The scientific approach permeates his writings, particularly his economic writings. It is through the power of abstraction that Ibn Khaldun was able to develop insight into many socio-economic and political phenomena.

The Value Theories

Value theory formed the foundation of classical and Marxian political economy. A discussion of theories of value is present in al-Mugaddimah but it does not occupy such a prominent role in Ibn Khaldun's writings as it does in the classical and Marxian systems. His treatment of the determinants of value of the commodities in many respects resembles but is not as well-developed as the theories of value by Smith, Ricardo, and Marx. Additionally, his remarks associating utility derived from real estate and its price is a prelude to the utility theory of value.

1. Labor Theory of Value

Although Moslem writers had alluded to labor as an important source of value as early as the 7th century⁴,

Ibn Khaldun in his al-Mugaddimah had developed the rudiments of labor theory of value. The parallelism between Adam Smith's labor theory of value and Ibn Khaldun's labor theory of value is striking. Smith started his labor theory of value by stating:

Labour was the first price, the original purchase--money that was paid for all things. It was not by gold or by silver, but by labor, that all the wealth of the world was originally purchased. (Smith 1937, 30)

Ibn Khaldun developed his value theory by indicating:

There is nothing here [originally] except the labor, and [the labor] is not desired by itself as acquired [...],but the value realized from it] (Vol. II, 313)⁵

He further expanded on this theme by writing:

Carpentry and weaving, for instance, are associated with wood and yarn [the respective craft needed for their production]. However, in the two crafts [first mentioned] the labor [that goes into them] is more important, and its value is greater. (Vol. II, 313)

After a few paragraphs, Ibn Khaldun wrote:

It has thus become clear that gains and profits, in their entirety or for the most part, are value realized from human labor. (Vol. II, 314)

Ibn Khaldun had earlier defined 'profit' as:

[The part of income] that is obtained by a person through his own effort and strength is called 'profit.' (Vol. II, 312)

Here, however, Ibn Khaldun divides the total product, the gains, into used and un-used parts. He called the part that is used up 'sustenance,' a concept that Karl Marx called 'necessary labor.' In Ibn Khaldun's words 'sustenance...is [the part of the profit] that is utilized.' (Vol. II, 314)

For modern readers Ibn Khaldun's usage of the term profit is problematic. However, it should be clear from the passage that what Ibn Khaldun calls profit or gain is in fact total produce. Ibn Khaldun, in discussing the constituent parts of the gain, explains that a man's ... profits will constitute his livelihood, if they correspond to his necessities and needs. They will be capital accumulation, if they are greater than [his needs]. (Vol. II, 311-312)

Therefore, Ibn Khaldun's division of the total product of labor into 'sustenance' and 'capital accumulation' is similar to the Marxian notion of 'necessary' and 'surplus' labor.

In considering labor as a commodity, Ibn Khaldun was a precursor of Karl Marx in another respect. Ibn Khaldun wrote:

For labor is a commodity, as we shall show later, in as much as incomes and profits represent the value of the labor of their recipients...'.(Issawi, 85)

Khaldun's thought on another aspect of value theory resembles David Ricardo's ideas. David Ricardo, in development of the labor theory of value, was consciously in search of an 'invariable' unit of measurement and arbitrarily selected gold as a commodity which is produced by a method of production that is an average of two extremes: '... the one where little fixed capital is used, the other where little labor is employed, as to form a just mean between them?'(Meek 1956, 110)

Ibn Khaldun also arbitrarily chose gold and silver as 'invariable' measures of value by stating that 'God created the two mineral 'stones,' gold and silver, as the [measure of] value...' (Vol. II, 313) Furthermore,

[Gold and silver are what] the inhabitants of the world, by preference, consider treasure and property[to consist of]. Even if, under certain circumstances, other things are acquired, it is only for the purpose of ultimately obtaining [gold and silver]. All other things are subject to market fluctuations, from which [gold and silver] are exempt (6). (Vol. II, 313)

By this analogy I neither intend to imply that Ibn Khaldun's selection of precious metals as 'invariable' measures of value was based on indepth analyses that characterized David Ricardo's selection procedure, nor do I mean to suggest that Khaldun was consciously in search of an invariable unit of measurement. My comments are aimed at showing that both men arbitrarily selected precious metals for the purpose.

From the foregoing discussion it is clear that Ibn Khaldun had a rudimentary labor theory of value, a prelude to the consistent, well formulated, and sophisticated versions of the theory by David Ricardo and Karl Marx.

2. Subjective Value Theory

In addition to the objective theory of value that was discussed above, Ibn Khaldun had

touched upon utility as a source of the value and a determinant of the price of a product. Khaldun's discussion pertaining to utility of a good and its price was nothing new however. Many centuries before Ibn Khaldun, Xenophon as well as Aristotle had associated the utility of an object to its price (7).

Therefore, since the intellectual contributions of the Greek philosophers were known to the Moslem scholars, it is not surprising that Khaldun, in discussing the fluctuation of values and prices of real estate over the cycles corresponding to the fall and rise of dynasties, made a clear connection between the utility or usefulness of a piece of real estate and its price. In Ibn Khaldun's words:

For towards the end of a dynasty, and the setting up of a new state, real estate loses its attractiveness, owing to the poor protection afforded by the state and the general conditions of chaos and ruin: its utility is diminished and its price falls, hence it is acquired for a small sum... Now when the new state has firmly established itself and order and prosperity have returned and the country has rejuvenated itself, real estate becomes once more attractive, owing to its great utility, and its price once more rises...(Issawi 1950, 76)

Clearly, Ibn Khaldun's remarks regarding utility theory of value like his insights with respect to labor theory of value were rudimentary. Moreover, the quoted passage on the relationship between utility of real estate and prices of real estate is an isolated remark. Ibn Khaldun did not pursue this line of reasoning elsewhere in his work, and there are no indications that he was cognizant of the doctrinal significance of his statements.

Based on Ibn Khaldun's more substantive treatment of objective value theory and his isolated, casual remarks on the relationship between the utility of real estate and its prices, I conclude that Ibn Khaldun held a labor theory of value.

The Theory of Income Distribution and Growth

In a section dealing with the economic consequences of oppression, Ibn Khaldun provides elements of an income distribution theory that is somewhat similar to, but of course not as concise

and well developed as, the marginal productivity theory of income distribution. Ibn Khaldun, in a passage that was quoted earlier, considers labor as a commodity, and states that '...incomes and profits represent the value of the labor of their recipients...' Elsewhere, Ibn Khaldun argues that 'The income which a man derives from the crafts is, therefore, the value of his labor..' (Issawi, 71).

This last statement is far from stating the notion that the real wage rate is equal to the marginal physical product of labor in equilibrium. Nevertheless, one can discern the rudiments of such a theory by reviewing Ibn Khaldun's association of the value of the labor and income of the laborer. Ibn Khaldun did distinguish between wage incomes and profit incomes, as evidenced from his statement on labor as the source of income and profit that was quoted above. Although he recognized the contribution of circulating capital to the productive process, he was unable to distinguish between the sources of wage and profit incomes. He wrote:

...in certain crafts, the cost of raw materials must be taken into account, for example, the wood and the yarn in carpentry and in weaving;...(Issawi,71) Also, 'In other occupations than crafts, too, the value of labour must be added to [the cost of] the produce.'(Issawi, 71) Furthermore, '... the cost of labor affects the price of grain...' (Issawi, 72)

Furthermore, in discussing Moslem agricultural production in the regions with unproductive soil, Ibn Khaldun once more insisted that the price of a product ought to include all costs incurred in production of the product. In this connection Ibn Khaldun wrote that the

Moslems

...were forced to apply themselves to improving the conditions of those fields and plantations. This they did by applying valuable work and manure and other costly materials. All this raised the cost of agricultural production, which costs they took into account when fixing their price for selling. (Issawi, 73)

In general, Ibn Khaldun did not discuss capital accumulation and its effects on economic growth to a great length. A few scattered remarks he had on capital accumulation dealt with expansion of commercial capital through fluctuation in prices of hoarded commodities and appreciation of real estate.

Capital accumulation, Ibn Khaldun wrote:

...is achieved only by a few and is achieved only rarely through market fluctuations, through the acquisition of a great deal of (real estate), and through the upgrading of (real estate) as such and its value in a certain city. (Vol. II, 285)

In an environment where fixed capital was rather scarce, neglecting the contribution of the fixed capital to the total product is indeed understandable. Clearly, in a predominately mercantilist economy, the development of a fullfledged capital theory is impossible. Nevertheless, if we define capital theory as a subject that is concerned with the implications of produced means of production for theories of price, production, and distribution, then Ibn Khaldun did have a capital theory of a sort.

Ibn Khaldun did not explicitly introduce the effect of rent on the price of a product, although the above passage concerning the effect of marginal land on the price of agricultural output clearly implies that Ibn Khaldun was aware of the relationship. Therefore, I conclude that Ibn Khaldun had formulated the cost-of-production theory of prices in the late 14th century. Furthermore, Ibn Khaldun understood, quite clearly, that total produce is divided into wage share and profit share, although his theory falls short of explicitly stating that the factor shares are determined by the marginal productivity of the factors of production. Incidentally, it is instructive to see Ibn Khaldun's description of the relationship between the quality of land and the prices of the agricultural products. His theory may be compared with Ricardian rent theory that explains rent as pure economic profits accruing to the most fertile farms. According to this theory, the market price of the farm product is determined by the higher marginal cost of production of the least fertile land, thus the most fertile lands with lower marginal cost of production acquire the difference between their cost and the higher market price as rent on the land.

Theories of Economic Development, and Forty-year Cycles

Ibn Khaldun has a remarkable theory of socio-political-economic cycles. He started his

theory by first explaining how increased productivity results from specialization, division of labor, and exchange. Ibn Khaldun was familiar with and critical of the writings of Aristotle and Plato on specialization and division of labor⁶.

He wrote 'We find in the book of Aristotle on Politics, a fit part; however, it does not exhaust the subject and is lacking in proofs and there is some confusion in it.' (Vol. I, 81) Ibn Khaldun stated that higher productivity and exchange increase the welfare of the community by enabling the members of the economy to satisfy their needs as well as allowing them to consume luxury commodities. Ibn Khaldun elaborated this theory as follows:

...the individual human being cannot by himself obtain all the necessities of life. All human beings must cooperate to that end in their civilization. But what is obtained through the cooperation of a group of human beings satisfies the need of a number many time greater[than themselves]. Furthermore, 'If the labor of the inhabitants of a town or city is distributed in accordance with the necessities and needs of those inhabitants, a minimum of that labor is needed. Consequently, it is spent to provide the conditions and customs of luxury and to satisfy the needs of the inhabitants of other cities. They import [the things they need] from [people who have a surplus] through exchange or purchase. (Vol. II, 271--272)

By the way, it is interesting to note a 14th century concept of 'necessities' and 'luxuries':

It should be known that all markets cater to the needs of people. Some of these needs are necessities, foodstuffs, for instance, such as wheat and barley; corresponding foods, such as beans, chick--peas, peas, and other edible grains; and wholesome foods such as onions, garlic, and the like. Other things are conveniences or luxuries, such as seasonings, fruits, clothes, utensils, mounts, all the crafts, and buildings. (Vol. II, 276)

By specialization and division of labor some producers are able to generate surplus products, and through exports to other communities and satisfying the luxury wants of the consumers, these producers are able to amass a great deal of wealth.

Ibn Khaldun's description of productive processes implies a production function with a single variable input: labor. He argued that the labor input of a city determines the total output of that community. 'When there is more labor, the value realized from it increases among the

[people].' (Vol. II, 272) Higher output, given that output required for the sustenance of the people is fixed in size, implies higher output of luxury goods. Furthermore, higher income derived from higher labor input generates an effective aggregate demand that absorbs the entire surplus products. The increased spending on luxury goods further increases production of existing luxury products, stimulates creation of new industries, and provides additional incentives for people to enter into manufacturing of luxury commodities.

Ibn Khaldun's explicit statements on the relationship between private spending on the one hand, and the output and income effects of these expenditures on the other hand, preceded by centuries of Malthusian theory of gluts and Keynesian theory of incomes and expenditures. The following statements clearly show Ibn Khaldun's deep insight into the process of circulation of money and commodities. Ibn Khaldun wrote :

...if, therefore, much labor is used, its total value rises. Consequently, the income of such a community will necessarily rise, and prosperity will soon lead to luxury and refinement... Now the demand for such things attracts men skilled in their production; this leads to prosperity in such crafts and services, higher incomes for those engaged in them, and a rise in the income and expenditure of the whole community.

This increase in prosperity leads to a further increase in economic activity which leads to a rise in incomes and increasing luxury, the new wants so created will lead to the creation of new industries and services, with consequent increases in income and prosperity. And this process can go on two or three times, because all the new activities minister to luxury, unlike the original activities which ministered to necessities. (Issawi, 92-93)

The above dynamic interactive processes closely resemble the concept of an expenditure multiplier as was first developed by B. Ohlin, in 1927, and later by R. F. Kahn. (Uhr, 1989) Unlike the refined expenditure multiplier concept of the 20th century, however, Ibn Khaldun's expenditure multiplier process stops after 'two or three times.'

Ibn Khaldun was correct in stating that incomes and expenditures are equal in an ex post

sense, by stating that:

Income and expenditure balance each other in every city. If income is large, the expenditure is large, and vice versa. And if both income and expenditure are large, the inhabitants become more favorably situated, and the city grows. (Vol. II, 275)

The current passage clearly shows that Ibn Khaldun saw aggregate demand as an important determinant of national income and economic growth, a concept that is central to the modern Keynesian theory of national income determination and growth theory.

Moreover, Ibn Khaldun understood that private expenditure was only one method of increasing national income. State spending had a similar stimulating effect on business conditions. Ibn Khaldun's understanding of the income effects of government expenditure and taxation is insightful. The celebrated Laffer curve analysis of the effect of taxation on government revenues closely resembles the discussion of the same topic in *al-Muqaddimah*. Ibn Khaldun warned against curtailing government spending, as well as the imposition of steep taxation on the subjects. First, reducing government expenditure, he argued, would reduce aggregate demand in the economy, and would ultimately reduce government tax revenues. Second, increasing taxation or other forms of infringement of property rights reduces private sectors' incentives to produce and would dampen economic activity.

It should be known that attacks on people's property remove the incentive to acquire and gain property. People, then, become of the opinion that the purpose and ultimate destiny of [acquiring property] is to have it taken away from them. ... Civilization and its well-being as well as business prosperity depend on productivity and people's efforts in all directions in their own interest and profit. When people no longer do business in order to make a living, and when they cease all gainful activity, the business of civilization slumps, and everything decays. (Vol. II, 103--104)

Furthermore,

As the tax rate goes beyond moderate rate, the tax payers compare their tax liabilities with their profits and become pessimistic, and as a result do not promote economic growth and development. A large number of people refrain from productive economic activities, thus causing a decline in the accrued tax revenue to

the state. (Ibn Khaldun 1957, 537--38)

Ibn Khaldun listed a number of actions that he considered unjust, including levying of ...a duty not required by the religious law,...'. All injustices, including excessive taxation, have the devastating economic consequences that were enumerated above.

Ibn Khaldun's discussion of government spending in maintaining high aggregate demand and creation of economic prosperity deserves further citation:

For it is the goods demanded by the state which enjoy the highest sales. Other goods, not demanded by the state but only by private individuals, can not compare with them, for the state is the greatest market, spending on things without too nice a calculation...(Issawi, 73)

...cities have a highly developed civilization and their inhabitants are very prosperous, and the dynasty is at the root of it, because the dynasty collects the property of the subjects and spends it on its inner circle and on the men connected with it who are more influential by reason of their position than by reason of their property. The money comes from the subjects and is spent among the people of the dynasty and then among those inhabitants of the city who are connected with them. They are the largest part [of the population]. Their wealth, therefore, increases and their riches grow. The customs and ways of luxury multiply, and all the various kinds of crafts are firmly established among them. (Vol. II, 287)

...government serve as the world's greatest market place... Now, if the ruler holds on to property and revenue, or they are lost or not properly used by him, then the property in the possession of the ruler's entourage will be small. The gifts which they, in their turn, had been used to give their entourage and people, stop, and all their expenditures are cut down. They constitute the greatest number of people [who make expenditures], and their expenditures provide more of the substance of trade than [the expenditures of] any other [group of people]. Thus [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 [in general] depend on cultural activity, commercial transactions, business prosperity, and the people's demand for gain and profit. (Vol. II, 102-103)

This line of reasoning is similar to theory of under-consumption as the basis for the Malthusian theory of gluts and Keynesian theory of insufficiency of aggregate demand. The Malthusian solution to the problem of recurring gluts emerging from excessive rate of profits and

the ensuing unsustainable rate of capital accumulation is well known. Malthus wrote:

There must therefore be a considerable class of persons who have both the will and power to consume more material wealth than they produce, or the mercantile classes could not continue profitably to produce so much more than they consume. In this class the landlords no doubt stand pre--eminent. (Malthus 1960, 400)

The Keynesian theory of inadequate aggregate demand in advanced industrial economies and Keynes' methods of remedying the problem are too well known to require documentation.

Note that the significance of public works and the important role of the government in the economic development of a community were a well established fact centuries before Ibn Khaldun wrote his *al-Muqaddimah*. Abu Bakr Muhammad al-Turtushi, a 12th century Hispano-Moslem writer quoting from a Coptic history of Egypt, described how the pharaoh

...invested 800,000 dinars in agriculture, opening a canal and building dykes and water-channels, making free allowances of fodder to the poorer farmers so that they might be able to keep some working animals, bringing more land into cultivation, providing tools, and paying extra labor to help with the sowing and general farm-work. (Grice-Hutchinson 1978, 68)

Ibn Khaldun asserted that the expansion phase of the cycle lasts about forty years, as is the case for an individual's physical power and biological growth:

When a man has reached the age of forty, nature stops growing for a while, then starts to decline. It should be known that the same is the case with sedentary culture in civilization, because there is a limit that cannot be overstepped. (Vol. II, 291-292)

What is the most immediate cause of the cyclical downturn? Ibn Khaldun attributes the decline in the 'civilization of a dynasty' to demand-pull and cost-push inflation. The sedentary lifestyle of the city dwellers leads to their preferences for luxury items. This, combined with higher income of the consumers in the city, increases demand for luxury products. On the supply side, the craftsmen and laborers realize that their skills and labor are in high demand, and without the urgent need to work because of the abundance of necessities in town, they request high wages. At the same time, employers with high income and 'money to waste' are willing to employ craftsmen at a wage

rate that is greater than 'the ordinary worth of labor'. Ibn Khaldun wrote:

Then, when a city has a highly developed, abundant civilization and is full of luxuries, there is a very large demand for those conveniences and for having as many of them as a person can expect in view of his situation. This results in a very great shortage of such things.

... Prosperous people used to luxuries will pay exorbitant prices for them, because they need them more than others. Thus, one can see, prices come to be high.

Crafts and labor also are expensive in cities with an abundant civilization. There are three reasons for this. First, there is much need [of them]... Second, industrial workers place a high value on their services and employment... Third, the number of people with money to waste is great, and these people have many needs for which they have to employ the services of others and have to use many workers and their skills. Therefore, they pay more for [the services of] workers than their labor is [ordinarily considered] worth, because there is competition for [their services] and the wish to have exclusive use of them. Thus, workers, craftsmen, and professional people become arrogant, their labor becomes expensive, and the expenditures of the inhabitants of the city for these things increase. (Vol. II, 277)

The result is an upward pressure on the price level:

... a city with a large civilization (population) is characterized by high prices in business and high prices for its needs. (Vol. II, 292)

Feeling the inflationary pressure the government levies customs duties to meet the rising expenditures. The customs duties raise the sales prices because the merchants pass on the tax burden to the consumers:

...small businessmen and merchants include all their expenses, even their personal requirements, in the price of their stock and merchandise. Thus, customs duties enter into the sales prices. (Vol. II, 293)

Finally, high prices and high taxes lead to the financial bankruptcy of an increasing number of people and to general business and moral decline :

One person after another becomes reduced in circumstances and indigent. Poverty takes hold of them. Few persons bid for the available goods. Business decreases, and the situation of the town deteriorates. (Vol. II, 293)

Sedentary life styles and preference for luxury goods also have deleterious effects on the morality of the people:

Corruption of the individual inhabitants is the result of painful and trying efforts to satisfy the needs caused by their (luxury) customs...

Immorality, wrongdoing, insincerity, and trickery, for the purposes of making a living in a proper or an improper manner, increase among them. The soul comes to think about (making a living), to study it, and to use all possible trickery for the purpose. People are now devoted to lying, gambling, cheating, fraud, theft, perjury, and usury. (Vol. II, 293)

Thus, internal decay and economic slump set the stage for withering away of the state (dynasty) and urbanite society. At such an opportune time, the nomads with the moral characteristics of frugality, courage, and independence will conquer the city and establish a new, vigorous order and dynasty.

Such is the Khaldunian theory of politico-economic cycles. Even with the high standards of modern economics, this is a cohesive and logically consistent theory of cycles that contains elements of economic analysis that were later developed by Malthus and Keynes.

Monetary Theory

Ibn Khaldun like many of his predecessors had a clear understanding of the functions of money. He explicitly discussed money in terms of its functions as the measure and store of value: ...God created two precious metals, gold and silver, to serve as the measure of value of all commodities. They are also generally used by men as a store of treasure. (Issawi, 77)

Otherwise, Ibn Khaldun's contribution in this area is rather limited⁷.

However, he had a keen insight into the role money plays in the circulation of commodities

:

The quantity [money] existing in the hands of men circulates and is transmitted from generation to generation. And it probably circulates from country to country and from state to state... Thus if such wealth has decreased in North Africa, it has not

diminished in the land of the Franks or Slavs... For it is social effort, the search for profit and the use of tools that cause the increase or decrease of the quantity of precious metals in circulation... (Issawi, 77)

In the last statement, Ibn Khaldun provided an interesting monetary theory. Contrary to modern monetary theory, he argued that the presence of money does not stimulate economic activity. The profit motive, social organization and efforts, and the use of capital are the factors that determine the volume of trade and therefore, the quantity of money in circulation. In support of his theory Ibn Khaldun cites examples of the prosperous economies that had no gold mines-gold mines being the source of the money supply- and then refers to Sudan as a country with ample supply of gold (money) but without prosperity. However, in discussing the inflation problem he gives an argument that tends to resemble the quantity theory of money:

Conveniences, foodstuffs, and labor become very expensive. As a result, the expenditures of the inhabitants increase tremendously in proportion to the civilization of [the city]. A great deal of money is spent. Under these circumstances, [people] need a great deal of money for expenditures, to procure the necessities of life for themselves and their families, as well as all their other requirements. (Vol. II, 280)

The above quotation shows that Ibn Khaldun understood the transactions demand for money. Furthermore, the statements imply that the demand for real balances changes only with the expansion in the level of economic activity, and that increased demand for nominal balances is due to the inflationary pressure. Of course, Ibn Khaldun did not consider inflation to be a purely monetary phenomenon; for him, demand-pull and cost-push were causes of inflation. Thus, we must conclude that Ibn Khaldun's monetary theory, in general, contradicts the quantity theory of money. However, Ibn Khaldun made one statement that alluded to the equation of exchange: "...the money spent in each market corresponds to [the volume of business done in it]. (Vol. II, 273) However, as mentioned above, he did not claim that there is a one-to-one correspondence or even a casual relationship between the quantity of money and the general price level.

So far as Ibn Khaldun's monetary theory is concerned, we conclude that he understood the

functions of money, the role money plays in circulation of commodities, and the transactions demand for money. He nevertheless, fell short of indicating how money can affect general economic activities.

Summary and Conclusions

The above analysis has dealt with a wide spectrum of Ibn Khaldun's economic thought in the 14th century. Ibn Khaldun's writings on economics include theories of value, distribution, growth and development, money, prices, public finance, business cycles, inflation, rent, and benefits of trade. There are numerous other subjects, particularly in microeconomics, that for brevity's sake are excluded from the current paper but will be dealt with on a separate occasion.

Several observations are in order. First, accepting Schumpeter's statement that '...most statements of fundamental facts acquire importance only by the superstructures they are made to bear and are commonplace in the absence of such superstructures' (1954, 54), we observe that Ibn Khaldun's discovery of fundamental economic, sociological, and historical facts constitutes a superstructure that is logically sound and cohesive. Thus, instead of sporadic facts, the superstructure gives rise to what has been called the Khaldunian System. Second, Ibn Khaldun's contributions to economic theory have been referred to as 'economic thought of Islam' (Spengler 1964; Essid 1987). As is observed in this paper, this substantial body of economic knowledge was rediscovered and expanded by theorists such as Smith, Malthus, Ricardo, Marx, and Keynes. Ibn Khaldun's economic thought is related to Islamic doctrines as much as the Western writers' ideas are related to Judeo-Christian tradition. If Marxian or Keynesian economics are not considered to be economics of Judaism or Christian economics, respectively, then one may not label Ibn Khaldun's economics as Islamic economics. Khaldunian economics is a system of logical, cohesive thought that was based on his economic observations in 14th century North Africa. In spite of Ibn Khaldun's strong religious convictions and his repeated references to God, prophet Mohammad,

and Quranic verses, his economic analyses were not based on any religious doctrines. In fact, as was discussed in section 2 of the present paper, Ibn Khaldun was in search of the natural laws which governed the development of societies. He was a keen observer of the social, economic, political, and historical phenomena of his and preceding times. With the power of abstraction he was able to identify and articulate the relationships between the essential variables of the economic reality. He was a superb model builder for his time.

Finally, it is regrettable that Ibn Khaldun's work was not known to Western economists soon after its publication in the late 14th century. Translation of *al-Muqaddimah* into European languages would have expedited the progress of economics. If that had happened, a great deal of work on the part of Western writers would have been obviated.

References

- Blaug, Mark (1962). *Economic Theory In Retrospect*. Third Edition. Cambridge: Cambridge University Press.
- Boulakia, Jean David C. (1971). "Ibn Khaldun: A Fourteenth-Century Economist." *Journal of Political Economy* 79:1105-1118.
- Essid, M. Y. (1987). "Islamic Economic Thought" in Lowry, S. T. (ed.) *Pre-Classical Economic Thought*. Boston: Kluwer Academic Publishers.
- Grice-Hutchinson, Marjorie (1978). *Early Economic Thought in Spain: 1177-1740*. London: George Allen & Unwin.
- Ibn Khaldun (1957). *Muqaddimah-eh Ibn Khaldun Volume I*. In Farsi, translated by Mohammad-eh Parvin-Gonabadi. Tehran: Sherkat-eh Entesharat-eh Elmi Va Farhangi.
- Ibn Khaldun (1958). *The Muqaddimah: An Introduction to History. Volume I, II, III*. Translated by Franz Rosenthal. London: Routledge & Kegan Paul.
- Issawi, Charles (1950). *An Arab Philosophy of History*. London: John Murray.
- Kuran, T. (1987). "Continuity and Change in Islamic Economic Thought" in Lowry, S. T. (ed.) *Pre-Classical Economic Thought*. Boston: Kluwer Academic Publishers.
- Lowry S. Todd (1987a). *The Archaeology of Economic Ideas: The Classical Greek Tradition*. Durham: Duke University Press.
- Lowry, S. Todd (1987b). "The Greek Heritage in Economic Thought" in *Pre-Classical Economic Thought*. Boston: Kluwer Academic Publishers.
- Malthus, T. R. (1968). *Principles of Political Economy*. New York: A.M. Kelly.
- Meek, R. L. (1956). *Studies in Labor Theory of Value*. Second Edition. New York: Monthly Review Press.
- Nashat, M.A. (1945). *Ibn Khaldun Pioneer Economist*. Le Caire: Imprimerie Nationale Boulac.
- Schmidt, N. (1967). *Ibn Khaldun: Historian, Sociologist, and Philosopher*. New York: AMS

- Press, Inc.
- Schumpeter, A.J. (1954). *History of economic Analysis*, Ed. by Elizabeth B. Schumpeter. New York: Oxford University Press.
- Shirazi, A.B. (1985). *Masael-eh Eghtesadi*. (Economic Problems). Tehran: Moasese-yeh Anjuman-eh Ketab.
- Smith, Adam (1937). *The Wealth of Nations*. New York: Random House, Inc.
- Spengler, J.J. (1964). "Economic Thought of Islam: Ibn Khaldun," *Studies in Society and History. An International Quarterly*. 6:268-306.
- Uhr, G. Carl (1989). "A Retrospective View of the Stockholm School of Political Economy and That of J.M. Keynes." Paper presented at the 31st Annual Conference of the Western Social Science Association, April 28, 1989.
- Suviranta, B. (1923). *The Theory of The Balance of Trade in England. A Study in Mercantilism*. Helsingfors.

Endnotes:

1. I am grateful to Professors Brian Peckham, Carl G. Uhr, and anonymous referees for helpful comments on an earlier draft of this paper. This research was partially supported by a grant from the University of Wisconsin-Platteville.
2. Al-Muqaddimah meaning 'the prolegomena', was intended to be an introduction to a book with the title of 'General History of Ibn Khaldun. It nevertheless became a major treatise on social sciences in its own right and was published in A.D. 1379.
- In this study I use two translations of Al-Muqaddimah: one in English by Franz Rosenthal and the other in Persian (Farsi) by Mohammad Parvin Gonabadi. The latter work appeared in 1957, a year before Rosenthal published his work.
3. There are two approaches in studies of doctrinal history: the absolutist and the relativist. The absolutist approach concentrates on the strictly intellectual development of a discipline irrespective of socio--economic conditions that may have given rise to the development of the theories. The relativist approach, in contrast to the absolutist approach, perceives theories as reflections of the socio--economic conditions of theorists' time; hence, it puts more emphasis on the historical development that may have given rise to the theory than its logical consistency and analytical integrity.
4. Shirazi (1985, 58) attributes the following statement to Imam Baghar, a 7th century shi'ite saint: 'Money is nothing but a medium of exchange, and it is the labor power of the Moslems that has put Roman's gold and silver at our disposition.'
5. The contents of the brackets are added by the translator.
6. For the Greek philosophers' writing on specialization and division of labor see Lowry (1987b,8)
7. As Lowry (1987b, 20--21) indicates, Aristotle had a clear understanding of the functions of money.