Economic Thought of Ibn-e-Kaldun: A Guideline for Contemporary Islamic Polity

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Abstract:
The detachment from a rich intellectual literature has thrown at least three generations of Muslims worldwide into experimentation to come up with a viable mechanism of governance for growth of respective national states. Ibn e Khaldun is considered the forerunner of modern sociology and economics to chalk out rules and principles for the design and management of fiscal and monetary policies. In addition, his intellect encompasses the grasp on theories of productivity, labor relations, total quality management, research & development, optimal design of cities and causes and consequences of inflation. The lessons contained in his writing are an enlightening source to handle the problems modern states are facing today to make the existing managerial framework shari'ah compatible.

1. Introduction

Generally it is believed that the development in Islamic economic thought especially in the later part of the twentieth century is considered subservient to neo-liberal economic and social principles of the West. The challenge is not the absence of a parallel world view what Islam propagates instead it is the scholarly endeavors of the contemporary times to first explore and establish the belief in the historical scholasticism full of rich contributions of classical Muslim scholars, and then build upon this rich heritage to search for solutions of the problems faced today. The classical Muslim scholars researched and established the rules to create the mechanisms adaptable for implementation of principles of Islam. Therefore, a substantive literature of Islamic epistemology rooted in the Qur'an and the sunnah of prophet Muhammad (peace be upon him) is already present but under the heaps of dust in the libraries calling for exploration and establishing the authority of those great thinkers that paved the foundations of the modern development of the world around us. The following discussion will focus on the scholarly abilities of one of such great Muslim scholars coming from a great lineage of intellectuals i.e. Ibn e Khaldun. He is best known around the world

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for his work 'Muqaddimah' ('Prolegomenon')[12].

Ibn e Khaldun (1332–1406) - a Berber of North Africa (Tunisia) - is considered as among the founders of modern sociology, historiography and economics. He descended from a family of distinguished administrators and military officers of the time. At his early age he learnt the Quran by heart and later studied grammar, poetry and jurisprudence.

It is a general belief today that after the dawn of Islam, there has not been any organized written contribution in Economics in particular and social sciences in general especially between seventh to sixteenth centuries. But careful analysis of historical evidence, though, contradicts it and shows that the Arab scholars of this period were concerned with the numerous problems arising due to sophistication and expansion of the state.\This expansion of Islamic influence brought with it the challenge to induce the norm of critical thinking for application and adaptability of Islamic principles in daily life of diverse [1] Rosenthal, *The Muqaddimah: An Introduction to History by Ibn-e-Khaldun*, 12).cultures and traditions. Therefore, scholars of that era rarely ignored the economic, political and social problems in their writings. Abu Nasr al-Farabi (872-950) – philosopher and politician of tenth centaury – is the first person in the modern history to introduce 'political economy' as a separate discipline (Mahdi 1971, 56). But the west attributes this term to Antoine Montchretien - French dramatist and economist of early seventeenth century. In fact the book of al-Farabi - 'Siyasat-ul-Madniya' (Political Economy) - was written about seven centuries before the time of Montchretien. Some of the prominent scholars of Arab period are: Abu Yusuf (d798, student of Imam Abu Hanifah), Ibn Sina (980-1037), Mohammad bin Hasan Tusi (996-1067), Ibn Tufail (1105-1186), Ibn Rushd (1126-1198), Ibn Baja (1095-1138) and al-Ghazzali (1058-1111). Having this rich literature at hand, Ibn Khaldun came up with the most dominant contribution to the social and economic theory for the modern human history[34].

The paper is organized as follows: Sections 2 and 3 present Khaldunian overview of fiscal and monetary policies, followed by a general outline of economic thought of Ibn-e-Khaldun in section 4. Section 5 discusses importance of specialization for firms, followed by discussion on impact of public policies for price control and property rights.

2. Ibn e Khaldun and Fiscal Policy

Ibn-e-Khaldun attributes the state to establish law and order to promote and protect sustainable economic activities. In doing so, he gives emphasis to distribution of property rights and protecting trade routes essential for promotion of commerce, trade and production activities. Governmental policies favoring economic activities can add to economic surplus.

Through taxation a minimum amount should be taken out of the economic profits of the society for provision of minimum possible public services. Ibn e Khaldun terms optimal rate of tax is when it does not depress production and trade activities.

The expansion of bureaucracy (civil and military) that results in higher taxes on the earnings of the economic agents leads to suppressing the specialization, research and development, the production, the trade and the economic activities in general. Therefore, "the growth of absolute power (monarch) in the State is the cause of the decline of economic prosperity and, consequently, of the state and the city" as growth of size of government causes over-taxation and "discourages entrepreneurs from engaging in economic activity". This phenomenon leads to reduction in the income of the state that then draws authorities upon inefficient means to generate new funds i.e. taxes on retail sales, excise taxes, and amputation of valuables of the citizens. The worst case scenario is when the state itself indulges directly in the economic activity. Any such state intervention in economic activity causes expansion in the size of the bureaucracy and army, and reduction of entrepreneurial profit making investment ventures, arts, production and specialization. On December 31, 1933, John Maynard Keynes proposed the same in *"An open letter to President Roosevelt"* - the New York Times. The comprehensive analysis of State action to stabilize the economy through public works, infrastructure development and promotion of research & development was presented by Ibn e Khaldun at least five centuries ahead of John Maynard Keynes.

The decline in economic profits of entrepreneurs due to state interventions initiates the trend of migrations from less efficient to more efficient trade centers. These migrations also shift the pattern of demand from old to new settlements, and if the trend starts to spread, the city economy "starts to revert back to primitivism". This reduction in economic returns bears directly on the civilized mode of life in the city.

Therefore, in this background, Ibn e Khaldun stresses the State to positively influence the expectations of the entrepreneurs. He proposes that the State should implement the public works programs which not only provide the infrastructure necessary to supplement economic activity but also generate employment and restore the confidence of the entrepreneurs. He gives a central role to the entrepreneurs motivated by profit seeking in society for attaining specialization and production at large scale. Ibn e Khaldun describes the criteria of an efficient ideal state is to have minimum bureaucracy (civil and military), maintain law and order, and impose least possible tax burden to finance state actions.

3. Ibn e Khaldun and Monetary Policy

Ibn e Khaldun is not only against state intervention in economic activity but also discourages any policy initiative that may take away the returns of efforts of labor and entrepreneur. He establishes that the expansion of bureaucracy (civil and military), construction of palaces and non-developmental expenditures have adverse impact on value of the money. It causes inflation in the city that reduces the purchasing power of the masses, reducing the economic surplus and thus the motivation to expand the economic activity. The population will lose confidence in money due to lost purchasing power, and terms protection of value of money as a matter of justice in the society. He is the first proponent of a stable and independent monetary policy that is not influenced by the desires of the rulers. He proposed the management of the independent monetary policy to be done under the close supervision of 'Chief Justice – A God Fearing Man'. Chairman of the FED in the US is appointed for a term of 14 years by the US President and during which his services cannot be terminated. Similarly, the president of the US makes the nominations where congress approves the candidate as Chief Justice of the US Supreme Court with a life long term. The learning societies today are successfully practicing the policy initiatives proposed by Ibn e Khaldun for sustainable development and growth.

The contribution of Ibn e Khaldun is far more than merely proposing the mechanism for monetary policy administration. He also discussed in detail the optimal quantity of the currency present in the city to make possible the exchange of goods and services as he says "the quantity of money is of no significance for a country's wealth". The optimal level of currency in circulation can is assessed by adjusting the total currency in circulation with respect to spending by the government on palaces and bureaucracy, and total tax revenues, leaving aside the amount necessarily used in trade and production activities.

4. The Khuldunian Economics

'Muqaddimah' ('Prolegomenon') of Ibn e Khaldun is the very first comprehensive and systematic analysis of an economy: its functioning, the role of technology, the impact of specialization in attaining comparative and competitive advantages, research & development, production at a large scale, and foreign trade. He also put forth the rules and principles regarding governmental stabilization policies to increase output and employment through fiscal and monetary interventions.

He also systematically analyzed the challenge of determining level of optimal tax rate; level of minimum government services required for social development; institutional structure based on efficiency; provision of law and order; expectations formulation of private sector agents; production, and; the theory of value.

The west knows David Émile Durkheim along with Karl Marx and Max Weber to institute modern social science as a separate academic discipline and father of sociology[5]. Durkheim agreed with organic analogy and functionalism of the society, but also stressed that society is not merely the sum of its organs. This was later refined in 'Holism and Evolution' by Smuts, where he defines 'holism' as the "tendency in nature to form wholes that are greater than the sum of the parts through creative evolution"[6]. But this phenomenon of biological interpretation of the rise and fall of an empire to generate economic surplus for supporting civilization was very first discussed by Ibn e Khaldun. Therefore, he pioneered the tradition of work and research in modern sociology and mechanism of civilized living in cities.

5. Specialization and Economic Growth

According to Ibn e Khaldun if there is peace in the city, then the specialization in production depends on skilled population or labor force, benefits of indulgence in trade, production of goods and services, along with minimum taxation. He says:

> "Each particular kind of craft needs persons to be in charge of it and skilled in it. The more numerous the various sub-divisions of a craft are,

> the larger the number of the people who (have to) practice that craft. The particular group (practicing that craft) is colored by it. As the days follow one upon the other, and one professional coloring comes after the other, the crafts-coloring men become experienced in their various crafts and skilled in the knowledge of them. Long periods of time and the repetition of similar (experiences) add to establishing the crafts and to causing them to be firmly rooted".[7]

It is evident from the above statement that he propagated mass production, on job training, learning by doing, work environment, job description, work satisfaction and work force retention far ahead of the modern time literature on management, total quality management and labor relation that became popular in the literature of Management and Economics in the late 1950s. To this end Adam Smith said, "…thus, generally, to the value of the materials which he works upon, that of his own maintenance, and of his master's profit".[8] But having an institutional collaborative approach Ibn Khaldun states in a more concise manner that "…through cooperation, the needs of a number of persons, many times greater than their own (number) can be satisfied". Adam Smith (1776) attributes specialization to the size of the market whereas for Ibn e Khuldun it is function of large population, minimum taxes, trade openness, and peace and security.[9]

Therefore, the role of entrepreneur in Khuldunian Economics is to ensure coordination and collaboration of factors of production to produce goods and services according to the market needs to earn economic surplus and profits. But philosophers like David Ricardo and Karl Marx interpreted the ability of the bourgeoisie class to earn profits only by the exploitation of working class and thus Marx said "… the labor itself is productive labor".[10] As Ricardo and Marx consider labor as the sole factor of production, therefore, suggest revolution to prevent its exploitation and tear down the "lover of force" i.e. the capitalists. But Schumpeter (1942), following the footsteps of Ibn e Khaldun, attributed the central role to risk taking entrepreneurs to bring economic growth in the society by indulging in innovation and 'creative destruction'[11] i.e. "process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one".[12]

Ibn e Khaldun gives equal importance to labor and risk taking entrepreneurs who try to maximize their rewards in the form of wages and profits while operating in the markets through the mechanism of demand and supply. The entrepreneur has to perform the function of directing the available societal resources to production of goods and services, which is not only risky as well as cost bearing process. Therefore, Ibn e Khuldun iterates that due to all these risks and efforts, the entrepreneur deserves to earn profits where Marx, Ricardo and others could not comprehend this role of bourgeoisie class. Therefore, in Khuldunian Economics, the exploitation of labor does not occur on the hands of the entrepreneur. He attributes profit to be the main motivating force that not only leads to expansion in production, development of new markets, expanding competition and attaining differentiation through research and development. Therefore, he simplifies this complex mix by saying that "the truth about commerce" is to "buy cheap and sell dear".

This insight of Ibn e Khuldun lead him to discuss in detail the mechanism of price setting for goods and services centuries ahead of present day theories of demand and supply. He discussed in detail the mechanism and conditions leading to scarcity and the price escalation, and plentiful and price depreciation. He also discussed the conditions under which the movement of tradable goods starts across cities and regions. He also thoroughly treated long-run cost of production and established its relevance with product life cycle which was later taken up in the modern economic literature as Marshallian analysis attributed to British Economist Alfred Marshall (1842-1924).[13]

6. Public Policies to Control Prices

Ibn e Khaldun not only opposed commercial activities by the government but also all the actions that may cause distortions in determining the optimal level of prices in the economy. The interventions of the government reduce the opportunities of trade and exchange that could be available to the merchants and farmers. This will reduce the opportunities for risk taking and venture development.[14] The involvement in fixing the pricing through the bureaucracy does not come without inefficiencies that not only exploits the producers and sells but also diverts the state from its actual function of providing peaceful environment for the growth of the society, thus leading to the destruction of fiscal structure of the state. This, if continue over extended periods of time, can eventually cause the disintegration of the civilization and civilized living. He terms all the actions of the state to fix the prices more harmful than it indulging in commercial activities.

Today, the third world governments are engulfed in this menace of poor governance practices that Ibn e Khaldun indicated centuries ago. The mass poverty of Africa and Asia has made these governments dependent on the foreign aid and in the short run coming out of this vicious circle does not seem possible.

7. Importance of Property Rights

The socialist resurgence in the 1960s lead the capitalist world to emphasize the importance of property rights for the sustainable growth of the societies.[15] Ibn e Khaldun emphasized the need of property rights as the matter of justice that can help a civilization to survive. Without property rights, the incentive to make progress by specialization cannot be achieved. Therefore, there occurs decline in the economic activity when property rights are not properly protected or are easy to infringe upon.

> "When attacks (on property) are extensive and general, extending to all means of making a livelihood, business inactivity, too, becomes (general), because the general extent of (such attacks upon property) means a general destruction of the incentive (to do business). If the attacks upon property are but light, the stoppage of gainful activity is correspondingly slight".[16]

He is the first person to relate productivity of the factors of production especially the labor to the prosperity of the city and society. Property rights provide impetus to the productivity without which the civilizations slump and fall into decay.[17] He also links property rights and justice as the respect of property rights by the members of the society creates a balance between the social classes and prevents the class conflicts to arise. He says, "…injustice calls for the eradication of the (human) species by leading to the ruin of civilization, it contains in itself a good reason for being prohibited".[18]

8. CONCLUSION:

The eloquence of Ibn e Khaldun makes it a 'common sense' economics as it can be readily understood by everyone in the society. Once this understanding of how the economic agents interact to perform their respective economic functions is attained, the society as a unified unit starts to grow. Every actor in the economic life realizes the importance of its efforts and therefore, with the protection of property rights, it enables an overall growth of the society. The less developed countries have started privatization as retrenchment from socialists; influence of the 1900s has started to take its roots. Therefore, lessons from the history are still a guideline for the generations today to attain high levels of standards of living.

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