

The Economic Theory of Ibn Khaldun and the Rise and Fall of Nations

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THE ECONOMIC THEORY OF IBN KHALDUN AND THE RISE AND FALL OF NATIONS

INTRODUCTION

Ibn Khaldun (d. 1406/808) is a fourteenth century Muslim thinker who wrote on many subjects, including on the rise and fall of nations in his **Muqaddima: an Introduction to History**, and was born in what is now Tunisia. His writings on economics, economic surplus and economic oriented policies are as relevant today as they were during his time. His emphasis on less government expenditure for mercenary army has been heeded by many developed countries which are in the process of implementing his policy prescriptions in order to increase economic surplus by shifting resources to education and human development. He opposed taxation and tariffs that discouraged trade and production.

Ibn Khaldun opposed state involvement in trade and production activities. He thought the bureaucrats cannot understand commercial activities and they do not have the same motivations as tradesmen. He predicts relative fall of economic surplus and the decline of countries in which state involvement in trade and production exists. He sees a large army as an impediment to the expansion of trade, production and economic surplus.

The common sense economics of Ibn Khaldun is now being understood slowly by less developed countries. Privatization tendencies in these countries are a beginning. However, developed countries are aiming to reduce military oriented investments and expenditures in order to invest more in education and technology to increase economic performances of their private enterprises in international markets. Furthermore, the same industrial countries have followed concessionary taxation policies conducive for trade and production.

These policies and many other economic policies which this paper aims to reflect on have existed as policy prescriptions of Ibn Khaldun for a civilized society.

IBN KHALDUN ON ECONOMICS

Ibn Khaldun was the first to systematically analyze the functioning of an economy, the importance of technology, specialization and foreign trade in economic surplus and the role of government and its stabilization policies to increase output and employment. Ibn Khaldun, moreover, dealt with the problem of optimum taxation, minimum government services, incentives, institutional framework, law and order, expectations, production, and the theory of value. Ibn Khaldun again is the first economist with economic surplus at hand, who has given a biological interpretation of the rise and fall of the nations. His coherent general economic theory constitutes the framework for his history¹.

¹ Ibn Khaldun, "the Muqaddima": An Introduction to History, trans. from Arabic by Franz Rosenthal, 3 volume, Bollingen Series, No. 43 (New York: Pantheon, 1958).

No one in the history of economic thought has established such a coherent general economic theory to explain and predict the rise and the fall of civilizations, nations and empires as Ibn Khaldun has formulated in his **Muqaddima: an Introduction to History**. His theory has the empirical and theoretical power not only to explain the consequences of government policies on production and trade, investment and specialization, but also to predict the very survival of a state.

IBN KHALDUN ON THE STATE

Since the State has important functions in the social, political and economic life of a nation, the role and the nature of the state has to be clarified for the well-being of society. For Ibn Khaldun, the role of the State is to establish law and order conducive for economic activities. Moreover, the enforcement of property rights, the protection of trade routes and the security of peace are necessary for any civilized society to engage in trade and production. The economic surplus could increase in a situation where governmental policies favor economic activities. Government should take a minimum amount of surplus through taxation in order to provide minimum services and necessary public works. For Ibn Khaldun, optimum taxation occurs when governments do not discourage production and trade through taxation².

If the State tries to over-expand its bureaucracy and its mercenary army by over-taxing the economic surplus, in return specialization, production, trade and economic activities will be reduced. As a result, economic surplus will shrink. For, "the growth of absolute power in the State is the cause of the decline of economic prosperity and, consequently, of the State and the city," because large mercenary armies, bureaucracy and over-taxation "discourage entrepreneurs from engaging economic activity. This leads to a decrease in the total income of the State and new means of increasing its income have to be devised: taxes in kind curve's, excise taxes, confiscation, - and worst of all, the direct interference of the State in economic activity by engaging in commerce³."

For Ibn Khaldun, the State has to take the responsibility to change the expectations of the entrepreneurs by implementing the public works to generate employment and confidence. As a part of the stabilization policy, the State should build roads, trade centers, and other activities that encourage production and trade. But "the direct interference of the State in economic activity by engaging in commerce," would cause the decline of the State and the economic activities. The interference of the State in commerce, by itself, will increase bureaucracy and mercenary army. As a result of governmental interference in commercial and economic affairs, the entrepreneurs would be prevented to trade and invest and make profits in their enterprises.

The tyranny of the State starts with direct involvement of the State in commercial and economic affairs and causes the decline of the arts, the contraction in trade, production and specialization. With it, the economic surplus declines. The population would seek an alternative location from the former cities and the centre of productions. When the cities are depopulated, the decline in demand for goods and services would

² Bid, volume II, page 281.

³ Muhsin Mahdi, Ibn Khaldun's Philosophy of History (Chicago: Univ. of Chicago Press, 1971), pp 219-220.

generate the decline in the civilized mode of life, including civilized economic life. The whole country “starts to revert back to primitivism⁴.”

The concept of the role of the government in stabilization policy to generate excess demand was formulated by Ibn Khaldun. This is five centuries before Keynes got the attention of the whole world on stressing the importance of excess demand to increase output and create public works and confidence in order to increase employment⁵.

Ibn Khaldun wrote that over-taxation would occur when the demands bureaucracy and mercenary armies would expand beyond “normal” economic surplus. He stated the fact that the larger the bureaucracy and the mercenary armies, the greater over-taxation would be, and the greater burden on economic surplus would be realized. He did not think it proper to increase excess demand through enlarging bureaucracy and the mercenary armies.

Greater production and maximum efficiency can be obtained with trade and specialization through profit-seeking entrepreneurs who bear the consequences of their actions in terms of gains and losses. The entrepreneurs are the ones who have incentives for efficiency and specialization as long as they perceive profits. The bureaucrats, on the other hand, do not have the same incentives for the expansion of trade and specialization in production.

For Ibn Khaldun, the best State is the one that has the minimum bureaucracy, minimum mercenary armies to keep low and order, and minimum taxation on its citizens to finance the activities of the State.

IBN KHALDUN ON SPECIALIZATION AND ECONOMIC SURPLUS

Ibn Khaldun has dealt with economics, sociology, political science and other subjects in order to understand the behavior of man and his history. He indicated the fact that specialization is the major source of economic surplus, almost three centuries before Adam Smith⁶. For Ibn Khaldun, when there is an environment conducive for specialization, the entrepreneur is encouraged to commit himself for further trade and production. Indeed, specialization would occur in a place in which a person is able to get the benefit of his efforts.

Given law and order, for him, specialization is a function of population, trade, production and minimum taxation. On specialization, this is what he says:

“Each particular kind of craft needs persons to be in charge of it and skilled in it. The more numerous the various subdivisions 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

⁴ Ibid., p221.

⁵ Jean David c. Boulakia, “Ibn Khaldun : A fourteenth-Century Economist, Journal of Political Economy”, Volume 79, No. 5, Sept. – Oct. 1971, p. 1106.

⁶ Adam Smith, The Wealth of Nations (London: Methuen Co., Ltd., 1925), p.313.

time and the repetition of similar (experiences) add to establishing the crafts and to causing them to be firmly rooted⁷."

The concept of mass production, learning by doing and the concept of on the job training have been exposed by Ibn Khaldun in the above statement so clearly which needs no further clarification. However, it is important to indicate that these very concepts had become the subjects of articles in Economic Literature in the late 50's.

For Ibn Khaldun, specialization meant the coordination of different functions of factors of production where, "what is obtained through the cooperation of a group, of human beings satisfies the need of a number many times greater (than themselves)⁸."

Later, on the same subject, Adam Smith had this to say: "Thus, generally, to the value of the materials which he works upon, that of his own maintenance, and of his master's profit⁹." However, more succinctly, Ibn Khaldun states the economic rationale behind specialization (and coordination) with this sentence "the combined labor produces more than the needs and necessitates of the workers¹⁰." On the same subject, he states the fact that "through cooperation, the needs of a number of persons, many times greater than their own (number) can be satisfied¹¹." For Ibn Khaldun, providing coordination and cooperation of factors of production is a function that has to be performed by entrepreneurs according to market forces.

For Ibn Khaldun, given law and order and security of peace, the greater specialization will be realized when there is a large population with minimum taxation and free trade (without impediment and restriction to trade). For Adam Smith, on the other hand, specialization is a function of the market: the greater the market and the greater the specialization. In fact, there is not so much difference between Ibn Khaldun and Adam Smith. The greater population implies greater market for many products. It means greater specialization.

For Ibn Khaldun, it is obvious that specialization through cooperation and coordination of factors of production is the source of economic surplus. A partial interpretation of this surplus led Ricardo and Marx to the conclusion of the exploitation of the working class. In other words, Ricardo and Karl Marx are poor indirect students of Ibn Khaldun by partially interpreting his coherent general theory of economic surplus. This misdirection and partial blindness led Marx to say that the "labor itself is productive labor¹²."

Since the labor is the only source of value, according to Ricardo and Marx, then the surplus taken by capitalists is a sign of exploitation. To prevent the exploitation of labor by capitalists, Karl Marx suggested to change the social structure of the society by revolution and destroy the "lover of force," the capitalist¹³.

⁷ Ibn Khaldun, Vol. II, p. 250.

⁸ Ibid, Vol. II, p. 235.

⁹ Adam Smith, p. 313.

¹⁰ Ibn Khaldun, Vol. II, p. 235.

¹¹ Ibid, Vol. II, p. 69.

¹² Karl Marx, Kapital: A Critique of Political Economy. Ed. By Frederick Engels and revised by Ernest Untermann (New York: Modern Library, 1906), p.201.

¹³ Ibid, pp. 824 - 826.

Ibn Khaldun, on the other hand, clearly indicated that “the profit human beings make is the value realized from their labor¹⁴.” For Ibn Khaldun, “large profits [are] because of the large amount of (available) labor, which is the cause of (profit)¹⁵. However, Ibn Khaldun considered not only the activities of the workers, but of entrepreneurs to be productive as well. For that matter, no exploitation would occur.

Ibn Khaldun considers both the workers and the entrepreneurs as respected members of the society who try to maximize the return for their activities in the form of wages and profits. For him, the profit is the primary motive of economic endeavor, since the expectation of profit leads to the expansion of production. Moreover, “Commerce means the attempt to make a profit by increasing capital, through buying goods at a low price and selling them at a high price¹⁶.” In other words, “the truth about commerce” is to “buy cheap and sell dear¹⁷.”

For Ibn Khaldun, it is clear that “the profit human beings make is the value realized from their labor,” but this value, the price of labor, is determined by the law of supply and demand. These points were missed by Karl Marx and his ardent followers.

For Ibn Khaldun, the coordination, cooperation and direction of factors of production in increasing economic surplus is a productive and costly process which is undertaken by entrepreneurs who try hard to make a gain for their economic activities. They spend time, energy and capital to search for goods and services “to buy cheap and sell dear,” in order “to make profit.” As a result, Ibn Khaldun praised the initiative of entrepreneurs for their productive activities in coordinating and directing of factors of production. Then, they very rightly deserved profit from their risky undertakings. Karl Marx, Ricardo and others went astray on this point as well.

IBN KHALDUN ON SUPPLY AND DEMAND

Ibn Khaldun, again centuries ahead of his time, postulated that prices of goods and services are determined by supply and demand. When a good is scarce and in demand, its price is high. The merchant will buy the goods “where they are cheap” and plentiful and “selling them at a high price” where they are scarce and in demand. Naturally, when a good is plentiful, its price is low: “the inhabitants of a city have more food than they need. Consequently, the price of food is low, as a rule, except when misfortunes occur due to celestial conditions that may affect (the supply of) food¹⁸.” Moreover, Ibn Khaldun demonstrated the concept of long-run cost of production in the Marshallian sense.

¹⁴ Ibn Khaldun, Vol. II, p. 289.

¹⁵ Ibid, Vol. II, pp. 245 - 246.

¹⁶ Ibid, Vol. II, p. 297.

¹⁷ Ibid, Vol. II, p. 297.

¹⁸ Ibid, Vol. II, p. 240.

IBN KHALDUN ON MONETARY POLICY

Ibn Khaldun defends a stable monetary policy. He is against the policies of the authorities to play with the value of currency. He fears that the authorities may be tempted to debauch with the value of money in order to build palaces and finance mercenary armies. This process will cause inflation and the population will lose confidence in the currency. These developments are considered to be unjust. As a supreme policy for the society, the protection of purchasing power of money has to be implemented as a matter of justice. To do that, he proposed an independent monetary agency under the authority of Chief Justice, a "God-fearing man" to prevent the rulers "fearlessly" from tampering with the value of money and debauching the currency.

Upon this idea of Ibn Khaldun, American Federal Reserve Board, Bank of England and West Germany's Bundesbank have been following relatively independent monetary policies aiming to keep inflation down and provide a stable currency for their respective economies.

Moreover, Ibn Khaldun has something to say about quantity of money. The modern Quantity Theory of Money can be read from his statement that "the quantity of money is of no significance for a country's wealth¹⁹." For him, as far as monetary policy is concerned, a stable monetary policy aiming at the protection of purchasing power of money is a must as a matter of justice. The population has to be protected from unjust policies of the rulers when they debauch the currency. A stable and sound currency increases the confidence of people in currency, trade and production. For Ibn Khaldun, what is needed for the society is less government expenditure on palaces and bureaucracy, less expenditure on mercenary armies, less taxation and a stable currency for trade and production²⁰.

IBN KHALDUN ON FIXED PRICES

Ibn Khaldun was not only against state involvement in commercial and agricultural activities, he was also against government involvement in fixing the prices of goods and services. When the government employs force "by buying things up at a cheapest possible price", the ruler "will be able to force the seller to lower his price" and "forces the merchants or farmers who deal in these particular products to buy from him²¹." The rulers "undertake to buy agricultural products and goods from their owners who come to them, at prices fixed by themselves as they see fit. Then, they resell these things to the subjects under their control, at the proper times, at prices fixed by themselves²²."

This kind of policy, according to Ibn Khaldun, causes the following consequences:

- "They (the farmers and the merchants) themselves will no longer be able to trade, which is what enables them to earn something and make their living²³."

¹⁹Ibid., Vol. II, p. 245.

²⁰ Ibid., Vol. II, pp. 245, 246, 285.

²¹ Ibid., Vol. II, p. 94.

²² Ibid., Vol. II, p. 96.

²³ Ibid., Vol. II, p. 94.

- Moreover, this repeated process “takes away from them all incentives to efforts, thus ruining the fiscal (structure).”
- “Furthermore, (the trading of the ruler) may cause the destruction of civilization²⁴.”
- Fixed pricing policy “is even more dangerous, harmful, and ruinous for the subjects than the engaging of state in commerce or agriculture which soon turn out to be harmful to the subjects, to be ruinous to the revenues, and to decrease cultural activity²⁵.”

In light of the above analysis of Ibn Khaldun, it seems clear that the relative increase of poverty in Egypt, Algeria and many parts of the world and Africa is due to state’s control of commerce, industry, agriculture and service sector with fixed pricing systems.

Indeed, such fixed pricing policies of these countries have forced them to be more dependant on foreign help for food and more indebted than before. However, some of these countries are gradually in the process of following the prescription of Ibn Khaldun. This is an encouraging sign.

IBN KHALDUN ON PROPERTY RIGHTS

After the 1960s, some economists, especially in the United States have started to deal with property rights and its impact on economic development. Ibn Khaldun, on the other hand, centuries ago had dealt firmly with this issue. The protection and the enforcement of property rights had to be defended as a matter of justice for the survival of civilization.

For him, “when the incentive to acquire and obtain property is gone, people no longer make efforts to acquire any. The extent and degree to which property rights are infringed upon determines the extent and degree to which the efforts of the subjects to acquire property slacken²⁶.”

Ibn Khaldun predicts the decline of economic activities when the property rights are not protected and enforced with the following statements:

“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.”

Civilization and its well-being as well as business prosperity depend on productivity and people 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 decays²⁷.”

²⁴ Ibid., Vol. II, p. 95.

²⁵ Ibid., Vol. II, p. 96.

²⁶ Ibid., Vol. II, p. 103.

²⁷ Ibid., Vol. II, p. 103 - 104.

Ibn Khaldun sees a clear connection between property rights and justice. For him, "men persist only with the help of the property. The only way to property is through cultivation. The only way to cultivation is through justice. Justice is a balance set up among mankind²⁸."

Whenever, the violation of property rights occurs, it means the commitment of an injustice act. For Ibn Khaldun, "people who collect unjustified taxes commit an injustice. Those who infringe upon property (rights) commit an injustice. Those who take away property commit an injustice. Those who deny people their rights commit an injustice. Those who, in general, take property by force, commit an injustice²⁹," and "injustice ruins civilization³⁰."

Ibn Khaldun argues that the importance of property rights has been emphasized vigorously in Islam as a matter of justice. The lack of justice, for him, "permits the eradication of the human species. This is what the religious law quite generally and wisely aims at in emphasizing five things as necessary: The preservation of (1) the religion, (2) the soul (life), (3) the intellect, (4) progeny, and (5) property.

Since, "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 prohibited³¹."

The relative backwardness of developing communist countries can be attributed to the existence of relatively poor property rights. The theory of Ibn Khaldun, other things being equal, predicts that a country with relatively strong property rights will witness a lively prosperous civilization, and a country with relatively poor property rights, will stay poor forever.

CONCLUSIONS

In summary, Ibn Khaldun is one of the few successful theoreticians, who has analyzed the behavior of human beings and of society as an integrated whole in their totality as part of greater humanity in the rise and fall of civilization paralleled to the rise and fall of economic surplus, respectively. For him, the cycle of the civilization has reached its end with the destruction of superstructure. At the beginning, "the desire for a luxurious mode of life had inspired men to perform heroic deeds, fights, to overcome difficulties, and to build - Now-men fight again, but not for the hopes that they had once entertained. Motivated by the fear of hunger, they fight for mere existence, and like the primordial man who fought out of the same motive, they display the beast in man and return to the life of beasts³²."

Ibn Khaldun does not give any clue, as far as my limited observation is concerned, whether we could be able to prevent the decline of a civilization through instilling the dynamism of personal responsibilities in individuals and through research and investment in science and technology to generate further specialization in goods and services in order to increase economic surplus and keep government bureaucracy and large mercenary armies at minimum.

²⁸ Ibid., Vol. II, p. 105.

²⁹ Ibid., Vol. II, p. 107.

³⁰ Ibid., Vol. II, p. 106.

³¹ Ibid., Vol. II, p. 107.

³² In Muhsen Mahdi, p. 221.

It remains a weighty question as to whether the decline of Greek, Roman and Islamic civilizations could have been prevented. We are not sure whether Great Britain's relative decline could have been prevented. The United States and Russia are trying hard to reduce military expenditure and invest more in research, education, and technology to prevent their relative economic competitiveness falling further vis-à-vis Japan and Germany in international markets. It will be seen whether these policies will work in increasing economic surplus.

What is clear is that Ibn Khaldun had "discovered a great number of fundamental economic notions a few centuries before their official births. He discovered the virtues and the necessity of a division of labor before Smith and the principle of labor value before Ricardo" and the role of government in stabilization policy before Keynes³³.

The reform movements in Eastern Europe are following the prescription of Ibn Khaldun by privatization policies and establishing private property rights. They are on the process of getting rid of price controls on goods and services. Moreover, they emphasize the role of entrepreneurship, initiative and free enterprise. Furthermore, they try to get rid of mercenary armies and reduce bureaucracy. They are on the process of reducing the overall economic activities and trading role of government.

It is clear that the policy recommendations of Ibn Khaldun for a civilized society are as relevant today as they were during his time. The countries that follow his recommendations will prosper and the ones that reject them will be in despair.

THE RISE AND FALL OF NATIONS ACCORDING TO IBN KHALDUN

Given political stability, for the rise of the nations, there must be:

- a). A firm establishment of private property rights and freedom of enterprise,
- b). Rule of law and the reliability of the judicial system for the establishment of justice,
- c). The security of peace and the security of trade routes,
- d). Lower and less taxation in order to increase employment, production and revenues,
- e). Less bureaucracy and a much smaller efficient army,
- f). No government involvement in trade, production and commercial affairs,
- g). No fixation of prices by the government,
- h). A rule that does not give monopoly power to anyone in the market,
- i). Stable monetary policy and independent monetary authority that does not play with the value of money,
- j). A larger population and a larger market for greater specialization,
- k). A creative education system for independent thinking and behavior,
- l). The collective responsibility and internal feeling for the setting up of a just system to encourage good deeds and prevent vice.

Summarized by Hon. Dr. Selim Cafer Karatas for the benefit of brothers/sisters to ponder upon.

³³ Boulakia, p. 1117.