

IBN KHALDUN CONTRIBUTION TO THE SCIENCE ECONOMICS

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ABSTRACT: *Ibn Khaldun was a famous historian, sociologist and philosopher and the founder of sociology. Western economists ignored him though he contributed to several economic areas such as public finance, economic growth, market equilibrium and the theory of value. Ibn Khaldun preceded Adam Smith and David Ricardo in realizing the labor as the main source of value he also introduced the natural wage rate which depends on expenditures rather than prices of necessary means of substance as Marx claimed. Market prices of commodities increase or decrease according to demand, wage rate and hoarding the commodity. He introduced what is called now the Walrasian Law in two places in the Moqademah. To him, prices adjust upward with excess demand and downward with excess supply. Whereas Ibn Khaldun's growth theory depends on populations and thus the labor force alone whereas modern growth theories added capital to the labor. In public finance he discovered what is called now the Laffer curve 600 years before it was discovered by Laffer. He claimed that sales and import taxes are indicators of the end of the state. Like other classical economists he doesn't believe in government intervention in the economy. Finally a decrease in government expenditures causes a decrease in government revenues and thus a recession.*

INTRODUCTION

Ibn Khaldun was born in Tunis in 1332, He received his education there, then served in various capacities several of the rulers who divided Moslem North Africa and Spain between them. One of the important position he held was a Judge of Peter the Cruel at Seville. In 1382 he traveled to Cairo in which he was appointed as Professor of law at Al-Azhar University, and later a Judge, in which he held until he died in 1406.⁽¹⁾

Ibn Khaldun was a famous historian, sociologist and philosopher. He is well known to the sociologists, as they consider him the founder of the science of sociology. But he was ignored by the economists even though

his contribution to the science of economics become well known theories in the eighteenth and nineteenth centuries, under the names of Adam Smith, David Ricardo, Leon Walras, Karl Marx and others.

Ibn Khaldun wrote several books, in which Al- Muqademah (1377) was the most famous. It was translated into French in 1862, and then into English. The Encyclopedia of the Social Sciences described it as: “primarily a philosophy of history, but touches on sociology and economics, and towards the end becomes encyclopedic in conformity with Ibn Khaldun doctrine that history is the study of all social phenomena.”⁽²⁾ A Western Orientalist discovered him in 18th c. and he became the father or one of the fathers of modern cultural history and social sciences.⁽³⁾

The contemporary Western interest in Ibn Khaldun economics is too limited. The only attention given to him has been the claim that he discovered the Laffer curve 600 years before⁽⁴⁾. His contribution to the science of Economics will be divided into four parts: The Theory of Value, Growth Theory, Market Equilibrium, and Public Finance.

THE THEORY OF VALUE

Before discussing Ibn Khaldun's theory of value let's have a glance at an important differentiation he made between Earning (kasb), and Sustenance (Rizq)⁽⁵⁾. Earning to Ibn Khaldun is the value realized from labor. If these earnings are equal to the necessities and needs, it is called livelihood (Maash), the extra will be used for capital accumulation when the use of such accruing or acquired earning reverts to a particular human being, and he enjoys its fruits by spending upon his interest and needs, it is called sustenance. If it is not used for his needs and interest, it is not called by the owner sustenance. What is owned by the human being through his own effort and strength is called earning or income (Kasb).

As inheritance is earned by the deceased person and it is used by the heirs. For the deceased person it is called earning; while for the heirs it is called sustenance when they use it⁽⁶⁾. Ibn Khaldun preceded Adam Smith 400 hundred years in realizing the effect of specialization on production, though, his example is from agriculture rather than from industry. “What is obtained through the cooperation of a group of human beings satisfies the needs of a number times greater than themselves. For instance, no one, by himself, can obtain the share of the wheat he needs for food. But when six or ten persons, including a Smith, a Carpenter to make the tools, a person in charge of oxen, another for plowing the soil, another for harvesting the ripe grain, and other agricultural activities undertake to obtain their food and work toward that purpose either separately or collectively and thus obtain through their labor a certain amount of food sufficient for a number of

people many times their own. The combined labor produces more than the needs and necessities of the workers.”⁽⁷⁾

Ibn Khaldun also preceded Adam Smith and David Ricardo in realizing the labor as the main source of value. The value of the commodity according to Ibn Khaldun is the value realized from labor used to produce it. The value of the labor could be obvious as in the case of crafts, or could be concealed, as in the case of foodstuff. Though it is more obvious in the price of grains while concealed in the countries where they need to treat the soil.⁽⁸⁾

According to Ibn Khaldun, the price of the commodity could increase if: the demand for the commodity increases, the wage rate increases, hoarding the commodity, i.e. shortage in supply, taxes and other custom duties imposed by the ruler, and finally other costs of production such as treatment of the land.⁽⁹⁾ With regard to the wage, Adam Smith introduced the natural wage rate as a value of the labor; while Marx determined the wage by the price of necessary means of substance.⁽¹⁰⁾ Ibn Khaldun wage theory depends upon expenditures. “The income of a Judge in Fez suffices for his spending, the same is the case with a Judge in Tlemcen....The better the conditions of the city, the better the situation of the labor force.”⁽¹¹⁾

There are differences in the wage rate. The more the need for a certain kind of labor, the more the wage rate will be, and vice versa. Ibn Khaldun argued that religious people such as judges, teachers, preachers, leaders of Prayers gain less wages because of less needs for their services.⁽¹²⁾ The wage could be higher than the natural rate “that suffices for his expenditures” if:

1. There is an increase in demand for labor. “Competition among employees causes them to pay higher wages for the workers than the value of their labor is.”⁽¹³⁾

2. There is abundance of food. “In cities industrial workers place higher value on their services and employment, because of the easy life (an easy way to make income) in the city, because of the abundance of food.”⁽¹⁴⁾ This shows that Ibn Khaldun has preceded several economists in realizing the sources of value, the wage rate and commodity prices.

GROWTH THEORY

While the modern theories of growth are based on labor and capital, the growth theory of Ibn Khaldun is based on population, and labor force. The more the population is, the more will be the labor force, and thus the more will be the earnings and expenditures, the industry thrives, and the city grows.

Miller writes: “As labor is the main source of earning, if labor increase, the value realized from it increase, and so is their earnings. The prosperity and wealth they enjoy leads them to luxury commodities such as luxury

houses and clothes, fine vessels and utensils, and the use of servants and mounts. All these activities have value and a skillful people must be chosen to do them and to be in charge of them. Income and expenditure increase. Affluence comes to those who work and produce these things by their labor. Demand for luxuries will increase. Crafts and industries will arise to produce these luxuries, earnings multiplied in the city, production thrives, and thus the market for labor thrives, and so on with the second and third increment.”⁽¹⁵⁾ Also, income and expenditure balance each other in every city (country), when income enlarges expenditures enlarge, and vice versa. When both income and expenditure enlarge, the inhabitants become more favorably situated, and the city grows.⁽¹⁶⁾

MARKET EQUILIBRIUM

In the free market economies prices are the main mechanism to introduce equilibrium in the markets. The Walrasian equilibrium in the markets states that: “If there is an excess supply, prices will decrease. While if there is an excess demand prices will increase.”⁽¹⁷⁾ Ibn Khaldun introduced this law in his *Muqadimah* in two places. First, when he explained the cheap prices of food and corresponding items; while prices of luxuries are high. Secondly, when he discussed commerce and the transportation of goods by merchants from one city (country) to another.

Ibn Khaldun argued that food stuff and other necessities are cheap because: “Everybody needs grains and other necessary food stuff, their demand goes high, so that everybody will procure such things. Everybody who procure such things will have a great surplus beyond his own and family needs. There will be a surplus of those commodities and its price will go down, or it becomes cheaper.” (In Arabic “Fatarkhus”).⁽¹⁸⁾ In other words, excess supply causes price to fall. On the other hand, he explained the high prices of luxuries as follows: “When the city (country) becomes highly developed, abundant civilization and full of luxuries, there will be a large demand for these conveniences and therefore a shortage of these commodities. People who are accustomed to such luxuries will pay exorbitant prices for them. And thus their prices will go up to become expensive.”⁽¹⁹⁾ In other words: Excess demand causes price to rise.

Six hundred years earlier Frank Fisher wrote his book: Buy low and sell high: Guidance for the General Reader in Sound Investment Methods and Wise Trade Techniques, Ibn Khaldun introduced the meaning methods and different kinds of commerce. He defined commerce in two words: Buy cheap and Sell dear.”⁽²⁰⁾ During his discussion about transportation of commodities he demonstrates that: “When goods are few and rare, their prices go up. On the other hand, when the country is near and the road is

safe for traveling, there will be many ways to transport the goods. Thus they will be found in large quantities, and their prices will go down.”⁽²¹⁾ This is very similar, if not the same as the Walrasian equilibrium law. On the contrary to the say’s law “supply creates its own demand,”⁽²²⁾ Ibn Khaldun’s law states that: “demand creates its own supply.” He demonstrate this law as follows: “If a particular craft is in demand and there are buyers for it, then, that craft correspond to a type of goods that are in great demand and imported for sale. People in towns, therefore, are eager to learn (that particular) craft, in order to make a living through it. On the other hand if a particular craft is not in demand, there are no buyers for it, and no one is interested in learning it. As a result that craft is destined to be left alone and disappears because of neglect.”⁽²³⁾

PUBLIC FINANCE

Ibn Khaldun contribution to Public Finance could be summarized in four points: 1. Sales and Import Taxes are indicators of the end of civilization (States). When the state is in its first stages, its expenditures are low. So its revenue suffices for expenditures. After a while, it becomes accustomed to luxuries, its habits become similar to the preceded civilization (State), the expense of the rules -- especially on people close to them -- increase, its army expands, and soon its revenue does not suffices its expenditures. It causes the rulers to impose taxes on sales and imports, which causes price to increase, demand fall down, and the markets will enter into a recession. This will decrease government revenue, and calls for higher taxes, and impose other taxes, such as “taxes on pilgrims” which decreases the demand and then higher recession in the markets. Civilization will start declining, corruption, bad ethics, will become the characteristics of the state, and later it will be destroyed. He made available many examples from the history of different states or civilization who was destroyed in this manner⁽²⁴⁾

2. Ibn Khaldun like the classical economists believe in the free economy. Government should not interfere neither in production (as Producer) nor in markets (as Merchant) because it hurts the private merchants and farmers. He reasoned this as follows: “As the government has more capital it could buy most of the commodities in the market, and since it has the power, it could buy at cheaper prices and sell at higher prices. In some cases (at the time of harvesting), the government might not be able to store a lot of production, so it will sell it even with the existence of a great supply in the market, at lower price. This might be repeated, causing bankruptcy to some merchants and hurts the markets. Since merchants and farmers are the main source of government revenues,

government revenues will decrease and so its expenditures. The civilization (country) will start to decline.⁽²⁵⁾

3. Decrease in government expenditures causes decline in government revenues, and then a recession in the markets. "If government did not spend all the revenues it collect from the public, income of the government employees, and then the income of their families and employees will decrease. Their expenditures will decline -- since this category represent most of the market -- total demand will decrease and thus markets will run into a recession. Profits will decrease, and then government revenues will follow suit because revenues depend on the situation of markets and profits."⁽²⁶⁾

4. The situation of the state is related to the situation of the public and vice versa. Money is circulated from government to public and from public to government. "The strength and weakness of the state, the numerical strength of the nation or race, the size of the city or country, the amount of prosperity and wealth are related matters. This is because state and rulers constitute the form of the world civilization, which, in turn, together with the people, cities and other things constitute the matter of the state and the rulers. The tax money reverts to the people, their wealth. If the ruler pours out gifts and money upon his people, it spreads among them, and reverts to him, and again from him to them. This takes place through taxation on land and products, and reverts to them through gifts, and government salaries. The wealth of the people corresponds to the finance of state, and the wealth of the state, in turn., correspond to the finance and number of the people."⁽²⁷⁾

From the above we can see that Ibn Khaldun has also preceded many contemporary fiscal economists such as Laffer who's famous curve named after him, states that the tax collection will increase at first when the tax rate increase reach a maximum and then start falling after certain percentage. It is also conform with the recent supply side economy or what is called Reaganomics who believe in tax- cut for stimulating the economy.

CONCLUSION

Ibn Khaldun contribution to the Science of Economics in the fourteenth century became well known theories in the eighteenth, nineteenth and twentieth centuries, under the names of Smith, Ricardo, Wallras, Laffers and others. He was a classical economists before the classical theories began as he was against government interference in the economy.

Ibn Khaldun contributed to four areas of Economic Theory: labor, markets, growth and public finance. Ibn Khaldun preceded Smith and Ricardo in realizing the labor as the main source of value. "The value of the commodity is the value realized from labor used to produce it." The wage rate according to Ibn Khaldun depends on expenditure. "The income of a

Judge in Fez Suffices for his expenditures.” The wage rate could also increase with the increase in demand for labor, and with the easy life in the city because of the abundance of food.

The theory of growth of Ibn Khaldun depends on population and then on the labor. As population increase the labor force will increase, and then earning and expenditures increase. Industry thrives and city (country) grows. With regards to the market Ibn Khaldun has discovered the law of market equilibrium hundreds of years before the French economist Wallras. “Prices will decrease if there is an excess supply, and it will increase if there is an excess demand.” Ibn Khaldun contrary to the Say’s Law. States that: “Demand creates its own supply.” Finally in the field of public finance Ibn Khaldun made four contributions:

1. Sales and import taxes are indicators of the end of civilization (State).
2. Government should not interfere in the economy neither in production as a producer nor in the markets as merchant.
3. Decrease in government expenditures, causes a decrease in government revenues and, then a recession in the markets.
4. The wealth of the state is related to the wealth of the public, and vice versa. The money is circulated from the government to the public and from the public to the government.

END NOTES

- Because of the existence of many errors in translation. This paper depends on the original Arabic text: Al-Muqademah. 4th ed. Beirute: Dar Al Qamar, 1981.
- 1. Encyclopadia of the Social Sciences. 1932-35, vol. 7-8 p. 564.
- 2. bid P. 564.
- 3. International Encyclopadia for the Social Sciences. 1968, vol. 7, p. 56.
- 4. See Richard G. Lippy, Peter O. Steiner, and Douglas D. Purvis 1984. PP. 460 and Bruce Bartlett 1982 P. 14.
- 5. The English translation of Kasb is earning, while the translator preferred to translate it as “Profit”. But profit means “Ribh” in Arabic, which is different from “Kasb”. There is a correct translation of “Ribh” in part 9, ch. 5 p. 394 (English p. 336). Profit occurs through buying goods at low price and sell them at higher price.
- 6. The introduction “Al- Muqademah”, P. 381 (E P. 311-312)
- 7. Ibid P. 360 (E PP. 271-272).
- 8. Ibid PP. 381- 382 (E PP. 313- 314).
- 9. Ibid PP. 363- 364 (E PP. 277-278).
- 10. See Miller, R. L (1994) Economics Today 7th Ed. P. 699.

11. Ibid P. 361 (E PP. 273-274)
12. Ibid P. 393 (E P. 334)
13. Ibid P. 363 (E P. 277)
14. Ibid P. 363 (E P. 277)
15. Ibid PP. 360, 361 (E PP. 272-273)
16. Ibid P. 362 (E P. 275)
17. See Nicholson Walter (1994): *Intermediate Microeconomics and its application* 7th Ed. P.P. 416-417 and Walres Leon (1954), *Elements of Pure economics*.
18. Ibid P. 363 (E P. 276)
19. Ibid P. 363 (E P. 277)
20. Ibid P. 394 (E P. 337)
21. Ibid P. 396 (E P. 338)
22. Miller Ibid P. 210
23. Ibid P. 403 (E P. 351)
24. Ibid PP. 280-281, and PP. 372-373
25. Ibid P. 281-282
26. Ibid P. 286
27. Ibid P. 371 (E PP. 290- 291)

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4. Ibn Khaldun, The Muqaddimah: An Introduction to History (An English translation of Ibn Khaldun). 3 vols. New York: Pantheon, 1853.
5. International Encyclopedia for the Social Sciences, vol.7 (1968-53:57).
6. Les Prolegomenes d'Ibn Khaldun (A French translation of Ibn Khaldun). 3 vols. Paris: Genthner, 1934-1938).
7. Richard G. Lispey, Peter O. Steiner and Douglas D. Purvis, Economics 7th ed. New York: Haper and Row, 1984.
8. Miller R. L. Economics Today, 7th ed. New York: Harper Collins Collage Publishers, 1994.
9. Nicholson Walter, Intermediate Microeconomics and its Application 7th ed. New York: The Dryden Press, Harcourt Brace College Publisher, 1994.

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10. Walras Leon, Elements of Pure Economics, trans. by William Jaffe. n.p.: Homewood, Irvin, 1954.