

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

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## IBN KHALDUN ON ECONOMICS

Ibn Khaldun, a fourteenth century economist, is the first person who has systematically analyzed the functioning of an economy, the importance of technology, specialization, and foreign trade in economic surplus, and the role of government stabilization policy to increase output, and employment. Moreover, he dealt with the problem of optimum taxation, minimum government service, 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 frame work for his history (1).

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 the civilizations, nations and the empires as Ibn Khaldun has formulated in his *Mugaddimah: An Introduction to History*.

His theory has the empirical and theoretical power not only to explain the consequences of governmental policies on production, investment and specialization, but to predict the very survival of the State.

## IBN KHALDUN ON THE STATE

Since State has important functions in the social, political and economic life of the nation, the role and the nature of the State has to be clarified for the well-being of the society. For him, the State has to establish law and order conducive for economic activities. Moreover, the enforcement of property rights for production and trade. The economic surplus could increase where we have governmental policies favoring economic activities. Government should take some of the surplus through taxation in order to provide minimum services and necessary public works. For him, optimum taxation occurs when governments do not discourage production and trade through taxation (2).

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If State tries to **over-expand** its bureaucracy by taxing the economic surplus, the specialization, the production, the trade and 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 army, bureaucracy and overtaxation: **"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 corvee, excise taxes, confiscation, -and worst of all, the direct interference of the State in economic activity by engaging in commerce-"(3).

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. 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 economic activity. As a result of increased governmental bureaucracy and large mercenary army, the entrepreneurs would be unable to invest and make profit in their enterprises. The tyranny of the State causes the decline of the arts, the contraction in production and specialization. With it, the economic surplus declines. The population would seek an alternative location from the former cities and the center of productions. When the cities are depopulated, the decline in demand for goods and services would generate the decline in the civilized mode of life, including civilized economic life. The whole country "starts to revert back to primitivism" (4).

The concept of the role of the government in stabilization policy to generate excess demand was formulated by Ibn Khaldun 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 in order to increase employment (5). Ibn Khaldun indicated that the greater the bureaucracy, the greater the over-taxation, and the greater the burden on economic surplus would occur. By enlarging the bureaucracy and the mercenary army was not the way to increase the excess demand, he thought. For the maximum efficiency, specialization and the greater output of an economy, profit-seeking entrepreneurs must take the responsibility for their gain and loss. The bureaucracy does not have incentive for efficiency or specialization. For this reason, the best State is the one that has the minimum bureaucracy, minimum mercenary army and the minimum taxation.

## IBN KHALDUN ON SPECIALIZATION

Ibn Khaldun has dealt with economics, sociology, political science and other human sciences in order to understand the behavior of man and his history. He tried to show that the specialization is the major source of economic surplus, almost three centuries before Adam Smith (6). For Ibn Khaldun, when you have specialization, you are encouraged to commit yourself for further production and trade. Indeed, the specialization would occur when we have an environment in which a person is able to get the benefit of his efforts. For him, then the specialization is a function of population, law and order, minimum taxation, and encouragement of entrepreneurship by policy makers, and trade.

On the subject of 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 craft-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). The concept of learning by doing and the concept of on-the job training are so clear which need no further clarification. However, it is important to indicate that these very concepts Ibn Khaldun has clarified, became the subject of articles in Economic Literature in the late 1950's.

For him, specialization means the coordination of the activities of the 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 profit" (9). More succinctly, Ibn Khaldun says that "The combined labor produces more than the needs and necessities of the workers" (10). In other places, he indicated that "Through cooperation, the needs of a number of persons, many times greater than their own (number) can be satisfied (11). For Adam Smith, specialization is a function of the market: the specialization. For Ibn Khaldun, the greater the population, the greater the specialization, provided we have law and order, minimum taxation, no impediment and restrictions to trade.

For Ibn Khaldun it is obvious that specialization, and cooperation, are the source of economic surplus. A partial interpretation of this surplus led Ricardo and Marx to the conclusion the exploitation of labor.

In other words, Ricardo and Karl Marx are the indirect students of Ibn Khaldun by partially interpreting his coherent general theory of economic surplus. This misdirection led Marx to say "that the labor itself is productive labor" (12). 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 capitalists (13).

On the other hand, Ibn Khaldun clearly indicated that "the profit human beings make is the value realized from their labor" (14). Large profits 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.

Ibn Khaldun does consider the worker and entrepreneur as human beings who try to maximize the return to their activities in the form of profit and wage. 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 price" (16). In other expression, "the truth about commerce" is to "buy cheap and sell dear" (17).

It is clear "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. This was one of the points Karl Marx and others missed.

The other point is that the coordination, cooperation and direction of the factors of production in increasing economic surplus is a productive and costly process which is undertaken by entrepreneurs who try to make a gain for their economic activities as part of production process. Ibn Khaldun praised the initiativeness and gave due respect to the coordination of the factors of production. 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 the prices are determined by the law of supply and demand. When a good is scarce and in demand, its price is high. 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) food" (18).

Moreover, he had the concept of long-run cost of production in the Marshallian sense kin determining the price of a good.

In conclusion, 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 a part of greater humanity in the rise and fall of civilizations paralleled to the rise and fall of economic surplus, respectively. For him, the cycle of the civilization has reached its end with the process of the destruction of super structure--- At the beginning "the desire for a luxurious mode of life had inspired men to perform heroic deeds, fight, 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 beasts" (19).

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 dynamic personal responsibilities in the individuals and through investing in research to generate further specialization in production in order to obtain higher surplus and keep governmental bureaucracy and large mercenary army at minimum. Whether the decline of Greek, Roman and Islamic civilizations could have been prevented remain a big question. For that matter, whether the relative decline of Her Majesty's Empire could have been prevented? In other words, can we be able to rotate the cycle the way we like? These questions need further research to be answered. 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 Keynes (20). In short, he is the father of modern economics.

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