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The origin and evolution of Islamic economic thought

Aghari, Zohreh, Ph.D.

The Florida State University, 1991

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THE ORIGIN AND EVOLUTION OF ISLAMIC ECONOMIC THOUGHT

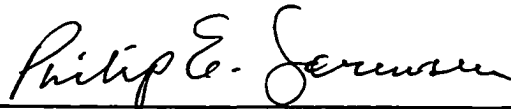
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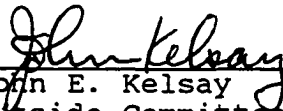
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**To my loving husband, Hossien, and my dear children,
Pejman, Iman and Nasim**

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ABSTRACT

In the midst of advanced and impressive modern economics, a new economic order has emerged--the central issue of which is the efficient allocation of resources in light of a more ethical consideration. This new system of economic thought is commonly termed "Islamic economics."

Since the early 1960's, Muslim economists have generated a staggering volume of writings in diverse languages. Despite all the research conducted on the subject of Islamic economics, there is still a debate among economists as to the exact nature and definition of Islamic economics.

This research is an attempt to clarify the confusion and controversy concerning the content and meaning of Islamic economics. The objective of this dissertation is two fold. The primary objective is to attain a definition for the term "Islamic economic system" based on a thorough investigation of the origin and the evolution of Islamic economic thought. The second objective is to examine the extent to which early Islamic economic thought or its ideological concepts compares to the medieval economic thought of the West. In order to identify what might be termed an "Islamic economy," this dissertation uses a Schumpeterian approach--that in order to understand the present, one needs to know the past. Apart

from the importance of the Schumpeterian approach in economic analysis, the argument for pursuing the primary objective of this research is to recognize a neglected area in the field of economic thought.

The dissertation reveals a basic continuity of ideas and discussions on various economic subjects by Islamic scholars during the ascendancy of Islamic civilization. This provides the basis necessary to refute the thesis propounded by Meyer that the "Arabic, Turkish and Persian speaking East has experienced no continuity of economic ideas such as those which come from the Judeo-Christian West." The study further points to a certain unity of economic thought between the medieval West and the Muslim East. Both systems were primarily concerned with the quality of life, which in turn depended on the moral and ethical character of the individual. Both also traced their origins to Greek philosophy, in particular Neo-Platonism.

The study confirms S. T. Lowry's thesis that the elements and conceptual premises of our current theory are often found in strange associations, or appear to have been borrowed from past intellectual complexes. The dissertation concludes with a discussion of reasons for the present underdevelopment of Muslim countries. These reasons include a number of factors relating to socioeconomic and political institutions in the East, but not arise from restrictions imposed by Islamic religious ideology.

INTRODUCTION

The discipline termed economic theory or economic analysis is of recent origin. It owes its development in the eighteenth century to the emergence of the political economy of market mechanism, propounded first by the laissez faire principles of Adam Smith, then later refined by the methodological rigor of the Ricardian system of value and determination of profit rate in agriculture as the primary regulator of economic growth.¹

In the early nineteenth century this development was followed by the pleasure and pain calculus of utilitarianism, whose chief exponent was Bentham. The idea of utilitarianism was later taken over by the neo-classical school, led by Alfred Marshall in England, Menger in Austria and Walras in Switzerland. The neo-classical economists bequeathed to the world the idea of marginal utility, thereby explaining the demand side of price formation. The history of economic thought developed newer twists in the socioeconomic analysis of historical change by Marx and the rebirth of macroeconomics with Keynes's General Theory.

¹W.J. Barber, A History of Economic Thought (Harmondsworth, England: Penguin Books, 1967).

Since the eighteenth century, the objectives of economic analysis have changed significantly. One is able to identify three major foci of development.² During the first half of the nineteenth century, economic analysis was concerned with the problem of distribution. After 1870 the analysis became concerned with the problem of optimal allocation of resources among competing ends. Then, with the rebirth of macroeconomic theory in the hands of Keynes, economic science concerned itself with the problems of economic policy relating to employment, the generation of aggregate demand for goods and services and price stabilization. In short, modern economics has been preoccupied with the idea of one goal--the satisfaction of an abstract economic man, Marshall's homo economicus, based on free and perfect competition.³ This seemed sufficient for establishing the structure of the market mechanism. Everything else that was beyond empirical analysis was excluded. Schumpeter's well-known work on the history of economic analysis discerned a complete removal of ethical concerns from the economic system on the grounds that they were based on unverifiable value judgments.

In the midst of advanced and impressive modern economics, a new economic order has emerged, the central issue of which is the efficient allocation of resources in light of a greater

²J. A. Schumpeter, History of Economic Analysis (New York: Oxford University Press, 1968).

³M. A. Chudhary, Contributions to Islamic Economic Theory, (London, Macmillan Press Ltd., 1986), 7.

ethical consideration. This new system of economic thought is commonly termed "Islamic economics."

With the increasing importance of the political economy of Middle Eastern oil, the Islamic revolution in Iran and the growing self-assertion of a Third World economic order led by oil-rich Muslim states, the subject of Islamic economics has been brought to the attention of Western scholars.⁴

The economic interdependency between the Muslim East and Western nations is a fact that cannot be denied. It is one of the reasons behind the recent Persian Gulf war. A deeper knowledge of the economic ideals of Muslims and their socioeconomic philosophy is crucial for establishing a better understanding between East and West.

Since the early 1960's, Islamic economists have generated a staggering volume of writings in diverse languages.⁵ The majority of these writings are concerned with three broad issues. Most important is the identification of a set of behavioral norms to guide Muslims specifically in their consumption, production, and exchange activities. Refining and adopting this line of argument, the Islamic economists maintain that economic problems, including poverty, low productivity, and inequality can be overcome by ensuring that

⁴J. A. Wilson, "The Economic Consequences of the Islamic revival" Contemporary Review, vol. 236, no. 1372, 1980, 240-245.

⁵Recent bibliographies include Siddiqi [1981] and Nienhaus [1982]. For critiques of this literature, see Kuran [1983] and Pryor [1985].

Muslims abide by what they consider to be Islam's behavioral norms in the economic sphere. The other two issues are zakat (wealth tax), viewed as the basis of Islamic fiscal policy, and the prohibition of interest which is regarded as the centerpiece of Islamic monetary policy. Most Islamic economists consider this trio, behavioral norms, zakat, and the prohibition of interest, to be the pillars of an ideal economic system.⁶

Despite all the research conducted on the subject of Islamic economics, there is still a debate among economists as to the exact nature and definition of Islamic economics. These controversies are not, as one may suppose, only between Western and Muslim economists but rather among Muslim economists themselves. To support this point, the views of some contemporary Islamic economists and scholars may be cited.

Somogyi (1965:1) maintains that:

Laissez-faire, which in Europe did not become an economic theory and practice until the eighteenth century, had been Islamic theory and practice as early as the seventh century.

M. A. Choudhury (1986:xiv) argues:

Islamic economics can be considered as a special case of social economics. It represents an approach to economic analysis that is strictly [based on] the premise of shari'a, or Islamic law, as it pertains to social, economic and legal matters confronting Islamic society.

⁶T. Kuran, "Continuity and Change in Islamic Economic Thought," Pre-Classical Economic Thought, ed. S.T. Lowry, (Boston: Kluwer Academic Publishers), 1986, 110.

Mustafa as-Sibai (no date:144) writes:

The verses [of the Quran] that I have quoted show clearly that God prescribed co-operation and solidarity in all the forms indicated by the different meanings of the words birr [broadly, "pious kindness"] and tagwa [broadly, "piety"]. The hadiths [traditions] I have quoted show that the Prophet established the institution of social solidarity in its full and broad sense. This is why it is expressed in a variety of ways in Muslim socialism.

He then lists "important and most indispensable" ideas leading toward the good of society," quoting hadiths to back his points: moral solidarity, solidarity in knowledge (one must enable others to profit from one's learning), solidarity in defense of the community, economic solidarity, cultural solidarity, "alimentary" solidarity aimed at ensuring for every member of the community at least a decent level of subsistence. He ends with this conclusion:

The principle of social solidarity in Muslim socialism is one of the features that distinguish this humanistic and moral socialism from every other kind of socialism known today. If it were applied in our society, the latter would be ideal, and no other society would come anywhere near its lofty grandeur.⁸

M. Abdul-Rauf (1979:5) explains that one of the relevant values that delineates the economic framework prescribed in Islam is complete commitment to God--the creator and provider of all ecological resources. He goes on to say:

⁷Mustafa as-Sibai, Ishtirakiyyat al-Islam, 3rd ed.. (Cairo: ad-dar al-qawmiyya li-t-tiba'a wa-n-nashr, no date), 114ff, cited by Rodinson, 1973, 177.

⁸Ibid., 118.

Wealth is a favor from God, which should be sensibly treated, not abused, destroyed, wasted or left idle. Although people are created equal, and no one may claim inherent merit over another, they are created with different talents and are bound to attain different degrees of success.

He points out that it is "man's duty to accept his fortune, not to despair or be resentful, although he should struggle as hard as he can for his best interest."

This argument may sound like the basis for a free-market system. However, Abdul-Rauf argues that individual possessiveness and concern for satisfying personal needs must harmonize with obligations to society. He further argues that the Islamic economy is not based on increasing the aggregate welfare of the community through encouraging the individual to maximize his or her own interest and to be indifferent to the interests of others. Instead, it is based upon the "bond of universal brotherhood in which the individual, in seeking to benefit himself, avoids malevolence to another" (p.2). This is why every Muslim is obligated to the duty of giving alms when they are collected by the religious leaders to help the needy. Furthermore, usury and earnings without effort are prohibited. This new description resembles that of an ideal socialist system. Combining this description with the aforementioned implications of a free-market economy, one may be inclined to believe that an Islamic economic system should be one type of the so-called mixed economies or even a welfare state; a system more equitable than capitalism but more

efficient than socialism. However, it is not possible to arrive at a solution so easily.

According to Islamic beliefs, there is no generic problem of scarcity defined in an engineering sense. The man of infinite wants is the problem, and it is a moral problem, not an amoral engineering problem (Abdul-Rauf, 1979:12). In this way, Islamic economics, or at least some of its advocates, reject classical and Marxist economics, both of which are based on the premise of scarcity of resources (Bani Sadr, 1977).

Moreover, Naqavi (1980:71) criticizes those who identify Islamic economics with capitalism, socialism or even a welfare state on the basis of some common components. Referring to these attempts, he argues:

Mistaken as they are, these superficial impressions cannot be dispelled just by focusing on isolated dissimilarities between economic systems; for such an argument can be quickly demolished by citing even more persuasive inter-system similarities.

Basing his argument mainly on Islam's ethical philosophy, Naqavi (1980:81) explains:

While there are formal inter-system similarities, yet the unitary Islamic philosophy, with its emphasis on equilibrium, freedom, and responsibility,⁹ sets it apart from every other system. Moral obligations both restrain and reinforce economic compulsions strictly according to the dictates of Islam's ethical philosophy. When the pursuit of economic welfare turns into the worship of money, Islam has nothing to do with such an immoral preoccupation. On the other hand, in so

⁹See Naqavi's Ethics and Economics: An Islamic Synthesis, chap. 1 for detailed discussion of these concepts.

far as redistribution of income and wealth enhances material welfare, Islam adds a spiritual dimension to such an activity.

An important obstacle, one that has prevented Muslim economists from having a common view regarding the nature of Islamic economics and its principles, is the lack of consensus in Islamic law. Islamic law in general, and its economic principles in particular, are both based on injunctions and norms derived from the Quran and Sunnah (tradition of the Prophet Muhammad) called shari'a. But while law in Islam is God-given, it is man who must apply it. Between the original divine proposition, and the eventual human disposition is interposed an extensive field of intellectual activity and decisions. Jurisprudence in Islam is the process of intellectual activity which defines the terms of the divine will and transforms them into a system of legally enforceable rights and duties. It is within these strict terms of reference and individual interpretation of the Quran and Sunnah that conflicts and controversy arise in Islamic legal thought as well as economic thought. In general one should not then be surprised to find out that Islamic economics has been defined and interpreted as being laissez-faire, free-market oriented, a socialist system requiring considerable use of authority, a welfare state, and as a unique "middle-of-the-road" economic system independent of all other systems.

This dissertation is an attempt to clarify the confusion and controversy concerning the subject of Islamic economics.

The objective of this study is two fold. The primary objective is to attain a definition for the term "Islamic economic system" based on a thorough investigation of the origin and the evolution of Islamic economic thought. The secondary objective is to examine how Islamic economic thought or its ideological concepts compares to medieval economic thought in the West.

In order to identify what might be termed an "Islamic economic system", this dissertation uses a Schumpeterian approach: that to understand the present, one needs to know the past. According to Schumpeter (1968:12):

Nobody can hope to understand the economic phenomena of any, including the present epoch who has not an adequate command of historical facts and an adequate amount of historical sense or of what may be described as historical experience.

He further argues that the historical reports cannot be purely economic but must also reflect "institutional" facts, therefore affording the best method for understanding how economic and non-economic facts (such as philosophy, religion and value judgments) are related to one another. It is on the basis of this Schumpeterian method of economic analysis that the present research has been undertaken.

Apart from the importance of the Schumpeterian approach in economic analysis, the argument for pursuing the primary objective of this research is to recognize a neglected area in the field of economic thought. The growth of modern Islamic economies has directed the attention of Western scholars to

the economic thinking of Muslim scholars in the past,¹⁰ of which the conventional writers on the history of economic thought had taken little or no notice.

Most of the histories of economics that give attention to the pre-Smithian background ignore Islamic economic thought.¹¹ For example the brief reference to Ibn Khaldun in Schumpeter's compendium¹² illustrates the difficulty of getting a coherent picture of Islamic economic thought from the piecemeal treatment it has received in Western literature. To understand the intellectual history of a current of thought developed outside Western culture, it is necessary to examine the contributions of each writer from the point of view of what they have written about questions commonly accepted as economic. It is the purpose of this research to fill this gap and shed some light on this neglected area in the history of economics, while providing the reader with a systematic analysis of Muslim scholars' economic thinking and their attitudes to the problems of man's livelihood.

Although the aim of this dissertation is to advance knowledge within the economics profession about Islamic

¹⁰For example see Rosenthal [1958], Spengler [1964 & 1971] and Boulakia [1971]

¹¹The only exception, to this author's knowledge, is the brief coverage of Islamic economic thought in Pre-Classical Economic Thought, ed. S.T. Lowry, (Boston: Kluwer Academic Publishers, 1986), chap. 4.

¹²J. A. Schumpeter, History of Economic Analysis, (New York: Oxford University Press, 1968), 136 & 788.

economic thought, it is hoped that it will also be of interest to professionals in international development institutions, national government offices and businesses who are often involved in dealing with their counterparts in the Persian Gulf countries. To them this research will introduce the economic philosophy of Islam and its major institutions in the Middle East region, such as joint ventures and profit-sharing projects.

This dissertation is divided into five chapters. The main objective, analysis of the origin and evolution of Islamic economic thought, is covered in chapters one through three. This objective is achieved by considering first, the scope and nature of pre-Islamic economic ideas, second, by reviewing the nature of socioeconomic issues revealed in the Quran, third, by the way these revelations were interpreted and viewed by the Prophet Muhammad and his companions, and fourth, by examining the ideas and views expressed by Muslim authors--whether they sprang from the mind of a jurist, a statesman or a philosopher.

Pre-Islamic economic thought will be examined in chapter one. This discussion centers on the historical evolution and early views on economic relations and activities such as private property and the acquisition of wealth. Chapter two analyzes principles of Islamic economics and its philosophical foundation, based on the primary sources of Islamic Knowledge, the Quran (Holy Book of Muslims) and Sunnah (Tradition of

Prophet Muhammad). Discussion in this chapter delineates the general nature of Islamic social sciences. Certain key issues and ideological concepts of Islam on which the Islamic political economy is based are discussed: concepts such as the nature of man and his relation to God, the Islamic world view, the principle of Tawheed (unity) and brotherhood, the principle of work and productivity as well as Islam's view on distributional equity, wealth, profit, interest, and private property. Chapter three presents a discussion of the works and views of medieval Muslim scholars and philosophers concerning economic, political and social matters--the whole of which constitutes the Islamic political economy. The discussion includes the writings of the most notable Islamic scholars: Abu Yusuf, Tusi, Imam Ghazali, Alberuni, Alfarabi, Ibn Sina, Ibn Taimiyah, Ibn Khaldun and Maqrizi.

Chapter four evaluates medieval Western economic thought as a basis for comparison with the system of economic thought in Medieval Islam. The discussion includes analysis of scholastic economic thought, which, to a large extent, was based on Christian philosophy. In particular, the economic views of Saint Thomas Aquinas, the greatest figure in medieval scholasticism, on private property, prohibition of usury, and prices, will be discussed. Chapter five, the concluding chapter, summarizes the findings of the study. It compares and contrasts the economic thought of the medieval West to that of the Muslim East. It also traces the lines of intellectual

development in both systems that were influenced by pre-Islamic economic philosophy, in particular, by those of Greek origin, and finally points to the impact, if any, of Islamic economic thought on the development of economic ideas in the West. This chapter also suggests new avenues for future research in the field of Islamic economics.

The analysis reveals a basic continuity of ideas and discussions on various economic subjects by Islamic scholars during the ascendancy of Islamic civilization which provides the basis necessary to refute the thesis propounded by Meyer that the "Arabic, Turkish and Persian speaking East has experienced no continuity of economic ideas such as those which come from the Judeo-Christian West."¹³ From Abu Yusuf in the seventh century to Tusi and Ibn Khaldun in the thirteenth and fourteenth centuries, respectively, there is continuity of discussion concerning the market mechanism, division of labor, taxation, the role of government, money and exchange, labor and value, population theory, monopoly, etc. Based on these analyses, a definition for the "Islamic economic system" is suggested. While pointing to the influences of Greek philosophy, our analysis of Islamic economic thought confirms S. T. Lowry's conclusion that "the elements and conceptual premises of our current theory are often found in strange associations, or appear to have been

¹³A. J. Meyer, "Economic Thought and its Application and Methodology in the Middle East", Middle East Economic Papers, (Beirut, 1956), 66-74.

borrowed from past intellectual complexes" (Lowry, 1974:606). A broad view of the relevance of ideas that later acquired economic significance suggests that the beginnings of many modern economic theories (e.g. exchange analysis, labor theory of value, Malthusian population theory) can be traced back into the writings of early Islamic thinkers.

The analysis also points to a common approach in economic thinking between medieval Islamic scholars and their contemporaries in the West. Economics, then, relied mostly on moral and religious sanctions. The aim of both systems was to ensure some benefits to individuals and the community by imposing norms of justice on economic relationships. Rules of justice in exchange reflected ideas about the nature and extent of property. Aristotelianism, brought to Europe by the Arabic scholars, influenced medieval economic thought.

While allocative efficiency and distributive justice were common subjects in medieval economics, productive efficiency and economic growth were rarely discussed. Only after the industrial revolution and the emergence of "value free" economic reasoning in the West did the unity of thought which was the hallmark of the Middle Ages begin to vanish. Since then, Islamic economic thought has continued along the same path, maintaining its medieval outlook, while the West has diverged to a positive and purely mechanical system of economic analysis. The rise of a secular approach in place of

the otherworldly, religious one, marked the growth of the various Western nation-states.

Before starting the discussion of chapter one, the following clarifications need to be made.

1. There are controversies about the time covered by the term "Middle Ages." By western definition, the end of the ancient world marks the beginning of the Middle Ages--broadly speaking--that lasted until the year 1500. But not all historians agree as to the selection of landmarks distinguishing the end of ancient time and the beginning of the Middle Ages. As Spiegel points out "History is like a house that has many windows, and the year chosen as the boundary line will depend upon the view of the observer."¹⁴ Eric Roll (1946: 33) argues that the Middle Ages are generally considered to cover a period of roughly a thousand years--from the fall of Rome in 476 A.D. Henri Pirenne holds the view that it was the Muslim, rather than the Germanic conquest, that marked the end of the ancient world.¹⁵ What has become increasingly apparent, however, is that the ancient world did not end suddenly, but declined gradually from the third century up to possibly the eighth century. Furthermore, the

¹⁴For different views on this subject see H. W. Spiegle, The Growth of Economic Thought (Durham, North Carolina: Duke University Press, 1983), 48.

¹⁵Ibid., 48. See also M. Lombard, The Golden Age of Islam, 5, who argues against Pirenne's thesis.

causes of the decline were not only political, military and religious but also social, economical, and cultural.

Despite differing arguments on when the ancient world ended, historians nevertheless agree that the transition to the modern period occurred during the fourteenth and fifteenth centuries with the advent of the Renaissance. The period is important only as an indication of the length of time during which a certain form of economic ideology and social philosophy held sway in the Islamic world as well as in the West.

As stated earlier, the breakdown of each nation's history into different periods depends on the world view of that particular society and the nature of the landmarks used. It is a mistake to assume that all of the ancient world entered the Middle Ages simultaneously. It is also misleading to assume that each and every part of the ancient world experienced the same kind of political, social, economical, intellectual and cultural performance during that period. In Europe, or in the West for that matter, the term Middle Ages corresponds to a millennium of darkness, as a long night of ignorance, superstition and barbarism, coupled with socioeconomic decline. In the East, particularly the Islamic Empire, the period covered by the term "Middle Ages" is referred to as the "Golden Age."¹⁶ History shows that during the early stages of Muslim civilization, the Islamic empire

¹⁶M. Lombard, The Golden Age of Islam.

was the driving force behind economic and cultural life.¹⁷ Some historians have gone so far as to describe the Middle Ages (especially from the eighth to the eleventh centuries) as the period during which the world witnessed the flowering of Islamic culture along with the economic development of Muslim countries.¹⁸ For the purposes of this study, the Middle Ages cover the period from the advent of Islam in seventh century A.D. until the disintegration of the Islamic empire and the beginning of its downfall in the fourteenth century A.D.

2. The Muslim calendar begins with the hijrat (migration) of the Prophet Muhammad from Mecca to Medina in 622 A.D. Since the Muslim year is lunar, it is impractical to convert dates from the Muslim to the Christian era, and vice versa, by a simple formula. Therefore important dates are given in the Muslim style as well as in familiar Gregorian calendar. This style of dating is in conformity with modern scholarly practice in the field of Islamic studies. The Muslim date is always given first, the Gregorian date follows after a slash sign, 287/900, 787/1385, etc. The same system applies to centuries: 8th/14th century.

¹⁷Ibid., 1.

¹⁸Ibid., also R. N. Frye, The Heritage of Persia (New York: The World Publishing Company, 1963).

CHAPTER I

PRE-ISLAMIC ECONOMIC THOUGHT

To appreciate the elements of continuity and change in Islamic political economy, one must first understand the historical context in which it arose and endured. This is achieved by considering first, the scope and nature of pre-Islamic economic ideas, second, by reviewing the nature of socioeconomic issues revealed in the Quran, third, by the way these revelations were interpreted and viewed by the Prophet Muhammad and his companions, and fourth, by examining the ideas and views expressed by Muslim authors--whether they sprang from the mind of a jurist, a statesman or a philosopher.

The first subject, pre-Islamic economic thought, will be examined in this chapter. This discussion centers on the historical evolution and early views on economic relations and activities such as private property and the acquisition of wealth. The second and third subjects, socioeconomic views of the Quran and Sunnah will be discussed in chapter two. The fourth subject area, economic thought of Medieval Islamic scholars, makes up our discussion in chapter three.

THE EVOLUTION OF OWNERSHIP

Power, possession, and need, coupled with the utility derived from various things, have brought forth the desire for ownership. The intrinsic principle of ownership pre-exists ownership as an extrinsic and legal matter. Ownership as a source of legal rules and regulation is a later development from which economic, social, and political ideologies have grown.

Basic principles of ownership have, in accordance with specific situations and conditions, taken different qualitative and quantitative forms throughout history. Among some early tribes and clans movable and immovable objects belonged to every one; in other cases, ownership was restricted to a single tribe, clan or family, or even an individual. In short, as a result of improved means of production and an increase in wealth and the number of consumers, as well as progress in civilization, ownership has become an important factor leading to the emergence of various socioeconomic ideologies.

Taleqani gives a brief overview of how ownership came to be the main factor behind economic ideology.¹ As he argues, primitive man's desire for ownership was limited to objects to the extent that he could utilize them. As man moved and abandoned these objects, others took possession of them.

¹S. N. Taleqani, Islam and Ownership, translated from Persian by A. Jabbari & F. Rajaei. (Lexington: Mazda publishers, 1983), 5 ff.

Later, as individual and family life transformed into tribal community life, the power of possession and ownership increased finally initiating the phase of production, distribution, and consumption, and, consequently, centralization. At the beginning of this era, production took place to the extent that distribution of products and consumption by individuals and tribes warranted. Parallel to the growth in needs, there occurred a division of labor and increased production. With improved means of production, division of labor, and increased productivity, the era of bartering arrived. As societies expanded and needs grew, markets also expanded, making it increasingly difficult to determine and agree on the exact value of commodities traded. To facilitate trade, currency came to be utilized. At first, money represented a standard unit of value. At this stage buyers and sellers were indistinguishable. Owners of capital and money no longer supplied the market with their commodities based on public need. Instead they stored their commodities for as long as possible in order to sell them at the highest price. The capitalist was able to buy commodities at lower prices in order to hoard, and when the opportunity arose, sell them at a higher price to consumers or even the original producers. Once this occurred, the owners of money also took possession of the land as well as natural resources. Money-- which at the beginning was developed only to set the standard of value and facilitate trade--became more valuable than the

commodities themselves. As a result of this process, usury became wide spread and money itself became a source of power.² This event in particular stands out in the early economic history of Greece and had a profound effect on the economic structure of the city-state.³ The class having access to money was also able to control human and natural resources and eventually governments. Unity and social harmony were replaced by class differences and dispersion. From this point onward, ownership went beyond the boundaries of fulfilling basic needs, permanently altering man's nature as greed, jealousy, competition, and animosity emerged.

Throughout history, in any community where the system of ownership and economic conditions were in disequilibrium and the danger of destruction and disorder was felt, men of perception and constructive ideas sought to devise new laws. Such men attempted to rouse humanitarian feeling and direct the attention of those with money and wealth to their social responsibilities. Men of goodwill proposed theories and advanced ideas for establishing a just society in order to prevent collapse and destruction. In ancient Greece and Rome,

²Credit transactions and lending at interest began to be reported in the second half of the seventh century B.C. There is no mention of lending at interest in writings of earlier writers such as Homer and Hesiod. Interest probably originated with the loans of cattle or seed corn, where nature would produce a return. As opportunities for the productive use of money became more plentiful, the idea was expanded to cover returns on borrowed funds. See H. W. Spiegel The Growth of Economic Thought, (Durham: Duke University Press, 1983), 9.

³Ibid., 8.

before the emergence of Christianity, class differences generated severe crises. At the same time, responsible men, eloquent speakers and great philosophers, emerged who were in empathy with the deprived classes.

Historians of law are well aware that, even in Roman law, the classical domain of absolute ownership must be taken with some reservations.⁴ Restrictions on property rights existed from the time of the Law of the Twelve Tables to safeguard the interests of neighbors. Other limitations were added to safeguard the interest of society, and for reasons of equity, humanity or charity. Many obligations were attached to the ownership of real estate. Rodinson (1973:172) argues that during the decadence of the Roman Empire, the owners of agricultural domains were threatened with forfeiture of their property if they neglected to cultivate it. A man was also allowed to exploit a mine that he discovered, regardless of whether the owner of the land gave his consent--with only one-tenth of the product due to be paid to this owner. Expropriations "for the public good" were numerous. A theory of the misuse of property rights was worked out, and, where slaves were concerned, their masters found themselves subjected, from the first century onward, to serious

⁴According to the Roman Law: "Property is the right to use, to enjoy, to dispose fully of [and not exactly to "misuse"] whatever belongs to one, insofar as this is in conformity with the system of law." See M. Rodinson, Islam and Capitalism. Trans. from French by B. Pearce. (New York: Pantheon Books, 1973), 172.

restrictions imposed in the interest of humanity, on their rights of ownership.⁵

USURY: BACKGROUND OF QURANIC PROHIBITION

It is not clear exactly how or when our ancestors became aware of the intangible value of coveted goods. It is only imagined that they passed from the stage of an even-handed barter to that of business fairly quickly. Lenders must have followed the same progression, starting with the desire to have back exactly what was remitted to the borrowers, to the point of extra gain, and finally--regular interest on what was lent. Discussion on the lawfulness of such additional return, or at least its moral aspect, is probably as old as the fact itself and has occupied the mind of philosophers, men of goodwill, law givers, reformers and of course, the messengers of God throughout history.

Written history tells us that compound interest was forbidden by the code of Hammurabi (Article 93 of this code issued c. 1750 B.C), and that King Bocchoris of the Egyptian twenty fourth Dynasty (c.730 - c.715 B.C) forbade the taking of interest in excess of the principal. (N.A. Saleh, 1986:8).

Ancient Greeks (with the exception of the Spartans) and Romans used to charge heavy interest, with the stipulation that capital and interest were secured by the person of the

⁵Ibid.

debtor--meaning that if such a debtor was unable to repay what was due, he had to become the creditor's slave.

The Athenian reformer, Solon (640-560 B.C), accomplished the task that was entrusted to him of terminating civil strife in Athens by, among other measures, the cancellation of existing debts and securities and the forbidding of any future borrowing on personal security. It is also reported that, for a certain time, Solon limited the rate of interest to 12 percent. In Rome, slavery for debt existed until the fourth century B.C. The opposition to interest-taking does not appear to be associated with any particular theory of the nature and functions of money. Rather, it seems to be bound up with the desire to minimize the incidence of slavery for debt. Before that, the Twelve Tablets (451-450 B.C.) limited the interest rate, probably to 12 percent, until the time of Emperor Justinian (A.D. 438-565), when the rate varied between 4 percent and 12 percent, depending on the nature of the operation involved and the rank of the borrower.⁶

Biblical and Jewish Economic Thought

There are many passages in the Bible that confirm the value of a good life. However the solution to the economic problem, the way to prosperity, like the way to God is through the law of Moses. This is most strongly depicted in the Book

⁶N. A. Saleh, Unlawful Gains and Legitimate Profit in Islamic Law. (Cambridge: Cambridge University Press, 1986), 9, cites Shaikh Draz, "L'usure", 43-4.

of Deuteronomy, where through many of its passages God promises to bless the children of Israel with abundance in the land given that they adhere to the codes of Law. For example, in "The First Discourse Of Moses," (DT. 7:12-14) the law-giver proclaims:

Listen to these ordinance, be true to them and observe them, and in return Yahweh your God will be true to the covenant and the kindness he promised your fathers solemnly. He will love you and bless you and increase your numbers; he will bless the fruit of your body and the produce of your soil, your corn, your wine, your oil, the issue of your cattle, the young of your folk, in the land he swore to your fathers he would give you.

Explicit discussion of welfare provision and regulation of economic relationships is mainly given in the law codes of the Pentateuch (the first five books of the Bible). These codes pay considerable attention to the detail of the day to day conduct of economic matters. Provisions of the codes treat the use of free labor. Work is affirmed as a divine ordinance for man (Ex. 20:9; Dt. 5:13), although it does not exhaust the meaning of life. A general and quite fundamental restriction on the application of labor is the command to rest on the Sabbath, the weekly day of rest, relaxation, and good living (Ex. 20:10-11; 23:12). There are detailed regulations for the protection of the workingman. An employer must not deny the laborer his wage at the end of the day and must not require unusually long hours of work even if he pays an unusually high

⁷For other similar passages see (DT. 28:1-46). For the same emphasis in Leviticus, see for example (Lv. 26:3-5).

wage (Lv. 19:13). Several Biblical laws also require the periodic liberation of slaves (Dt. 15:12) as well as cancellation of all debts (Dt. 15:2) in the sabbatical year (seventh year). The codes also concern themselves with the use of arable land in the sabbatical year (Ex. 23:10) and the Jubilee or fiftieth year (Lv. 25:13).⁸

Religious law also prohibited Jews from charging their co-religionists interest (Ex. 22:25; Lv. 25:36, 37). This prohibition does not apply to transactions with adherents of other religions. There is argument as to whether the law codes of the Pentateuch place a total ban on one Israelite's lending to another at interest. The Code of the Covenant, for example, is somewhat ambiguous. It states:

If you lend money to any of my people, to any poor man among you, you must not play the usurer with him: you must not demand interest from him. If you take another's cloak as a pledge, you must give it back to him before sunset (EX. 22:25-26).

This seems to rule out interest-taking on any loans to the poor, and it could well be interpreted even more broadly. It has been observed, however, that this edict refers only to neshek (a discount taken initially from the sum lent) and not to tarbit (a premium paid above the amount of the loan when the loan is repaid).⁹

⁸For detailed discussion on the social aspects of these provisions see Spiegel, The Growth of Economic Thought (Durham: Duke University Press, 1983), 5.

⁹Neshek may be termed "advanced interest," and tarbit, "accrued interest." On this distinction see Ronland de Vaux, Ancient Israel, (London: Darton, Longman and Todd, 1978), 170,

There are also problems with the relevant section of Deuteronomy. This introduces a separation between "brother" and "foreigner,"--the latter in the sense of an alien who is not a resident of Israel. The section reads:

You must not lend on interest to your brother, whether the loan be of money or food, or anything else that may earn interest. You may demand interest on a loan of a foreigner, but you must not demand interest from your brother; so that Yahweh your God may bless you in all your giving in the land you are to enter and make your own (DT. 23:20-21).

The above passage has been interpreted by some as a distinction between classes of loans rather than between persons.¹⁰ It is argued that when this statute was formulated, Israel was still an agricultural society, and commercial activity was nearly an exclusive preserve of foreign traders and merchants. Hence, lending to a foreigner is co-extensive with the idea of a "commercial loan." The law does not necessarily preclude taking interest from a fellow Israelite should he have borrowed for commercial purposes. The only clear ban is on a demand for a surplus over and above the principal in the case of a consumption loan. On this point, Barry Gordon (1987:64) argues that:

and B. J. Meislin and M. L. Cohen, "Background of the Biblical Law against Usury," Comparative Studies in Society and History 6, (1963-64): 260.

¹⁰See, for example, R. A. Ohrentein, "Economic Aspects of Organized Religion in Perspective: the Early Phase," Nassau Review: (Spring 1970): 34.

If DT. 23:20-21 is pointing to a distinction between classes of loans, then it can be accounted as a rare passage in terms of ancient literature. In the ancient world the household was not merely an economic unit for purposes of consumption, it was also an economic unit for purposes of production. Hence, the difference between a consumption loan and a commercial loan, which may seem obvious in modern societies where the household is distinct from the "firm" or business undertaking, was anything but obvious to the ancients.

Although there are doubts concerning an absolute prohibition of interest in lending among Israelites, it is clear that each of the major codes put substantial restrictions on the use of money as a source of income by virtue of its loan.

ECONOMIC CONTENT OF GREEK PHILOSOPHERS:

In ancient Greek tradition economics is not conceived of as an autonomous abstract inquiry, but as a subordinate, concrete, and morally oriented discipline. Politics is the master science, the art, in terms of which the understanding of economics is subordinated. The art of arts for Greek philosophers is the cure of souls. For them, the man of infinite wants is the problem, and it is a moral and ethical problem, not an amoral engineering one as is the case with modern economics. The man of infinite wants is the tyrant. The solution to happiness is simply to appease the tyrant.¹¹ This is the basis for their treatment of economic problems.

¹¹This is in reference to Aristotle's remark in Politics (1266b), where he states: "it is more necessary to equalize men's desire than their properties." More on this subject in following pages.

In the following pages we examine the economic content of Greek philosophy in order to explore its points of comparison with Islamic economic thought and the role it played in the evolution of Islamic Political economy.

Plato (C.427-c.347 B.c.)

Most of Plato's economic ideas can be found in the Republic and the Laws. The latter is a book that Plato wrote when he was older and more willing to sacrifice principle to practicality. The main concern of Plato in his Republic is to explain what is Justice. Speaking through Socrates, Plato rejects the view that telling the truth and paying one's debts is what is meant by justice. Having rejected this and other interpretations of justice, Plato attempts to construct an ideal state of justice on earth. Plato's ideal state is the one in which the philosopher is king. The basis of the city-state is not a man-made compact but the natural inequality of man, who is endowed by nature with a variety of gifts and talents that are highly developed in some and less so in others. Division of labor, specialization, and exchange are thus natural and advantageous in view of man's inequality and lack of self-sufficiency.

Division of Labor

Division of labor, one of Plato's central concepts is of paramount importance in the history of economics. Centuries

later the same concept was employed in the economic analysis of Muslim scholars. In the eighteenth century, it was to serve as a cornerstone of Adam Smith's system of economics. However, the context and the emphasis that Plato placed on division of labor is not the same as those of succeeding authorities. Plato in searching for the structure of the ideal city, rationalizes class distinctions and the stratification of society. To him the all-important fact is human inequality, which gives rise to division of labor and specialization.

In Plato's ideal community three classes are distinguished. Producers, soldiers, and philosophers. People who are apt to crave material goods must toil to produce them; those who are equipped with a pronounced courage and fighting instinct will constitute the military; those who can think rationally and philosophically will be chosen to rule. Such a harmonious ordering of society, Plato argues, will constitute justice.

Private Versus Communal Property

Plato's general observation as to wealth and poverty is that both have evil consequences. Wealth will produce luxury and idleness; poverty will result in mean standards of conduct and workmanship. Hence, the ruling class will have to keep a watchful eye on these matters. Thus he concludes that soldiers and philosophers are to be freed from the burdens of

private property and family in order to devote their lives to the business for which nature has best equipped them, soldiering and ruling. This means that members of the upper class will have no private property or houses and will share common residence, meals and women.

The ruling class, argues Plato, should not be allowed to possess gold or silver, "that mortal dross which has been the source of many unholy deeds." Plato reasons that it is not of much concern if the ruling class should be unhappy about their deprivation because it is the happiness of the whole community that counts and not the happiness of any special class. According to Plato, if the ruling classes acquire a taste for money and possessions, they become corrupt resulting in the degeneration of the ideal city.

In one way or another, the fall of the ideal state is invariably related to the accumulation of wealth and to the inequalities and cleavages this creates. The elimination of private property from the ruling class is thus a cornerstone of Plato's system. In the Laws, as in the Republic, Plato again points out that the best political community is the one made up of friends who share everything. A community in which the word "ownership" is obsolete; where everything is common property, even that which nature has made our own. Our eyes, ears, and hands, must see, hear, and act in the common service so that the community will be united in its attachment to the same system of values. What gives pleasure or pain to one will

give pleasure or pain to all. Plato proposes the sharing of material goods, and of every thing else, as a means of integrating society into what he considers a utopia. His utopia, however, is fit for a community of gods rather than men (V 739).

Plato's View on Commercial Activities

As Plato argues in the Laws, the citizen of the ideal city may enjoy the products of economic activities, but arts, crafts, and trades cut into people's leisure time; they stimulate undesirable appetites and tend to demean a person--especially one engaged in manual labor or retail trade. Hence the citizens of the ideal state may only engage in agricultural pursuits. They are not allowed to practice a craft or a trade. Such "sordid callings" are reserved for the resident foreigners. Citizens are also not allowed to possess gold and silver but only token money. Credit transactions are discouraged, but if they occur, they must be based strictly on trust because the borrower has no legal duty to pay interest or principal. Prices and quality of goods are controlled by public authorities. An individual's wealth may not fall below a minimum--the family holding, which is inalienable--nor may it exceed a maximum, that is, the holding plus other property up to four times its value. In this manner, extremes of indigence and opulence will be avoided. The citizens will be protected against corruption resulting from commercialization. Economic

inequalities will primarily result from differences in thrift and efficiency in the management of the farm rather than from trade or craftsmanship or from speculative windfall gains which enrich some and impoverish others. The very wealthy, according to Plato, cannot at the same time be good men. Thus care for wealth should rank third and lowest, after care for the soul and for the body.

Aristotle (384-322 B.c.)

The writings of Aristotle, Plato's main disciple, cover the whole span of human knowledge. However, just a few of them refer specifically to economic matters and only in connection with political or moral matters or with an examination of general arts of reasoning. Most of his economic ideas are found in his Politics; some in his Ethics; and a few in his Rhetoric and Topics, in which he discusses the art of reasoning.

As Spiegel (1986:24) argues, Aristotle's inclination is an aristocratic one, as was Plato's. His belief in the fundamental inequality of human beings is as pronounced as was his master's. But unlike Plato, Aristotle's solution of the economic problem places more emphasis on moral improvement than on regimentation. According to Aristotle, people can be changed by the proper environment, by suitable institutions, and by the power of persuasion, and if they become better men, the economic problem of pervasive scarcity of material goods

will be less oppressive. Aristotle gives a central role to the concepts of "natural" and "unnatural" acts. The criterion of the natural act is the limited character of human needs and of the unnatural act, the unlimited character of human wants. To him something is natural or according to nature if it leads to the realization of a thing's final end or purpose. The way Aristotle employs these concepts is best seen in his discussion of the art of acquisition.

The Art of Acquisition

According to Aristotle, different methods of acquisition correspond to different ways of life. He gives three methods of acquiring goods, the first two he considers natural. First, the acquisition of goods directly from the environment, by hunting, fishing, etc. Second, the exchange of goods for goods or for money, but not beyond the satisfaction of needs. Exchange in this case is used only to adjust natural inequalities in the distribution of goods. And third, trade--strongly characterized by the use of money and a desire to pursue monetary gain beyond the satisfaction of needs. He subdivides the third method of acquiring goods (trade) to: (a) the exchange of goods for money and money for goods, with a desire to make a profit, and (b) making a profit from dealing in money alone, ie., by charging interest. Both methods, argues Aristotle, are "unnatural" but method (a) retains some of the features of genuine exchange since actual commodities

do enter into transactions, and at least the money is used for its proper purpose, exchange, even if there is a desire for profit. Method (a) is therefore less contrary to nature than (b).

In his discussion of the art of liberty, Aristotle points to the debased forms of the art of acquisition by saying:

Others again exceed in respect of taking by taking anything and from any sources, e.g., those who ply sordid trades, pimps and all such people, and those who lend small sums and at high rates. For all of these take more than they ought and from wrong sources. What is common to them is evidently sordid love of gain, and little gain at that.¹²

Aristotle further argues that the acquisition of goods from the charging of interest is the most "unnatural" of all modes of business, since usury "makes a profit from currency itself instead of making it from the process which currency was meant to serve" (1258b).

Aristotle's disapproval of charging interest is based on the grounds that gain arises out of currency itself, not as a product of that for which currency was provided. Currency was intended to be a means of exchange, whereas interest represents an increase in the currency itself.

No doubt money-lending was, as Aristotle says, disliked; but it is worth noting that his own objections to it here are not directly social and humanitarian or even economic,

¹²Aristotle, Nicomachean Ethics (1121b-11221).

(contrary to the viewpoint of Islam and some other religions), rather, they are ideological and metaphysical.¹³

Private Property

Aristotle disapproves of Plato's ideal Republic in which the extreme form of unity or solidarity of the state requires the rulers to own property in common. He argues that Plato's view will result in the destruction of the state and should not be aimed for even if it were obtainable. His defense of private property is based on the argument that perfect unity runs counter to three principles--diversity, reciprocity, and self-sufficiency. The principle of diversity requires that a state be made up not only of so many men but of different kinds of men. This in turn initiates the principle of reciprocity, according to which the city is held together by the mutual give-and take of its citizens, each rendering an amount equivalent to what he receives. Moreover, the city must also aim at self-sufficiency, which makes life desirable and replete. This has been interpreted to mean that the city must have adequate material resources for the citizens to fully develop their personalities, without reliance upon

¹³However, if the state is (as Aristotle believes) natural, and money-lending unnatural, then the latter will presumably hinder the well-being of the former. To this extent, his objections to money-lending do indeed rest on social grounds.

outside sources.¹⁴ Self-sufficiency is inversely related to unity. An individual is all unity and least self-sufficient; the family has less unity and more self-sufficiency. This is still more true of the city. According to Aristotle, if self-sufficiency is desired, diversity is preferable to unity. In his book II of the Politics Aristotle defends private property over communal property on five grounds--progress, peace, pleasure, practice and philanthropy. Spiegel (1983:28) summarizes Aristotle's discussion on the superiority of private property as follows:

1. Private property is more highly productive than communal property and will thus make for progress. Goods that are owned by a large number of people receive little care. People are inclined to consider chiefly their own interest and the greatest interest and care are elicited when a person is applying himself to his own property.

2. Communal property is not conducive to social peace because people, when involved in a close partnership, face all sorts of difficulties. They will complain that they have contributed more work and obtained a smaller reward than others who have done little work and received a larger return.

3. Private property gives pleasure to the owner. Nature has implanted in him, as in all other human beings, the love of self, of money, and of property. This feeling is frustrated when all persons "call the same thing mine."

4. There is an appeal to practical experience. If communal property were such a good thing, it would surely have been instituted long ago. The experience of the ages testifies to the wide-spread use of private property.

¹⁴See Spiegel, The Growth of Economic Thought, (Durham: Duke University Press, 1983), 28.

5. Private property enables people to practice Benevolence and provides them with training in the practical virtues of temperance and liberality. Instead of compulsion, there is an opportunity for moral goodness to develop among the citizens if the property of each is made to serve the use of all.

.....
 People must have enough property to be able to practice both temperance and liberality, not only the former, as Plato taught in the Laws. Temperance without liberality tends to turn into miserliness, and liberality without temperance tends to turn into luxury.

Aristotle realizes the necessity of a theory of limit. But he opposes a limitation on the amount of private property an individual is allowed to hold. Instead he argues for limiting men's desires. To be self-regulating, any system with contending elements, economic or otherwise, requires an internal limit to prevent any one of the elements from overwhelming the others. Without an internal regulatory mechanism, it would logically be necessary for an external force to intervene to keep the system stable. Aristotle saw his oikos-oriented economy as stable precisely because of the natural limits placed on desire by the operation of diminishing utility, and this is why he opposed the "unlimited" or "unnecessary" form of exchange.¹⁵ Aristotle's emphasis upon the necessity of limitations may also be viewed

¹⁵See S. T. Lowry, "The Greek Heritage In Economic Thought," in Pre-Classical Economic Thought, (Boston:Kluwer Academic Publishers, 1986), 19.

as a rational response to the scarcity of resources.¹⁶ In the Rhetoric (1359b20-25), he commented that "men become richer not only by increasing their existing wealth but also by reducing their expenditures." In the Politics (1266b24), he remarked that "it is more necessary to equalize men's desire than their properties."¹⁷ The principle of limitation and moderation is indeed a central issue in the Aristotelian concept of virtue. The notion of mean or average assumes great importance in the Ethics along with the notion of justice. Aristotle refers to distributive justice as the sharing of wealth and honor in society which are distributed not equally but in proportion to the individual citizen's merit or worth. On the other hand corrective justice equalizes. This relates to the judge's correction of wrongs by means of reducing the gain of one party and the loss of the other.¹⁸

¹⁶W. Kern discusses modern applications of the Aristotelian solution of limiting wants as a response to scarcity. See his "Returning to the Aristotelian Paradigm: Daly and Schumacher." History of Political Economy 15:1983, 501-12. See also Lowery [1974a].

¹⁷It is the use of private property that is of highest moral significance to Aristotle, not its abolition or its equalization. In book II of the Politics Aristotle proposes a reliance on education in order to limit desire. People who are capable of receiving such training, should be taught to limit their desire for wealth. This reliance on education to increase individual moral and ethical values is also of central concern for Muslim Philosophers and scholars.

¹⁸For more in this subject see Book V of the Ethics which begins with an analysis of the principles of public and private distribution of assets. Aristotle (1133ab) extends his analysis of distributive justice to the problem of justice in a two-party transaction between a house builder and a shoemaker. For a summary analysis of the Aristotelian concept

Greek Economic thought After Aristotle

With the fall of the city-state and the decline of Greek social and political conditions, new ideas emerged that appealed to a broader spectrum, that of the whole humanity as opposed to the narrow confines of Plato's and Aristotle's city-state.

Later Greek and Roman philosophers, especially the Stoics and Epicureans, were concerned in part with a system of morality and the ways of life while speculating about the structure of the universe. They were not so much concerned with the citizens bound in narrow solidarity but to individuals unrestrained by such allegiance. The aristocratic outlook of Plato and Aristotle gave way to an appeal to the poor and dispossessed who would be little impressed by the praise of the aristocratic life. The appeal of new philosophies to the poor and dispossessed required a treatment of the economic problem quite different from that suggested by Plato and Aristotle who had faced the problem of scarcity in their own way: Plato by proposing strict regimentation, and Aristotle by elevating moderation to the status of a high virtue.¹⁹ Successors of Plato and Aristotle put a much stronger emphasis on restraining the demand for worldly goods, which, if accepted, would in a way resolve the economic problem and bring consolation and comfort to the

of justice see Spiegel (1983: 30-33).

¹⁹Spiegel, The Growth of Economic Thought, 1983, 34.

philosophers's new clients--the poor and dispossessed. Spiegel (1983:38) reports what Epicurus has suggested in a letter to his pupil: "If you wish to make a person wealthy, do not give him more money, but diminish his desire." Epicurus also holds that it is not desire that is unlimited, rather people's minds are captives of the erroneous notion that an unlimited quantity of goods is required to satisfy their wants.²⁰ Hence, he proposes to resolve the economic problem by reducing the demand for goods rather than by increasing their supply. However, Epicurus does not advise his followers to do with little under all circumstances, but to be satisfied with little if there is no plenty.²¹

In short the keys to happiness according to Epicureans were peace and safety. People should avoid any offensive display of wealth, withdraw from active participation in politics, lead a retired life and cultivate the pleasure of friendship. This simple mode of life would bring freedom from fear and want. Desires are divided into three kinds, natural and necessary, natural but not necessary, neither natural nor necessary. Only the necessary and natural desires deserve gratification. People were to attain happiness by careful weighing of the advantages and disadvantages of an action.

Later, the mystical aspects of Platonism were elaborated in various forms of Neoplatonism. This system of thought was

²⁰Ibid., 38.

²¹Ibid.

a revival and transformation of Platonic philosophy (in particular of its metaphysical and theological emphasis) started as a synthesis of Pythagoreanism, Platonism, Aristotelianism and Stoicism.²² It adopted Jewish and Oriental religious elements, crept into patristic Christian theology, and finally influenced medieval economic thought.

Christian Economic Thought

For Jesus of Nazareth (6 B.C.- 30 A.D.), the people of God are a pilgrim people. They are moving out of the Land. Jerusalem is a beginning rather than an end (Lk. 24:47). In accord with this conception, the people solve the economic problem as a byproduct of adherence to their pilgrim goal, "the Kingdom."²³

In the sayings of Jesus, no weight is attached to economic considerations because there is no need to care for production and material welfare in the Kingdom of God, whose coming is imminent. Hostility and disapproval of wealth and the search for wealth is presented in its most explicit form in the Sermon on the Mount. Jesus advises that the rational course is to avoid anxiety about consumption requirements.

Do not be anxious saying, "What shall we eat"? or "What shall we drink"? or "What shall we wear"? For the Gentiles seek all these things; and your heavenly Father knows that you need them all. But seek first his kingdom and his righteousness, and

²²Encyclopedia Britannica, 1986 ed. s.v. "Neo-Platonism".

²³Barry Gordon, 1986, 55.

all these things shall be yours as well. Therefore do not be anxious about tomorrow, for tomorrow will be anxious for itself. Let the day's own trouble be sufficient for the day (Mt. 6:31-34; see also, Lk. 12:29-31).

The wealthy young man who inquires about the path to perfection is told to sell his property and give the money to the poor (Matt. 19:21 and Luke 18:22). The poor and the hungry are blessed, but evil will fall on the rich man (Luke 16:19-31). Similar thought may be found in (Mark 10:23-31) where Jesus said: "How hard it is for the wealthy to enter the kingdom of God! It is easier for a camel to go through the eye of a needle than for a rich man to enter the Kingdom of God."

From the above passages it appears that the solution to economic problem through seeking the Kingdom of God involves trust in the Father, recognition of personal dependance, low present valuation of future needs, and rejection of one's own material welfare as the focal point of activity. Satisfaction of material needs comes as a byproduct.²⁴

However, with the passage of time, Christianity spread among different peoples and among different classes of society. The coming of the Kingdom of God gradually appeared less close at hand than it had to Jesus's original disciples. The life in this world had to be lived to accommodate the earthly career of the faithful with the social and economic institutions of their environment. Hence the economic thought

²⁴See Barry Gordon, Biblical and Early Judeo-Christian Thought:Genesis to Augustine, 1986, 56.

in the later Christian writings such as those of Paul of Tarsus and Clement of Alexandria are characterized by the expression of a very strong work ethic and opposition to the idea of the right to share in the output of the community for the voluntarily unemployed.²⁵ There is no special merit in being poor and no encouragement for embracing poverty for its own sake. In his sermon "Quis dives salveture?" (Who Is The Rich Man That May Be Saved?) Clement holds that if all were to renounce wealth, it would be impossible to practice the virtues of liberality and charity (an argument that is similar to one made by Aristotle). To Paul and Clement wealth is a gift of God, furnished to promote human welfare. It is a tool, and as such can be used rightly or wrongly. To foster the right use of wealth, a Christian possessing a surplus in terms of his needs, should be ready to use that surplus for the aid of those in need. These thoughts, especially the emphasis on the use of property as a criterion of its goodness, mark a doctrinal attitude that was to attain great prominence in medieval economic thought.

In short, some Christian Fathers denounced wealth as well as private property in strong terms while others moved toward a more rational explanation of economic conduct. For example Ambrose (339-397 A. D.) held the view that nature has given all goods in common to all men. Usurpation is responsible for private rights. Hence charity is not a gift

²⁵Ibid., 57. See also Spiegel 1983, 44.

but may be claimed as a matter of right. The poor receive what really is their own; the rich discharge a debt. Saint Jerome (342-420 A.D.) affirms that all wealth is the result of iniquity, and if one person gains, it means another has lost. The idea that there might be mutual gains from trade and exchange is ruled out. All riches are the result of exploitation. The obvious inference from such statements is that Christians must keep their market engagements to an absolute minimum if they seek salvation.

Of all the Fathers, Saint Augustine (354-430) is by far the most important in terms of the history of economic thought. With him the groundwork is laid for a fresh assessment of economic activity in Christian terms. Augustine suggests a new and more socially responsible role for the Christian church. Among his surviving works, the City of God is the most significant with respect to economic implications. As Spiegel (1983:45) points out, Augustine declared wealth to be a gift of God and a good, but neither the highest nor a great one. According to him, private property is responsible for various evils such as dissension, war and injustice. Those who can should abstain from it, but those who cannot should at least abstain from the love of property.

Although Augustine found much fault with wealth and private property, he did not ordinarily propose the abolition of this institution. He rejected the idea that it is impossible for a rich man to gain salvation, and that

disinvestment is a necessary condition of Christian living. In addition he approved of the activities of merchants and related the profits of merchants to compensation for expenditure of labor. Even further, he linked market evaluation of goods to subjective estimates of individual need.²⁶

As for usury, the matter was dealt with by the Church since the Gospels do not condemn charging of interest at market rates; on the contrary, the Parable of the Talents told by Christ seems to consider interest generated by deposits in banks not only a normal practice but even a commendable one (Matthew 25:14-30; Luke 19:11-27).

However, the justification for condemning the charging of interest was seen in the following words of Christ:

And if ye lend to them of whom you hope to receive, what thank have ye? For sinners also lend to sinners, to receive as much again. But love ye your enemies, and do good, and lend, expecting nothing in return; and your reward shall be great, and ye shall be the children of the highest; for he is kind to the ungrateful and to the selfish (Luke 6:34-5).

The First Council of Nicaea (A.D. 325) prohibited usury among the clergy;²⁷ and later, the Church obtained a ruling from Charlemagne (A.D. 742-814) stating that this prohibition be extended to laymen. It was only during the seventeenth century and under pressure for business exigencies, that

²⁶The City of God, XI, 16.

²⁷The New Schaff-Herzog Encyclopedia of Religious Knowledge, 22: 1910 ed., s.v. "Nicaea Councils"

economic activity was liberated from what was seen as obsolete limitations (Saleh, 1986:9).

Summary:

After tracing the evolution of ownership and usury, this chapter has examined biblical, Christian and Greek economic thought on these and other central economic issues. It was pointed out that even in Roman law, the classical domain of absolute ownership, restrictions on property rights existed and limitations were added to safeguard the interest of society.

Plato's general observation as to wealth is that it provides idleness. Thus, he favors communal over private property for the members of the ruling class. Aristotle disapproves of Plato's ideal city in which the extreme form of unity or solidarity of the state requires the rulers to own property in common. His defense of private property is based on the argument that perfect unity runs counter to principles of diversity, reciprocity, and self-sufficiency.

Hostility towards wealth is presented in the sayings of Jesus. However, economic thought in later Christian writings is characterized by the expression of a work ethic and appears less hostile to the pursuit of wealth and economic activity.

As for usury, written history tells us that it was forbidden by the code of Hammurabi (1750 B.C.). It was also disapproved of and disliked by Greek philosophers. Aristotle

in particular disapproved of the charging of interest and regarded it as the most unnatural mode of acquiring wealth. Religious law also prohibited Jews from charging their co-religionists interest. In Christianity, the matter of usury was dealt with by the Church, since the Gospels do not always condemn the charging of interest at market rates.

Regardless of the general condemnation of usury and distaste for wealth, expressed in Judeo-Christian writings and apparent in Greek economic thought, one may note some differences between the economic teachings of Jesus and those of the earlier Hebrew prophets as well as between the teachings of religious scriptures and those of the Greek philosophers. For example, the Gospels seem to be more revolutionary than the books of the prophets. Their basis is more universal and their goal is a complete change of society, rather than the elimination of individual abuses.

We have already seen that the economic doctrines of Plato and, to some extent, Aristotle, derived from an aristocratic dislike of the growth of commercialism and democracy. Their attack upon the evils of the pursuit of wealth was reactionary; that of Christ, revolutionary. Plato dreamed of an ideal state designed to ensure the "good life" for the free citizens only and within the boundaries of the existing city state; the messengers of God claim to speak to, and for, all men. Plato and Aristotle justified slavery; religious teaching of the brotherhood of man and of universal love is

incompatible with the institution of slavery. The Greek philosophers, concerned only with the citizens, held very rigid views of the varying worthiness of different kinds of labor; and they regarded the menial occupations, with the exception of agriculture, as fit only for slaves. Christ, addressing himself to the laborers of his time, proclaimed the worth both in a material and spiritual sense of all work.

Both Plato and Aristotle based their discussion of division of labor on the belief of human inequality and class differences. Religious scriptures call for human equality and universal brotherhood. Aristotle's objection to money-lending was primarily based on his ideological and metaphysical beliefs. Religious prohibition of interest has a social and humanitarian basis. It reflects the broader principle that loans which are necessary apart from the interest factor shall be made without interest. The particular expression of this principle, morally required by the twin concepts of human dignity and man's dependence on man, is that loans to alleviate distress of the needy or to facilitate basic agricultural processes, shall be made interest-free. This, of course is not the logic by which Greek philosophers disapproved of usury.

CHAPTER II

ISLAMIC ECONOMIC PRINCIPLES

Islam is characterized by a cosmic view of the world and human destiny in which there is no separation between spiritual and temporal domains, or between religion and secular practices. The Islamic paradigm of economic relations is based on injunctions and norms derived from the Quran and Sunnah¹ called the shari'a.² The shari'a specifies rules that relate to the allocation of resources, property rights,

¹Sunnat (a well-trodden path) is the totality of the "traditions"--the example of the prophet--his words and deeds as recorded in compilations known as hadith. Hadith provides the written documentation of the Prophet's word and deeds. Six of these collections, compiled in the third/ninth century, came to be regarded as especially authoritative by the largest group in Islam, the Sunni. Another large group, the Shi'a, has its own hadith. It is agreed that the words and deeds of the prophet possess normative value for Muslims, who follow Muhammad and carry out his instructions. The Sunnat, combined with the Quran, constitutes the shari'a, the "pathway par excellence," a body of norms which is both legally and morally binding on Muslims. See Encyclopedia Britannica, 1986 ed. s.v. "Muhammad and the Religion of Islam." For controversies over Sunnat see F. Rahman, Islam (New York: Holt, Rinehart and Winston, 1975), chap. 3.

²Islamic doctrine, law, and thinking in general are based upon four sources, or fundamental principles (usul): (1) the Koran, (2) the Sunnat (tradition), (3) ijma (consensus), and (4) ijtihad (individual thought). Most of the socioeconomic prescriptions of the Muslim religion are codified in the Koran and the Sunnat.

production and consumption, the working of markets, and the distribution of income and wealth.

The purpose of this chapter is to discuss the principles of Islamic political economy and describe Islam's view on economic relations and activities,³ particularly on private property and the acquisition of wealth by way of trade, money-lending, etc. Certain key issues and ideological concepts, such as the nature of man and his relation to God, the Islamic world view and God's sovereignty--the foundation for Islamic political economy, are also discussed. How Islamic injunctions relate to ownership of natural resources and other forms of property is explained. The discussion in this chapter, relying primarily upon verses from the Quran and hadith quotations, provides ideological and legal justification for the socioeconomic views of Islamic scholars, the subject of the next chapter.

Quran: The First Islamic Work on Economic Ethics:

The Quran (literally, reading or recitation) is regarded as the word of God conveyed to the Prophet Muhammad. Divided

³One use of the term "economics" should be taken as economic activity rather than theory. To emphasize the point, one must clearly distinguish between the application of certain injunctions to purely economic activities and economic theory per se which seeks to explain the system and predicts the outcome of various actions. Discussions in this chapter are in fact restatements of Islamic injunctions regarding ownership and the laws of shi'a fiqh regarding economic activities such as trade, ownership, profit making, etc.

into one hundred and fourteen suras (chapters) of unequal length, it is the fundamental source of Islamic teaching. The suras revealed at Mecca during the earliest part of Muhammad's career are concerned with ethical and spiritual teachings and the Day of Judgment. The suras revealed at Medina at a later period in the career of the prophet are concerned with socioeconomic legislation and the politico-moral principles for constituting and ordering the community.

The Quran, the word of God, is therefore a fundamental and irrefutable authority for Muslims. Although not a treatise in political economy, the Quran might be considered the first Islamic work on economic ethics. Within its passages one can find evaluations of economic institutions and the foundation of socioeconomic relations. For Muslims, the Quran is also the fundamental, conceptual reference for any thought about a communal way of life, both culturally and socially.

Since Islam sprang from a mercantile society, and the prophet himself engaged in commercial exchange, production for market and trade were pictured in the Quran as noble practices and merchants were favorably portrayed. Mention is made of bargaining, selling, buying, reward, lending, weight, and measure throughout many verses in the Quran⁴. Although the Quran lauds the honest merchant, it condemns the degrader.

⁴English translation of the Quranic verses concerning socioeconomic issues are given later in this chapter in discussions of specific subjects.

Indeed, no action is more illicit, more reprehensible, and more vigorously condemned than one which is based on an unjust exchange.

Muhammad: The Prophet and Social Reformer

Seventh-century Arabian society was plagued by numerous socioeconomic problems involving such issues as credit, inheritance, taxation, income distribution, and interpersonal trust. Muhammad, the founder of Islam, was a successful merchant who then became a statesman and administrator. The scores of socioeconomic precepts in the Quran, which the Prophet uttered over a period of twenty-two years, address the problems that he and his community grappled with.

As noted by Max Weber, for someone with a unitarian vision of the universe "where social and cosmic events have a unitarian ordained, and systemized end in view, human conduct must be directed accordingly and be modelled in terms of that ideal in order to assure salvation."⁵ The Prophet Muhammad, who found widespread inequality and oppression in the society in which he had grown up, sought to establish order and harmony within which a distinct standard of justice would be acknowledged. As a Prophet, he naturally stressed religious values, but he was also a social reformer, and his decisions

⁵Max Weber, Economie et societe (Paris: Plon, 1975), 464. cited by Essid, 1986, 81.

provided precedents on the strength of which the issues that were to arise in succeeding generations were resolved. The idea of justice (social or distributive justice, ethical justice, political justice, or legal justice) was of particular interest to him. Based on Quranic revelation he warned against unjust acts and practices, and dealt with the problems of his day with uprightness, balance, and fairness. As he said in one of his often quoted utterances, his call was not to abolish but to "further the good morals"⁶

Human talent and potential, the most valuable natural resources, burgeon only in an intellectually free atmosphere where they can be put into actual practice. Acknowledging freedom as the first principle of Divine creation, Muhammad puts forward the argument that no one's freedom of action and work should be violated as long as it is exercised within the boundaries of Divine law⁷. This freedom is both social and economic.

Muhammad emphasized a just and natural solution to the socioeconomic problems he faced. Members of the community can benefit from mental gifts and natural resources and continue to have access to land resources and the necessities of life as long as they are not violating the rights of others. They can own and enjoy the results of their labor as long as money

⁶See Talegani, 1986.

⁷See Talegani, Islam and Ownership, 1983, 113.

does not become the means for attracting wealth or power, or for subjugating others.⁸

From Muhammad's point of view, the natural regulation of the market corresponds to cosmic regulation. Prices rise and fall as night follows day. Imposing a price is not only an injustice to the merchant, but results in a disordered state rather than the natural order of things.⁹ The prophet's attitude as reported in a hadith, did not encourage price regulation and controls. When some buyers, during a period of high prices, asked the Prophet to set a price (in their favor), his answer was, "It is God who holds, gives, feeds, and sets prices and I also would like to face my lord and no one would complain that I encroached upon his blood or money."¹⁰ The issue of naturalness of the market was discussed in greater detail in the hisba handbooks¹¹--and disagreement over the question caused the emergence of different schools of law.

⁸Ibid., 92.

⁹Essid, M. Y. "Islamic Economic Thought," in Pre-Classical Economic Thought, ed. S. T. Lowry (Boston: Kluwer Academic Publishers, 1987), 81.

¹⁰Ibid., 80.

¹¹hisba handbooks are manuals written by Muslim jurists and theologians during early centuries of Islam. In the beginning, the hisba literature was merely a collection of juridical advice and opinion on questions of public morality and market behavior. Later, the handbooks indicated the variety and scope of the responsibilities of the market officials. More on this subject is discussed below.

The Prophet himself played a leading role in matters of interpretation and implementation. In this connection, he determined the scope of zakat (wealth tax) and distinguished between just and unjust market practices. On both counts the record indicates that he took a pragmatic approach.¹²

In the following pages we will discuss in more detail Islam's view on ownership, money and interest, profit, and economic activities based on the ideological foundations of Islam.

THE NATURE OF MAN AND HIS RELATION TO GOD:

AN ISLAMIC WORLD VIEW

Islam attests to the fact that the source of social and economic phenomena is human. Socioeconomic conditions are therefore derived from the actions of individuals in society. Accordingly, actions and behaviors are manifestations of human morality, and outward appearances cannot be separated from conscience and the inner self.

The focus of attention in Islam, and in its philosophical and ideological concepts of economic behavior, is the "individual" who is looked upon as "God's vicegerent on earth" and "God's trustee on earth." According to the Islamic world view, God is the real owner and dispenser of all that is in the heavens and in the earth. God, by making man His steward

¹²For more on this matter see N. Aghnides, Muhammedan Theories of Finance, (Lahore: Premier Book House, 1961), 236-9.

on earth, has placed the resources of the earth in the hands of man. Hence, all the resources drawn from our environment are for the benefit of all men. Man is accountable directly to his creator for his deeds as well as responsible for his actions and duties in society. Islam reveals, in its humanism, the concept of a free, independent, noble essence--one that is as fully attuned to earthly reality as it is divine and idealistic. Man is free to be good or to be evil, to resemble mud or to resemble God. According to Talegani (1983:81) any theory or law which does not rely upon morality lacks stability and permanence and will not be practiced as it ought to be. He goes on to explain that, ideas, morality, instincts, and intrinsic (fetri) tendencies comprise the human character. The nature of social, economic, and class relations reflects the combination of these aspects of the human self.

Human characters in general, argues Talegani (1983:72), have two aspects: the first includes constant principles which are peculiar to man. If these principles are taken away from man, he will become an entity different from that which he originally was meant to be. These principles are common to all people regardless of space and time. Scientific curiosity for truth (understanding cause and effect); practical curiosity for justice (establishing justice and helping a claimant to gain his rights); seeking perfection (progress in science and securing power and survival); benevolence

(kindness, care, and sacrifice); and love of wealth (securing pleasures, fulfilling appetites, or lusting for power), are all examples of constant principles of human character.

The other aspect of the human self includes the inconstant principles. Human emotions result from the combination of these principles and natural powers, by the dominance of one type over the other. This process of interaction changes, depending upon social, economic, and hereditary conditions. Whether the constant human principles dominate the environment or the environment dominates man, the root of social structure and historical change lies in man himself.¹³ Indeed, the dynamic force in history comes from conflict between the constant principle, and the rebellious human soul influenced by social conditions, pleasures, animal appetites, needs, and the environment.

The path to survival and perfection is to strike a balance between opposing human elements--the impulse to sacrifice and the impulse to appetite (derived from passions and needs and the source of self-centeredness), in such a way that one does not dominate the other.

¹³This is in reference to Ibn Khaldun's views discussed in Mogaddamah. He concludes that the most important causes for the emergence of civilization and governments are mental, moral, and physical forces, and the decline of civilization is caused by their deterioration. See Ibn Khaldun, An Introduction to History, 3 vols. Trans. by F. Rosenthal, (London: Routeledge & Kegan Paul, 1958).

The Principle of Tawheed and Brotherhood

The first pillar of Islam, the oneness of God, acknowledges the absolute power and perfection of God. Only such a conviction can transform a society from self-centeredness to thinking about self-perfection.¹⁴ Islamic economics in turn is motivated by this cardinal principle--the principle of Tawheed and brotherhood. Tawheed literally means "unit." In the economic context it summarizes the crux of the entire essence of Islamic economics in that it teaches man how to relate and deal with other men in the light of his relationship with God. It says that behind the workings of an economy based on market exchange, the allocation of resources, the maximization of utility and profits, is a more fundamental truth--that of social justice.¹⁵ In Islam the capacity to understand and dispense this social justice emanates from the knowledge and practice of the principles of the Quran. In this way the principle of Tawheed and Brotherhood links our duty to men with our duty to God. In more practical terms the essence of Tawheed and Brotherhood lies in equality and co-operation. The Quran (50:1) says: "O mankind! be mindful of your duties to your Lord who created you from a single soul and from it created its mate and from them twain has spread abroad a multitude of men and women." An immediate corollary

¹⁴See Taleghani, Islam and Ownership, 1983, chap. IV.

¹⁵M. A. Choudhury, Contribution to Islamic Economic Theory, (London: Macmillan Press Ltd. 1986), 8.

of the principle of Tawheed and Brotherhood is the predominant note of Islamic economics, that to God alone belongs whatever is in the heavens and in the earth, and that He has made the good things for the service of man (Quran, 55:9). Man has been created as the vicegerent of God on earth entrusted with the just use and distribution of His resources (Quran, 2:30-31). This results in the belief that man is responsible before God and the masses; earthly resources do not belong to any one group or class. However, man with his intellectual ability and creativity, may possess and use them. No one has the right to stop others from doing so or to transgress on what already has been obtained by labor and creativity. Verses of the Quran have declared explicitly God's absolute right to ownership, possession, subjugation (taskir), transfer (ja'l), as well as man's right to utilize resources. The Quran offers the following viewpoints:

And hath made of service unto you whatsoever is in the heavens and whatsoever is in the earth; it is all from Him (45:13)

Who has appointed the earth a resting place for you. (2:22)

And the earth hath he appointed for (His) creatures. (55:10)

THE DAY OF JUDGEMENT

The second ideological pillar of Islam, belief in a Judgement Day, is based on intrinsic impulses and emotional desires. By presenting psychic and natural proofs, Islam tries to broaden man's vision and prepare him for a higher

life. The material life, in this view, does not constitute the eternal life of man. The surface of the earth is a cradle for improvement and training for man's potential, through which he will elevate himself. Therefore, earth is the ship of voyagers and the inn of newcomers allowing each one to attain, based on his potential and actions, provisions from this bounty of material and spiritual endowments for a higher life.¹⁶ Gratitude for all these blessings is to know the owner of this house and to implement His covenant.¹⁷ In accordance with this covenant, anyone may produce and utilize natural resources justly according to his needs and ability. In this broad view, material wealth, production, and distribution do not limit man's potential, intellect, and thinking. Rather they are means of climbing to the next world. Shifting attention from conflicting and limited desires to higher human ideals can bring about a unification of ideals and practices. This way fellow travelers can cooperate and attain provisions together. J. Norbakhsh

¹⁶This view is very similar to that of Augustine, where he advises: "use the world, let not the world hold you captive. You are passing on the journey you have begun; you have come, again to depart, not to abide. You are passing on your journey, and this life is but a wayside inn. Use money as the traveller at an inn uses table, cup, pitcher, and couch, with the purpose not of remaining, but of leaving them behind." In Joann. Evangel., 40:10, cited by Barry Gordon, "Biblical and Early Judo-Christian Thought: Genesis to Augustine." Pre-Classical Economic Thought, ed. S. T. Lowery (Boston: Kluwer Academic Publishers, 1987), 62.

¹⁷Reference is to the Koran. It is believed that the Koran is a covenant between man and his creator.

(1981:12) reports that the Prophet Muhammad has said: "The best people are those who are most useful to others" and "None among you has faith until he desires for his fellow Muslims what he desires for himself."¹⁸

ISLAM'S VIEW ON OWNERSHIP

An economic system constructed on the basis of an Islamic world-view may take on two dimensions: (1) moral or spiritual, and (2) material or secular.¹⁹ On the surface these two dimensions appear to be in conflict, but must co-exist at all times during allocation of resources, and production and distribution of goods. Ideally, the moral dimension should take precedence over the material dimension when a choice between the two becomes necessary. The principal issue in such an economy revolves around the manner that natural resources are initially distributed among individuals and productive units. It involves the concept of ownership and a system that guarantees just distribution of resources among producers.

It should be mentioned that the term "property" in Islamic writings, does not simply mean some tangible thing to be possessed and passed on to the next generation. It is the

¹⁸J. Nurbakhsh, Tradition of Prophet (New York: Khanighah Nimatullahi, 1981), 12, cites from Jameh Saghir, 2:11 & 203.

¹⁹See the introduction to Taleghani's Islam and Ownership by Ahmad Jabbar, 1986, xvii.

totality of rights based in human relationships and man's spiritual bond with God.

Given Islam's view of man and its concept of the Day of Judgment, the following argument and basic principles are deduced from verses of the Quran and the hadith.

1. The Quran has nothing against private property since it lays down rules for inheritance, for example. It even advises that inequalities not be challenged: "Do not covet what Allah hath bestowed in bounty upon one more than another" (4:36). But in pointing out and denouncing the habitual impiety of rich men (34:33/34), the Quran stresses the uselessness of wealth in the face of God's judgment and the temptation to neglect religion that wealth brings (8:28 & 16:73).

2. The sunnah or tradition, also does not challenge private property.²⁰ Whatever is owned is restricted by the prohibition of usury and the legal obligation to give alms.

3. Ownership is relative and limited. Ownership means the authority and power of possession. As human power and authority are limited, no person should consider himself the absolute owner and complete possessor. Absolute power and complete possession belong only to God who has created man and

²⁰ According to tradition, property may exist in undivided form within a family, as well as being private in the strict sense. There are by custom in Islamic countries some lands belonging in common to a tribe or a village, which, though not recognized as such by religious law, are nevertheless under its protection. Rodinson, Islam and Capitalism, 15.

all other creatures and has them constantly in his possession. Man's ownership then is limited to whatever God has willed and to the capacity of his intellect, authority, and the freedom granted him.²¹

"Say; O Allah! owner of sovereignty! thou givest sovereignty to whom thou wilt, and thou withdrawest sovereignty from whom thou wilt" (3:26).

There are other verses in the Quran which explicitly acknowledge that the earth and its resources belong to God. It is He who has made them subservient to man. Man, in this position, is his vicegerent (Khalifa) on earth:

"And the earth hath He appointed for (His) creatures" (55:10);

"Who hath appointed the earth a resting place for you" (2:22);

"Allah hath made all that is on the earth subservient unto you" (22:65);

"Then We appointed you viceroys on the earth" (10:14);

"He it is Who hath made you regents on the earth" (35:39)

²¹The right to ownership is also limited by certain considerations such as the right of everyone to life. A man dying of hunger is justified in taking (by force, if he can do this in no other way) the minimum of food he needs to keep him alive, at the expense of the "legitimate" owner. According to Shi'ites, refusal to give food to a starving man amounts in effect to complicity in the killing of a Muslim. See Abul-Qasim Jaffar ibn Muhammad al-Hillie, Sharai-al-Islam (Calcutta, 1839), 407.

These and other similar verses explain the vicegerency (khalifat) of man on earth so that the vicegerents may follow the command and will of the owner.

"And spend of that unto which He hath made you trustees" (57:7);

"And bestow upon them of the wealth of God which He hath bestowed upon you" (24:33);

"And We help you with wealth and sons" (71:12);

"And ye have left behind you all that We bestowed upon you" (6:94);

These verses explicitly point out that the absolute owner is God alone. It is He who has, within the capacities of his vicegerent, granted (gifted) the right of ownership, and extended the right of transfer (transferring the right of possession). Furthermore, the Quran explicitly designates ownership of the earth as that of God. "And Allah's earth is spacious" (39:10); "So let her feed on Allah's earth" (7:73 & 11:64).

Based on this principle (relative and limited ownership) which is derived from the Quranic text, man is neither the absolute owner nor the total possessor of the earth and its resources. He does not have the right to possess as much as he desires or to obtain material wealth in any way he may choose. Since vicegerency belongs to all people, each individual is a guardian of the public trust. Therefore his ownership should be limited for public welfare. Ownership, in this analogy is limited, borrowed, conditional, and entrusted. From this basic principle of limited and relative private

ownership the following basic injunctions about ownership are deduced:

1. Land and natural resources are not the specific property of anyone (neither individual nor society). Only the guardian of Muslims (the Imam and the people of authority) committed to public welfare have supervision over the earth and its resources (reflecting the principle of permissibility and nonpermissibility of private ownership except in special conditions and situations).

2. People have a special and limited right to possession of land and natural resources as long as they put them to fruitful and productive use. They also have limited ownership over production and goods.

3. Islamic jurisprudence provides specific definitions and conditions for formalizing ownership and the activities leading to it.

4. Individuals and special groups must not have possession or title over natural resources (anfal and fay). Furthermore, no one should be stopped from utilizing them by imposition of special conditions.

5. Money and currency, which are means of exchange and standards of value, must not be accumulated by selected individuals. When such a thing happens these individuals become powerful, and the necessary resources and means of living are concentrated in their hands; the normal and just conditions of work and distribution become disrupted.

6. In accordance with Islamic principles and injunctions, when a person's liquid assets and wealth reach a certain level or increase within a certain time they are subject to two systems of taxes (zakat and khoms).

7. Based on the principle of public welfare, the Islamic guardian (Imam, men of authority or deputies) has the right to possess wealth and levy a tax (kharaj) on the lands and natural resources.

8. Profits and wealth earned by illegal means (usury, gambling, and lottery) or wealth obtained from the transaction of harmful goods do not constitute ownership.

9. Children and insane persons have no right to possess their own wealth.

10. Islam forbids expenditures which are useless and harmful to individuals and to society; this serves to stop the amassing of unlimited and unlawful wealth.

As was mentioned earlier, the main sources for Islamic injunctions are the Quran and the Sunnah. Two other sources which are also used as bases for injunctions are reason (aq̄l) and custom (urf). Following are more examples from these sources:

"And consume not wastefully your property among yourselves in vanity" (Quran, 2:188);

"That it become not a commodity between the rich among you" (Quran, 59:7)

"Give not unto the foolish (what is in) your (keeping of their) wealth which Allah had given you to maintain" (Quran, 4:5)

"Necessity removes the objective observance of caution" (either a tradition or a rational or customary principle)

"The believers honor their contracts unless they follow what is forbidden (haram) and forbid what is allowed (halal)" (tradition)

THE QURANIC DOCTRINE OF RIBA

At the time of Muhammad's call (610 A.D.), the city of Mecca was involved in business and trade to no less an extent than its prosperous counterparts of the West and the East. Meccans had a real infatuation with such activities, which they performed vigorously. They imported, exported and facilitated the transit of goods, but had one fear: devouring their capital (akl al-amwal),²² which meant spending from idle principal and not from the profits generated by such principal. As Saleh (1986:10) reports, because such businessmen were not prepared to leave their capital unproductive while awaiting the departure or arrival of caravans, they involved themselves in loans for interest, speculations and aleatory transactions.

Against this background, which left little place for humanitarian propensities, came the Quran's complete and absolute prohibition of usurious trades. The Quran contains passages which have been extensively referred to, as seen

²²N. A. Saleh, Unlawful Gain and Legitimate Profit in Islamic Law (Cambridge: Cambridge University Press, 1986), 10, cites H. Lammens, La Mecque a La Veille de L'Hegire (Beirut, 1975), 27.

later, condemning a practice called riba in Arabic. What riba was, is not exactly known. Interpretations given to the word have been extremely varied. Strictly, the word means "increase." In general, riba was taken to mean any advantage occurring to one of the contracting parties in the sale or barter of precious metals or foodstuffs. Subsequently, the definition of riba was made more precise through a complex process of logical deductions and external influences, the course and the motives of which are not well understood.²³

Most of the Islamic laws and prohibitions regarding secular transactions and human relationships were revealed during the Medinan period, but the Meccan Period was not devoid of secular prescription either, for example, the prohibition of hoarding wealth, (Quran; 4:1-4) and the seed of many such prescriptions sprouted in Mecca before finding full expression in Medina, specifically the gradual prohibition of dealing in riba.²⁴ The first verses concerning the dealing in riba were revealed in Mecca by mere moral exhortation--the straightforward condemnation came later in Medina (Saleh, 1986:2).

²³Sunnat and ijma considerably enlarged the extent of this interdiction.

²⁴Riba is usually translated as "interest" or "usurious interest," In fact, it has a much wider meaning. For detailed discussion regarding the scope of riba, see Saleh, Unlawful Gain, 13.

Western scholars have expressed varied opinions regarding the Quranic prohibition of interest. P. Hitti, a contemporary historian has argued that:

The ordinance against usury was, evidently, directed against Medinan Jews, at a time when Muhammad surely needed financial support while they insisted on charging interest.²⁵

And J. Schacht suggests that: "The Muslim prohibition of riba owes less to conditions in Mecca than to the prophet's closer acquaintance with Jewish doctrine and practice in Medina."²⁶ Despite the viewpoint of above mentioned scholars, Islamic writers do not think that the Quranic prohibition was directed against any particular people, nor was it modelled blindly upon an already existing religious rule. The prohibition of riba was not aimed at the Jews, particularly since, dissatisfaction with riba first occurred while the prophet was still in Mecca (Quran, 30:39), where Jews were few and had no continuous business. Another reason is that, similar to the Jews of Medina, which after all was more of an agricultural settlement than a commercial center, the Meccans were dealing with usury in their city, which was entirely devoted to commerce.²⁷

²⁵P. Hitti, Islam, A Way of Life, (London: Oxford University Press, 1970), 23.

²⁶Encyclopedia of Islam, 1930 ed., s.v. "riba."

²⁷J. Schacht, The Origins of Muhammadian Jurisprudence, (Oxford: Clarendon Press, 1979), 251.

Saleh (1986:11) identifies the fact that the Quranic prohibition of riba does not appear to be a simple replication of the Jewish doctrine, for it is much wider than the prohibition expressed by the latter, and applies basically to trading both with Muslims and non-Muslims. Besides, it cannot be said that the Prophet was hostile to commerce, because he himself was a businessman and some of his most eminent followers were merchants. Indeed, the Quran was very much concerned with differentiating between riba, and lawful commercial transactions, as shown by the verse: "But God hath permitted sale and forbidden usury" (2:275).

Considering the above deliberation, scholars view the reason for the prohibition of riba as neither a political retaliation, nor a simple replication of a tenet held by another religion, nor as the result of a distaste for commerce, but as the outcome of a noble wish to grant protection to the weak against exploitation. At the same time investors and laborers were encouraged to combine their resources in joint ventures such as Muzarebeh partnerships,²⁸ well-known to the prophet himself²⁹--instead of lending money for profit, which was often considered ruinous for the

²⁸Muzarebeh partnership will be discussed later in this chapter.

²⁹It is reported that the prophet entered more than once into Muzarabeh agreements where he acted as the agent-manager. See Saleh, Unlawful Gain, 11.

borrower, immoral for the lender and therefore unlawful under Shari'a teachings.

An examination of the verses of the Quran on usury shows that its prohibition was not abrupt and sudden. The definite prohibition of usury came only after Islam prepared the people and warned them against its damaging and harmful effects. In short, the prohibition of riba first came into being during the Meccan period but was not plainly stated until the Medinan period, when the Islamic community flourished. Although this prohibition may well be in line with the teachings and tenets of other religions, or with ideas put forward by ancient Greek philosophers, its motivation is more likely to be found in an elevated moral sphere, as with the Quranic economic doctrine which introduced, among other principles, the rightful claim of beggars and the destitute to a share in the wealth of the rich (S. 70:24) and the protection of the weak and needy (S. 2:177; S. 4:127), as well as fairness and honesty in commerce (S. 17:35; S. 6:152; S. 26:181-183).

Whatever the reason for an extensive and wide ranging interpretation of the Quranic prohibition of riba, this interpretation has been followed for centuries by the consensus (ijma) of Muslims and has thus become a binding rule of law.³⁰

³⁰The reality of this consensus is denied by few Muslim scholars, Ibid., 26-7 & 30.

The consensus, however, is over the broad interpretation of the prohibition and does not mean that the Islamic schools of law share the same view on riba. On the contrary each school, and practically every scholar has an individual view.³¹ This has made the riba issue one of the most debated in Islamic jurisprudence.

Direct Quranic references to riba are found in four Suras. The first Sura was revealed in Mecca and the remaining three in Medina. The relevant verses form, in Muslim scholars' view, an ascending scale which starts with a mere judgment of value, followed by an implicit prohibition, then a limited one and finally a total and conclusive prohibition. Mention of riba in the Meccan Sura is, in translation, as follows:

S. 30:39 That which ye provide with the prospect of an increase through the property of [other] people, will have no increase with God; but that which ye provide for charity, seeking the countenance of God, [will increase]:it is these who will get a recompense multiplied.

Mention of riba in three Medinan Suras is as follows:

S. 15:161 That they took usury, though they were forbidden; and that they devoured men's substance wrongfully, we have prepared for those among them who reject faith a grievous punishment.

S. 3:130 O ye who believe! devour not usury, doubled and multiplied; but fear God; that ye may [really] prosper.

³¹A detailed discussion of these controversies is beyond the scope of this research. The interested reader can refer to N. A. Saleh Unlawful Gain, chaps. 4 & 5.

- S. 2:275 Those who devour usury will not stand except as stands one whom The Evil One by his touch hath driven to madness. That is because they Say: "Sale is like usury," but God hath permitted sale and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for God [to judge]. But those who repeat [the offence] are Companions of the Fire: they will abide therein [for ever].
- S. 2:276 God will deprive usury of all blessing, but will give increase for deeds of charity: for he loves not creatures ungrateful and wicked.
- S. 2:278 O ye who believe! Fear God, and give up what remains of your demand for usury, if ye are indeed believers.
- S.2.279 If ye do not respond, expect war from God and His Messenger: but if ye repent, ye shall have your capital sums: deal not unjustly, and ye shall not be dealt with unjustly.

From the plain meaning of the passages concerned, one realizes that the Quran has tried to get Muslims to prefer paying the zakat (alms for the needy distributed through the welfare funds), to making more profane, but more profitable use of their resources, by lending at interest.³²

Given the above verses of the Quran, abolition of riba has become the main concern for Islamic monetary policy. Rules and requirements have been specified that define the framework within which the monetary and banking system can operate. The core of this framework is that, as a mechanism

³²See Encyclopedia of Islam, 1930 ed., s.v. "riba," by J. Schacht. Also see W. M. Watt, Muhammad at Medina (Oxford: Clarendon Press, 1956), 296-8.

for allocating financial resources, the rate of interest is replaced with the rate of return on real activities. To this end, a variety of methods and instruments, based on risk and profit-sharing, are suggested to satisfy the requirements of such a system.

The law prohibiting interest may be further clarified by considering Islam's position on individual property rights and obligations and its concept of economic justice. Islam recognizes two types of individual claims to property: (a) property that is a result of the combination of individuals' creative labor and natural resources, and (b) property whose title has been transferred by its owner as a result of exchange, remittance of rights of others in the owner's property, outright beneficent grants by the owner to those in need, and finally, inheritance. Money represents the claim of its owner to property rights created by assets obtained through either (a) or (b). Lending money, in effect, is a transfer of this right, and all that can be claimed in return is its equivalent and not more. Funds lent are used either productively, in that they create additional wealth, or unproductively, in that they do not lead to incremental wealth by the borrower. In the first case, when funds are used in combination with the labor of the entrepreneur to create additional wealth, the lender may bargain for a portion of this incremental wealth but not for a fixed return,

irrespective of the outcome of the enterprise.³³ In the second case, since no additional wealth, property, or asset is created by the borrower, the money lent--even if it is legitimately acquired--cannot claim any additional property rights, since none are created.

In the Islamic profit-sharing arrangement, profit is shared between the agent-entrepreneur and the owner of financial capital based on a predetermined share parameter, the financial loss is borne only by the owners of the funds and not the entrepreneur. Since human capital (as representative of present work and effort) in this arrangement shares equal status with financial capital (as representative of monetized past labor and work), the agent-entrepreneur loses his time, effort, and labor, but nothing more.

PERMISSIBLE FORMS OF TRANSACTIONS

In disallowing interest and permitting profits, the Shari'a has developed two specific forms of business arrangements, Mozarebeh and Musharika, as means of earning profit without charging interest. In Mozarebeh, one party provides the necessary financial capital, and the other

³³This property right explanation of the prohibition of interest also helps to clarify not only the emphasis which the Koran places on the injustice of interest but also on exhortations to Muslims to provide interest-free loans to the needy (Qarz al Hasanah), for which the Koran promises manifold returns from Allah. The Koran suggests that such loans are made to Allah, and it is He who will guarantee manifold returns to the lender.

supplies the human capital needed for successful performance of the economic activity undertaken. Traditionally, Mozarebeh has been applied to commercial activities of short duration. Musharika, on the other hand, is a form of business arrangement in which a number of partners pool their financial capital to undertake a commercial-industrial enterprise. Musharika is applicable to production or commercial activities of longer duration. These profit-sharing arrangements are applied either to the whole enterprise; where each partner takes an equity position, or to a particular line of activity within an enterprise; that is to say, they can have either whole-firm or project-specific orientation. Mozarebeh and Musharika, primarily partnership arrangements in the commercial- industrial sector of the economy, have their counterparts in farming (called Mozaraah and in orchard keeping called Musagat) where the harvest is shared between and among the partners based on a pre-specified percentage of profit sharing.

Recognizing that partnership may not be applicable in all circumstances, the Shari'a has specified other modes of permissible transactions. These interest free transactions cover a broad spectrum of maturities and apply to a variety of economic activities. In short, Islam permits freedom of contract, assuming that the terms of the contract are not in violation of the precepts of the shari'a. In particular, it permits any arrangement based on the consent of the parties

involved so long as the shares of each are contingent upon uncertain gains. This aspect of the arrangement is crucial, since the shari'a condemns even a guarantee by the working partner to restore the invested capital intact, not only because it removes the element of uncertainty needed to legitimize the agreed distribution of possible profits, but also because the lender will not be remunerated to the extent of the productivity of his financial capital in the resulting profit.

THE PRINCIPLE OF WORK AND PRODUCTIVITY

Islam's View on Commercial Activity and Profit:

The Quran looks favorably upon commercial activity and profit making. But it condemns fraudulent practices, and requires abstention from trade during certain religious festivals.³⁴ The Quran not only says that one must not forget his portion of this world (28:77), it also says that it is proper to combine the practice of religion and material life, carry on trade even during pilgrimages, and goes so far as to mention commercial profit under the name of "God's Bounty" (2:193-194; 62:9-10). Ali, The son-in-law of the Prophet Muhammad and his first eligible successor according to shi'a Muslims, in a decree to the government of Egypt (Malek

³⁴Encyclopedia of Islam, 1934 ed., s.v. "Tijara," by W. Heffening.

Ashter) states the following regarding merchants, commercial activities and fraudulent practices:

I want to advise you about your businessmen and industrialists. Treat them well,... Merchants who ply their trade from one place to another, importers and exporters of goods, industrialists and manufactures, industrial laborers, or handicraftsmen, they all deserve sympathy, protection and good treatment. They all are sources of wealth to the country. They provide consumers with goods..... You must look after their interest and must protect them whether they are trading in your cities or towns or travelling over countries conveying goods from place to place.

One more thing about traders and industrialists, while treating them most sympathetically you must also keep an eye on their activities. You know they are usually stingy, intensely self-centered, and selfish, suffering from obsession of grasping and accumulating wealth. They often hoard their goods to get more profit by creating scarcity and black market. Such a condition is extremely injurious to the public on the one hand and demeaning to the ruler on the other.

.....
Remember that trade should go on between the purchasers and suppliers according to correct measures and weights and on such reasonable terms that neither consumers nor suppliers incur losses. But if traders and industrialists carry on hoarding and dealing in the black market despite the facilities and good treatment meted out to them, then you must punish them according to the seriousness of their crime.³⁵

This important and firm Islamic decree authorizes occasional interference by upright governments and rulers in the financial affairs of the community. It particularly emphasizes that government should prevent hoarding and the emergence of black markets.

³⁵See Peak of Eloquence (Nahjul Balagha), Sermons, letters and sayings of Imam Ali, translated by Askari Jafery, 2nd edition, 1978. letter 53.

Economic activity, the search for profit, trade, and consequently, production for the market, is also looked upon with favor by Muslim tradition. According to tradition, trade is a superior way of earning one's livelihood:

If thou profit by doing what is permitted, thy deed is a jihād (that is, is identified with holy war or any vigorous effort undertaken for God's cause) and, if thou usest it for thy family and kindred, this will be a sadāqā (that is, a pious work of charity), and, truly, a dirham (drachma, silver coin) lawfully gained from trade is worth more than ten dirhams gained in any other way.³⁶

It is recorded that Ibrahim an-Nakhai, a pious authority of the first century A.H., was asked which he preferred: an honest merchant or a man who has given up all forms of work in order to devote himself wholly to the service of God. He is said to have replied:

The honest merchant is dearer to me, for he is in the position of one waging a holy war. Satan approaches him through measures and scales, in the course of commercial transactions, and so he fights a holy war against Satan.³⁷

It is also reported that the Prophet said: "The merchant who is sincere and trustworthy will (at the Judgment Day) be among the prophets, the just and the martyrs,³⁸ or: "The trustworthy merchant will sit in the shade of God's throne at

³⁶Rodinson, Islam and Capitalism, 17, reports from Zaid ibn Ali, Corpus iuris..., 1919, no. 539.

³⁷Rodinson, Islam and Capitalism, 111, citing H. Ritter, Der Islam, (1917): 32.

³⁸A Handbook of Early Muhammadan Tradition, 1927 ed., s.v. "barter."

the day of judgment, or: "Merchants are the messengers of this world and God's faithful trustee on earth."³⁹

Rodinson (1976:17), sums up the attitude of the Sunnah in regard to economic activity and making of profit as follows: "The prophet heaps praise upon those who, far from being parasites, enrich themselves so as to be able to help the deprived." In short, except in isolated instances which reflect perhaps an ascetic tendency, the person criticized is the dishonest merchant, not the trader or trade as such. It is reported that Muhammad said: "Whoever is untrustworthy in his dealings is devoid of faith and whoever is not committed to his vows has no religion."⁴⁰ And God does not look at your appearance and your possessions, but at your hearts and actions.⁴¹

Certain commercial practices are, however, forbidden by the Sunnah. Among them, of course, are practices that are in one way or another fraudulent, trade in goods regarded by religion as impure or in goods that are considered to be common to everyone, water, grass and fire. Prohibitions directed against various practices have been seen as laying fetters upon the free working of a liberal economy. Thus, any

³⁹See B. Lewis, The Arab in History, 3rd ed., (London: Hutchinson, 1964), 91.

⁴⁰J. Nurbakhsh Traditions of Prophet (New York: Khanighah Nimatullahi, 1981). Dr. Nurbakhsh attributes this hadith to Bayhaqi.

⁴¹Ghazali, Ihya..., vol. 3, 19.

speculation in food stuffs, and especially the hoarding, cornering and storing of them, is forbidden. Above all, however, it is prohibited to do any selling in which there is an element of uncertainty. For instance, sale by auction, since the seller does not know what price he will get for the object being sold, or any sale in which the merchandise is not precisely, numerically defined (eg., the fruit growing on a palm tree). An obstacle to competition might be found in certain scanty traditions which, advocating absolute honesty in trade, prescribe that one should not praise one's own merchandise, that any defects in it should be pointed out, and so on.⁴²

ISLAM'S VIEW ON WAGE INCOME:

An important principle of Islamic economics is that of work and compensation for work performed. It states that an individual's wages must be proportionate to the amount and category of labor performed by him.⁴³ The amount of labor would be measured in man-hours of work and the category of labor would be specific to different professions. The wages in the latter case would be constrained by the minimum of the compensation determined for the category of labor in demand.

⁴²Ibid., vol. 2, 68ff.

⁴³M. A. Choudhury, Contributions to Islamic Economic Theory, (London: Macmillan Press Ltd.) 1986, 8.

Whenever an individual acquires income greater than what is due to him by dint of his input of labor and other resources, which produce this income, he commits what is known as rububiyvah, that is, sole proprietorship of the means of production. Because Islamic economic ideas hold that fundamentally all means of production belong to God, so an individual by transgressing this limit commits a form of excess. Under this category of excess are included rent on land and share cropping, but rent on real capital is permitted.⁴⁴ As regards the prohibition of the rent on plain land we have the hadith of Prophet Muhammad, that "He who has land should cultivate it and should not rent it--not even for a third or fourth of its crop and not for a specific amount of food."⁴⁵ Choudhury (1986:8) argues that inherent in this hadith is the problem of value. Uncultivated land has not received the labor of the owner and is therefore not liable to a price until it is exploited to produce. Thus in the first case we have the idea of value in use and in the second case the idea of value in exchange.

It must be noted that rent was prohibited only on plain land, and not on land in which there has been input of labor and capital by the owner. In the latter case it would be an

⁴⁴A. H. Sulayman, "The Theory of Economics of Islam," Proceedings of the Third East Coast Regional Conference, (Muslim Students Association of the United States and Canada, April, 1968).

⁴⁵Ibn-al Qayyim, Tahdhib Sunan Abu Dawad, vol. 5 (Cairo: no date), cited by M.A. Choudhury, 1986, 9.

act of injustice toward the landowner to have him forgo for nothing in return the exchange value created in the land by his labor and capital inputs. However, it is suggested strongly that this rent cannot be in crops, but in money terms. In this regard the following tradition is reported by Abu Dawud, who quoted Sad Ibn Waqqas, a companion of Prophet Muhammad, as saying, "we used to rent land and pay the owner as rent the produce on the banks of the irrigation canals. The Prophet prohibited this and ordered us to pay rent in gold and silver."⁴⁶ Thus, while rent was prohibited on plain land, it was allowed in cultivated and used land. Share -cropping was prohibited.

In short wage-labor is seen in the Quran and hadith as something perfectly normal. The only restrictions laid down, are ones that result from moral or religious considerations. However, enormous emphasis has been placed upon a special restriction which goes beyond questions of hire, namely, gharar (chance). Tradition has, in fact, developed to a large degree, the prohibition which the Quran lays upon a game of chance (maysir). Any gain that results from chance, from undetermined causes, is thus prohibited.

THE PRINCIPLE OF DISTRIBUTIONAL EQUITY

Another major principle of Islamic economics is the right of society to redistribute private property. This is supported

⁴⁶ibid.

in several Quranic verses.⁴⁷ The chief items of national income and transfer payments used for redistributive purposes in an Islamic economy are zakat (tax on wealth exceeding a certain exemption level called nisab), sadaqah (voluntary charity), ghanimah (war booty), fai (property acquired in war without fighting), Kharaj (tax on lands conquered during war), ushr (tax on crops).

Zakat constitutes the most important element of national income in an Islamic economy and thus it is appropriate to give a more detailed account of its origin, nature and role in the context of resource allocation in an Islamic economic setting.

Zakat (Islamic Quasi Wealth Tax)

In Quranic terminology zakat means a compulsory payment by the wealthy to the economically under-privileged. It is one of the principal obligations of Muslims and constitutes the major revenue of the Islamic state to be spent on eight categories of people and activity (Quran, 9:60). The Quran stresses the practices of benevolence as one of the chief virtues of the true believer.⁴⁸

⁴⁷See for example Sura 59, Verse 41.

⁴⁸See Suras 13:22; 35:29: "Those who spend out secretly and openly of what we have bestowed on them," Sura 70:24 "Those, who acknowledge a determined due from their possessions, to the beggar and the needy." Also Sura 76:8 ff.

The word zakat became known to the prophet in a much wider sense from the Jews' usage (Aramaic Zakut).⁴⁹ Among the religiously inclined, the giving away of worldly possessions was regarded as a pious act, and a path to salvation. The yield of zakat collections by the prophet was used to support the needy, but also, at times when necessity arose, for his military and other political purposes. Discontent among believers with the use made by the prophet of the charitable gifts, had to be appeased by special revelation (Sura 9:58-60):

There are some of them who make reproaches to thee with respect to the Sadaga⁵⁰; if they are given from, they are satisfied, but if they are not given from them, they complain. The Sadaga's are for the poor, the needy, those who work on (collecting) them, those whose hearts are to be conciliated, for the slaves, the debtors and for Allah's purposes and for the wayfarer, as an ordinance from Allah.

This passage became the basis for the later laws regarding the collection and distribution of zakat. The Quran answers the question of what the believers should give, without any limitations: Sura 2:219, and a revelation of the last year of the prophet's life still threatened with the punishment of hell "those who hoard gold and silver and do not spend it for Allah's purposes, unto them give tidings of a painful doom"

⁴⁹Shorter Encyclopedia of Islam, 1985 ed., s.v. "Zakat," by H. A. R. Gibb & J. H. Kramers.

⁵⁰In the Koran charity is some times referred to in general terms and sometimes by the word zakat or sadaga which are practically synonymous. See Shorter Encyclopedia of Islam, 1985 ed., s.v. "zakat".

(Sura 9:34 sq.). Tradition also ascribes to the prophet utterances which imply that there is no limitation to the obligation of zakat.⁵¹ The nature of objects liable to zakat is not defined further in the Quran. In any case, the character of zakat in the time of the prophet was still vague, and it did not properly represent a tax demanded by religion. When the system of fiqh (Islamic law) came to be elaborated, zakat was maintained as a religious tax and regulated in detail. In general the following assets are taxable.

1. Income above the an-nisab minimum. An-nisab is the minimum level of personal income that exempts an individual from paying zakat. It is determined by the weighted sum of an individual's labor income and other money income at a given time.

2. Productive assets left idle for a year. Under this category all items of wealth which do not normally depreciate over time are included.

3. Profits and windfalls from economic activity. Profits and windfalls which are not reinvested within a year become taxable.

4. Inheritance. This is considered as an item of wealth and is therefore, taxable once and for all.

The yield of the zakat is destined only for the classes and activities mentioned in Sura (9:60).

⁵¹Fadl ibn Hassan Tabarsi (d.548/1153) in his Majma al Bayan reports that when the verse "They who hoard up gold and silver and do not spend it in the way of Allah...(9:34) descended, the Prophet said three times "May gold and silver disappear!" This phrase offended his companions. "Umar asked: what forms of wealth should we obtain for ourselves?" He answered: "Obtain a praising tongue, a thankful heart, and a faithful and religiously supportive wife." Among the companions of the prophet, especially Abazar Ghaffari [Arabic: Abu Dharr], is considered to have held the view that one should only keep as much property as one needs. cited in Taleqani's Islam and ownership, 1983, 109.

1. The poor and the needy. Zakat is used here as income support and supplementation, but under the needs test only. It need not satisfy the income test. For example, in the case of the voluntary unemployed, zakat cannot be paid on the basis of the income test.

2. The employees of zakat management. Zakat, the principal source of revenue for the Islamic state, is collected and distributed by an established state department. The salaries of those who manage the zakat fund would be paid out of it.

3. To strengthen the financial position of new Muslims. Here zakat is spent to provide services to new Muslims in absorbing them as a progressive and resourceful economic segment of the labor force.

4. For the liberation of slaves.

5. For helping to pay off debts made for legitimate reasons. Apart from helping individuals and firms in need of funds, the zakat fund could also be spent by the state as an alternative to debt financing.

6. Islamic missionary activity.

7. The wayfarer. The zakat fund can be used for a wayfarer to meet his emergency needs.

However, Choudhury (1986:10) argues that there is no order in the Quran that the various sources of funds must be spent in strict accordance with the practice during the early period of Islam. It is just the broad principles of expenditure of these funds as laid down in the Quran and further elaborated through the Islamic legal sources, such as the hadith and shari'a that must remain sacrosanct. For example the stated categories of expenditure of the zakat fund can be extended to cover programmes of employment creation, family welfare, rehabilitation of the aged, unemployment insurance, income support during times of economic losses and others. Even the rate of zakat, originally fixed at 2.5 per

cent on all forms of assessed wealth exceeding the nisab level at any given point of time can be varied but only marginally.⁵²

In short, zakat while being an obligatory tax on all well to do Muslims, is a socio-religious instrument of income distribution and resource allocation. It is imposed on idle assets only, which otherwise could have been put to productive use, thus economic rationality on the part of the investor would motivate him to deplete his idle stock of capital and thereby make room for investment flow. Thus, theoretically speaking, zakat stimulates investment and employment, increases income and brings about an equitable and efficient mode of resource allocation.⁵³

Summary:

The Islamic paradigm of economic relations is based on injunctions and norms derived from the Quran and sunnah called the shari'a. The shari'a specifies rules that relate to the allocation of resources, property rights, production, distribution and consumption of goods and the working of markets. The key to the economic philosophy of Islam lies in man's relationship with God, His universe and other human

⁵²S. W. A. Hussaini, Principles of Environmental Engineering Systems Planning in Islamic Culture: Law, Politics, Economics, Education, and Sociology of Science and Culture, (Stanford University, Report EEP-41, Dec. 1971).

⁵³For a detailed discussion on the role of zakat in resource allocation see M. H. Choudhury, 1986, chap. 5.

beings. The man-God relationship is defined by Tawheed. With every human being sharing the same relationship with God and his Universe, a definite relationship between man and man is prescribed. This is the principle of brotherhood and equality of all men before God. The entire universe with all the natural resources is made open to exploitation by man, though it is owned by God and God alone. Life on earth being a test, and all the provisions available to man being in the nature of a trust, man is accountable to Allah, and his success in the life hereafter depends on his performance in this life on earth. This adds a new dimension to the valuation of things and deeds in this life.

Acquisition of property as well as its uses and disposal are subject to constraints set in the shari'a. Profits and wealth earned by illegal means such as usury, gambling, and lottery, or wealth obtained from the transaction of harmful goods do not constitute ownership. Abolition of riba, required by the Islamic economic justice, has become the main concern for Islamic monetary policy. As a mechanism for allocating financial resources, the rate of interest is replaced with the rate of return on real activities. To this end, a variety of methods and instruments based on risk and profit-sharing are suggested.

Islam rejects asceticism and encourages provision of a good life. A good life means, among other things, a materially well provisioned life. Earning a livelihood is not

merely permitted but is incumbent on Muslims. Man's primary duty is to serve God, but to do this properly he must be adequately fed, housed and clothed. This can only be achieved by working and earning. The earnings do not need to be limited to the bare necessities of life. Acquisition of wealth and consumption of luxuries is also permitted given the constraint imposed by Shari'a. According to the Quran (16:112; 106:3-4), sufficiency (kifayah) and peace (amn) are the two inalienable features of the good life envisaged by God. While no maxima are fixed in quantitative terms, moderation in fulfillment of the needs is emphasized and avarice and the unsatiable yearning for luxuries are decried.

Many verses in the Quran and traditions of the Prophet Muhammad show the importance given to economic activities such as agriculture, trade, commerce, industry and various forms of productive enterprise. In short, as the Quranic verse "God has permitted buying and selling, and forbidden usury...." clearly indicates, it is not trade, commerce, or profit making which is prohibited, but the accumulation of wealth by way of usury and lending at interest. Other passages confirm the lawfulness of honest trading and touch on such matters as fair weights and measures, debts, contracts, and the like. The Quranic approval of buying and selling is amplified upon in a large number of sayings, attributed to the Prophet and to the leading figures of early Islam, in praise of the honest merchant and of commerce as a way of life.

The importance of another major principle of Islamic economics, zakat, and its role in distribution of wealth was also discussed. Being considered as the main fiscal policy instrument of the Islamic state, zakat constitutes the major revenue of the state and is to be spent on eight categories of people and activity as outlined in the Quran (59:41).

One may summarize the ideas expressed in this chapter by citing another quotation of the Prophet Muhammad which, in a way, captures the whole of shari'a teaching with regard to Muslim conduct.

The religious law (shari'a) is my discourse, the spiritual path (tarikah) is my deeds, and the truth (haqiqat) is my state. Gnosis (marifat) is my wealth, the intellect (aql) is my religion, friendship (hobb) is the foundation of my work, yearning (shohq) is my vehicle, fear of God (khof) is my companion, knowledge (elm) is my weapon; patience is my friend, trust in God (tawakul) is my substance, contentment (qanaat) is my treasure; sincerity (sedq) is my place; certainty (yaqin) is my refuge and poverty (faqr) is my pride, and I am proud that in this, I surpass all previous prophets.⁵⁴

⁵⁴J. Nurbakhsh, Tradition of the Prophet, 12, cites Mojli ibn Abu Jomhur Ahsa'i, 314.

CHAPTER III

ISLAMIC ECONOMIC THOUGHT

After centuries of comparative neglect and piecemeal treatment of Islamic economic thought in Western literature, the later part of the Twentieth Century has witnessed an upsurge in interest and activity in this field of Near Eastern Studies. The emergence of Islamic economics attracted the attention of some Western economists to the economic thinking of Muslim scholars. Spengler's article on Alberuni and Ibn Khaldun, as well as Boulakia's writing on Ibn Khaldun are among the few. To date, however, we do not have a single book on the history of economic thought in Islam.

It is difficult to get a complete picture of Islamic economic thought from the isolated works of individual Muslim thinkers. To understand the intellectual history of a current of thought developed outside Western culture, it is necessary to examine the contributions of each writer from the point of view of what they have written about questions commonly regarded as economic. This is the task of the current chapter. The reason for this endeavor is to familiarize the reader with the main body of economic thought and social issues that concerned medieval Islamic scholars, jurists and philosophers so that we may establish a definition for the

term "Islamic economic system." The discussion in this chapter will also provide the basis for comparison of Islamic economic thought with that of the medieval West--the topic of the next chapter.

A brief, general account of the main socioeconomic and political formulations developed during the early centuries of Islam precedes our analysis of individual authors. This will provide the reader with background information on the important socioeconomic issues with which different groups of Islamic writers were concerned.

The review of individual authors follows in chronological order and covers some of the most important scholars in Islamic economic thought. A brief biography of each scholar precedes the discussion of their economic ideas.¹ The coverage of individual scholars' economic thought varies in length due to both availability of data and the extent of socioeconomic discussions in their work.

FORMULATION OF SOCIOECONOMIC THOUGHT IN MEDIEVAL ISLAM

With the expansion of the Muslim conquests from the year 657 onwards, peoples and communities of different races and varying cultural and social backgrounds were included within the Islamic empire. Gradually there evolved a body of Islamic political and socioeconomic ideas, at the base of which lay

¹Unless otherwise mentioned, all the biographies in this chapter are based on the articles in The Concise Encyclopedia of Islam, 1989 ed., under each author's name.

pre-Islamic tribal tradition, and Hellenistic and Persian theories of state.

Three main formulations can be distinguished: that of the jurists, of the statesmen and of the philosophers. All set forth the divine nature of God's ultimate sovereignty and presupposed the existence of a state within which the life of the community ran its course, and whose function was to guarantee the maintenance of Islam, the application of the shari'a, and the defense of orthodoxy against heresy.² All tended to concentrate on the position of the ruler.

Of these three, the most truly Islamic is the formulation of the jurist, which is in some measure an expression of a religious ideal in opposition to practice.³ When Muslim jurists and theologians discuss economic questions, it is invariably from the point of view of a normative ethic in which each person, ruling himself, is expected to be guided by God's edict to "command the good and forbid the evil"--a principle also to be followed in the governance of the ideal city. Observing this principle will secure the foundation of a community and assure its future, while ignoring it will precipitate its collapse. The raw materials upon which Islamic jurists based their argument were the scattered verses

²See E. I. J. Rosenthal, "Some Aspects of Islamic Political Thought," Islamic Culture 22, (1948): 1.

³See J. Schacht, "The Law", in Unity and Variety in Muslim Civilization, ed. G. E. Grunebaum (Chicago: University of Chicago Press, 1955), 71-2.

of the Quran dealing with political and socioeconomic matters, the tradition of the prophet (hadith), the practice of the primitive Islamic community, and the interpretation of these sources in the light of later political developments, reinforced by the belief of the divine guidance of the community and the infallibility of ijma.⁴

The jurist formulation--codification of market rules into Muslim law and the development of jurisprudence (fiqh), originated in general discussions about exchange within the wider context of social relations. The development of Muslim cities and the increasing complexity of the exchange process gave rise, on one hand, to a specialized literature, the hisba hand books, and, on the other hand, to the appointment of an official, the muhtasib--who was exclusively in charge of supervising markets. The hisba treatises are not only important documents related to the economic and social life in Muslim countries, but are also sources of information about the history of economic thought.⁵ The handbooks indicate the variety and scope of the responsibilities of the muhtasib.

⁴H. A. R. Gibb, "Al-Mawardi's Theory of the Caliphate", in Studies on the Civilization of Islam, ed. Stanford J. Shaw and William R. Polk (London: Routledge and Kegan Paul, 1962), 154-5.

⁵In the beginning, the hisba literature was merely a collection of judicial advice and opinion on questions of public morality and market behavior. The compilation of this literature into handbooks for the use of market officials did not occur before the ninth century A.D. in the Western Islamic world or before the eleventh century A.D. in the Orient. See Essid, "Islamic Economic Thought", 1987, 79.

Some of the manuals instruct market officials in technical aspects of supervising the crafts. The main crafts are listed in the handbooks and information is given which enables the market official to monitor the quality of manufactured goods and detect defects and malpractice. The muhtasib was also expected to enforce standards for weights and measures, to check on the fineness of coins, and to prevent merchants from practicing usury. Ultimately, his responsibility was to assure good faith dealings in the market and to protect the customer from being cheated.

The second formulation is the one put forward by the administrators and writers of manuals of conduct for rulers and governors, the Mirrors for Princes.⁶ This formulation emphasizes the divine right of kings, and is concerned with the practice, rather than the theory, of government. The art of just government is the main interest among writers of the mirrors. The theory of the mirrors seeks in some measure to

⁶Each "mirror" is an independent literary composition, a guidebook, often dedicated to a ruler, prince, or amir. Islamic mirrors for princes enjoyed considerable popularity over a wide geographical area for a long time. They were written in Muslim Spain, the central land of the Abbasid caliphate, Turkey, and Muslim India--but were especially popular in Persia. It seems certain that the Islamic mirrors were influenced by old Persian manuals of court etiquette, the a'in-nama and andarz-nama. The earliest were written in the second/eighth century. Some famous mirrors are: the Qabus-nama written by Kay Kaus, a Ziyarid princeling from northern Persia in 475/1082; the Nasihah al-Muluk of Ghazali, written in 503/1109; and siraj al-Muluk of Turtushi composed in 516/1122. For a more detailed discussion of the mirrors see Lambton [1980], chap. 5.

assimilate Islamic norms to Sasanian traditions of kingship.⁷ The ruler was regarded as God's reflection and a supreme power for justice on earth. The basis for this formulation was justice rather than religion. This approach resulted in a theoretical shift of the general view on the economy. No longer were actions couched in terms of the supreme interest of the community of the believers, but rather in the despotic conception of the state.

The third formulation is that of the philosophers, which (as will be seen later in this study) owes much to Greek philosophy. The political art of government discussed by Muslim writers in the mirrors lacked a concept of economic administration. Later, the ancient Greek concept of oikonomia, management of the household, was passed on to Muslim philosophers (filasifa), who were disciples of Plato and Aristotle; and oikonomia was used to designate management of the household (tadbir al-manzil); administration of government (tadbir al-mudun); and government of God on earth (tadbir al-alam). Subsequently, tadbir-al manzil is the name Muslim philosophers gave to one of the three subcategories of practical philosophy, falling between ethics and politics. This formulation identifies the philosopher-king with the Imam. Its basis is righteousness and knowledge rather than

⁷A. K. S. Lambton, "Islamic Political Thought" in Theory and Practice in Medieval Persian Government (London: Variorum Reprints, 1980), 1.

religion or justice. Its practice, according to falasifa, permits man to acquire virtue and avoid evil.

Having established a general background regarding different formulations of Islamic economic thought during medieval ages, we will now examine the contribution of individual scholars.

Abu Yusuf (113-182 A.H / 731-798 A.D)

Abu Yusuf was a prominent religious lawyer and one of the founders of the Hanafi school of law. His date of birth, reckoned backwards from the date of his death, is rather arbitrarily given as 113 A. H. As a poor boy, Abu Yusuf was helped by his teacher Abu Hanifa who recognized his worth and his success beyond every expectation. Abu Yusuf studied religious law and traditions in Kufa and Medina, under Abu Hanifa, Malik b. Anas and others and lived in Kufa until he was appointed judge (qadi) in Baghdad. He held this office until his death in 182/798. Caliph Harun al-Rashid conferred upon him the title of grand judge (qadi'l qudat) for the first time in Islam. The Caliph not only consulted Abu Yusuf on the administration of Islamic justice, on financial policy, and on similar questions, but on the appointment of other judges in the empire.

The literary output of Abu Yusuf must have been considerable, but only one of his works has survived:⁸ the Kitab-al-Kharaj (Manual on Land-Tax) which Abu Yusuf wrote at the request of Harun al-Rashid.⁹

Abu Yusuf's main interest and emphasis in economics lies in the areas of public finance, taxation, the distribution of land, the regulation of prices, economic responsibilities of government, and usurious sales. The bulk of Abu Yusuf's discussion in his Kitab al Kharaj is related to agricultural relations and taxation. His main contribution was in demonstrating the superiority of proportional taxation over the system of a fixed levy on land, from the viewpoint of both revenue and equity. Siddiqi (1982:12) argues that much of Abu Yusuf's discussion on taxation laid down certain principles which were reintroduced centuries later as the "Canons of Taxation". Easing the burdens of taxpayers regarding time, place and mode of payment, as well as the ability to pay and the centralization of decision making within a tax administration are some of the concepts emphasized by Abu Yusuf.¹⁰ He strongly opposed a tax on farming and suggested

⁸See The Concise Encyclopedia of Islam, 1989 ed. s.v. "Abu Yusef."

⁹See Abu Yusef's Kitab al Kharaj, Translated and provided with an introduction and notes by A. Ben Shemesh. (Leiden: E. J. Brill, 1969).

¹⁰For example Abu Yusuf's treatment of taxes is similar to that of Adam Smith's four canons of taxation requiring taxes to be equal, certain, convenient, and economical.

salaried staff to act as tax collectors, who should be under strict supervision in order to prevent corrupt and oppressive practices. Abu Yusuf urged the ruler to take other measures to ensure the development of agriculture, such as building roads and bridges, and digging canals for irrigation. He considered the elimination of oppression and the establishment of justice and social welfare to be the foremost duties of government. In addition, Abu Yusuf made references to the relation between the supply of goods and their prices and advised against price control. Once the market is free from hoarding, monopoly and other corrupt practices, argued Abu Yusuf, determination of prices should be left to the forces of supply and demand.

Al-Farabi (257-339 A.H /870-950 A.D)

Abu Naser al-Farabi (Latinized name Alpharabuis) was born at a village near Farab.¹¹ He studied mainly in Baghdad, and flourished as a sufi, in the court of Sayf al-Dawlah al Hamdani, the amir of Halab. Being a great expositor of Aristotle's logic, he was called the second teacher (al-Muaalim al-thani) in contradistinction to Aristotle, the first

¹¹There exists some controversy among scholars regarding Al-Farabi's origin and place of birth. Some scholars such as Ibn alnadim in Al-Fehrest and Shahrzuri in Tarikh al-Hukama refer to him as Persian and others, in particular Ibn Khalikan in his Wafayat al-Ayan, refer to Farabi as being of Turkish origin. Regardless of which group may be right, it should be noted that Farab and Samarghand (in present day Soviet Union) were at that time, under the rule of Persian kings and belonged to their territories.

teacher. Farabi was the first Islamic philosopher who sought to confront, to relate, and as far as possible to harmonize classical political philosophy with Islam and to make it intelligible within the context of revealed religion.¹² According to Ibn Khallikan, no Muslim thinker ever reached the same position as Farabi in philosophical knowledge.¹³ His system was a creative synthesis of Platonism, Aristotelianism and Sufism. Farabi produced many writings of which some twelve books and treatises in philosophy and other sciences have survived.¹⁴ His most famous work, Al-Medina al-Fazila (The Good City), is concerned with the attainment of happiness through political life and the relation between the best

¹²See M. Mahdi, "Alfarabi," in History of Political Philosophy, ed. L. Strauss & J. Cropsey (Chicago: Rand McNally, 1981), 160-1. But the fact is that it was al-Kandi (188-428/803-730) who first started the harmonization of Greek philosophy with Islam. Farabi continued what al-Kandi had begun, preparing the way for other philosophers. The study of Farabi's writings enabled Ibn Sina to achieve eminence in philosophy. It must however, be added that Ibn Sina clarified and simplified what was pithy and abstruse in Farabi. Later, the great Christian scholastics such as St. Thomas Aquinas, acknowledged their indebtedness to al-Farabi in developing their own systems. See R. Hammond, The Philosophy of Alfarabi and its Influence on Medieval Thought (New York, 1947), 55. Also D. Salmon, "The Medieval Latin Translation of Alfarabi's Work," New Scholasticism 1939, 245-61.

¹³Ibn Khallikan, Kitab Wafayut al-Ayan, edited by F. Wustenfield, English translation by M. de Slane, vol. 3, 307.

¹⁴Ibn al-Qifti in his Tarikh al Hukama attributes seventy four books to Alfarabi and Ibn Abu Usaiba in his Uyun al-Anba mentions one hundred sixteen books or treatises of Alfarabi. See A. A. Halabi, Tarikh Falasifa Irani (History of Iranian Philosophers), (Tehran, 1361 A. H.), 105.

regime as Plato understood it and the divine law of Islam.¹⁵ Just as Plato's philosopher attains happiness only in the ideal city, so al-Farabi's "adept of the speculative science gains ultimate perfection and happiness only in the perfectly led and administered ideal state which is ruled over by the philosopher who is identical with the lawgiver and Imam."¹⁶

Farabi divides the citizens of the virtuous regime into three classes: (1) the wise and the philosophers, who knew the nature of things by means of demonstrable proofs and their own insights, (2) the followers of the first class, who trusted their insight and accepted their judgement, and (3) the rest of the citizens, who knew things only by means of comparison. The ruler assigns to each their specialized duties, gives them law, commands them in war, and seeks by persuasion and compulsion to develop in everyone the virtues of which they are capable, ordering them hierarchically so that each class is able to attain perfection to its capacity.¹⁷ The Good City resembles a sound body in which all the members cooperate and of which the ruling member is the heart. The ra'is, or leader, of the good city, whom Farabi equates with the Imam, is the most perfect of its members, and is both a philosopher and a prophet. He communicates with the Active Intellect

¹⁵Ibid.

¹⁶E. I. J. Rosenthal, "Some Aspects of Islamic Political Thought," Islamic Culture, 22 (1948), 6.

¹⁷M. Mahdi, "Alfarabi," 164-5.

through his rational faculty as ruler-philosopher and through his imagination as ruler-prophet. As M. Mhadi (1963:162) points out, in discussing the qualities required of the ra'is Farabi does not refer to the Islamic community, but he tries to show the wide area of harmony between Islamic theory and classical political philosophy.

The writings of Farabi offer a clear illustration of the redirection of the science of tadbir (politics) into political theory. He created a model of society in which everything is rationally ordered with the ultimate objective of combining diverse elements into a coherent unity. Drawing on the principle of administration and governance of the family household (tadbir) to develop a theory of the state, he emphasized similarities between the personal ruler in the household and that of the ruler of the state. Following Plato, Farabi argued that man's natural tendency is to seek the help of others and to form human associations. Thus communities are created, the smallest of which is the city. The ultimate end is to attain happiness. But how should the city be ruled, and the life of its inhabitants reorganized to achieve prosperity and happiness? This is the subject of Farabi's treatise, Aphorisms of the Statesman. Written in the style of the Mirrors for Princes literature, it asks the central question of the philosopher's political philosophy: what is the objective of human association? According to Farabi, the most important aspect of the family household is

the associations which it fosters: husband and wife, master and slave, parents and children, owner and property. He who is asked to rule, arrange, and manage all the parts is the master of the household. He is called ruler and his duties are like those of the ruler of the city.

In carrying out their duties, both the ruler of the household and the ruler of the state must create perfect citizens by showing them the way towards true happiness--this is achieved by training individuals to fulfill their natural functions. Thus the essence of justice is nothing other than the rationalization of forces. Logical ordering of one's actions however, should not be directed toward economic self-sufficiency but rather toward the achievement of ideal government.

Ibn Sina (Avecina, 370-429 A.H /980-1037 A.D)

A Persian philosopher, physician and one of the most renowned intellectual figures of the Middle Ages, Ibn Sina was born in Afshana near Bokhara. After learning the Quran and Arabic literature by the age of ten, he studied geometry, law, and Greek philosophy, including logic. Surpassing his teachers he soon taught himself theology, physics, mathematics and especially medicine. At sixteen he already had other physicians working under his guidance. He wrote numerous treatises of which the most influential was the Canon of Medicine. This remained a basis for teaching medicine in

Europe into the Seventeenth Century. The ash-Shifa ("Healing"), known in Europe as the Sanatio is also among his important works. His lofty reputation in Europe earned him the title of "Prince of Physicians." In the East, however, where many other physicians wrote similar medical treatises, he was more renowned as an expounder of philosophy, at that time a unified study of Plato, Aristotle, and Neoplatonism.

Ibn Sina wrote extensively,¹⁸ served a number of princes as physician and at one point was made minister to the prince of Hamedan. He traveled widely and lived in many places in Persia. He returned to Hamedan to die in 429/1037.

As was pointed out earlier, after Farabi, Islamic political thought continued to follow the Greek tradition. Ibn Sina, profoundly influenced by Farabi, links the ideal state of Islam with that of Plato's philosopher-king. Taking his inspiration from Bryson's work,¹⁹ Ibn Sina wrote a short treatise on Tadbir al-Manzel in which he considered elements of political community, social organization, and management of

¹⁸G.S. Anawati (1960) gives a bibliography of the works of Ibn Sina containing 276 titles. Yahia Mahdavi's Bibliographie d' Ibn Sina (Tehran, 1954), 413, gives a list of 242 titles of the works of Ibn Sina. S. Naficy (Tehran, 1954), 9-27, gives the largest number of 456 Arabic and Persian books and treatises attributed to Ibn Sina. There is no doubt regarding the authenticity of the major works of Ibn Sina, but it is difficult to state with certainty, whether all these works were actually written by him.

¹⁹According to Essid (1987:86), the lost text of the neo-Pythagorean Bryson, surviving only in an Arabic translation, was studied and elaborated in some detail by a line of Muslim authors including Farabi, Ibn Sina and Tusi.

income and expenditure, dividing society into two categories: a leisure class and a class who must work in commerce and industry in order to supply the city with the means of subsistence. This class division of society closely reflected the aristocratic social structure of the time. In this hierarchy, governmental functions have the highest status, followed by intellectual professions such as astrology and medicine, ending with military nobility. Those in a privileged status must allocate part of their surplus to zakat, a purifying tax used for the relief of the poor and one of the five pillars of Islam, reserving the rest to provide for their own future. Ibn Sina maintained that expenditures should conform to justice, which requires following a middle way, the way of iqtisad.²⁰

Alberuni, Abu Rayhan (362-442 A.H /973-1048 A.D)

Abu-Rayhan Muhammad Ibn Ahmad Alberuni, usually referred to as Alberuni was born 973 A.D. in Khawrazm (territory of modern Kiva) in an Iranian family. He is referred to as an

²⁰Ibn Sina's view on "the way of iqtisad" corresponds to Aristotle's emphasis upon the necessity of a limit. In The Rhetoric (1359b20-25), Aristotle commented that "men become richer not only by increasing their existing wealth but also by reducing their expenditures." See W. D. Ross, The Works of Aristotle Translated into English, (Oxford: Clarendon Press, 1966).

eleventh-century Iranian forerunner of Malthus and one of the greatest and most original scholars of medieval Islam.²¹

Distinguishing himself in science and literature Alberuni played a political part as councilor to the ruling prince in Persia. He wrote in Arabic, preparing most of his roughly 180 publications in Afghanistan, to which he was taken in 1017, by the Ghaznawid sultan, Muhmud b. Subuktaken. In the sultan's employ, perhaps as court astrologer, Alberuni accompanied the sultan when he invaded northern India. There he learned Sanskrit and vernacular tongues and in effect exchanged knowledge of Greek science, in which he was well versed, for information on all Indian matters.²²

The book that resulted is commonly referred to as Alberuni's India.²³ As Sachau indicates in his own subtitle, Alberuni's India is "an account of the religion, philosophy, literature, geography, chronology, astronomy, customs, laws and astronomy of India about A.D. 1030." Alberuni's discussion of economic matters is very limited, in part because he encountered little in the literature with which he had direct contact, and in part perhaps because his main interest lay outside history, economics, or even

²¹See J. J. Spengler, "Alberuni: Eleventh-Century Iranian Malthusian?" History of Political Economy, vol. 3, no.1, Spring 1971, 92.

²²The Encyclopedia of Islam, rev. ed. 1960, s.v. "al-Beruni"

²³Translated with introduction and notes by E. C. Sachau; 2 vols. (London, 1987; reprinted London, 1910, 1914).

administration, of which the Perso-Sassanian language was the vehicle in the East. Alberuni's main concern outside the realm of science was with ideas rather than with human affairs and historical processes. He was probably inclined to the formulation of explanatory models when he found such formulation pertinent. Certainly his concise statement of the Malthusian problem could be said to constitute a case in point, though not his resolution of it. His mode of inquiry was "to proceed from what is near to the more distant, from what is known to the less known."²⁴

Spengler (1971:95) divides Alberuni's opinion on population ²⁵ into three forms: first a historical-empirical form in the tradition of Plato, second, his opinion expressed in terms of a number of theorems; and third, his discussion based probably on his description of a mode of thought he had found in mythopoeic Indian literature. The last two forms appear in chapter 47 of his work on India. Evidently Alberuni's study of Indian legend and thought catalyzed his observation that since the world is finite, it can in time be covered by the progeny of a single species. He wrote as follows:

The life of the world depends upon sowing and procreating. Both processes increase in the course

²⁴Ibid., 4.

²⁵Population theory did not begin to come into its own until the eighteenth century, in T. R. Malthus's famous Essay on Population. See C. E. Stangeland, Pre-Malthusian Doctrines of Population, (New York, 1904), chaps. 5-9.

of time, and this increase is unlimited, whilst the world is limited.

When a class of plants or animals does not increase any more in its structure, and its peculiar kind is established as a species of its own, when each individual of it does not simply come into existence once and perish, but besides procreates a being like itself or several together, and not only once but several times, then this will as a single species of plants or animals occupy the earth and spread itself and its kind over as much territory as it can find.²⁶

Alberuni observed that the pressure of increasing numbers would give rise to natural selection, though not to selection so favorable as that carried on under human guidance:

The agriculturist selects his corn, letting grow as much as he requires, and tearing out the remainder. The forester leaves those branches which he perceives to be excellent, whilst he cuts away all others. The bees kill those of their kind who only eat, but do not work in their beehive.

Nature proceeds in a similar way; however, it does not distinguish, for its action is under all circumstances one and the same. It allows the leaves and fruit of the trees to perish, thus preventing them from realizing that result which they are intended to produce in the economy of nature. It removes them so as to make room for others.²⁷

According to Spengler (1971:96), it was this argument of Alberuni that led some to look upon him as a precursor of Darwin, though Alberuni did not develop the implications of

²⁶Alberuni, India, trans. E. C. Sachau, (London: 1887), vol. 1, 400.

²⁷Ibid.

his argument or explain in any detail the mechanisms at work.²⁸

Alberuni pointed out that since the growth of man's numbers is limited by the capacity of the environment to provide support, the earth could become overpopulated and in need of a thinning of its numbers:

If thus the earth is ruined, or is near to be ruined, by having too many inhabitants, its ruler--for it has a ruler, and his all-embracing care is apparent in every single particle of it--sends it a messenger for the purpose of reducing the too great number and of cutting away all that is evil.²⁹

As his discussion reveals, Alberuni failed to put forward a rational explanation or to postulate natural corrective mechanisms. Instead, he fell back upon a kind of deus ex machina suggested by Indian legend. This failure, argues Spengler, might be explained on the supposition that Alberuni was only describing Indian modes of thought, some of which he had characterized as "devoid of any logical order, and in the last instance always mixed up with the silly notions of the crowd."³⁰

The influence of Plato stands out in Alberuni's historical discussion of demographic matters. Alberuni,

²⁸See Jan F. Wilezyski, "On the Presumed Darwinism of Alberuni Eight Hundred Years Before Darwin," *Isis* 50 (1959):459-66). He cites the passages which incorporate Alberuni's "Malthusianism" as well as some background passages.

²⁹Alberuni's India, vol. 1, 400-401.

³⁰*Ibid.*, chap. 1.

argues Spengler (1971:99), was mainly influenced by Plato's historical accounts in the Laws and the Timaeus and not by his description of a planned city-state and the pressure it was under to regulate its numbers (Laws, 740-71), a description with which Plato's population theory is usually associated. Alberuni refers to the incidence of unavoidable disasters which destroy communities of men and force those surviving to begin all over again bringing civilization, and its accompanying evils and vulnerabilities, into existence. He represents Greek opinion as follows:

The catastrophe comes on like a deluge or an earthquake, bringing destruction ..; further, by contagious and other diseases, by pestilence, and more of the like. Thereby a large region is stripped of its inhabitants; but when after a while, the disaster and its consequences have passed away, the country begins to recover and to show new signs of life, their different people flock there together like wild animals, who formerly were dwelling in hiding-holes and on the tops of the mountains. They become civilized by assisting each other in the hope for a life in safety and joy. Thus they increased in great numbers; but then ambition, circling around them with the wings of wrath and envy,³¹ begins to destroy the serene bliss of their life.

³¹Ibid., vol. 1, 378-79. Alberuni cites Plato on page 385, quoting from his third book of the laws as follows: "The Athenian said: there have been deluges, diseases, disasters on earth, from which none has been saved but herdsmen and mountaineers, as the remnants of a race not practiced in deceit and in the love of power. The Knossian said: At the beginning men loved each other sincerely, feeling lonely in the desert of the world, and because the world had sufficient room for all of them, and did not compel them to any exertion. There was no poverty among them, no possession, no contract. There was no greed among them, and neither silver nor gold. There were no rich people among them and no poor. If we found any of their books, they would afford us numerous proofs for all this."

Alberuni apparently was content to state what he understood to be Hindu views, and he referred to Greek opinion mainly to illuminate these views by comparison.³² Drawing on Plato's Laws, book III, Alberuni discussed the causes of "the many destructions of mankind,....occasioned by deluges and pestilences." He also discussed how the small numbers of survivors, no longer acquainted with arts and devices, gradually recover and build cities anew. Even given a vast expanse of land and a few survivors, the "race" multiplies as time advances and eventually the arts revive. Initially desolation creates in men "a feeling of affection and good will toward one another," and they

have no occasion to quarrel about their subsistence, for they ...have pasture in abundance...; and from their pasture land they ...obtain the greater part of their food in a primitive age, having plenty of milk and flesh; moreover, they ...procure other food by the chase, not to be despised either in quantity or quality. They ..also have abundance of clothing, and bedding, and dwellings, and utensils either capable of standing on the fire or not; for the plastic and weaving arts do not require any use of iron; and God has given these two arts to man in order to provide him with all such things, that when reduced to the last extremity, the human race may still grow and increase.

Hence in times such as those just described

mankind were not very poor; nor was poverty a cause of difference among these; and rich they could not have been, having neither gold nor silver--such at that time was their condition. And the community which has neither poverty nor riches will always have the noblest principles.

³²Ibid., vol. 1, 378, 383-85.

Both Plato and Alberuni believed that these conditions would not persist forever. Numbers would grow, and eventually cities would come into existence and forms of government suited thereto. Plato noted that if a government should become excessive (as the Persian did), a state would be ruined. But Alberuni makes no references thereto or to the means by which Plato proposes to regulate the population of a city-state. He thus drew on Plato only for what seemed to him to be accounts somewhat parallel to the cyclical theories which he encountered in Hindu literature. Spengler (1971:101) referring to Alberuni's population theory points to the following facts:

(i) Alberuni stated with remarkable clarity the fact that the growth of anything is limited by the environment accessible to it.

(ii) He recognized that since the capacity for the growth of a species in number is unlimited, its actual growth is restrained by limiting and (apparently) almost exclusively external agents.

(iii) In keeping with (ii), he did not seek to identify, as did Malthus, the natality-curbing as well as the mortality-generating checks which restrain population growth.

"Ambition," described by Alberuni as a disturbing influence in human relations,³³ might have been converted into a check of

³³See note #30 above. Also see vol. 1, 382-83 where Alberuni quoting from the book Caraka says: "In primeval times the earth was always fertile and healthy, and the elements were equally mixed. Men lived with each other in harmony and love, without any lust and ambition, hatred and envy, without anything that makes soul and body ill. But then came envy, and lust followed. Driven by lust, they strove to hoard up, which was difficult to some, easy to others. All kinds of thoughts, labors, and cares followed, and resulted in war, deceit, and

intragroup origin, but was not. Mortality, together with some of its causes, was identified, but variation in mortality was not functionally connected with variation in the density of population and in its pressure; mortality was represented rather as the result of essentially independent external agencies.

Aside from his population theory, Alberuni also refers to a few other economic matters such as inheritance rules, usury and the use of income, and taxation. He comments upon Indian almsgiving by saying "It is obligatory with them every day to give alms as much as possible."³⁴ He also comments upon taxation, which "the common people" seek to evade. He reported that the Indian who earns income by the crops or from the cattle

Is bound first to pay to the ruler of the country the tax which attaches to the soil or the pasture ground. Further, he pays the ruler one-sixth of the income in recognition of the protection which he offers to the subjects, their property and their family.³⁵

The same obligation rests upon the common people, Alberuni stated, but "they will always lie and cheat in the declarations about their property." Trading businesses, too, pay a tribute to the state for the same reason. As for the

lying. The hearts of men were hardened, the natures were altered and became exposed to diseases, which seized hold of men and made them neglect the worship of God ... Ignorance became deeply rooted, and the calamity became great."

³⁴Alberuni's India, vol. 2, chap. 67.

³⁵Ibid.

charging of interest, Alberuni has the following to say "Usury or taking percentages is forbidden. The sin which a man commits thereby corresponds to the amount by which the percentages have increased the capital stock."³⁶

Discussing Indian expenditure patterns, Alberuni mentioned that of their post tax income, some Indians employed one-third in profitable trade, held one-third in "reserve to guarantee the heart against anxiety," devoted one-ninth to alms, and spent the balance "according to the same rule." Others divided post-tax income "into four portions":

One-fourth is destined for common expenses, the second for liberal works of a noble mind, the third for alms, and the fourth for being kept in reserve, i.e. not more of it than the common expenses for three years. If the quarter which is to be reserved exceeds this amount, only this amount is reserved, whilst the remainder is spent on alms.³⁷

Alberuni's description of Indian expenditure patterns indicates existence of three motives behind the Indians demand for money: transaction, speculative and precautionary demand. However, it seemed to Alberuni that Indians had a low marginal propensity to save (or a very high propensity to spend) due to uncertainty about the future. He noticed that: "They do not let money become a year or even a month old, for this would be a draft on an unknown future, of which man does not know whether he reaches it or not."³⁸

³⁶Ibid.

³⁷Ibid.

³⁸Ibid.

Although Alberuni touches upon various economic practices, he makes no comment on the possible economic effects of these practices. He does suggest, however, that those enjoying bliss without working for it are "without ambition."³⁹

Al-Ghazali (450-505 A.H / 1058-1111 A.D)

Abu Hamid Muhammad Al-Ghazali, philosopher, theologian, jurist, and mystic, was born and died in Tus, Persia. In his youth Ghazali attracted the attention of his teacher because of his capacity and desire for learning. He studied at Nayshabur and was appointed a professor of law at the Nizamiyyah School in Baghdad. There, Ghazali achieved renown and great success as a lawyer, but after four years experienced a crisis of faith and conscience. Turning his post over to his brother, Ghazali retired to Damascus. After periods of great solitude, he turned his attention to different knowledge: philosophy, theology, and the various schools of the age. In the end he found satisfaction in mysticism, a return in fact to the intellectual climate of his family upbringing. Towards the end of his life he returned to teach in Nayshabur and then Tus, where he ended his days among sufi disciples.

Ghazali was known to medieval Europe as "Algazel" and has often been compared to Thomas Aquinas and his monumental Ihya

³⁹Ibid., chap. 24, 256.

ulum al din ("the revival of the Religious Science") to the Summa Theologica.⁴⁰ In all, Ghazali wrote about seventy books. Among his great works are Tahafut al-Falsifah (or "the destruction of the philosophy") in which he refutes the ability of philosophy-on the basis of its own assumption-to reach truth and certainty, and reduces it to an ancilla of theology, and his work on ethics, Kimiya as-Saadat ("the Alchemy of Felicity").

Ghazali's economic thinking is mainly revealed in his Ihya'Ulum al Din.⁴¹ In his chapter on Shukr (gratefulness to Allah), Ghazali discusses the disadvantage of barter and the importance of money and its functions as a medium of exchange and as a common measure of value. Money was not to be demanded for its own sake, but as a means for acquiring other objects of desire. Ghazali considered hoarding (kanz) as a misuse of money and a factor responsible for preventing money from performing its proper functions in the society.⁴²

Ghazali looked upon economic activity, the search for profit, trade, and consequently, production for the market with favor. He stated:

It is believed that what tawakul means is abandoning work (kasb) [the will to make one's own acts that are in reality performed by God] in one's

⁴⁰Charles Issawi, An Arab Philosophy of History, trans. by Charles Issawi, (London:Butler & Tanner Ltd.), 1, fn 3.

⁴¹Economic thinking of Ghazali has been studied by Nadvi (1976), Siddiqi (1968) and Umaruddin (1962).

⁴²See also Siddiqi 1982, 22.

body, abandoning in one's heart the capacity to organize, and letting oneself drop to the ground like a rag that is thrown away or like meat on a butcher's stall. This is what the ignorant believe, but it is forbidden (haram) by the religious law.⁴³

Moreover, "People are of three kinds," says Ghazali in another place:

those whose activity in making a living diverts them from the future life, and they are doomed to perdition; those whose concern with the future life diverts them from the activity needed to make a living, and they are the gainers; and those, finally, nearer to the happy medium, whose activity in making a living leads them towards the future life, and they are the average run of people.⁴⁴

Ghazali approached human conduct in the acquisition of money in terms of the golden mean. He advised seeking a mean between two excesses in all activities in order to cultivate the virtues of wisdom, temperance, courage, and justice. He therefore recommended that individuals not seek wealth for its own sake, and that they not engage in commerce in search of great wealth but only to satisfy reasonable needs. This is as far as Ghazali goes in dealing with the ethics of the philosophers, and he returns to the precepts of the shari'a in treating exchange relations from the point of view of true believers, stating that one who must earn his living should know what is and is not permitted in matters of sales. Monopoly is condemned as an inherent source of disorder. Gold

⁴³Ghazali, Ihya uluam ad-din, Book 35, vol. 4, 228.

⁴⁴Ghazali, Ihya Uluam ad-din, Book 13, vol. 2, 56.

and silver currencies, which are not useful in themselves, exist, he said, to circulate as a medium of exchange and as common measures of value.⁴⁵ He vigorously condemned the issuing of debased money as illegal, comparing it to robbery. This sin, he says, will fall on those who issue it, and he advised anyone receiving a debased coin to interrupt its circulation by throwing it into a well in order to limit the damages.⁴⁶

Transactions involving interest (riba) were in Ghazali's view another example of harmful and improper uses of money. Ghazali points to the role of individual economic agents who must take the interest of the society into their consideration and avoid activities which are not socially acceptable, such as the hoarding of essential goods. He also regards corruption and oppression as factors leading to economic decline and a just government as a necessary condition for economic development and prosperity.⁴⁷ Discussing the importance of justice and government responsibilities, Ghazali attempts to integrate the Sasanian ideal with the Islamic one.

⁴⁵Essid "Islamic Economic Thought," 88, points out that Ghazali, being influenced by a religious tradition hostile to the hoarding of money, failed to recognize the functions of money as a store of value and as a reserve unit of purchasing power.

⁴⁶See Ibid., 88.

⁴⁷See Umaruddin (1962:200-202) and Nadvi (1976:99) respectively for a detailed account of Ghazali's view on the social responsibility of the individual economic agent and his emphasis on a just government as a prerequisite for prosperity and economic growth.

In his Nasihah al-Muluk, ("Book of Counsel for Kings") in spite of the strong Islamic ethic which runs through the work, Ghazali draws many of his illustrations from Sasanian tradition. He writes that Sasanian kings made efforts to increase the prosperity of the world because they believed:

Religion is made firm by kinship, kinship by army, and army by wealth, and wealth (is acquired) by making the country prosperous and flourishing, and this is achieved by justice. The contrary practice would cause the kingdom to be ruined and the people to flee to other countries and revenue to decrease.⁴⁸

Until Ghazali's time Islamic thought had been developing in several mutually exclusive directions, and yet each one claimed to be the most authentic view of Islam's socio-political and legal doctrines. Ghazali played an important role in reuniting these differences. Although the voices of different schools were not stilled, a fresh measure of unity and harmony had been achieved. This new unity spawned a sense of hierarchy and a tighter re-marshalling of society's intellectual faculties enabling it to respond to the needs of a sophisticated civilization.

Nasiruddin Tusi (598-673 A.H/1201-1274 A.D)

Nasiruddin Tusi, a famous shi'a scholar, was born in Tus, Persia. He was an astronomer, mathematician, and astrologer who at the end of his life was in the service of the Mongol

⁴⁸Al-Ghazali, Nasihah al-Muluk, English translation by F. R. C. Bagley, Ghazali's Book of Counsel for Kings (London: Oxford University Press, 1964), 48.

ruler, Hulaqu Khan. As an astronomer at the observatory of Maragha in Western Persia he compiled the astronomical tables known as the Zij Il-Kani for the Mongol Khans, as well as writing many other treatises on scientific subjects. He proposed a model for the study of planetary motion, the "Tusi couple", and also authored many works on theosophical and theological subjects including his well known book, the Akhlag-e-nasiri ("Nasirian Ethics") which has been studied by many contemporary researchers⁴⁹ and translated into English by G.M. Wickens (1965). Tusi's economic ideas are discussed in his Akhlag-e-nasiri. After discussing the nature of man and his need for cooperation and association, Tusi (1965:160) lays down the need for a divine institute, a governor, and a monetary currency for the maintenance of equity among the members of the community. The first he interprets as the shari'a, which is the final arbiter to be obeyed by all; the third arbiter, money, is to be subject to the second, the governor. The proper regulation of affairs is secured by a lawgiver, divinely inspired, who, Tusi states, is called by the "moderns" the Imam, by Plato, the controller of the world, and by Aristotle, civic man. A lawgiver is not, however, always needed because a divine institute, once brought, suffices for many centuries. A controller to order the

⁴⁹Among authors who have studied Tusi's work and his economic thought are Rafiqe Ahmad (1969), Siddiqi (1963), and Nadvi (1973).

affairs of the community, on the other hand, is necessary in every age.

Tusi provided a commonly accepted definition for what we now call "political economy." The term siyasat-e-mudun consists of two Arabic words, siyasat (politics) and Mudun (cities and their economic structure), which when taken together imply "political economy." This term has been defined by many Muslim writers, but Tusi took considerable interest in explaining the basic nature of the discipline it represented. In the third essay of his book, entitled siyasat-e-mudun, Tusi (1965: 241-246) wrote:

If every person had to remain occupied in producing his own food, clothing, shelter and tools respectively...he could not have survived because of becoming foodless during the (long) period required (for supplying the above things)...However since people cooperate with each other and every one adopts a particular profession, producing more than what is sufficient for his own consumption, and since the laws of justice take care of the matters pertaining to the exchange of one's surplus output with the products of other people, economic means and goods become available to all...Thus God in his wisdom diversified people's activities and tastes so that they might adopt different occupations (to help each other)... It is this division of work which brings into existence international structure and mankind's economic system. Since human existence does not require or shape without mutual cooperation, and since this cooperation cannot take place without social contact, hence man by nature is dependent upon society ...It is this dependence of man on society which we call as "tamaddun" (or mudun i.e. economy)..... However, if we were to leave every person to do whatever he liked, there may be no cooperation and the strong one may subdue the weak one and the greedy person may collect all the things for himself, and so because of the quarrels people may start exterminating each other. Hence it is necessary to take practical

steps to ensure that every man gets his due share, is content with what he deserves, does not encroach upon the right of others and pursues his own occupation in a spirit of cooperation. Taking of such steps is called "siyasat" (politics).

.....
 From all this it is clear that "political economy" is a science which studies uniform laws of public welfare, meant to encourage mutual cooperation for attaining real progress, and that its subject matter is that structure of society which emerges out of the assemblage of human beings and which serves as a source of their activities directed towards the perfection (of their occupation). Thus every craftsman (or producer) concentrates on his craft, not because it is good or bad, but due to the fact that he belongs to it (i.e. has specialized in it according to social requirement).

It is clear from Tusi's lengthy quotation that he was interested in explaining the basic nature of political economy and that his definition of economics lays emphasis on the division of labor and public welfare. He may, thus, be regarded as a forerunner of Adam Smith and Pigou insofar as the basic notions of the subject matter of economics are concerned.

B. H. Siddiqi (1963: 564-580) has pointed to Tusi's emphasis on saving and his strong condemnation of conspicuous consumption and expenditure on unproductive assets such as jewelry and uncultivable land. Nadvi, (1973: 90-91) notes the importance that Tusi gave to agriculture, giving trade and other activities secondary importance. Tusi wanted Mongol rulers to realize that agriculture was the foundation of the whole economy and prosperity required the well being of the subjects be ensured. Nasiruddin Tusi is also credited

with a treatise on public finance.⁵⁰ He recommended a reduction in taxes and opposed all taxes not explicitly prescribed by the shari'a.

Ibn Taymiyyah (661-728 A.H / 1263-1328 A.D)

Born in Harran, Ibn Taymiyyah grew up in Damascus, where following in his father's footsteps, he became a jurist. He taught first in Damascus and later in Cairo where he was imprisoned because his literalist interpretations of the Quran outraged scholars. He was imprisoned several times in Egypt and Syria for his religious and political opinions. Even while in prison he continued to teach religion, to his fellow inmates, and to write prolifically, so much so, that his opponents were driven to deprive him of writing materials, an insult that wounded him perhaps more than prison itself. His literalist understanding of the Quran led him to attack many authorities in Islam including Al-Ghazali.

Ibn Taymiya was primarily an authority on hadith and not strictly speaking, an economist. His numerous books on logic, philosophy, mysticism as well as on Islamic law (fiqh) have made him one of the most important Muslim writers in history.⁵¹

⁵⁰S. M. Rifat, "Nasiruddin Tusi va Risala-e Maliyat" (Treatise on Economics by Nasiruddin Tusi) Majallah Uthmaniyah (Hyderabad) 7 (2, 3), 1-14.

⁵¹M. Kahf, "The Economics views of Ibn Taymiyyah", The Universal Message, (Karachi:1982), vol. 4, nos. 2 & 3.

The work from which his economic ideas can be extracted is the book entitled Al-Hisba fi'l Islam.⁵² In this book, Ibn Taymiyyah, as a social reformer, dealt with the economic problems of his time, and as a jurist, discussed them using terms such as forbidden, lawful, unlawful, etc.

Using the two primary sources of Islamic jurisprudence, the Quran and Sunnah as his guidelines, Ibn Taymiya discussed and analyzed the role of "market supervisor" and the extent and nature of government duties. Mubark (1972:160) has discussed Ibn Taymiya's views on this matter. The state should enforce the Islamic code of conduct so that producers, traders, and other economic agents adhere to honest and fair dealing. It should ensure that the market is free of practices based on coercion and exploitation of the weak and that it functions on the basis of fair competition between equals. It is the responsibility of the state to ensure that the basic needs of all members of society are fulfilled. Kahf (1982:10-13) discusses Ibn Taimiyah's notion of "price of equivalent" which forms the basis of "reasonable profit." This is the price prevailing in the market free of coercion, fraud, monopoly and other malpractice in such a manner which is agreed to by both parties involved in a transaction. It is different from the concept of "just price" prevalent in the

⁵²Recent writing on Ibn Taymiya's economic views include those by Sherwani (1956), Ilyas Ahmad (1961), Mubarak (1972), Siddigi (1972 b), Islahi (1980) and Kahf (1982).

Middle Ages. "Price of the equivalent" is a pragmatic concept which can be determined by studying the market conditions. Khaf concludes that Ibn Taimiyah wanted to arrive at the price determined in a market free of imperfections. Siddigi (1982:28) points to Ibn Taimiyah's economic ideas, by arguing that he had analytical grasp on how prices were determined in the market by the forces of supply and demand, and how monopoly by limiting the sources of supply could effect the "price of equivalent." Ibn Taimiyah was fully aware that laborer's wages were also determined in the same manner as prices of other commodities.

Ibn Taimiyah's views on ownership in Islam are discussed by Sherwani (1956:9-23). The state is empowered to limit and constrain individual ownership rights. Social interest is of supreme importance for Ibn Taimiyah, but he charts a middle path in contrast with the extreme positions taken in modern times by capitalism and socialism. Ibn Taimiyah devoted himself to specifying the restrictions on economic freedom and this indicates his preference for a free economy. According to Sherwani (1956:20) we can characterize his approach as individualism conscious of mutual responsibilities, or as cooperation under the supervision of the state. The source of Ibn Taimiyah's breadth of vision regarding the economic responsibilities of the Islamic state is his concept of government as a trust and his view that the prior most duty of the ruler is comprehensive welfare of the ruled. Ibn

Taimiyah's discussion on price regulation, market supervision and forms of business organization was inspired by his great concern for justice and fair play. On the role of the state in economic life, his approach is comparable with the modern concept of the welfare state. He emphasized that every person must be guaranteed a minimum standard of living so that he could fulfill his duties towards the Almighty and his obligations towards his brethren.

Ibn Taimiyah's treatment of economics characterizes true Islamic political economy. His stress is on a normative or desirable economic practice by the individual, and a just economic policy of the state.

Ibn Khaldun (732-808 A.H / 1332-1404 A.D)

Abdel Rahman ibn Muhammad ibn Khaldun, often called the greatest economist of Islam, was born in Tunisia in 1332. His family claimed to originate from South Arabia, and to have come over to Spain in the early days of the Islamic conquest. Members of his family occupied leading positions in the administration and in the army. Ibn Khaldun's father was a distinguished administrator and soldier, who later devoted himself to the study of law and theology. Abdel Rahman received the education usually given to young men of his rank. First he was required to learn the Quran by heart, he then studied grammar and poetry, from which he passed on to jurisprudence. His life was extremely turbulent. He made his

entry into public life at the age of twenty, becoming secretary to the Sultan of Fez, in Morocco. But he was imprisoned because of court intrigue. He regained his freedom and his position, but then other troubles forced him to go to Spain, where he entered the service of the king of Grenada in 1362. At first Ibn Khaldun was well received at the court of Grenada, but political turmoil forced him to flee to North Africa, where he was given a post by the Sultan of Bujiya. War and vicissitudes forced him to return to Fez, and then to Tunis. In 1375 he retired and spent the next four years working on his Prolegomena and Universal History. In 1382 he took a ship for Alexandria and was appointed chief judge (grand qadi) of the Malikite rite. Ibn Khaldun undertook the formidable task of sweeping away corruption and inefficiency from the law courts. This brought him up against many vested interests and aroused against him a host of enemies--causing his dismissal and reinstatement as many as five times. He died in 1406 at the age of seventy-four and was buried in Cairo.⁵³

Ibn Khaldun has been praised as "the greatest historian and philosopher ever produced by Islam" and his famous work "The Muqaddima" as "undoubtedly the greatest work of its kind that has ever yet been created by any mind, in any time or

⁵³M. A. Inan, Ibn Khaldun, (Lahore: 1941).

place."⁵⁴ Ibn Khaldun's superior handling of economic matters (compared to his predecessors) has earned him a great reputation, so much so, that some have argued that Islamic economics began with Ibn Khaldun.⁵⁵ Ibn Khaldun wrote at a time when what had once been the center of medieval Islamic civilization was in decline. A careful analysis of "The Muqaddimah" reveals that the most important and original feature of the work is its contribution to the study of the underlying causes of underdevelopment.⁵⁶

A distinctive feature of Ibn Khaldun's approach to economic problems, is his keenness to take into consideration the various geographical, ethnic, political and sociological forces involved in the situation. He does not confine himself to the so-called economic factors alone. He would rather

⁵⁴See Toynbee, A Study of History, 2d ed., III (London, 1935), 322.

⁵⁵See Spengler, Economic Thought of Islam, 283.

⁵⁶Underdevelopment is of course a very modern phenomenon. In every Third World country it is characterized by the imbalance between a rapid demographic growth brought about by the "health revolution" and an economic growth rate held back by a number of economic and social factors. Although it is basically a twentieth-century concept, its results stem from older causes. Some of the causes of underdevelopment relate to the phenomenon of colonialism, but others have to be sought in the distant past of those countries which have become underdeveloped. Although less obvious than recent factors resulting from the action of the colonizers, they should not be forgotten, if only because they paralysed economic and social developments for centuries, and thus facilitated colonial domination. The Muqaddimah raises the question of the underlying causes of underdevelopment. For more information on the subject see Y. Lacoste, Ibn Khaldun: The Birth of History and The Past of the Third World, (Verso: Verso Editions, 1984), 196.

examine whatever forces he finds relevant to the issue under study.⁵⁷ It is in this context that one can appreciate his tendency to take a people's religious beliefs and traditions into account while discussing their economic behavior and social institutions.

The vast scope of Ibn Khaldun's economic thinking covers the theory of value, the price system, the law of supply and demand, production, distribution and consumption of wealth, money and capital, division of labor, capital formation and economic growth, slumps and trade cycles, international trade, population, public finance, taxation and economic responsibility of the ruler. Ibn Khaldun has something to say on each one of these subjects, but before he makes a policy suggestion, he analyses what is happening. In doing so he discovers that social and economic events follow certain laws. It is his insight into the laws governing human behavior and socioeconomic phenomena like division of labor, growth and decline of population, rise and fall of prices etc., that distinguished him from many other social thinkers. Ibn Khaldun always follows an extremely logical pattern. His

⁵⁷Pointing to this fact Spengler argues: "Ibn Khaldun did not differentiate the economy from other analytically specifiable components of the Islamic societal system within which the economy was embraced. His primary concern was not the economy or economic analysis as such, but the development, illustration, and application of a general science of culture that was intended to explain the behavior over time of interrelated economic and non-economic phenomena." See "Economic Thought of Islam: Ibn Khaldun" Comparative Study in Society and History vol.6, 1963-64, 304.

reference to "the dictates of reason as well as ethics" shows that he considers economics both as a positive and a normative science.⁵⁸ Given the unique nature of Ibn Khaldun's economic thought and the fact that they resemble many modern theories,⁵⁹ it seems appropriate to analyze, in a more detailed manner, his discussion of various economic subjects using quotations from The Muqaddimah ("prolegomena").⁶⁰

⁵⁸Ibn Khaldun's view about crafts and science is essentially in keeping with Muslim tradition. He does not identify economics or politics explicitly as a science. This failure reflects his overriding concern with his new science of culture and his approach to the subject matter of economics and politics. See Muqaddimah, Trans. Rosenthal, chap. 3, pp. 11-246 also chap 1, pp. 184-245.

⁵⁹To Spengler the study of the economic thought of Ibn Khaldun is important not so much because he came in time to be looked upon as one who had anticipated a variety of "modern" notions or because he was a highly original thinker. It is important rather because he had "a deep insight into the essentials of the accumulated knowledge of his time," could evaluate the manifestations of the culture of his day, and could reflect the understanding which contemporary lawyers and jurists had of practical economic and financial matters and finally could break with the approaches of earlier writers on economic issues. See Spengler, Economic Thought of Islam, 269.

⁶⁰Selections from The Muqaddimah were translated and arranged by Charles Issawi and published as An Arab philosophy of History, (London: Butler & Tanner Ltd., 1950). Quotation from The Muqaddimah, used hereinafter are from Issawi's translation. We shall refer to this work merely by citing the chapter and the page number in which the quotations appear in the above translation. However other references to Ibn Khaldun's Prolegomena written in large Roman numerals are based on Franz Rosenthal's annotated translation of The Muqaddimah, 3 vols. (London: Routledge & Kegan Paul, 1958).

Ibn Khaldun's Cycle Theory

As is pointed out by Spengler (1964: 289), many of Ibn Khaldun's economic findings seem to flow from his efforts to account for the politico-economic cycles he discovered in the history of Islam and the Middle East.

Ibn Khaldun's cycle theory which runs in politico-economic terms may be summarized as follows. First, a new dynasty comes into being and as it acquires strength, it extends the area within which order prevails and urban settlement and civilization can flourish. Crafts increase in number and there is greater division of labor, in part because aggregate income rises, swelled by increase in population and in output per worker, and provides an expanding market. A very important segment of market expansion is supported by government expenditure. Growth is not halted either by a dearth of effort or by a shortage of demand; for tastes change and demand rises as income grows, with the result that demand keeps pace with supply. Luxurious consumption and easy living serve, however, to soften both dynasty and population and to dissipate hardier qualities and virtues. Growth is halted by the inevitable weakening and collapse of the ruling dynasty, usually after three or four generations, a process that is accompanied by deterioration of economic conditions, decline

of the economy in complexity, and the return of more primitive conditions⁶¹.

The life span of a dynasty, or state, is typically subdivisible into four or five stages. The first generation retains the simple tastes and tough desert qualities that elevated it, its members are animated by group feeling (sometimes re-enforced by religious belief; I:318-27), property and person are assured security, and taxes are not oppressive. The second generation, morally inferior to the first though superior to those that follow, experiences a weakening of the qualities associated with desert life as well as of its group feeling; power becomes concentrated in the hands of the royal family; the mode of living becomes much more luxurious and enervating, and there is some increase in royal expenditure; and the ruler becomes separated from both his relatives and the population at large, though in lesser measure than in the two following generations. With the advent of the third generation the qualities acquired through desert life disappear as does group feeling, and the ruler, his authority now complete, spends heavily upon construction and upon his retainers and soldiers, with the result that the burden of luxurious expenditure and taxation increases even though tranquility and contentment prevail. Under the fourth generation and in the fifth or final stage of the seemingly

⁶¹This summary is based on Spengler's discussion of Ibn Khaldun's cycle theory. See Economic Thought of Islam, 290.

recurring cycle of socioeconomic change, heavy expenditure, much of it in the form of "waste and squandering", continues. These expenditures are fed out of treasure accumulated in the past and out of revenues from the overtaxed population. Finally shrinkage of revenue brought about by reduction in the capacity of an overburdened economy to produce revenue results in shrinkage of the army and hence in the dissipation of his ability to remain in power.

According to Spengler (1964: 293), Ibn Khaldun's cyclical interpretation of history, allowed only limited economic progress. It was possible for populations to rise far above the primitive mode of economic life characteristic of nomadic peoples, and sedentary culture could become sufficiently imbedded in countries to prevent its complete destruction in periods of decline except under most unusual conditions. In such event, when periodic decline sets in, particular centers would decay, only in time to give place to others which might flourish. There was thus argues Spengler, a bottom below which retrogressive forces seldom carried a nation's economy. But there was also a ceiling. This was set by the eventual proclivity of dynasties to waste the substance of the underlying population and dissipate their economic strength, with the result that economic development was interrupted in the neighborhood of this ceiling, if not earlier, giving way to economic retrogression. Economic activity thus fluctuated within a fairly fixed range rather than about a rising trend.

Spengler further compares Ibn Khaldun's cycle theory to that of Hicks, but without a rising floor and ceiling.⁶²

Theory of Value:

Ibn Khaldun gives a central place to labor in his theory of value. "Labor", he remarked, is desirable because of "the value realized from it" in the form of output. Demand is the source of value and labor is entirely responsible for supply; or (as in husbandry, mining, and some crafts) predominantly responsible, in that all or most of the ingredients of the price of output consist in the "share of labor" (II: 311-14, 278). In the absence of labor, however, nothing is of use or value.

The main factor of production is human labor. Profit is the main value realized from human labor. Human labor is necessary for every profit and capital accumulation. Without human labor, no gain will be obtained, and there will be no useful [result].

.....
Once, however, an individual possesses anything, no other person may appropriate it, unless he gives an equal value in exchange for it. Hence, once a man has acquired sufficient strength, he tries to earn an income in order to exchange it for the necessities of life... And this gain may come without effort, as when rain improves the crops and so on; but even then nature acts as an aid which cannot operate unless man cooperates with it.... Gain, therefore, can only come about by effort and labor... This is obvious in the crafts, where labor is apparent, it is also true of income derived from minerals, agriculture, or animal husbandry, for without labor there would have been no produce or

⁶²Ibid., 293. For Hicks' cycle theory see A Contribution to the Theory of the Trade Cycle, (Oxford, 1950), 96-98.

profit... The income which a man derives from the crafts is, therefore, the value of his labor. In certain crafts, the cost of the raw materials must be taken into account, for example, the wood and the yarn in carpentry and in weaving; nevertheless, the value of the labor is greater because labor plays in these crafts the dominant part. In other occupations than crafts, too, the value of labor must be added to [the cost of] the produce; for without labor there would have been no produce.

.....
 It is clear, then, that all, or most, incomes and profits represent the value of human labor... [vol. II: 272]

Thus, both the amount of labor as well as the cost of raw materials used in producing goods make up the value of the product. However, Ibn Khaldun's stress is on human labor as is apparent in the above quotation.⁶³

Supply, Demand and Prices

The dependance of price and hence of gross profit upon conditions of supply and demand, is explicitly recognized in Ibn Khaldun's economic analysis. Merchants could sell at profitable prices, given their costs, only if demand were high enough. They would most likely be able to sell if they handled goods desired by many rather than by only a few and if supply were inelastic at least in the short run. This implies that trade in goods with a more elastic demand (necessary goods) as opposed to goods with inelastic demand (luxury goods) would be more profitable as is the trade in products imported from

⁶³Because of Ibn Khaldun's stress on human labor as a main determinant of value, some scholars ascribe a labor theory of value to him. See for example Sattar (1976:123).

relatively inaccessible foreign lands as opposed to the domestic products whose supply might be increased rapidly if prices warranted. Ibn Khaldun indicated that wages as well as returns to craftsmen depended upon demand-supply relations, with supply conditioned at any time by the desire of workers for leisure, together with the extent to which they felt able to afford it; indeed, whether the dynasty or the public demanded it at a price the supplier deemed sufficient. These prices were, as a rule, higher in cities with sedentary culture than elsewhere. Ibn Khaldun's discussion suggests that it is usually demand rather than supply that fixes the price of labor. The following quotations from Ibn Khaldun's Muqaddimah indicates these points as well as the importance of government demand for goods and products.

Crafts improve and increase when the demand for their products increases. The reason for this is that a man will not give his labor free of charge, for it is his source of livelihood and gain--indeed, his only source of profit throughout his life. Consequently he will only direct it towards those things which have value in his town, in order to make a profit therefrom. And when a craft is the object of demand, attracting much expenditure [i.e. on the part of consumers], it becomes like a commodity which, being in demand, is brought for sale in larger quantities. Consequently, the people of that city will try to learn [the skills necessary for] that craft in order to make their livelihood from it. Should the craft, however, not be in demand, its sales will fall off and there will be no attempt to learn it. It will then be neglected and forgotten.....

There is another factor determining the state of the crafts, and that is the extent to which they are demanded by the state. 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, cannot compare with them, for the state is the greatest market, spending on things without too nice a calculation..... [3: 73].

Ibn Khaldun paid considerable attention to the effect of government expenditure on the national income and tax receipts. On more than one occasion in The Mugaddimah, he came to emphasize the importance of government demand for goods and services--views that anticipated those of J. M. Keynes centuries later.

A decrease in the expenditure of the king leads to a decrease in the amount collected in taxation. The reason for this is that the state and the court represent the greatest market for the world and the continued increase of civilization. Should the king, therefore, hoard the sums derived from taxation or otherwise, or should he not have any money to spend, the amount of money in the hands of his courtiers and officials would decrease, as would also the amount available for their retainers and dependents. Their expenditure would consequently fall off, and as they constitute the most important group of buyers, business would slacken and the profits of traders would diminish; tax revenue must necessarily, also contract, for taxes are levied principally on transactions, market purchases, and profits. The state will suffer, owing to the diminution of taxation... [4: 92].

Apparently Ibn Khaldun had more to say of demand than of costs and supply. Nevertheless, he indicated that supply would be forthcoming only if the price offered covered costs and was superior to alternatives open to the seller (II, 276-78). Increases in costs (e.g. in wages, custom duties, taxes "on profits" ,etc.) are reflected in prices; thus whatever increases the cost of supplying foodstuffs enters "into the

price of foodstuffs", and whatever swells the expenses of merchants enters into "the sales price". In his Muqaddimah

(II: 278-79) Ibn Khaldun wrote:

....the cost of supply of agricultural production also affects the value of foodstuffs and determines their price..... For when the Christians taking for themselves the rich and fertile lands drove Muslims into the coastal and hilly regions, whose soil is unfit for agriculture, the latter 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.

Customs duties raise the price of goods. For all middlemen and traders add to the price of their goods all that they have spent on them, including their own expenses. consequently, customs duties are also included in the value and price of the goods sold..[3:74]

...If then the district be prosperous, densely populated, and full of luxury, there will be a great demand for such commodities [i.e. other than necessities], each trying to increase his consumption of such commodities according to his condition. Supply, therefore, falls short of requirements; buyers increase in spite of the small quantity available, while the rich pay high prices for these goods, because of their relatively greater needs. And this leads to a rise in prices....

Industrial goods and services are also dearer in prosperous districts for three reasons: F i r s t , because of the greater need, arising out of the luxury prevalent in such districts and the large size of their populations. Secondly, because the ease with which a livelihood may be earned, and the abundance of foodstuffs in towns, makes craftsmen less ready to accept [poor] conditions of employment and service. Thirdly, because of the presence of a large number of rich men, whose need for employing servants and craftsmen is great and who, consequently, compete for the services of the working class and pay them more than the value of their work. This reinforces the position of

craftsmen, workers, and professional men, and leads to a rise in the value of their services... [3: 75]

Interdependence of Prices

Ibn Khaldun refers to the depressive influence of too low prices upon merchandising; to the injurious effect of excessive rises in price; and to the fact that stable and moderate prices are the best course for economic prosperity.

He argued:

.....If therefore the price of any goods remains low, whether it be a food stuff, article of dress or any other goods in general, and there is no offsetting increase in sale [or while the market shows no signs of improving], losses are incurred and the market for goods is depressed. Traders will therefore not seek to work in that line, and their capital is diminished. Consider this, first, in the case of agricultural produce. A persistent cheapness in such goods will lead to a deterioration in the condition of all those engaged in agricultural operations; for their profits will shrink or disappear, and their capital will cease to grow, or grow only very slowly: indeed, they may have to spend out of their capital, which will soon lead them to poverty. And this will be followed by a deterioration in the condition of those engaged in operations connected with agriculture, such as milling, baking and the other industries which transform agricultural produce into foodstuffs. Similarly the position of the army will deteriorate, in cases where their income is derived from taxes on the agricultural population allotted to them by the king. For the taxes paid by the agriculturists will fall off and it will become difficult to support the men who constitute a charge on the district and whose position will therefore deteriorate.....

We see, therefore, that an excessively low price is injurious to those dealing in the goods whose price has fallen. An excessive rise in prices is also injurious, although in exceptional cases, where high monopoly profits exist, it may result in an increase in wealth. Prosperity is best insured by moderate prices and a quick turnover.... [3: 76].

While it would be an exaggeration to say that Ibn Khaldun was wholly aware of the price system as such and the composite role it did or might play, it is evident, as indicated, that he was aware of the importance of prices and their bearing upon profit, the prospect of which was essential to the evocation of supply.

KINDS OF OCCUPATION

Ibn Khaldun distinguishes four kinds of occupations: Rulership, agriculture (including husbandry), trade and industry. Rulership, he argues, is not a natural means of livelihood. Agriculture, industry, and trade, however, are considered natural means of livelihood. Agriculture, man's primary and most humble livelihood is considered prior to all others for it is simple, natural and instinctive. Industry or craftsmanship is the second and later occupation. Being complex and scientific, they are to be found only among townsmen or "sedentary peoples", who Ibn Khaldun says: "represent a stage posterior to the nomadic." Trade, the third natural occupation, "contains an element of gambling" and legally employs "cunning" and "tricky" methods to obtain the (profit) margin between purchase prices and sales prices"- -a margin that yielded a very "small" profit in relation to the (invested) capital. Here is what Ibn Khaldun had to say about commerce:

As for trade, although it is a natural means of livelihood, yet most of the methods it employs are

tricks aimed at making a profit by securing the difference between the buying and selling prices, and by appropriating the surplus. This is why Canon Law allows the use of such methods, which, although they come under the heading of gambling, yet do not constitute the taking without return of other people's goods [3: 80].

Commerce did not, of course, embrace interest-taking or usury, which had Quranic disapproval (II: 293). As the above quotation indicates, while trade involved cunning and trickery, it did not involve taking away the property of others without giving anything in return, and so it was legal (II: 317, 343].

As for the traders, Ibn Khaldun argued that "honest traders are few" and the "judiciary is of little use" in the prevention of fraud (II: 342) Because of the risks involved in commerce and the need of the merchant to be aggressive, disputatious, quarrelsome, cunning, etc., only persons with such qualities were suited to be merchants; but these qualities were "detrimental to and destructive of virtuousness and manliness" and "positioned the soul toward evil." Merchants were inferior in character, therefore, to "noblemen and rulers"; for only rarely was a merchant a man of rank who could leave all "business manipulations" to his agents and servants (II: 342-45).

Surplus, Luxury, and Capital Formation

Ibn Khaldun argued that the development of crafts adapted to the supply of conveniences and luxuries and the formation

of capital depended upon the emergence of a capacity to produce a surplus above a population's basic needs. He does not, however explicitly account for the emergence of this capacity nor does he explain the distribution of this surplus between capital formation and the satisfaction of demands for conveniences and luxuries, except to note conditions unfavorable to capital formation. The establishment of political order and security, Ibn Khaldun reasoned, would conglomerate the population in cities facilitating cooperation and enabling civilization to flourish so that there would emerge division and collaboration of labor, specialization, improvement in the proficiency of the population at using the pool of skills at its disposal, and the development of markets commensurate with the growing supply of output. The following quotations from The Muqaddimah reveals how Ibn Khaldun thought of cooperation and division of labor as the requirements for any surplus output and development of markets.

Man has to produce in order to fulfill himself, and production results from his labor..... However, man cannot produce enough food to live by himself. If he wants to subsist, he is obliged to organize his labor through capital or through skill, the most simple operation of production requires the collaboration of many men and the technical background of an entire civilization. Each food requires a number of operations and each operation requires a number of tools and crafts, This social organization of labor must be done through a higher specialization of the workers. Only through specialization and repetition of simple operations do people become skilled and able to produce goods and services of good quality at a good speed.

.....
 Moreover, through specialization and social cooperation, man's efforts are multiplied... A

surplus is left which can be used for trade. What is obtained through the cooperation of a group of human beings satisfies the need of a number many times greater [than themselves].

A surplus emerges with the progress of civilization and permits the consumption and importation of non-necessities, together with capital formation, population growth, and possibly a further enlargement of the surplus in consequence of population growth. A great surplus of products remains after the necessities of the inhabitants have been satisfied. (This surplus) provides for a population far beyond the size and extent of the (actual one), and comes back to the people as profit that they can accumulate ... Prosperity, thus, increases, and conditions become favorable. There is luxury and wealth. The tax revenues increase on account of business prosperity.⁶⁴

So as Ibn khaldun argued, once an individual's "profits" exceed his "needs", a part of the surplus can be devoted to "capital accumulation." Ibn Khaldun himself condemned the wasteful use of property (I: 354, 242-21). Instead he emphasized otherworldly objectives (I: 386-88, 415) and the role of God's will rather than the importance of the accumulation of wealth.

Stages of Economic Development: Consumption patterns

Ibn Khaldun traced the stages of economic development and expansion of wants and consumption through stages of society and dynasties. He did not expect the standard of life to lag behind the capacity of an economy to provide for it, nor did

⁶⁴See The Muqaddimah, I: 308-10; II: 235-38, 270-83, 291-92, 301, 325, 434-35.

he anticipate a constrictive dearth of expenditure.⁶⁵ Ibn Khaldun (II: 117) argued that custom, man's "second nature", conditioned people's wants and that custom did change, albeit slowly. As men moved from the country to the city and accepted "the yoke of the city" they changed their consumption patterns by adding "conveniences and luxuries" to their requirements which originally only included "necessities" (I: 252). In his words:

....The differences between people arise principally from the differences in their occupations, for their very union springs out of the need for cooperation in the securing of a livelihood.

...At first, before comforts and luxuries, come those occupations which deal with the bare necessities of life. Hence some men devote themselves to agriculture, sowing and planting, and some tend animals such as sheep, cows, bees and silkworms, with a view to using their produce.....Such people must therefore necessarily pursue a nomadic life and for that reason they will unite, cooperate in economic matters, and have food, dwelling, and shelter only to the extent which answers the bare necessities of life, without any of the superfluities.

Should their standard of living, however, rise, so that they begin to enjoy more than the bare necessities, the effect will be to breed in them a desire for repose and tranquillity; they will therefore cooperate to secure superfluities; their food and clothing will increase in quantity and refinement; they will enlarge their houses and plan their towns for defence. A further improvement in their conditions will lead to habits of luxury, resulting in extreme refinement in cooking and the preparation of food; in choosing rich clothing of the finest silk; in raising lofty mansions and castles and furnishing them luxuriously, and so on. At this stage the crafts develop and reach their height. Lofty castles and mansions are built and

⁶⁵See Spengler, Economic Thought of Islam, 303.

decorated sumptuously, water is drawn to them and a great diversity takes place in the way of dress, furniture, vessels, and household equipment. Such are the townsmen, who earn their living in industry or trade. Their gains are greater than those working in agriculture or animal husbandry and their standard of living higher, being in line with their wealth. We have shown, then, that both the nomadic and the urban stages are natural and necessary [3: 81].

Ibn Khaldun indicated that private expectations and the desire for luxuries increase also in the wake of increasing consumption of luxury products by the dynasty (I:340-42). Accordingly, as Spengler (1964:303) points out, while Ibn Khaldun implicitly acknowledged the possibility of a backward-sloping labor supply curve (II: 277), he apparently supposed that increasing wants would increase the disposition of workers to exchange leisure and effort for conveniences and luxuries (II:272-75).

ECONOMIC RELATIONS BETWEEN TOWN AND COUNTRY

Ibn Khaldun's economic observations, although focused largely on "various aspects of making a living", are not separable from his discussion of such matters as rural-urban differences, the sociological basis of group power, and the process of moving away from tribal habits (detrribalization). As the quotation below indicates, he contrasts the country life with the urban environment where most crafts and other economic activities are carried on and where social organization for cooperation is far more complex than among non-urban people.

Country life is anterior to town life, the countryside being the origin of civilized town life and a constant source of supply of men to the towns.... For men seek at first necessities, and only later, when the primary needs have been met, amenities and luxuries. Hence the roughness of country life must precede the refinement of town life...We see countrymen taking urban life as their objective, and striving to settle in towns as soon as they have reached a certain standard of living and adopted certain habits of luxury. This has happened at some time to all nomadic tribes.....

The state of civilization of the countryside is inferior to that of the towns, because not all necessities can be found in the former. In particular the countryside doesn't provide farmers with tools and agricultural implements which they require for cultivation, while the crafts, such as carpentry, tailoring and ironwork are completely absent in the countryside. In the same way countrymen lack coins of gold and silver. They have, however, the yield of their lands and cattle, such as milk, wool, hides and camel hair, which they can exchange for coins.

It should be noticed, however, that the countryside stands in need of the town in matters of necessity, while supplying the latter with conveniences.....
[3: 83].

Theory of Government--Economic Consequences of Oppression

In his account of the role of government, Ibn Khaldun concentrated upon the Muslim apparatus of state and upon the social process underlying the rise and fall of dynasties and the resulting fluctuations in the functioning of the state. His empiricism led him to dismiss the utopian or model state (e.g. of Farabi) as hypothetical and unreal (II: 138) and to recognize that the ideal egalitarian theocracy of Islam (represented supposedly in the first four caliphates) had tended to become a ruler-dominated state. Indeed, he treats

the state and the dynasty ruling it as virtually co-terminus and hence subject to the same course of events. At the same time, he seems to have inferred, as E. I. J. Rosenthal suggests, that the state "was an end in itself with a life of its own, governed by the law of causality, a natural and necessary institution" and the socio-political unit which "alone makes human civilization possible".⁶⁶ Ibn Khaldun believed that in the absence of ethical or religious norms to which both ruler and ruled voluntarily conformed, governmental decisions would be unjust and at variance with the worldly aspirations of the ruled (I: 385-88; II:285). His counsel to rulers, while usually realistic, sometimes reflected the "Mirrors for Princes" literature (II:140-56). Thus he urged rulers to appoint able officials (II: 3ff.) and to avoid "injustice, the ruin of civilization" (II: 103-111); and he cautioned them against both excessive cleverness and excessive severity, remarking that tyranny destroys nations (I: 382-85).

⁶⁶E. I. J. Rosenthal, Political Thought, 84. Rosenthal, Ibid., 2, 8, also argues "Islam knows no distinction between a spiritual and a temporal realm, between religious and secular activities. Both realms are united under the all-embracing authority of the sharia, or prophetically revealed law of Islam based on the Quran, the Sunnat and Hadith. However as Ibn Khaldun observed, the caliphate, or "earthly political form" of this theocracy, becomes transformed into "the mulk or power-state" when, as often happens, the "authority of the sharia is impaired". See Ibid., 94-97, 117. On types of state see Ibn Khaldun's Muqaddimah, II, 137-39, where after distinguishing between the rational state and the state based on divine law, together with the utopian state, he further distinguishes between the welfare-oriented rational state of the Persian philosophers and the rational state in which the ruler is interested (as "all rulers" are) in maintaining his rule through the forceful use of power.

Ibn Khaldun pointed to the importance of private property and the economic efficiency associated with this institution. He warned the government of the economic consequences brought about by arbitrary appropriation of private property; of the loss of incentive derived from making subjects to do forced work; and the economic slack created by imposition of heavy taxes, all of which result in deterioration of society and the state.

Know then that the arbitrary appropriation by the government of men's property results in the loss of all incentive to gain, when men realize that what they have accumulated will be taken away from them. A loss of incentive will lead to a slackening in enterprise, the slackening being proportional to the extent and degree of confiscation. Thus if confiscation is widespread, covering all forms of economic activity, there will be a general slackening, owing to the feeling that no branch offers any longer any hope of gain. If however confiscation be mild, there will be only a relatively slight falling off in economic activity.

Now the state of a society and the prosperity of business depend on the intensity of human efforts and the search for gain; should, therefore, men slacken in their economic activity the markets would slump and the state of society deteriorate. People would forsake that country and migrate elsewhere in search of gain, the result being a general depopulation and the desertion of cities. And this deterioration in society would be followed by a weakening of the State, for the State is as the Form whose condition follows that of its Matter, Society....

And do not think that oppression consists merely in taking away wealth and property without cause or compensation, as is generally believed. No, oppression has a wider meaning. Thus all who take away the property of others, or force them to do a certain work, or make unjust claims on them, or impose on them burdens not sanctioned by the law are oppressors.... Among the most oppressive measures, and the ones most deeply harming society,

is the compelling of subjects to perform forced work unjustly. For labor is a commodity in as much as incomes and profits represent the value of the labor of their recipients... nay most men have no source of income other than their labor. If, therefore, they should be forced to do work other than that for which they have been trained, or made to do forced work in their own occupation, they would lose the fruit of their labor and be deprived of the greater part, nay of the whole, of their income... [3: 84-5]

Public Finance--Changes in the Rate of Taxation

Ibn Khaldun implied that the withdrawal of money from circulation through taxation and the accumulation of treasure could depress the economy and its capacity to generate a surplus. Following his general stages of dynasties he argued that at early stages a low rate of taxation will increase business incentive and activity resulting in an overall improved economic condition. During later stages, a decline in investment and loss of incentive in economic activity would be experienced due to increased tax rates which are required to support luxurious expenditure of later dynasties. This, he argues, would result in lower overall revenue for the state.

In the early stages of the state, taxes are light in their incidence, but fetch in a large revenue; in the later stages the incidence of taxation increase while the aggregate revenue falls off.

This is because the state, if it rests on a religious basis, will exact only dues provided for by Islamic Law, such as the Benevolence Contributions, Land Tax, and Poll Tax⁶⁷ whose rates are low.. and fixed. Should the state, on the other hand, have achieved conquest through group

⁶⁷Poll taxes were levied on non-Muslim subjects, in return for exemption from military service.

solidarity, it will rest in its earlier stages on a tribal, nomadic basis. Now the tribal way of life develops the qualities of toleration, generosity, and respect for the property of others as well as restraint in imposing taxes on that property, except very rarely--all of which means that taxes are few and light, in this incidence.

Now where taxes and imposts are light, private individuals are encouraged to engage actively in business; enterprise develops, because men feel it worth their while, in view of the small share of their profits which they have to give up in the form of taxation. And as business prospers the number of taxes increases and the total yield of taxation grows. As time passes and kings succeed each other, they lose their tribal habits in favor of more civilized ones. Their needs and exigencies grow... owing to the luxury in which they have been brought up. Hence they impose fresh taxes on their subjects--farmers, peasants, and others subject to taxation; sharply raise the rate of old taxes to increase their yield; and impose sales taxes... These increases grow with the spread of luxurious habits in the state, and the consequent growth in needs and public expenditure, until taxation burdens the subjects and deprives them of their gains. People get accustomed to this high level of taxation, because the increase have come about gradually, without anyone's being aware of who exactly it was who raised the rates of the old taxes or imposed the new ones.

But the effects on business of this rise in taxation make themselves felt. For business men are soon discouraged by the comparison of their profits with the burden of their taxes, and between their output and their net profits. Consequently production falls off, and with it the yield of taxation. The rulers may, mistakenly, try to remedy this decrease in the yield of taxation by raising the rate of the taxes; hence taxes and imposts reach a level which leaves no profit to business men, owing to high costs of production, the heavy burden of taxation, and inadequate net profits. This process of higher tax rates and lower yield (caused by the government's belief that higher rates result in higher returns) may go on until production begins to decline owing to the despair of business men, and to affect [the] population. The main injury of this process is felt by the

state, just as the main benefit of better business conditions is enjoyed by it.

From this you must understand that the most important factor making for business prosperity is to lighten as much as possible the burden of taxation on business men, in order to encourage enterprise by giving assurance of greater profits [4: 87-8].

The above lengthy quotation shows that Ibn Khaldun was indeed very concerned about the relation between tax structure and economic growth. When taxation is confined to the limits prescribed by the shari'a, it is conducive to economic growth. But as government expenditure (consumption) increases and more taxes are levied, economic growth is adversely affected, eventually leading to a decline. One may also note a degree of similarity between Ibn Khaldun's theory of optimal tax rate⁶⁸ and those of modern supply side economists, in particular with the theory behind Laffer's curve.

To summarize, Ibn Khaldun called for a fair tax rate and a just and equitable distribution of it. He stressed that a state reserve fund is unnecessary and could depress the economy. He cited with approval the counsel given in the early ninth century by Tahir (a general) to his son (a newly appointed governor):

⁶⁸M. A. Neshat points out that Ibn Khaldun seems to have grasped the concept of the optimum rate of taxation. See his "Ibn Khaldun, Pioneer Economist," in l'Egypte Contemporaine, 1944, vol. 38, cited by Issawi, 1950, 88. Also according to T. B. Irving Ibn Khaldun has demonstrated that taxation beyond a certain point became counter productive and "pump priming is important to keep the business running smoothly". For more on this see "Ibn Khaldun on Agriculture" Islamic Literature (Lahore) 7 (8) August 1955, 31-32.

... distribute [taxes] then among all taxpayers in a fair, just and equitable manner and make them general, not exempting anyone because of his noble rank or great riches, nor even exempting your own officials or courtiers or followers. And do not levy on anyone a tax which is beyond his capacity to pay.

...Wealth does not fructify when hoarded and stored in safes; when, however, it is used to improve the condition of the subjects, to safeguard their rights, and to preserve them from harm, it grows and fructifies, greatly benefiting the subjects, as well as strengthening the state and raising its prestige and popularity. Let your Reserve Fund, then, consist of expenditure used to improve the condition of Islam and the Muslims.⁶⁹

Population Growth

In his discussion of population growth Ibn Khaldun touched upon both natural increases and migration. Increase in population, argued Ibn Khaldun, is almost commensurate with the growth of civilization (I:91-92) and increases in the labor force are associated with the increase in population (II: 272-73). Ibn Khaldun discussed economic, environmental, moral and social factors affecting the size of population. He pointed out that population tended to grow where food was abundant and life was comfortable. Luxury and prosperity were initially favorable to population growth, stimulating both natural increases and immigration (I:351-53; II: 280-81),

⁶⁹Tahir Ibn al Hussien (775-822) was a distinguished general in the civil wars during the reigns of Harun al-Rashid and Al-Mamun. He was appointed governor of the Eastern Provinces and shortly before his death broke away from the Caliphs at Baghdad. The quotations reported here by Ibn Khaldun are from Tahir's famous letter to his son. See Issawi, An Arab Philosophy of History, chap. 4, 89.

though in time a luxurious mode of life tended to be unfavorable--because it rendered a people meek, submissive, and militarily weak (I:286-89) and fostered homosexuality, which was unfavorable to fertility and adultery, which was conducive to child mortality (II:295-96). An increased burden of taxation and insecurity about property brought about by the state will lead to famine and death. Famines increase because many people begin to give up cultivation due to the increased burden of taxes. Also widespread rebellions and murders springing from the weakness of the state, reduce the size of the population--so that stocks of agricultural produce begin to fall. Any reduction in the amount of agricultural produce will lead to expectations of famine since a rise in the price of agricultural products puts them out of reach of the poor, who may therefore perish (5:96).

Another factor causing reduction in population, according to Ibn Khaldun, is epidemics, and the most common cause of epidemics, he says: "is the pollution of the air resulting from denser population" (5:97). Thus, mortality was higher in towns than elsewhere, sedentary life, urban crowding, and the richness of diets being relatively unfavorable to health (II:136-37; 244).

As for the social factor, Ibn Khaldun pointed to an important cause of lower birth-rate towards the close of a civilization. He stated: "A people which is defeated and subjugated by another soon disappears." The cause of this "is

the indolence that overcomes the soul of a people who are subjected and become dependent on others." According to Ibn Khaldun, for subjected people hope sinks and procreation diminishes, because procreation is stimulated by high hopes and the resulting heightening of animal energies. If, therefore conditions are unfavorable and indolence overcomes hopefulness, while solidarity has been weakened by defeat, numbers fall off, incomes decrease, enterprise slackens, and people become unable to defend themselves owing to the fact that defeat has broken their spirit. They then become the prey of every aggressor, even if, in the past, they had enjoyed imperial power over others.⁷⁰

Ibn Khaldun argued that a large population, through specialization and division of labor creates wealth. He wrote:

Differences in income and market prosperity between district and towns are due to differences in population. This is because... a single individual is incapable of satisfying his needs by himself, but must cooperate with other members of society. The product of such cooperative labor will exceed by far the needs of the group. Thus, in the production of wheat, for example, we do not see

⁷⁰Ibn Khaldun, probably had in mind the condition of the later Roman and Persian Empires. In fact he described the Persian case as follows: "...an illustration is provided by the Persians, who had filled the earth and of whom huge numbers remained even after the annihilation of their army by the Arabs... When they were subjugated by the Arabs their numbers fell and they soon disappeared as though they had never been. And do not suppose that this was due to their having been oppressed or persecuted, for the justice of the rule of Islam is known. Nay it is due to the very nature of man when coerced and forced to obey another's will." See Issawi, An Arab Philosophy of History, chap. 5, 95.

each individual providing for his own needs; rather we see six or ten persons co-operating: a blacksmith, a carpenter to repair the tools; an ox-tender, a man to plough the soil, and another to reap the grain; and so forth for the different kinds of agricultural work, each man specializing in one operation.

The result of such cooperative labor is to produce a quantity of food which is sufficient for many times the number of persons engaged in the work; cooperative labor more than satisfies the needs of those engaged in it. Consequently, when the inhabitants of a district or town devote their efforts to providing necessities, they find out that they need only part of their labor for that purpose; the rest of their labor is available for the production of luxuries, or goods required by the inhabitants of other districts and exchanged with them for goods of equal value imported from these other districts--all of which leads to riches (5:92).

...do you not see how, in thinly populated districts, opportunities for work are few or non-existent, and incomes low, because of the scarcity of human activities?⁷¹ (5:95)

In short, Ibn Khaldun associated changes in population with the level of economic performance. An increase in population (and thus labor force) leads to the division and specialization of labor which results in economic progress and the growth of civilization. A population decrease causes economic retrogression and the decline of civilization (II: 280-83, 290, 314).

⁷¹Ibn Khaldun grasps the reciprocal nature of the relations between wealth and population. If an increase in population, by permitting a greater degree of division of labor, can increase wealth, greater wealth can lead to a larger population. Thus he states that "a good government, by encouraging industries, can increase its population and augment its revenue." [II:275]

Ibn Khaldun and Modern Economic Theory

The above quotations from Ibn Khaldun's The Mugaddimah shed some light on the broad range of economic theories he discussed. Our analysis of the economic ideas of Ibn Khaldun, though not exhaustive, reveals the fact that his knowledge of socioeconomic and political issues extended far beyond household management, embracing markets, prices, money, supply and demand phenomena, and macroeconomic relations stressed by modern economists. Although, as Spengler stated⁷² it is not so much Ibn Khaldun's anticipation of the variety of "modern" notions that is important, but rather his "deep insight into the essentials of the accumulated knowledge of his time." Nevertheless, it seems beneficial to conclude our discussion of this fourteenth-century economist by attempting to determine how his analysis bears upon modern economic notions. Throughout our review, occasional references were made in this regard. In the following pages we touch upon other economic notions that, as Boulakia puts it, were discovered by Ibn Khaldun a few centuries before their official births.

The focus of Ibn Khaldun's discussion was the stages of growth and decline through which each society must pass. We noted earlier that Spengler has compared this theory with Hicks' theory of trade cycles. However, Ibn Khaldun's theory of economic growth may be viewed as representing the notion that the process of economic growth involves certain distinct

⁷²See note 58 in this chapter.

"stages". He was aware of the macroeconomic truth that "income and expenditure balance each other in every city...and if both income and expenditure are large...the city grows."⁷³ Ibn Khaldun also noticed, in the Keynesian sense, the importance of the demand side, particularly government expenditure, in avoiding business slumps and maintaining economic development.⁷⁴

Ibn Khaldun's contribution to the theories of international trade and international price relations is also worth noting. He relates the difference in prices of goods between countries to availability of the factors of production in these countries--which is the essence of the modern theory of international trade.

His analysis of profit in trade emphasizes traders' arbitrage through space and time. Because of the importance he attaches to gold and silver, Ibn Khaldun may be regarded as a precursor of the Mercantilists.⁷⁵

Ibn Khaldun's discussion of putting new ideas into practice, in the context of craft and industry, has been

⁷³Ibn Khaldun, The Mugaddimah, trans. F. Rosenthal, 2nd ed. (New York: Pantheon Press, 1967), vol. II, 275.

⁷⁴Ibid., 124.

⁷⁵Ibn Khaldun maintained that: "God created the 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 or treasure. Although other goods are sometimes stored it is only with the intention of acquiring gold or silver." See Issawi, chap. 3, 77.

compared to Schumpeter's distinction between invention and innovation, as Ibn Khaldun considers the expansion of the market to be crucial in this regard.⁷⁶

Ibn Khaldun's theory of population may be contrasted with that of Malthus and underlines a number of common points, though he did not mention the preventive checks. He was the first writer who interpreted the changes in the form of social life in terms of changes in the mode of production, and the first noted economist to unravel the secret of value--the discovery that its essence was labor.⁷⁷ His views on poverty and its causes foreshadow the ideas of Proudhon, Marx and Engels.

Ibn Khaldun anticipated Adam Smith on several points, including the division of labor and the free market system. He was against state intervention in economic affairs and believed in the efficiency of the free market. His insight into the multidimensional changes in human life which take place during the transition from a rural to an urban civilization provides the basis for his emphasis on division of labor whose scope widens with the growth of culture. It is also important to note Ibn Khaldun's emphasis on economic factors in his interpretation of history and the fact that he relates economic progress to political stability.

⁷⁶See M.N. Siddiqi, 1982, 36.

⁷⁷See M. N. Siddiqi, Recent Works in History of Economic Thought in Islam, a Survey, (Jaddah: King Abdul Aziz University, 1982), 35.

An interesting contribution which testifies to the depth of Ibn Khaldun's analytical insight is his observation that a rise in wages beyond a certain level leads to a decrease in the supply of labor--an anticipation of the backward sloping supply curve of labor.⁷⁸ He rightly pointed to the truth that production of wealth is not a result of individual labor and enterprise only. It owes itself as much to many social institutions, especially the state and its administration.⁷⁹

In short, Ibn Khaldun realized the crucial importance of the social organization of production and regarded labor as its key factor. His theory of the international division of labor which depends more on differences in skill and expertise of the inhabitants of different regions and less on the natural endowments of these regions, constitutes the embryo of an international trade theory, with analysis of the terms of exchange between rich and poor countries, of the propensity to import and export, of the influence of economic structures on development, and of the importance of intellectual capital in the process of growth.

Our discussion indicates that Ibn Khaldun's analysis of economic issues did not bear the high level of technical economic insight shown in the works of Smith, Ricardo and

⁷⁸See Spengler, Economic Thought of Islam, 303.

⁷⁹For Ibn Khaldun's view on wealth as a social, rather than an individual, product see Issawi, chap. 3, 76.

Malthus. Nonetheless, it seems reasonable to conclude that Ibn Khaldun conceived and even better understood many of the basic concepts contained in the works of Hume, Locke, Smith, Ricardo, Marx, and Keynes. In the fourteenth century, however, it would have been impossible for Ibn Khaldun to raise such technical economic insight. At that time, it should be recalled, economics did not occupy an important role and was not considered as a separate discipline. Ibn Khaldun's discussions of economic issues are only in connection with his study of the science of culture and his historical interpretation of underlying causes behind the fall and rise of dynasties. He was not a writer on economic matters and did not intend to analyze economic questions per se. Without tools and preexisting concepts, he elaborated a general economic explanation of the world and described the situation in the Maghrebian states at a very important moment in their history--the beginning of their downfall.

Al Maqrizi (767-846/1364-1442)

The analysis of human history in terms of social and economic causes is found also in the work of Maqrizi, a distinguished student of Ibn Khaldun. Born in Cairo, Maqrizi was a Muslim jurist and an Egyptian thinker of the late fourteenth and early fifteenth century. His status as the inspector of the market (muhtasib), a position at the very

center of political power, undoubtedly gave him an understanding of the events sweeping before him. He was in a position to observe very closely the functioning of the economy and to obtain precise information about exchange and monetary practices.

Maqrizi produced several encyclopedic historical works. His economic ideas, however, may be found in two of his books which were inspired by his own experience, the Treatise on Famines and his Treatise on Money.⁸⁰ In his Treatise of Famines Maqrizi has attributed the problem of Egyptian government and society under the reign of Barquq to the moral corruption and social repression accompanied by the feudalization of the political system.⁸¹ He described a succession of famines in Egypt from pre-Islamic times to the advent of Islam and to the current crises of his time, giving particular attention to the dreadful social repercussions which result from natural disasters, food scarcity and high prices. He maintained that their origin lay not so much, as commonly assumed, in natural events--devastating invasions of locusts, low average rainfall, or failures in the life giving floods of the Nile--as in events of human origin, political as

⁸⁰Both of these books are translated in to French. His Treatise on Money by Daniel Eustache as "Les perles des collier; etude de numismatique et de metrologie musulmans." Hesperis Tamuda 10:1969, 95-189. The Treatise on Famine was translated by Gaston Wiet as "Le traite des famines." Journal of the Economic and Social History of the Orient 5:1962, 1-90.

⁸¹See M. Y. Essid, "Islamic Economic Thought", 1987, 93-97.

well as economic. He identified three causes for this phenomenon. Corruption and bad administration, heavy burden of taxes and land rent on cultivators, and increase in the supply of money other than gold and silver coins (felous).

Discussing the first cause, Magrizi pointed to the institutionalization of corrupt practices in the apparatus of the state and to the venality of administrative and religious officials which lead to increases in taxes, the impoverishment of the farmers, and to decreased production and rising prices, from which follow food scarcities and lower revenues. The second cause, he said, is due to the greed of state officials whose land speculation results in an increase in ground rent and costs of ploughing and seed which, in turn lead to land abandonment, lower production, and rising prices. As for the third cause, he points to the debasement of the money supply through the proliferation of copper currency. Magrizi emphasized that gold and silver were the only money which could be standards of value, "in the nature of things as well as according to the Shari'a." Prices seldom rose much in terms of bullion, though they soared high in terms of felous (copper currency). The obvious remedy was, according to Magrizi, to limit the supply of felous to the minimum necessary for petty transactions.⁸²

⁸²For more on Magrizi's monetary policy recommendations see R. Al-Misri, al Islam wa'l Nuqud, (Jeddah: International Center for Research in Islamic Economics, 1981), 63-80.

Maqrizi, the last in the series of medieval Islamic scholars reviewed in this study, lived during a turning point in Egyptian history, which saw the inauguration of the monetary age but which had not yet freed itself from religious constraints. The importance of monetary disorders in his theories reflects not only the sharpness of their impact on his consciousness but also his determined opposition to the debasement of gold and silver coinage. According to Maqrizi, in all cities of Egypt during both pre-Islamic and Islamic reigns, gold had never ceased to serve as the exclusive monetary standard for evaluating labor and prices. There is thus historical justification for the power of gold which, in spite of the passage of time, always managed to keep its value. From this pure ideal form of currency one can only turn to a corrupted, spoiled form, such as copper currency.

The quasi-sacred status attributed to gold emphasized the dimensions of the disaster with which Maqrizi was confronted when gold currency was replaced by copper. When he recounted the historical context in which copper coinage had been introduced "to calculate exchanges when it was necessary to deal with merchandise of a very small value being sold for a dirham or for a fraction of a dirham," he wondered how this odd money, chosen for its divisibility, could serve as a substitute for gold and silver coins, and its circulation, a result of the favor it gained among the people, could expand so much in the reign of Barquq "that it became the major

currency of the country."⁸³ Thus the bad money drives away the good; but this principle (later to become Gresham's Law), according to Magrizi, is not limited to currencies, but applies as well to the political sphere, where the same cyclic retrogression takes place. The golden age and the gold currency of Tulun were driven out by the silver money of Saladin, which in turn was replaced by the copper coins of the age of Barquq. To Magrizi, the reign of bad money removes not only two other currencies but destroys as well all of the social, religious, and moral values that form the foundation of the city. Thus Magrizi formulated a generalized Gresham's law applying to all facets of life. He wrote:

that the final stabilization of the standard of living of the population on Egyptian territory has been achieved simply by creating copper coinage to serve as a counterpart to all articles for sale and all sorts of food... [These coins] are used for farm rents, for interest on commercial capital, for all state taxes and to fix the cost of labor, of whatever kind. For, to the Egyptians there is nothing but that currency to evaluate all their wealth..."

Magrizi referred to the substitution of copper currency for gold as a new innovation. Magrizi's dislike of the monetary system based on copper currency was so intense that he called it a "disaster" and the cause of the "disappearance of joy." Referring to that system as a new phenomenon he wrote:

It is a recent innovation, a disaster which has just been invented, which has no foundation in any

⁸³See Essid, Islamic Economic Thought, 95.

nation which has received the word of a prophet, an enterprise without legal sanction... he who invented it was following neither ancestral tradition nor the ideas of any human being.... this change has caused the disappearance of joy and the suppression of beauty in the world, reducing fortunes to nothing and spoiling their pleasure.⁸⁴

For Maqrizi, "gold and silver currencies are the primary legal forms of money while felous is merely an accessory which takes on the appearance of the real thing." His frustration is over the fact that which was made an accessory became the principal.

In this manner Maqrizi, points out the difference between natural value, in which currency coincides with nature, and nominal value, in which it is given its value by law. He argued that copper coinage is totally dependent upon legislative action, a dependency so total and absolute that it may be likened to a kind of servitude to the despot. For Maqrizi the circulation of the felous, like power, is a form of despotism and this correspondence between the reign of arbitrary money and its political equivalence is a theme that runs throughout his treatise on famine. Sounding like a modern supply side economist who advocates a return to gold standard for purposes of price stability and economic progress, Maqrizi argued:

If one considers the prices of goods in terms of gold and silver, they will be found to have increased very little, but if one takes account of the swindle by which the people have been victimized by the influx of copper coinage, no

⁸⁴Ibid., 96.

greater catastrophe or frightful reality could be imagined. This is what has caused the general situation, what has disarranged the conditions of life and has led the people, little by little, to decline and ruin.⁸⁵

As our brief examination of Maqrizi's economic ideas reveals, in discussing the causes of crises, he mainly dealt with questions concerning the monetary system of his time, approximating theories recognized by modern economic science, such as the quantity theory of money, Gresham's law and the difference between nominal and real price. However, as is pointed out by Essid, Maqrizi's originality lay in his rejection of determinism and his insistence upon the primacy of political, social, and economic factors in the evolution of human society. He concluded that crises were not the result of divine wrath but grew out of political, social, and economic phenomena.⁸⁶ He ends the treatise with recommendations, both political and monetary, in the form of advise for rulers which he felt, would remedy the evils that hung so heavily over his epoch.

Both Maqrizi and his teacher, Ibn Khaldun, treated economic changes as inextricably bound up in the evolution of Muslim society and its "progress" as nothing but a long decline toward a worse situation. For both, salvation lay only in a return to the past. In Ibn Khaldun's thought this return is to a strengthened power of the state through better

⁸⁵Ibid.

⁸⁶Ibid.

understanding of economic mechanisms, while in Maqrizi's, it was to a monetary system based on a gold standard. Together they preside, each in his own way, over a crucial period in the history of the Muslim world, the beginning of its downfall.⁸⁷

This ends our analysis of Islamic economic ideas by the major medieval Muslim thinkers. Other Islamic thinkers (e.g. al-Mawardi, Ibn Miskawayh, Fakhruddin al Razi, Nizam al Mulk Tusi, Muhammad ibn Hassan al Shibani, etc.) are not covered in this study. This exclusion is not because they are unimportant, but only because the scope of this research does not permit inclusion of all these Muslim scholars.

Summary:

Muslim writers classed "economics" as a practical science, along with politics and ethics, in keeping with a classification supposedly originated by Greek philosophers and

⁸⁷The end of the medieval period in the Islamic world does not coincide with the termination of medieval Christendom, for the Islamic world did not experience a Renaissance as did the West. It should be noted however, that the period covered by the term "Middle Ages" corresponding to a millennium of darkness, ignorance, superstition and socioeconomic decline in the West, coincides with the period referred to as the "golden Age" in the East, in particular in the Islamic Empire, a period during which Islamic Empire was the driving force behind economic and cultural life. For more in this regard see the introductory chapter of the present study.

utilized by Christian authors.⁸⁸ Of the nine Muslim (or Quran-oriented) sciences in the early centuries of Islam, only jurisprudence (fiqh) and "sciences" concerned with the interpretation of the Quran and hadith were at all likely to be confronted by economic questions and then in an administrative or ethical manner. Even so, the "Muslim sciences" could influence the way Muslim writers theorized about economic issues, for authority carried weight in the Islamic world, and in the ideal Muslim state all spheres of life, including economics, were interrelated and under the governance of Divine Law as expressed in The Quran, Sunnah, and hadith. Most of the Muslim authors carried on their economic inquiries in terms of the ideal rather than of the actual. Ibn Khaldun's case was different. He was concerned with the real rather than with the ideal Muslim world.

Islamic economics, being based on the Divine Law, is subject to such constraints as mentioned in the Quran and the Sunnah. We have discussed how Muslim scholars examined the implications of these supposed constraints. These examinations, of course, did not involve explicit economic analysis but had to do rather with the content of economically-oriented regulations. The significance of these constraints on economic matters was delineated principally in compilations of traditions, in manuals for the guidance of the

⁸⁸Rosenthal, Political Thought in Medieval Islam, pp. 143, 165.

muhtasib (who enforced religious and moral precepts) and also in the Mirrors for Princes, introduced into Arabic literature from Persia in the eight century. Mirrors included, besides general matter on the art of government and pleas for "justice" and the subjects' "welfare", discussions relating to taxation and other economic questions.

Muslim writers traced wages, prices, profit and loss and all other economic phenomena, together with rural-urban population distribution, to man's inclination to cooperative action and to his inability to satisfy his wants other than through mutual help and cooperation. With Plato, Muslim philosophers observed that justice consists of placing everything in its proper place and giving everyone his due. Income was to be had from the professions and crafts, from agriculture, and from trade, though some held that the dependence of trade upon capital made it a more precarious source of income. Nevertheless, a point that is echoed by many Muslim writers is that income earned by commerce and trade is more pleasing in God's eyes than money received from the government, for civil or military services. Moderation in expenditure was counseled, together with saving and investment diversification. Money, in its capacity as a unit of account, was considered as a facilitator of exchange and the common denominator between producers of different goods. However, money could perform this role only if fidelity and discipline were maintained by the Prince.

The Greek philosophic influences are apparent in the writing of Muslim authors--from Plato's Republic, Aristotle's doctrine of the golden mean and, in particular, the Oikonomos of the neo-Pythagorean Bryson. It is important to note that the Greek heritage received more acceptance in Islamic Persia than by the Arab scholars. Bryson's work, which was intended to explain the science of administration and production within an economic unit, the Oikos, was modified by Muslim Philosophers to bring it into line with Islamic social reality or with its ideological principles. The Persian falasifa like Farabi, Ibn Sina, Ghazali, and Tusi, redirected Bryson's idea to support their own political theories. Bryson's work did not give rise to new or original analysis but was used as a reference for political economy.

As we discussed, Al-Farabi, tenth-century founder of Islamic political philosophy, had little to say concerning economic issues as such, though his discussion of household and city does reflect Bryson and the view that the state has its origin in mutual need. His account of division of labor in the "ideal city" emphasized that each citizen must limit himself to a "single art." This is because men differ in talent, improve skills with practice, and are capable of supplying all needs only if each is responsible for a specific assignment. Farabi did not examine the relationship of specialization to prices, distribution, and the use of money, though he indicated that each individual is entitled to his

portion and that support should be provided for priests, secretaries, etc., and possibly for certain impoverished individuals in the society.

Ibn-Sina, Ghazali, and Nasir al-Din Tusi, in their treatment of household economics reflect Bryson's influence as well as Aristotle and Plato. Society as envisioned in Ibn-Sina's work is a controlled hierarchy, with government flowing out of the cooperatively satisfiable needs of men, with commercial and other interpersonal transactions highly regulated, with provision for the support of both the disabled and the general welfare, and with households conducted in conformity with Bryson's counsel. Ghazali, noting that cities and the state arose out of the advantages that men derived from division of labor and cooperation, and that each should engage in a useful activity, points to the importance of free trade and exchange and the need for money to facilitate it.⁸⁹ Tusi, Persian advisor to Hulagu, Mongol Khan, followed Bryson quite closely.

⁸⁹ Ghazali, The Book of Knowledge, 27-30, 146; also see Rosenthal, Political Thought, pp. 39, 239. In keeping with the widely accepted Muslim view that trade and craftsmanship are honorable sources of livelihood, and with his own view that their pursuit provided support in this world and access to the next world, Ghazali believed that only "the ascetic, the mystic, the scholar, and the public official are exempt from the duty of earning bread by the work of their hands or by commerce." See Grunebaum, Medieval Islam, 215. "The markets", wrote Ghazali, "are God's tables and whoever visits them will receive from them." Cited in *ibid.*, 125. Ghazali's nominalist view of money clearly reflects Bryson's influence. See Spengler, Economic Thought of Islam, 280, fn. 40.

Ibn Khaldun's concern was the explanation of "civilization and social organization," and not prescription in keeping with ethical requirements. He apparently assumed that Greek politico-economic and other abstract models had little applicability or explanatory power respecting social reality, and this assumption probably was strengthened by his hostility to the skepticism manifested by philosophers (especially Farabi and Ibn Sina) and to their conception of "happiness."

Our analysis in this chapter indicates that there existed a considerable comprehension of economic behavior among medieval Muslim scholars. It is this sort of knowledge that is reflected in the works of these scholars and particularly in Ibn Khaldun's work rather than precepts oriented to household management. Although the field of Islamic economic thought awaits further attention, the available research and the review presented here reveals a basic continuity of ideas and discussions on various economic subjects by Islamic scholars during the ascendancy of Islamic civilization. Thus, we have provided the basis necessary to refute the thesis propounded by Meyer that, "the Arabic, Turkish and Persian-speaking East has experienced no continuity of economic ideas such as those which come from the Judeo-Christian West." Medieval Islamic civilization and its dominant position in the world for over a thousand years could not have been devoid of economic ideas. From Abu Yusuf in the seventh century to Tusi

and Ibn Khaldun in the thirteenth and fourteenth centuries, there are continuous and serious discussions of all the central economic questions such as: taxation, government expenditure, division of labor, money and exchange, monopoly, population, property rights, and the ethical nature of economic conduct.

CHAPTER IV

ECONOMIC THOUGHT IN THE MEDIEVAL WEST: SCHOLASTIC ECONOMICS

In the West, the thousand years that lie between the fall of Rome and the fall of Constantinople are commonly referred to as the Middle Ages. However, the decline of the Greek and Roman civilization, though real enough, did not lead to a complete break between the society of antiquity and that of the Middle Ages. The essential features of medieval social structure, those which concern the distribution and regulation of property, particularly in land, had their origin in certain developments which occurred in the latter period of the Roman Empire.¹

After the fall of Rome the Church had become increasingly institutionalized, adding greatly to its material wealth and its ability to exercise power over the individual in the spiritual domain. In the Middle Ages it had become in its secular aspect one of the most important pillars of the existing economic structure. Its property in land had grown to such an extent that it had become the greatest of feudal lords. This combination of secular power and spiritual power

¹For example the medieval society class division between lords and serfs was derived from the structure of the latifundia of latter-day Rome. See Eric Roll, History of Economic Thought, (New York: Prentice Hall Inc., 1946), 35.

within the Church resulted in a harmony between the doctrines of the Church and that of feudal lordship. The latter in turn was created by the seizures of land by conquerors, who became kings, and grants of land by them to past and future supporters.

The feudal system gave rise to a rigid division of social classes with differing and carefully defined rights and obligations. As such, the principle of social organization was that of status rather than of contract. In a way, the social organization of the Middle Ages resembled the ideal of Plato as well as that of the Stoics. The society was organized into three classes: the clergy who prayed, the warriors who fought, and the peasants who toiled. But despite this class division, Western medieval civilization was given unity by the idea of a universal community, a concept held dear by the Stoics and one that forms a stark contrast to both the city-state of the Greeks and the national state of modern times. The universal community of the Middle Ages was a community of believers, deeply concerned about salvation in the next world and assigning to the Church the vital role of mediator between man and God.

Throughout the Middle Ages economic ideas were part of the moral teachings of Christianity. Christian dogma, however, was not enough. The Western medieval world could not give up the ethical quality of its doctrines without losing its spiritual raison d'être. But since it also had deep roots in

the economic conditions of feudal society, it combined the teaching of the Gospels and of the early Christian Fathers with those of Aristotle, the philosopher who had tempered his realistic views of the economic process with ethical postulates. It was on the basis of the harmony between doctrines of the Church and the feudalist society that the Church could mandate the whole of human relations and conduct as well as provide the precepts which would lead to spiritual salvation. Unity is found throughout the canonical discussions of economic institutions between the economic ethics of Christianity and the existing institutions of the time with all their imperfections. This union, though an uneasy one, continued to hold until the force of the modern economic order made itself felt.

The Canonists accepted Aristotle's distinction between the natural economy of the household and the unnatural form of the science of supply, the art of money-making. Economics to them meant a body of laws, not in the sense of scientific law, but in that of moral precepts designed to ensure the good administration of economic activity. The part of medieval economics which was akin to that laid down by Aristotle rested on a foundation of Christian theology. This condemned avarice and covetousness and subordinated the material advancement of the individual both to the claims of his fellow men, his brothers in Christianity, and to the needs of salvation in the next world. However, in general the church defended the

inequalities of rank and position. It is a greater emphasis on this latter point which distinguishes the Canonists from the early Christian Fathers.²

Medieval economics was mainly concerned with exchange. Rules of justice in exchange reflected ideas about the nature and extent of property. Saint Augustine had feared that trade turned men from the search for God; the doctrine that "no Christian should be a merchant" was common in the Church of the early Middle Ages. In the later Middle Ages a number of events drew attention to economic phenomena from a theoretical point of view. The Crusades had opened up the world, towns and markets were being introduced. Simultaneously, those searching for norms to guide behavior in this increasingly important area were helped by re-examination of the economic arguments of the ancient world as documented in Roman law and in Greek philosophy. The views of Church Fathers on property sharply contrasted with a firmly entrenched economic system based on private property and increased trade caused by the growth of towns and the expansion of markets. The intransigence of the early Church could not be maintained in the face of this new economic development. The thirteenth

²As we discussed, the Gospels and the Fathers leave an overwhelming impression of opposition to worldly goods. Even if they do not always condemn the whole institution of property, they attack so many of its manifestations that the net result is the same. Christ had condemned the search for riches and Saint Jerome had said: "A rich man is a criminal or the son of a criminal." For more on this matter see chapter I of this study.

century saw the emergence of scholastic economics. A discussion of the economic ideas of these eminent scholastics is now in order.

The Scholastics on private property

The Aristotelian argument in favor of private property was repeated by some of the scholastics.³ However, scholastic theologians tended to give more importance to the liberality and peace argument of Aristotle on private property than to the productive efficiency aspect of it. For them, it was natural to associate Aristotle with the Church Fathers, who explained property as an institution made necessary by man's sinful nature. Believing that after the Fall men will no longer live peacefully together but will quarrel over goods actually granted by God to mankind in common, the need for private property and for laws to protect it seemed eminent.

Commenting on Aristotle's Politics, Albert the Great (d. 1280) attempted to explain why communism leads to quarrels. He pointed out that when some claim a larger share of the common output than that corresponding to their labor input, then those who have worked more and get less will find this

³As was discussed earlier, Aristotle favored private property on three grounds: provision of incentive for productive efficiency; provision of peace (since common ownership of productive resources is bound to cause dissension over the distribution of products because some will take more than their share) and provision of liberality, necessary for a virtuous life (unless man has something to be liberal about, such as property, he is unable to exercise this virtue). See Chapter I of this study.

unjust, leading to quarrels.⁴ The right to the fruits of one's labor and the importance of labor as a determinant of price was emphasized by Albert the Great as well as by later scholastics.

In addition, the liberality argument for private property and the need for a virtuous life was readily restated in terms of such Christian virtues as compassion, charity, and mercy. However, the exercise of charity was not regarded by scholastics as merely beneficial for its moral effects on the giver. Charity was looked upon as an obligation because of its benefits to the receiver. Aristotle's argument that liberality combines private ownership with common use was readily assimilated with the patristic notion of stewardship. God created the world and is by rights the owner of all creation. Man's fallen nature made some property arrangements necessary, but these grant man, as God's steward, no absolute moral right to retain for himself a surplus which others need. The duty to share involved not only the function and virtue of charity, but the function of exchange and the justice required in that.

The Scholastics on the Issue of Just Price

Scholastics recommended several criteria for fair or just pricing. But they were rough rules of thumb only, allowing for

⁴Opera, vol. 8, Paris, 1891, 108.

"great latitude".⁵ On the whole, they favored government price controls, and some medieval prices were in fact fixed by guilds and other corporations. Just price criteria were useful as corrective to the bargaining process in exceptional cases, or as checks on that process, by arresting cases where free bargaining seemed to have been violated. Generally speaking, just prices were prices which would have established themselves in the absence of fraud and force of all kinds and under otherwise normal conditions.

Some of the reasoning underlying the criteria of just pricing can tell us how and how far the scholastics understood the mechanisms involved in price formation. Some of the best evidence is to be found in the commentary literature on Aristotle's Ethics. Albert the Great, who commented twice on the Ethics, is best recognized for his labor and cost interpretation of Aristotle. The number of shoes to be exchanged for a house should reflect productive effort and expense. This is a much older idea. But there is something in Albert the Great's statement of it which in the forward looking perspective of the development of economic thought is highly significant. In some (older as well as newer) versions of the labor theory of value (and of property), labor can claim its reward because this is in some sense inherently or a priori right, but in Albert's explanation it is right

⁵John Duns Scotus (d. 1308), Commentary on the Sentences, IV, 15, 2. In Opera, vol. 18, Paris, 1894, 283.

because it is "socially necessary." According to Aristotle in Ethics, unless there is justice in exchange, "arts will be destroyed." For this very general proposition Albert the Great suggests a more specific interpretation. According to him, unless the carpenter gets as much in exchange for a bed as it has cost him to produce it, he won't make any more beds in the future, and thus "the art of making beds will be destroyed."⁶ It is futile to impose as just a price which will cause the product in question to disappear from the market. This is an aspect of economic ethics which the scholastics (being all disciples of Albert the Great) kept in view. It provided the basis for a principle of indemnity which was applied consistently both to the exchange of commodities and to the lending of money. In short the just price may be defined as the normal competitive price, the common estimate of common need as established under normal market conditions.

The Scholastics on Monopoly:

As was the case with the medieval Islamic scholars, economic thought in the medieval West also presents a general condemnation of monopoly.⁷ For the scholastics, there is no

⁶Second Commentary on the Ethics. In Opera, vol. 7, Paris, 1891, 35. Cited by Odd Langholm, "Scholastic Economics," Pre-Classical Economic Thought, edited by Todd Lowry, (Boston: Kluwer Academic Publishers, 1986), 122.

⁷The meaning of the term "monopoly" as applied to trading practices and manipulation of prices should be distinguished from the connotation of the same term as used to characterize the general organization of the medieval guild system. For a

difference in principle between exploiting a single buyer in need and exploiting a community by withholding supply. General scarcity may be a legitimate price determinant. But to create scarcity is one of the worst economic sins. Buyers may compete for what little is released and thus drive the price up to a level which may well be said to be a joint price but which includes profit from the unusual conditions prevailing. Thus, monopolistic manipulation of prices, was considered unlawful and subject to prosecution.

The Scholastics on Usury

As is the case with Islamic economics, no part of medieval Western economic doctrines is more controversial than the ban on profit over and above the principal on money loans. Notwithstanding the controversies, medieval Western theologians considered usury an economic sin worse than monopoly. Their common voice reflected the idea that money can claim no share in profit because it is sterile.

The ideological basis of usury in the medieval West was mainly biblical and patristic, though its logic was largely Aristotelian. During the early middle ages, usury doctrine was derived basically from the teaching of the Fathers based

detailed discussion of the scholastic attitude toward monopolies and market control, see Raymond De Roover, "Monopoly Theory Prior to Adam Smith," Quarterly Journal of Economics (November 1951).

on passages of the Old Testament as well as the word of Jesus.⁸ The authority of Aristotle was used much later with the rediscovery of his relevant writing in the twelfth century.

Saint Thomas Aquinas (1225- 1274 A.D.)

One of the great figures in medieval scholasticism, Saint Thomas, was born near the city of Naples. At the age of five, he was sent to a monastery at Monte Cassino, where he received nine years of elementary education. Later he was sent to the University of Naples. There he studied the seven liberal arts of grammar, logic, rhetoric, arithmetic, geometry, music and astronomy. In the course of studying logic and astronomy, he began his education in philosophy--reading Aristotle's logical treatises with the commentaries of later scholars. In 1244, as a youth he joined the Dominican order, much to the dismay of his family, which was part of the highest Italian aristocracy. From 1248 until 1254, Thomas studied at Cologne under Albert the Great and learned to appreciate the writings of Aristotle. Being a priest for two years at age twenty-seven and having convinced the Master General of Dominicans of his exceptional ability, he was sent to Paris to continue his studies and to start giving the theological courses which qualified eventually for his Mastership.

⁸See Chapter I of this study for specific citing of these passages.

Saint Thomas' writings constitute a harmonious and comprehensive structure of thought that aims at the reconciliation of religion and philosophy. In his Summa Theologica, Saint Thomas supplied the most systematic presentation of the theological, moral, sociological, and economic principles developed by the scholastics influenced by the Aristotelian approach.⁹ His treatment of social and economic problems was reflected in the typical question form of many scholastic writings--a question is posed followed by a fair exposition, with citation of authorities, then the answer is given, with contrary views as the vehicle for searching criticism. Saint Thomas also digested the views of his scholastic predecessors and adapted them to the requirements of his own time. The ethical, and especially the social and economic maxims of the clerical authorities were patterned after his views; his works were frequently referred to in deciding upon disputed questions, and they became dominant far beyond the sphere of religious issues in the

⁹Greek philosophy was brought to the West by Muslim and Jewish thinkers during the twelfth century and was actively promoted in the thirteenth century by the German emperor Fredric II (d. 1250), who filled his court with Muslim philosophers. Among the ancient philosophical texts translated in the thirteenth century, food for economic thought was primarily to be found in the Ethics and Politics of Aristotle. Of particular importance for the subsequent development of Western thought was a translation into Latin of the commentaries on Aristotle's Ethics by the Muslim philosopher from Spain, Ibn-Rushd (Latinized Averroes, 1126-1198). See K. Pribram, A History of Economic Reasoning (Baltimore: John Hopkins University Press, 1983), 4.

countries in which the Catholic Church succeeded in maintaining its authority.

Saint Thomas' economic doctrines were in accord with the core of medieval economic thought, covering such matters as the institution of private property, the just price, and the prohibition of usury. The term "Thomistic economics" refers to the economic views of Saint Thomas Aquinas and his disciples--the outcome of their discussions about value and price, the nature of money, the essential aspects of exchanges of goods, the problem of distributive justice, the justification of private ownership, the organization of productive activities and markets, and the definition of improper gains. A general account of scholastic economic views was given above. In what follows we examine the economic ideas of Saint Thomas Aquinas which provided the background for the western economic institutions of the last centuries of the Middle Ages.

Aquinas on Private Property

The legitimacy of private property in the face of the natural-law doctrine of communal property was a problem with which the canonists had to wrestle during the Middle Ages until it was resolved by Saint Thomas Aquinas in the thirteenth century. The views of Aquinas on private property are expressed in his "Treatise on Law," which forms a section of his Summa Theologica. He treats the matter of private

ownership by asking the question "whether the natural law can be changed". He establishes that the institution of private property is in accord with the law of nature, deriving his argument from considerations of expediency as outlined in the Aristotelian writings, Aquinas rejected the existence of a natural law which would prescribe a community of goods. But he rejected equally the proposition that private property could be justified by invoking a natural law. According to Aquinas, private property had been made an institution based only on human reason. Trying to reconcile the views of Church Fathers with those of Aristotle, Aquinas explains that certain matters belong to natural law "because nature did not bring with it the contrary". He adds:

the possession of all things in common and universal freedom are said to be of the natural law, because the distinction of possessions and slavery were not brought in by nature, but devised by human reason for the benefit of human life. Accordingly, the law of nature was not changed in this respect, except by addition.¹⁰

Derived only from human reason, private ownership had generally been accepted by all nations¹¹ because private production provided a far greater stimulus to economic activity than common production, and assignment of specific

¹⁰See Spiegel, 1983, 58. On the issue of slavery, it is not quite certain whether Saint Thomas agreed with Aristotle in justifying it. According to Aristotle some human beings could be considered slaves by virtue of a law of nature. For more on this point see Karl Pribram, 1983, 11.

¹¹Aquinas, Summa Theologica, II. II, q. 66. Cited by K. Pribram, 1983, 11, fn. 34.

productive functions to various individuals had been found to secure a far better social order and to prevent constant struggles over the use of goods.

Having realized the economic efficiency of private ownership, Aquinas did not go back to the unrestricted rights in Roman law. Instead he declared that, although the goods belonged to individuals as far as property or ownership was concerned, all participated in their use.¹² He found the Aristotelian distinction between the power of acquisition and disposal and the power of use an important separation of two aspects of property. The former, acquisition and disposal of private property, conferred rights on the individual and is justified on the basis of reasons given by Aristotle. The latter aspect of property, use of possessions, put obligations upon the individual in the interests of the community. With respect to the use of property, Aquinas consolidated Aristotle's thought with that of the Church Fathers by insisting that others must be allowed to share in it--a view that reflects the idea of the stewardship of wealth. Thus, not the institution, but the manner of using it, determined whether it was good or evil. He did not consider wealth as natural or good in itself, but classed it with other imperfections of man's earthly life which were inevitable, but which should be made as good as nature permits.

¹²Ibid., II. II, q. 32, art. 5.

Aquinas approved of governmental regulation of property for the common good. He related the regulation of property instituted in the Old Testament--the Sabbatical Year, the Jubilee Year, and common use of certain goods--to the Aristotelian belief that the regulation of property is conducive to the preservation of the state. Although he was prepared to go so far in his restriction of property rights as to justify theft by the needy, being aware of the hierarchical organization of his society, he did not indicate any preference for an egalitarian distribution of private property. He enjoins, for example, the giving of alms, but only insofar as it does not force the giver to live beneath his status in society.

Aquinas on Commercial Activity:

From the above view on property a compromise on the question of trade naturally follows. Although much of scholastic economics consisted of preaching against worldliness and greed, commercial institutions and trade were recognized as necessary and a realistic attitude to human incentives had to be taken. Aquinas does not regard trade as good or natural; on the contrary, he expressed a widely held view that there is "something base" about trade. He shared Aristotle's view that it is unnatural, and he added that it implies a fall from the state of grace. But it was an inevitable evil in an imperfect world, and could be justified

only if the merchant sought to maintain his household and when the object of trade was to benefit the country. Aquinas found no fault with those earnings of the trader that could be interpreted as a return for labor and expenses. Scripture had spoken of the laborer as being worthy of his hire, and justice called for his fair remuneration. This thought was applied to dependent labor as well as to independent artisans and craftsmen who performed services involving the tangible transformation of goods. In the case of mercantile activities where no such transformation took place, the idea was extended to the services of transportation, storage and care. The profit realized from the trade was then nothing other than a reward for labor. The justification of trade depended also on whether the exchange which was effected was just; whether that which was given and received were of equal value.

In Summa, Aquinas examined the problem of the trader in connection with the question, "whether in trading it is lawful to sell a thing for more than its price". Defining the function of the trader as an act of exchange, his reply to the question is made by making an Augustinian distinction between the trader and the trade as well as an Aristotelian distinction between the "natural" and "unnatural" art of money making. The second type of exchange is the function of trade, and since it pursues unlimited gain, is considered "somewhat dishonorable." However, Aquinas recognized the usefulness of a merchant whose activity was to the country's

advantage.¹³ Profits, he argued, are neither reprehensible nor praiseworthy but morally neutral. Moderate profit becomes legitimate if the trader pursues a necessary or even honorable purpose, such as self-support, charity, or public service.

Aquinas on the Issue of Just Price

Aquinas' discussion of just price is found in the Summa under the heading, "Whether a man may lawfully sell a thing for more than it is worth?" Following his teacher Albert the Great, Aquinas links his doctrine of just price with the Aristotelian theory of justice in exchange. Elaborating the Aristotelian maxim of commutative justice, Aquinas argued that the worth or value of a good is its just price, and if the sales price deviates from it, the buyer or the seller, as the case may be, owes compensation. Realizing that changes in supply and demand might affect the value of the commodities,¹⁴ Thomas concluded his casuistic discussion of practices in selling and buying with the observation that the just price of a thing was not fixed with mathematical precision, but that it depended on estimates. Thus slight additions or subtractions would not seem to destroy the equality of justice. Otherwise stated, for the principle of indemnity to hold, the deviation from the just price must be

¹³Aquinas, Summa Theologica, II, II, q. 87, art. 4; q. 77, art.4

¹⁴Aquinas, Summa Theologica, II, II, q. 77, art. 2.

"considerable." Again, this requirement is made because the just price is not something "absolutely definitive" but the result of an estimate.

In short, as is pointed out by Spiegel (1983: 61), Aquinas did not specify what a good's worth, value or just price is. The just price was the current price prevailing at a given place and at a given time, to be determined by the estimate of a fair-minded person. Although slight deviation of prices from the just price was allowed, some practices, in particular, forestalling (buying up goods before they reached the market), regrating (buying of goods in the market with the intention to resell them at a higher price), and engrossing (the monopolistic manipulation of prices), were condemned and considered unlawful.

The principle that just price should conform to the permanent invariable qualities held to be inherent in goods implied that any increase in the price of a good was considered unlawful unless the good had been transformed and its usefulness increased, as a rule by human labor. Aquinas may thus be considered as a precursor of labor cost theory in view of the role attributed by him to labor in the process of increasing the value of goods. However, one needs to recognize that such an interpretation could be misleading. Aquinas as well as other scholastics such as Duns Scotus, explicitly pointed to utility as the predominant element in determining the intrinsic value of a good, an argument that

points to the subjective theory of value. The amount of labor spent on the production or transformation of a good was an accidental characteristic. When Aquinas argued that a good could fetch a higher price than before, after having been transformed by labor, the emphasis was on the transformation which had increased the utility of the good and enhanced its intrinsic value. This interpretation justifies how scholastics ignored the differences in the kinds of labor for purposes of value determination.¹⁵

The principle that the value of a good was determined by its intrinsic value was also referred to when payment was credited or made in advance of delivery. The value of the goods was held to be independent of the lapse of time. Price increases or price reductions were both qualified as illicit "usury".¹⁶

Aquinas on Prohibition of Usury

Aquinas' argument concerning usury in the Summa sharpens some of the arguments with which the canonist and theologians had supported the prohibition of interest. The condemnation of "usury" was derived from two arguments. The first argument, which reflected the views of Plato and Aristotle, was the logical outcome from combining the principle of commutative justice with the theory of money as a measure of value. A

¹⁵See K. Pribram, 1983. 15.

¹⁶Aquinas, Summa Theologica, II. II, q. 78.

second argument was related to the distinction drawn by Roman law between consumable goods and goods that are lasting sources of economic use.

According to the principle of commutative justice, equivalence should obtain in all exchange transactions. Interest was regarded as a price paid by the borrower for the right to use an amount of money over a given period. But since money was held to be only an instrument for measuring values, it appeared impossible to fix a just price for the use of money.

As for the second argument, money was regarded as a consumable good, a good which was used by being spent. Aquinas elaborated the idea that the use of money could not be computed apart from the consumption of the principal; hence, payment of interest was to be qualified as payment for something that did not exist or as double compensation.¹⁷ The disparaging connotation given to the term "usury" reflected the idea that the act of lending implied transfer of ownership of the good that was lent; that the use of consumable goods was identical with their consumption and could not be made the object of a separate transaction extending over time. This principle was also applied to all consumable goods other than money. But the use of durable goods was held to be separable from their substance, and lending of such goods for a rent was regarded as perfectly

¹⁷Aquinas, Summa Theologica, II. II, q. 78, art. 2.

lawful. For example a house or a farm may be leased for rent because their use renders a usufruct or yield. Under the terms of a lease contract, a lessor may receive not only the return of the leased good but rent as well.

Aquinas was aware that prices change over time, but the notion that the mere passage of time makes future goods have a value different from that of present goods was alien to him.¹⁸ He also did not make any distinction between consumer goods and producer goods. Implicit in Aquinas' analysis of usury, however, is the idea that the borrower will usually be a person in need of the loan for purposes of consumption rather than of production. His doctrine of usury is thus more immediately applicable to consumption loans than to production loans.

In accordance with the Thomistic conviction that the value of a good was impervious to the laps of time, moneylenders could derive titles to compensation only from circumstances that were extrinsic to the concept of "loan"; hence, from circumstances which changed the value of the money or caused costs to the lender. Claims of such types were discussed in terms of damnum emergens (damage suffered) and lucrum cessans (lost opportunity).

Thus, a penalty could be agreed upon to make up for damage suffered by the lender in case the loan was not repaid at the agreed upon time. In the course of time, Lucrum cessans or

¹⁸See Spiegel, 1983, 65.

escaped gain through making a loan was also included among justified claims to compensation. However, Aquinas himself excluded the forgone opportunity of putting the loan amount to profitable use from such compensation.

In medieval Europe, as in the medieval Islamic empire, contracts of partnership (commenda) were considered perfectly legitimate and the preferred form of investment. This permissible form of transaction was not tainted by usury and a proportionate amount of the gain resulting from such an operation could lawfully be claimed.¹⁹

Thoughts on Money

The Scholastics' concern with interest and usury drew them also into discussions of the related matter of money. French theologian, Nicholas Oresme (1320-82 A.D.) in his Treatise on the Origin, Nature, Law, and Alteration of Money,²⁰ written about 1360, developed a theory of money which reveals a very different approach to economic problems from that of his fellow Churchmen.²¹ The treatise begins with

¹⁹Aquinas, Summa Theologica, II. II, q. 78, art. 2.

²⁰For an extract, consult A. E. Monroe, Early Economic Thought, 79-102.

²¹The only exception is John Buridan, a philosopher and the teacher of Oresme at the University of Paris, who analyzed the nature of money in terms of the four Aristotelian causes. Its material cause; efficient cause, formal cause, and the final cause. Buridan in fact laid the foundation on which Oresme built. For more on Buridan's view see Spiegel, 1983, 71.

a detailed account of the origin of money on Aristotelian lines, but it is enriched with a careful discussion of the qualities which make goods suitable for adoption as money. This leads Oresme to distinguish between the proper uses of gold and silver in a system of coinage.

Oresme holds that the prerogative of coinage should be in the hands of the prince, as the representative of the community who enjoys the greatest prestige and authority. But the prince does not own the circulating coin nor is he its master, because money, argues Oresme, "is a legal instrument for exchanging natural riches among men.... Money, therefore, really belongs to those who own such natural riches." Such a conception of the function of monetary authority leads Oresme to a strong condemnation of debasement of the coinage. The prince has no right, he argues, to tamper with the wealth of his subjects by altering the proportion, weight, or material of which their money is made. Gain derived from debasement is worse than usury; it is extorted from the prince's subjects against their will without even that advantage which the borrower obtains from the usurious lender. The profit from debasement is unjust because it is made at the cost of the community that owns money. It is thus a concealed tax which leads to dislocation of trade and impoverishment. And finally--an anticipation of Gresham's law²²--when the coin is

²²Compare Maqrizi's ideas and his anticipation of Gresham's law with Oresme's view in this regard.

debased, "despite all precautions they [gold and silver] are carried out to places where they are rated higher", and so diminish the amount of good money in the realm. In short, Oresme's main emphasis was on the problems of the merchant. His concern was to protect the commercial class from the oppressive practices of the prince. He argued that as a result of debasement of money, external and internal trade will be hampered, and incomes determined in money cannot be correctly taxed and valued. He also pointed to the adverse affects that the alteration of money has on the distribution of income. Money changers, bankers, dealers in bullion, and speculators are likely to make gains to the expense of other more deserving elements of the population.

However, in two situations the debasement of money may be allowed. Under a bimetallic standard the ratio in which the market values of the two metals stand to each other will deviate from the mint ratio. In this case Oresme allows a change of the mint ratio in response to a substantial change of the market ratio but argues that "the community alone has the right to decide if, when, how, and to what extent this ratio may be altered, and the prince may not in any way usurp it." The second instance in which Oresme considers debasement permissible relates to an emergency situation when a large amount of bullion has to be transferred abroad: for example, in war or as the prince's ransom. In such a situation the

community may debase its coin; an action that then has all the characteristics of a good tax.

Summary:

The main aspect of medieval Western economic ideas is that it was based on Christian philosophy. It is likely that the concept of a Christian economics looks like a contradiction to many. The Gospel message is to shun worldly riches and cares, trusting in God to provide, and above all to love one's neighbor as oneself, whereas economics is the art of providing for one's material needs, often by making a profitable deal with one's neighbor. This sense of contradiction weighed heavily on the scholastics when they wrote about economics. It is true that much of the scholastic economics consisted of preaching against worldliness and greed. However, commercial institutions and functions were recognized as necessary, and a realistic attitude to human incentives had to be taken.

The common approach to economic questions in the medieval West relied mostly on moral and religious sanctions. Realizing the futility of merely preaching charity, the aim was rather to ensure some benefits to individuals and the community by imposing norms of justice on economic relationships. A major factor affecting the spirit and content of scholastic economic thought was the rediscovery of

Aristotle and the subsequent effort to synthesize his pagan views into the mainstream of Judeo-Christian revelation.

A critical difference between medieval and patristic thought emerged when scholastic natural law theory took over and incorporated into its analysis of moral obligation and social relationship the basic structure of Aristotle's ethical system.

Thomas Aquinas, writing as a Christian theologian, provided a very significant extension for Aristotle's natural teleology by introducing a differentiation between two levels of human perfection. He distinguished between "perfect happiness"--the cognitive union with God attainable as a divine gift in the afterlife, and the "imperfect happiness"--the combination of practical activity and rational thought, which constitutes man's highest natural good. Knowledge of the contents of natural good and the conditions for its realization is acquired, not from supernatural sources, but through the kind of systematic enquiry exemplified in the philosophy of Aristotle.

It is important to note that in scholastic economic thought the relationship between these two dimensions of human perfection is considered as complementary. The adoption of Aristotle's psychology as the base for the natural law system of ethics and incorporation of his conception of happiness into the Christian tradition, involved recognition of the

crucial fact that each level of happiness--perfect and imperfect--carries its own intrinsic value and dignity.

The development of scholastic economic thought also involved a "searching for norms" to be applied to a range of newly discovered social problems. Frequently, in order to develop good and workable norms of justice, it would be necessary to go beyond superficial appearances of equity and reason out how alternative rulings would affect individuals and the community in the long run. It is in the course of this kind of reasoning supporting norms of justice that the scholastics contributed to the development of economics.

As for canonist doctrine itself, we have seen how its teachings steadily weakened with commercial expansion until it was faced with the complete collapse of its power to regulate economic life. With the Reformation, that development entered on a new phase. Whatever the views of the great originators of the Protestant movement, the Church was no longer able to stand in the way of the growth of commercial capitalism. With the end of the supremacy of Canon law a profound change occurs in the relation between theological and economic thought. The harmony between Church dogma and feudal society, which at the beginning of this chapter was said to have been responsible for the all embracing quality of the Canon Law, came to an end with the decline of feudal society. A separation was effected by which religious dogma ceased to represent an analysis of existing society as well as a code of conduct. Religion

became something apart from other branches of thought, in particular from those concerned with the secular problems of wealth acquisition. Although attempts were again to be made to introduce ethical elements into the mainstream of economic thought, it remained henceforth independent of religion. The foundation for a secular science of economics was laid.

CHAPTER V

CONCLUSION

Towards a Definition of Islamic Economic System:

This study has been an effort to analyze Islamic economic ideas and relate them to the general stream of the history of economic thought. Generally speaking, the concept of Islamic economic thought may be viewed as fragments of ethical, political, commercial, and philosophical thought that preceded the development of systematic economics. Our analyses, however, demonstrated that there was considerable discussion on various economic subjects by Islamic scholars concerning the market mechanism, division of labor, taxation, the role of government, labor and value and money and exchange. The pure economic writings of medieval Muslim scholars may be considered a collection of opinions about mercantilism plus commentaries on laissez-faire. One may, however, discern which economic class or interest group is most closely associated with the interests of society as a whole, and thereby entitled to special fostering or protection. Muslim scholars find this class in those merchants and manufacturers who engage directly or indirectly in trade or in the provision of goods through import and export.

Based on our analyses of Islamic economic thought as contained in the Quran, Sunnah, and the works of Islamic scholars, we can now reach our primary objective and attain a definition for the term "Islamic economic system." The phrase "constrained capitalism" seems to closely embrace the characteristics of an Islamic economic system. It refers to a free market enterprise system in which the economic activity of each individual should be subject to the ethical and moral constraints required by the Shari'a. It is important to note that in such a system the bases of prosperity are still individual effort, hard work and independence of economic units. However, the constraints imposed limit the economic power of the individual, making unrestricted competition give way to co-operation and social responsibility. The core of Islamic economics thus is based on the overriding importance of ethical considerations within the economic system. Ethical norms on which Islamic economic behavior are founded are, of course, not arbitrary in nature. They are not generated by majority action or by the principle of voting on a given ethical issue (such as society's consensus on abortion, poverty, etc.); rather, they are founded on the principles of the Quran and the Sunnah. The degree of arbitrariness in ethical matters is thereby reduced to a matter of difference in interpretation by the doctors of Islamic law and divinity.

The Quran does not challenge the right of ownership in any form, even though from some of the book's principles one

can deduce restrictions upon the use and abuse of property in certain cases. In Islam, private ownership is compatible with justice. Justice in economic matters, as cited in the Quran, forbids riba, a type of gain that is particularly excessive; and encourages devoting part of the product of taxes and gifts collected by the head of the community to helping the poor, the ransoming of prisoners, and perhaps, to grants or loans to victims of disasters or war. Thus, Islamic economic justice is really a system of mutual aid, organized within the community, wherein the rich are compelled to participate more or less in proportion to their incomes. This does not affect the differentiation in social conditions, which is conceived as being willed by God, natural and even destined to be perpetuated, doubtless with other criteria, in the next world. "See how we have given them preference one over the other, but the hereafter has greater degrees [of honor] and greater preferment" (Quran, 17: 22-21). The Quran's emphasis on the equality of man before God tends to compensate for the inevitable inequalities of human society. Thus, equality before the Divine Law, as correctly enforced by the officials and judges constitutes the ideal.

To summarize, the basic operative instruments in an Islamic economic system of constrained capitalism are: the abolition of riba or the Islamic concept of the interest on capital; the replacement of riba by Mozarebeh and Musharika (profit-loss sharing) contracts between partners in an

enterprise; the mandatory payment of zakat or the Islamic quasi wealth tax for distributive purposes, and the abolition of israf or wasteful consumption. Beyond this, all other particularities such as the determination of the normal rate of profit, the extent of monetary and fiscal leverage acquirable by the Islamic state, the issue of residual taxation over and above zakat, pricing of risk, mark-up in tradeable goods, etc., are only matters of detail and are of little importance in the development of Islamic economic theory.

Economic Thought in The Medieval East and West: A Comparison

As demonstrated in this study, economics as a separate discipline did not occupy an important position in the medieval Islamic scheme of science. Such attention as was given to "theoretical" economics seems to have been inspired less by an early and persisting interest in taxation theory than by contact with Greek philosophical and scientific writings, especially those of later Platonic and neo-Platonic orientation,¹ which became known to Arabic scholars and which,

¹Most of the translations were done between 800 and 1000 A.D. The translators, usually Christians, translated almost all of Aristotle's treatises (with exception of the Politics, which apparently was not studied much in the Imperial Age) as well as the leading dialogues of Plato and the works of later authors and commentators. See R. Walzer, Greek into Arabic: Essays on Islamic philosophy (Cambridge, 1962), 5-8, 29-35; See also T. J. Boer, The History of Philosophy in Islam, (London, 1933), chaps. 1-3.

though primarily philosophical or natural-scientific in orientation,² eventuated in "a renaissance of Plato's political philosophy in Islam."³

Our analyses in chapters three and four point to a common approach in economic thinking of medieval Islamic scholars and their contemporaries in the West. Both systems were founded on a moral philosophy and were influenced by Greek philosophical thought. Aristotelianism, brought to Europe by the Muslim scholars, dominated medieval economic thought in the West.

For medieval Muslim and Christian scholars, economics relied mostly on moral and religious sanctions. The aim of both systems was to ensure some benefits to individuals and the community by imposing norms of justice on economic relationships. Rules of justice in exchange reflected ideas about the nature and extent of property. Allocative efficiency and distributive justice were common subjects of discussion by medieval Islamic and Christian authors.

²While ethics commanded little attention in late Greek philosophical schools, it did receive considerable attention at the hands of Muslim authors under Greek influence. E.g., see Walzer, Greek into Arabic, pp. 17, 32, 221-27. Islamic philosophical ethics was based essentially on Plato. Stress was placed upon the four Platonic virtues (wisdom, temperance, valor, justice), though generosity and a variety of minor virtues associated with major virtues were included in the scheme of virtues (in keeping with Neoplatonic moral philosophy). *Ibid.*, pp. 222-23, 240-41.

³E.I.J. Rosenthal, Political Thought in Medieval Islam (Cambridge, 1958), 6.

Notwithstanding these similarities, one finds a more favorable attitude towards acquisition of wealth and private property in the Islamic system of thought than in Christian thought. It is noteworthy that centuries before Christian writers were prepared to defend and define the ethics of commerce against ascetic criticism, Muslim writers were willing to do so. Even a major Muslim theologian like al-Ghazali criticizes ascetic tendencies, includes in his religious writings a portrait of the ideal merchant, and defends commerce as a way of preparing oneself for the world to come. In fact, the source of those tendencies in Islam which contemplated drastic restrictions on the right of ownership is found in Christian thought.

The religious notion that the good things of this world divert men's hearts from God, that they expose one to the danger of sin, and consequently, that the rich and powerful are very often sinners, combined with the secular notion that the rich and powerful are unjust and oppressive, were familiar concepts before the advent of Islam. We saw that these ideas were advocated by the Prophets of Israel and were developed into some celebrated formulations by Jesus, and subsequently, by certain Christian Fathers and ideologists. The view that: "it is easier for a camel to pass through the eye of a needle than for a rich man to enter into the Kingdom of Heaven" was still present in scholastic writing, although suppressed to some extent.

In contrast to the hostile attitude of Christian writers towards private property and the acquisition of wealth, Islamic authors have expressed a moderate viewpoint in this regard. While endorsing the pursuit of wealth by individuals, they command the rich to pay reasonable alms and warn them against the dangers that unlimited wealth can bring for the salvation of their souls. It does not, however, refuse them hope of God's mercy.

The ideology of the Quran seems to accord a greater role to reasoning and rationality than is found in the ideologies reflected in the Old and New Testaments. The idea of predestination seems more or less the same among all religious scriptures, while the Quran clearly exhorts men to be active in their individual and social lives.

With the coming of the renaissance and the industrial revolution, the homogeneity of economic thought, which was the hallmark of the Middle Ages, began to vanish. With it came the weakening of the basis in faith and morality on which Islamic and scholastic social philosophy sought to build.

Islamic Economics vs. Modern Theories: Concluding Remarks

The science of economics, or political economy as we know it today, retains little of what classical figures, such as Plato and Aristotle, or a founding father, such as Ibn Khaldun, contributed to it. In ancient Greek tradition, as well as in later Christian and Islamic tradition, economics

was not conceived as an autonomous abstract enquiry, but as a subordinate, concrete, and morally-oriented discipline. The art of arts for Greek philosophers and their Christian and Islamic followers was the curing of souls. For them, the man of infinite wants is the problem, and it is a moral and ethical problem, not an amoral engineering problem, as represented in modern economics.

Notwithstanding the above fundamental deviation of modern economics from the earlier views, this study indicates that the beginnings of many modern economic theories can be traced back into the past. Sometimes centuries pass before the explanatory power of an idea is appreciated, applied, and perhaps generalized. For example, two millennia passed before the method of calculus, invented by Archimedes, was utilized by economists. In the mid-fourteenth century, both Ibn Khaldun and Magrizi in the East, as well as Oresme in the West, observed that the gold of one country is withdrawn and transported to another where it passes at a higher price. They didn't, however, generalize this remark into a universally applicable principle, as expressed in the early eighteenth century.

Our study also traced the early works on the division of labor by Islamic scholars, who are seldom, if ever, mentioned in the standard texts on the history of economic thought. The Muslim authors on division of labor were not interested in the modern economic aspects of the principle, as, for example, its

relation to profit and the balance of trade; but rather in the social effects of the principle, its power to pull people into social relationships and to keep them there. It should be kept in mind that these authors were anything but writers on business and economic topics and yet they were vitally concerned with basic economic principles, though in a different and important way. Several other concepts, such as the labor theory of value, Malthusian population theory, exchange analysis and marginal utility theory were addressed and discussed by Muslim scholars. These discussions, of course, were not generalized and did not bear the high level of technical economic insight shown in the later works of Smith, Ricardo, Malthus and Alfred Marshall. However, it would have been impossible for medieval Muslim scholars to raise such technical economic discussions. At that time, it should be recalled, economics did not occupy an important role and was not considered a separate discipline. The Islamic moral philosophers were not concerned with measuring some of the things they dealt with, they were not quantity-oriented in their thinking. Their primary concern was the quality of life, and they felt that this depended on the inner character of the individual. Current economists would not feel at home with this mind-set. Yet it was this type of thinking which stimulated other minds towards thinking in economic terms. For this reason, and because many of the ideas discussed by them anticipate modern theories in economics, they are

important and deserve further attention. This research has led the author to believe that there is much more to the economic ideas of medieval Islamic scholars than is presently available in Western literature.

Underlying Causes of Underdevelopment:

Avenues For Further Research

The foundations of modern economic theory were laid down in the eighteenth century in the work of Adam Smith. During the transition period between feudalism and capitalism, between scholasticism and The Wealth of Nations Western scholars had to tackle problems such as economic obstacles to progress; the role of different factors including religion in economic activity; the quest for moral and political justification for economic individualism, etc. During that period positivism emerged as the logical sequel to empiricism and became the dominant philosophy of nineteenth century Europe. Economics degenerated into technique for its own sake, and major social problems were put aside in favor of refinements of applied mathematics.

Separation of Church and State or of secular and religious entities gave rise to unrestricted capitalism in the Christian West. In the East, however, Islamic economic thought continued to hold on to its medieval orientation and Muslim scholars never accepted the complete separation of normative and positive economics. The rise of a secular approach in

economics marked the growth of various Western nation-states. In spite of their past wealth and progress, Muslim countries entered a phase of economic decline and stagnation towards the end of the Middle Ages.

As was pointed out, a level of economic development was reached in the Islamic empire during the Middle Ages which is not to be found elsewhere at the same time, or earlier. The density of commercial relations within the Muslim world constituted a sort of world market of unprecedented dimensions. The development of exchange had made possible regional specialization in industry as well as in agriculture, bringing about relations of economic interdependence that sometimes extended over great distances. A world market of the same type was formed in the Roman empire, but the Muslim "common market" was very much bigger. Also, the Muslim market seems to have been more "capitalist", in the sense that private capital played a greater part in forming it, as compared with the part played by the state in the case of the Roman empire.⁴ Not only did the Muslim world know a capitalistic sector, but this sector was apparently the most extensive and highly developed in history before the establishment of the world market created by the Western European countries. It was not until the sixteenth century that the Western European market surpassed the market of the Islamic world.

⁴See M. Rodinson, Islam And Capitalism, 1973, 56.

This raises an important question: Why did the economic advances made by the great Islamic states in the Middle Ages not lead to a process of economic development comparable to that of nineteenth century Europe? This is a very complex question, but also an extremely important one in that its answer may presage the fate of the Muslim world for a long time to come. After initial periods of growth, the history of all Muslim countries has been characterized by a downturn in economic and social development, or even by a phase of stagnation or outright decline. On closer examination, the stagnation of Islamic countries, which colonialism would subsequently turn to its own advantage, proves to be a period of confused disorder and of unsuccessful attempts to put an end to turmoil.

Economists have come up with some partial explanations in this regard. Islamic economists have often put the blame on colonialism, while their Western colleagues have blamed the religion of Islam for the present socioeconomic backwardness in Muslim countries. Lacoste (1984:4) attributes the problem to the absence of a bourgeois class in Islamic countries. Others have pointed to the legal and the social restrictions in Muslim countries, restrictions which have resulted in an undeveloped capital market and securities industry; an uncertain climate for risk compensation and insurance coverage; a zero or small rate of participation by women in

the labor force; and finally a general absence of the entrepreneurial mind-set.

All of these views may have some merit, but we will not attempt to evaluate them in detail. However, a brief comment appears to be in order. We have demonstrated that there is nothing to indicate in a compelling way that the ideology of Islam prevented the Muslim world from developing along the road to modern capitalism, any more than there is anything to indicate that Christianity directed the Western European world along that road. Islam did not prescribe to or impose upon the people, or the states that adopted its teaching any specific economic road. Islam never raised any objection to the capitalist mode of production, and its precepts constituted no obstacle to the development of an efficient mode of production in the direction of establishing a capitalist economic foundation for society.

The economic structure of the medieval Muslim world was broadly comparable to that of Europe in the same period. The course of economic development that followed the medieval age in Europe was different from that of the Muslim world. The cause of this divergence cannot be sought in the adherence by Muslim nations to some pre-established religious doctrine. In particular, the divergence cannot be seen as resulting from the influence of the ethical concerns that have animated Islamic doctrine as compared with others.

The way in which the Muslim religion seems most often to have influenced in a negative manner the evolution of the economy in a capitalist direction is through the ban on lending at interest and on aleatory contracts. This ban applies only to its dealing with Muslims however, as the bank is prepared to accept interest on assets held in non-Muslim countries, including western government securities. Similar flexibility is allowed with commercial banking practice, as a distinction is made between personal loans, on which no interest is payable, and business loans, on which a service charge is levied. Thus, in practice the law distinguishes between personal borrowing to cover private needs, and business customers who borrow so that they can make profits. Moreover, it would be wrong to simply conclude that Islamic usury law has detrimental effects on economic growth. It may, quite surprisingly, induce a favorable climate for investment activities. Interest rates are not used as an instrument of monetary policy as in the West, and service charges on loans are seldom changed. This results in a greater climate of monetary stability, which undoubtedly encourages local investors, as they can predict with confidence the cost of their borrowing. This system has some of the merits advocated by leading monetarist Milton Friedman.

Although there appears to be some aversion to risk taking in contemporary Muslim society as far as business ventures are concerned, there is nothing inherent in Islam which precludes

the emergence of entrepreneurs. Several factors may explain this aversion, including the realization that because of family obligations an entrepreneur may be risking the future of those whose interests he is supposed to protect. There is an unwillingness to take long-term chances, which manifests itself in the apparent preference for investment in property and land rather than industrial enterprises, where the potential returns are slower in coming, and often more uncertain in any case. It can be argued however, that this is the result of a lack of knowledge of modern manufacturing techniques in societies still largely dependent on primary production, rather than because of anything written in the Quran.

It is also alleged that Islamic law has negative effect on the propensity for risk taking. The case of insurance companies is an example. However, in the one area where there could be a conflict between Islamic law and modern business practice, legal constraints do not appear in reality to be presenting much of a problem. There are many insurance companies which are believed to be under a Saudi ownership majority, but are registered in other centers around the world. And in Islamic Republic of Iran, the authorities have not as yet interfered in insurance matters.

There is also nothing in Islam preventing women from participating in social, political and economic activity. The customary absence of women in the labor force in Islamic

countries (particularly in the Arab world) is based on family tradition and preferences rather than religious dictates.

The reasons for the present underdevelopment of Muslim countries, common to a whole group of other societies, has nothing to do with dogmatic prohibitions which were easily avoided for centuries,⁵ which affected Christian Europe no less during the Middle Ages, and which did not prevent the latter from developing towards capitalism. Clearly, this situation has nothing to do with the "essence of Islam" but rather with a combination of uncertain political and socio-economic conditions. So far no conclusive explanation has been offered in this regard. The explanations which have been given are controversial and lack empirical testing. The question awaits further research, particularly among Islamic economists. Without recognizing the underlying causes of those internal and external conditions that have blocked the modern development of Muslim states, no future development plan or Islamization program by Muslim states will prove successful.

⁵For information on the practices of the early Islamic community, see Rodinson [1973, ch. 3] and Kuran [1986]. On the use of hiyal (ruses or legal devices) which the Islamic scholars developed or ratified to bring customary practices into line with the letter of Islamic injunctions, see Khadduri [1984, 149].

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