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Ibn Khaldun: Economic Visionary

Introduction

Ibn Khaldun was one of the most memorable writers of the Islamic Golden Age. In his magisterial *Muqaddimah*, he outlines his general theory of the way that history unfolds. The work is an attempt to make history more *scientific*. He treats in depth an impressive number of different topics in the work, most notably economic theory. In the *Muqaddimah*, he advances theories on economics that are not so different from those of Western philosophers that lived during the Enlightenment.

Perhaps most remarkable, Ibn Khaldun demonstrates early insight regarding how a government should manage taxation. He argues that in some cases taxes get so high that they begin to lead to a reduction in total tax revenue. This is counterintuitive and yet Ibn Khaldun was able to recognize this phenomenon in the medieval world, as we will see, centuries before the so-called Laffer curve. Also, the *Muqaddimah* deals with the issue of personal involvement by a sovereign in his own economy. Ibn Khaldun argues that rulers should always refrain from this type of activity. As we will see, there are numerous historical examples to support the veracity of his position.

Another area in which Ibn Khaldun showed remarkable insight for a man of the fourteenth century is in his view of tariffs. Tariffs were an extremely important means of revenue for many medieval governments. Still, Ibn Khaldun criticized their use, believing that tariffs even tended to bring down dynasties, presaging the theories of much later philosophers such as Adam Smith and David Ricardo.

Ibn Khaldun also anticipated the theories of such Western philosophers when he identified labor as the main source of value in an economy. In a sense, Ibn Khaldun appears to have anticipated Adam Smith's much later theory about the division of labor. He believed in specialization in education at a time when such thinking was still far from the norm. It was the idea of specialization that eventually was applied to labor during the Industrial Revolution.

Taxation

Ibn Khaldun showed an impressive ability to understand the role of taxation in medieval states. Most governments in Ibn Khaldun's day were unable to figure out how to implement proper policy when it came to taxation. As evidence of the failure of even major medieval governments to operate an efficient mechanism of taxation we need only turn to fourteenth century England. In 1341, Edward III's government was having an extremely difficult time raising sufficient revenue to prosecute the Hundred Years War. His ministers had borrowed some £400,000 over just three years, and taxed the people so heavily as to nearly provoke open rebellion.[1] Instead of reducing the financial burden on the people, allowing their taxable capacity to be replenished, the English government persisted with high tax rates, eventually leading to a series of fierce attacks against the tax collectors and other government officials.[2] This was how the English government very nearly fell into ruin in the early 1340s.

Certainly the argument could be made that England was in such dire economic circumstances only because she was at war with the richest kingdom in Christendom, and not because of the government's mismanagement of tax policy. However, this would fail to take into account how, during this period, Edward III was consistently reconvening Parliament to ask them to grant one subsidy (round of taxation) after another, all while lacking awareness of the fact that destitute people cannot pay taxes, no matter how many times you try to make them do it.

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[1] Jonathan Sumption, *The Hundred Years War, Volume I: Trial by Battle* (London: Faber & Faber Ltd., 1990), 363.
[2] Sumption, *Trial by Battle*, 364.

England's government really would have been better off by refraining from wringing every last drop of wealth out of the people, and instead allowing the taxable capacity of the kingdom to regenerate so that the population could yield significant tax revenue a few years later.

Ibn Khaldun would have understood this, as he had a thorough conceptual understanding of the economic model that is today known as the Laffer Curve. The Laffer Curve was named after Arthur Laffer, one of President Reagan's economic policy advisors. The curve depicts how, in theory, tax revenue must shrink if the tax rate is lowered *or raised* excessively. Yet as Laffer himself admits on camera, the idea was not originally his:

"By the way, I did not name it the Laffer Curve, and it's been around for centuries and centuries. In fact, the first reference to it I really know is in the Muqaddimah, in 1381 [sic], Ibn Khaldun described it this way: at the beginning of dynasties, tax rates are low and revenues are high, at the end of dynasties, tax rates are high, and revenues are low."[3]

Laffer was clearly well aware of Ibn Khaldun's contribution from six centuries earlier. However, there was no actual diagram of the Laffer Curve in Ibn Khaldun's *Muqaddimah*. Rather, Ibn Khaldun describes the curve in terms of its implications for medieval governments. The way he explains it is that when a government raises taxes to an excessive level, people become discouraged from enterprises that would generate income for them since the government is taking so big a chunk of their profits. As a result, the people collectively have less income to tax, and the tax revenue falls despite a higher tax rate.[4]

In conclusion, a word about the real-world validity of the Laffer Curve seems appropriate. The model was used during the Reagan presidency in order to justify the lowering of tax rates. However, its use in such a capacity assumes that the previous tax rates were high *enough* to start causing a decrease in tax revenue. This is a bold assumption to make, assuming it

[3] Iealondon, "Art Laffer explains the Laffer Curve," Youtube video, 3:34, March 10, 2017, https://www.youtube.com/watch?v=FCk2-QVqCck

[4] Ibn Khaldun, *The Muqaddimah: An Introduction to History*, trans. Franz Rosenthal (New York: Pantheon Books, 1958), Vol II: 90-91.

is even credible. In fact, the tax rate to tax revenue relationship likely had greater validity in Ibn Khaldun's day—when war was endemic to Europe and North Africa—than it has today. This is because constant war and the persistent need of governments to pay for it often led to tax exhaustion—that is, to subjects being entirely *unable* to pay. Tax exhaustion could be induced by high tax rates which did not leave people with enough capital to generate taxable profit. Today, even though higher tax rates still increase the incentive for tax evasion, tax exhaustion is not nearly as big a problem as it once was. Consequently, raising taxes to a moderate level is extremely unlikely to lead to a fall in tax revenue for the state.

Economic Activity by the Sovereign

Ibn Khaldun also anticipated some of Adam Smith's later contributions. One of Smith's criticisms of mercantilism relates to something also discussed by Ibn Khaldun in the *Muqaddimah*. In his *Wealth of Nations*, Adam Smith wrote, "Princes, however, have frequently engaged in many other mercantile projects, and have been willing, like private persons, to mend their fortunes by becoming adventurers in the common branches of trade. They have scarce ever succeeded."[5] Here Smith expressed an idea that is very much in line with the principles of free trade. Specifically, he is stating the folly of rulers *personally* involving themselves in their own state's economy. What follows is one of his examples of why it is a bad idea.

In the fifteenth century, the Medici family held great power in the mercantile city of Florence. They had grown rich by operating various branches of their banks across Europe, often lending large sums to warring princes. They eventually gained so much influence in their native city of Florence that Lorenzo de Medici, nicknamed 'the Magnificent,' became the de facto ruler

[5] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (London: Methuen & Co., 1904), Vol. II: 304.

of the government. Eventually, Lorenzo met with disaster as many branches of the Medici banks began to close down. According to Machiavelli in his *History of Florence*, Lorenzo's fall from grace was related to the peculiar position of his officers, who always wielded their master's sovereign authority even in their capacity as private employees. This eventually resulted in the shouldering of a great financial burden by the Florentine people.[6] The way Machiavelli understood it is that as de facto ruler of Florence, Lorenzo de Medici had an unfair advantage over his competitors, whose agents lacked a ruler's sway. While this might have seemed beneficial to Lorenzo in the short run, Smith would contend that it was inevitable that it would spell financial ruin for him in the long run. The main reason for this is that the ruler-businessman would cripple the local economy by forcing other elements of the commercial world to submit to transactions very unfavorable to the non-ruling party.

Ibn Khaldun's opinions on this matter are not so different from those of Adam Smith. In the *Muqaddimah*, he contends that rulers will naturally be envious of the vast profits of successful merchants, motivating them to also become involved in the commercial sphere. However, he too sees this as a potentially great error, believing that it would lead to the destruction of the economy through the financial collapse of one merchant after another.[7] Thus, the idea that rulers should not become commercially involved is not one that began with Smith. Four centuries earlier, Ibn Khaldun recognized the folly of such practice. The fact that this was still a concern in the mercantilist world of Adam Smith, long after the *Muqaddimah* had been published, demonstrates the remarkable originality of Ibn Khaldun's thought.

Tariffs

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[6] Niccolo Machiavelli, *History of Florence*, book VIII, translated (London, 1851), 400–1.
[7] Ibn Khaldun, *The Muqaddimah: An Introduction to History*, trans. Franz Rosenthal (New York: Pantheon Books, 1958), Vol II: 93-94.

Ibn Khaldun had ideas about tariffs that were also very advanced for his day. He was writing at a time when tariffs were an extremely important way for governments to raise revenue. The fourteenth century was far removed from any notion that tariffs could mostly be used as a mere instrument of economic policy. Governments back then, even those of relatively prosperous nations, *relied* on tariffs in some cases, especially during wartime. For an example of a government that depended on tariffs to a great extent, and appeared not to understand economics as well as Ibn Khaldun did, we might again turn to England. For much of the Middle Ages and the centuries following, England's wool production—initially for export to the industrialized Low Countries (especially Flanders), and then increasingly for use in the domestic cloth industry—was an extremely important source of income. Consequently, the government thought to make up for England's relatively low taxable capacity by levying a tariff on wool exports. Tariffs on exports are especially nefarious compared to tariffs on imports because the latter can sometimes be an effective tool of economic policy. The wool duties eventually played a role in precipitating an economic crisis surrounding English wool and textiles that lasted over fifty years, until approximately 1330.[8] Tariffs are problematic in that they discourage trade, which tends to weaken an economy.

Centuries later, one philosopher in particular paid special attention to the way that tariffs impact trade. In 1817, David Ricardo released *On the Principles of Political Economy and Taxation*, in which he outlined his theory of comparative advantage. But in order to grasp the theory of comparative advantage, it is useful first to examine Adam Smith's theory of absolute advantage, which is best illustrated with an example. If England is better at producing wool than France, then England has an absolute advantage over France in the production of wool. This

[8] Philip Slavin, "Mites and Merchants: The Crisis of English Wool and Textile Trade Revisited, c. 1275–1330," *The Economic History Review*, Vol. 73, Issue 4, (November 2020): 909, http://dx.doi.org/10.1111/ehr.12969

means that England should not import any wool from France, because it can be produced more efficiently in England.

Ricardo's theory of comparative advantage builds on Smith's theory, but goes further. In order to understand it, suppose that circumstances have changed and France now has an absolute advantage over England in the production of wool. Does this mean that France should not import wool from England? Not necessarily, according to Ricardo's theory. To understand why, let us further assume that France also holds an absolute advantage over England in the production of ships, and that the production of ships is much more profitable than the production of wool. In this case, France would want to focus on producing large amounts of ships, and not waste effort on producing wool. It would be acceptable to import wool from England, even though France holds the absolute advantage in wool production, because doing so would free up resources for the production of ships, which is more profitable. The essential difference, then, is that while comparative advantage implies that trade is *always* good for both parties, absolute advantage (in the case, say, when a country is better than another in producing everything) does not.

The difference is important in what it implies regarding tariffs, and it is here that Ricardo continues to be influential even today. Comparative advantage implies that tariffs are always bad. A tariff will inevitably hinder the ability of both parties engaged in mercantile intercourse to fully reap the benefits of their respective comparative advantages. In other words, free trade is *always* good, since it allows countries to import goods from whichever country can produce said goods the most efficiently. And tariffs are therefore always bad because they restrict trade. Here is how Ricardo puts it:

> "A new tax too may destroy the comparative advantage which a country before possessed in the manufacture of a particular commodity…In all such cases, considerable distress, and no doubt some loss, will be experienced by those who are engaged in the manufacture of such commodities; and it will be felt not only at the time of the change, but through the whole interval

during which they are removing their capitals, and the labour which they can command, from one employment to another."[9]

What Ricardo is saying is that tariffs introduce numerous inefficiencies into the world of international commerce.

One fact about tariffs is that they seldom remain constant; they are periodically adjusted due to inflation and numerous other factors. Tariff rates were likely more volatile during the Middle Ages than today. It is probable that the uncertainty and unpredictability resulting from such fluctuation was harmful to many participants in the fledgling global economy of Ibn Khaldun's day.

To an extent, Ibn Khaldun presages Ricardo's theory. It is true that in the *Muqaddimah* there is no mention of comparative advantage or even absolute advantage, as those theories had not been introduced yet. However, Ibn Khaldun's thought on tariffs is remarkably advanced for his time because he, like Ricardo, is a proponent of free trade who believes that tariffs are always detrimental. For Ibn Khaldun, tariffs are always a bad idea because they limit the ability of would-be merchants to make money. Thus, even if it does not vanish outright, commerce within the realm could be severely reduced as a result of tariffs.[10] Indeed, for few things does Ibn Khaldun hold the contempt that he holds for tariffs. Not only does he see them as having a negative effect on the people living under a ruler, he sees the levying of tariffs as one of the common errors that lead to the downfall of a dynasty.[11] Thus, by implication at least, Ibn Khaldun is an ardent supporter of free trade.

The Role of Labor

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[9] David Ricardo, *On the Principles of Political Economy and Taxation* (London: 1817), 363-364.
[10] Ibn Khaldun, *The Muqaddimah: An Introduction to History*, trans. Franz Rosenthal (New York: Pantheon Books, 1958), Vol II: 92.
[11] Ibn Khaldun, *The Muqaddimah: An Introduction to History*, trans. Franz Rosenthal, 369, https://delong.typepad.com/files/muquaddimah.pdf

The way that Ibn Khaldun understood the role of labor in an economy was also remarkably advanced for his time. In fact, he anticipated the labor theory of value, which is commonly thought to have been developed in Europe centuries after the *Muqaddimah*.[12] The essence of the theory is that it is with *labor* that all value in an economy begins. Here is how Adam Smith—originally credited with the theory—put it: “Labour was the first price, the original purchase-money that was paid for all things. It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased.”[13] What far fewer people know is that Ibn Khalun in fact advanced a very similar theory in his *Muqaddimah* of 1377. The text contains this passage:

> “(Man) obtains (some profit) through no efforts of his own, as, for instance, through rain that makes the fields thrive, and similar things. However, these things are only contributory. His own efforts must be combined with them, as will be mentioned…(The part of the income) that is obtained by a person through his own effort and strength is called ‘profit.’”[14]

Ibn Khaldun, like Smith, identifies labor as the place where wealth begins. Remarkably, this passage from the *Muqaddimah* also recalls an earlier Enlightenment figure, John Locke. Like Ibn Khaldun, Locke sees profit or wealth as being generated upon the combination of a natural resource with a man’s labor.[15] The main difference between the above passage from the *Muqaddimah* and how Locke puts this idea is that the latter uses the word ‘property,’ instead of ‘profit.’ Profit, in turn, is the word that Ibn Khaldun—or one might say Frank Rosenthal, through translation—uses. However, once a man, through his labor, gains something tangible that he calls

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[12] Stephen Frederic Dale, *The Orange Trees of Marrakesh: Ibn Khaldun and the Science of Man* (Cambridge: Harvard University Press, 2015), 238-239.
[13] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Indianapolis: LibertyClassics, 1981), Vol. I: 48.
[14] Ibn Khaldun, *The Muqaddimah: An Introduction to History*, trans. Franz Rosenthal, 479, https://delong.typepad.com/files/muquaddimah.pdf
[15] John Locke, *Second Treatise of Government* (Jonathan Bennett: 2005), 11, https://www.earlymoderntexts.com/assets/pdfs/locke1689a.pdf

'profit,' it becomes his *property*. Therefore, 'profit' and 'property' both refer to the same essential thing in this case.

Knowing that much of Ibn Khaldun's economic theory presages the thought of much later Western writers, now would be a good place to consider the implications of this fact. The most obvious question seems to be whether Smith and Locke read Ibn Khaldun or even obtained some of their ideas directly from the *Muqaddimah*. It is unlikely. More probable, Smith and Locke developed their theories independently from the work of Ibn Khaldun, and the mere fact that some of the ideas advanced in *The Wealth of Nations* and the *Second Treatise of Government* resemble Ibn Khaldun's theories attests to the genius and the foresight of the *Muqaddimah*. Those believing, for example, that the labor theory of value was originally Adam Smith's might consider that they are examining the Western tradition in isolation from the Islamic one. This makes one wonder which other theories in the Western tradition were originally conceived of by someone outside of the West.

Specialization

In the history of economics, the idea of specialization is often closely associated with the Industrial Revolution. In order to understand how this concept of specialization relates to Ibn Khaldun, we must first take a look at the progress of specialization in education. We might start by considering the state of university education in the approximate era of many of the aforementioned philosophers—that is, during the European Enlightenment. The area of history focusing on changes in university education cannot be seriously studied without considering the work of intellectual historian Mordechai Feingold.

Feingold is known for his magisterial *History of Universities* series. University education was still very general, according to Feingold, even in Newton's day. He writes:

"The course of study followed by Newton was the typical Cambridge undergraduate course. Newton was expected to acquire adequate grounding in the arts, the sciences, and the three philosophies prior to any specialization—which in his case would be mathematics—and neither Newton nor his teachers ever doubted the wisdom and necessity of such grounding."[16]

As late as the seventeenth century, students at universities in Europe were not expected to specialize before gaining a broad, general education. This was to change considerably later, but once again, Ibn Khaldun was on this subject centuries ahead of his time. He believed that general education was "an evil that cannot be cured."[17] In his opinion, a student should devote his entire educational experience to learning about one particular subject, rather than a little bit about various subjects. He nevertheless believed that the promotion of a general education was so ingrained through tradition that there was no hope for change.

Ibn Khaldun's concern with specialization in education might be extended to economic theory. It is true that the *Muqaddimah* contains no direct mention of specialization in labor. Yet specialization in education could be seen as a harbinger of specialization in labor in a similar way that democracy appeared in Chrisianity through the Protestant faith before it appeared in Puritan governments in America. In other words, one could say that there is a philosophical connection between specialization in education and in labor. Had Ibn Khaldun been asked about the topic, he likely would have supported specialization in labor. The fact is that his feudal world was not yet ready for Adam Smith's division of labor theory.[18] Yet here is still another way in

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[16] Mordechai Feingold, "Newton, Leibniz, and Barrow Too: An Attempt at a Reinterpretation," Isis 84, no. 2 (1993): 314–315. http://www.jstor.org/stable/236236.
[17] Ibn Khaldun, *The Muqaddimah: An Introduction to History*, trans. Franz Rosenthal, 718, https://delong.typepad.com/files/muquaddimah.pdf
[18] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Indianapolis: LibertyClassics, 1976), 13.

which Ibn Khaldun appears to foresee and support economic arguments of the distant European Enlightenment.

Conclusion

Ibn Khaldun's thought on economic matters was remarkably, almost incredibly, advanced. His thinking almost coincides with several economic ideas that are not thought to have existed prior to the European Enlightenment, and that are generally believed to have emerged as a product of the Western tradition. In search of an explanation for why Enlightenment philosophers developed similar theories independent of Ibn Khaldun, one answer in particular suggests itself. Economies might be said to have certain general aspects about them, aspects that do not vary greatly even between very different time periods or locations. Thus, although Enlightenment Europe was a very different world from Ibn Khaldun's fourteenth century Tunisia, the *Muqaddimah* nonetheless dealt with issues that were still important in Adam Smith's day.

If there indeed exist economic "universals," perhaps there also arise natural ways of understanding economies. Ibn Khaldun was able to reach similar conclusions as Adam Smith, at least on some specific economic questions. To understand how the former was able to reach his conclusions much earlier than the European, we must consider that during much of the medieval period, the Islamic world was in many ways more advanced both intellectually and economically than the European one. That must, however, be a subject for another paper.