



The Relevance of Ibn Khaldun's Economic Thought in the Contemporary World

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Abstract: Ibn Khaldun's economic thought, in his phenomenal book *Al-Muqaddimah* (The Prolegomenon), has been the subject of interest for many social scientists, including some economists of our era. He is considered to be among the early Muslim scholars, who wrote about the fundamental theories of economic science, three centuries before Adam Smith, who is widely regarded as the 'father of economics'. However, six hundred years after Ibn Khaldun's death, a question arises as to whether his economic thoughts are still relevant in the contemporary world. This paper attempts to analyse some of the main economic theories of Ibn Khaldun and reviews whether they are still relevant or being discussed in the modern economic theory or applied in the economic practice. The study found that from amongst the six main economic thoughts, he wrote about in his book, *Al-Muqaddimah*, almost all are still widely used and practiced. However, his theory on money needs more deliberate research and further investigation, as the world has long replaced gold and silver money with fiat money and other kinds of currencies such as cryptocurrencies, which were not known at his time.

Keywords: *Al-Muqaddimah*, Ibn Khaldun, Economic theory, Economic thought, Islamic economics

JEL Classification: B31, N1, P4, E4, E6, E2

Introduction

Many Muslim and non-Muslim scholars, commentators, economists and sociologists have started to point out the little acknowledgement that the world has given to Ibn Khaldun as one of, if not, the earliest forerunner scholar to write on many fields of knowledge, including Economy, Sociology, History, Psychology and Politics (Khaldun, 1967). Ibn Khaldun's most referred book, *Al-Muqaddimah* (The

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Prolegomenon), is just the introduction to his voluminous work of seven volumes on the history of Arab and Berber nations, *Kitāb al-'Ibar wa-Dīwān al-Mubtada' wal-Khabar fi Ta'rikh al-'Arab wal-Barbar waman 'Āsarahum min Dhawī ash-Sha'n al-Ak-bār* (Book of Lessons, Record of Beginnings and Events in the History of the Arabs and the Berbers and Their Powerful Contemporaries). *Al-Muqaddimah* was written in 1377 AD and became recently recognized as greatly contributing to the philosophical foundations of the classical history, economic theory and sociology. Some argue that Ibn Khaldun deserves the title, 'father of economics', as his thoughts on classical economy in the book *Al-Muqaddimah* preceded Adam Smith's theory in his famous book *An Inquiry into the Nature and Causes of the Wealth of Nations* by more than three centuries (Oweis, 1988; McCaffrey, 2014; Ead & Eid, 2014).

Dale (2006) and Khalil (2007) even crowned Ibn Khaldun as the first social scientist to come up with human organization theory in their research papers. However, until recently, he was a forgotten figure and his name had never been mentioned in the popular economic textbooks despite his substantial economic thoughts. Even Schumpeter (1954) who wrote about the history of economic analysis and who claimed 'the Great Gap' of 500 years in the history of economic thought, from the Greeks to Thomas Aquinas, did not acknowledge Ibn Khaldun's contribution to economic thought.

Ibn Khaldun wrote on many critical economic issues, including the property right, the division of labour, the supply and demand, the production and the supply side economy, the role of the state in the economy, taxation and public finance, monetary policy, and economic growth. According to Boulakia (1971) Ibn Khaldun elaborated "a theory of production, a theory of value, a theory of distribution, and a theory of cycles, which combine into a coherent general economic theory which constituted the framework of his history".

The well explained theories on these subjects are considered to be sublime intellectual achievements that have never been written in this manner during such an early period. However, the world has changed very rapidly since the fourteenth century when Ibn Khaldun wrote his thoughts. This paper aims to extract the economic thoughts of Ibn Khaldun which are manifested in his book *Al-Muqaddimah* and analyse whether these economic thoughts are still relevant in today's world.

The rest of the paper is organised as follows. The next section gives a brief biography of Ibn Khaldun and explains the circumstances in which he was living and points out to his most notable works. This is followed by section three on the

methodology of how this paper approaches the study. Section four elaborates in some detail the main economic thoughts of Ibn Khaldun and critically discusses their relevance to the contemporary era. The last section wraps up the results of the investigation and gives a conclusion on whether Ibn Khaldun's contributions to the economic science are still relevant in the contemporary world.

A Brief Biography of Ibn Khaldun

Ibn Khaldun (1332-1406) who is known as a historian, a judge, a sociologist, an economist, a social philosopher and an Islamic scholar, was born in Tunisia in an upper-class family with the original name of Abu Zayd Abd al-Rahman Ibn Khaldun. His ancestors were Yemeni Arabs, from Hadhramout in Yemen, who had settled in Spain under the rule of Muslim caliphate in the eighth century before they moved to Tunis following the fall of Seville. Ibn Khaldun's ancestors including his grandfather held important political positions in the Andalusian government, while his father was a *fiqh* scholar (Jurist) (Hernawan, 2017).

Ibn Khaldun received most of his education in Tunis and Morocco. He studied and memorized the Holy Qur'an and the *Ahadith* (sayings) of the Prophet Muhammad (pbuh) and he also learnt and contributed to the understanding and development of Islamic jurisprudence, Arabic literature, philosophy, and mathematics. The broad knowledge that he acquired is reflected in his thoughts and writings, which look at subjects from different angles and dimensions. Ibn Khaldun was heavily involved in politics. He held numerous positions under different rulers from a very young age in what is known today as Tunisia, Algeria, Morocco and Egypt. He was also appointed as a royal secretary to a grand *qadhi* (judge) for the Maliki school of thought.

Ibn Khaldun lived during one of the weakest periods of the Muslim civilization, where the Islamic caliphate was continuously declining after the attack of the Mongols and the Crusaders in the East and the attack of the Christians in Andalusia. The decline was not only due to the external attacks, but also due to the degrading situation of Muslims themselves, who had started to lose their spirit in the religion and became distracted with the worldly life while their rulers were absorbed in a lavish and extravagant life and imposed excessive taxation. On the other hand, with the start of the Renaissance in the fourteenth century, the European civilization was on the rise. This was a time of a great revolution in almost all dimensions in Europe, marking the transition from the dark-ages to the middle ages and to

modernity.¹ This was the period of innovation and development in Europe. During this time, the great scholars of Europe incorporated the knowledge of mathematics, science, medicine and astronomy that were developed vastly in the Muslim world, into their thinking and practices, without giving credit to earlier scholars from whom they draw their thoughts. Ibn Khaldun, seeing the decline of the Muslim world, attempted to make a revival with his contribution as a scholar.²

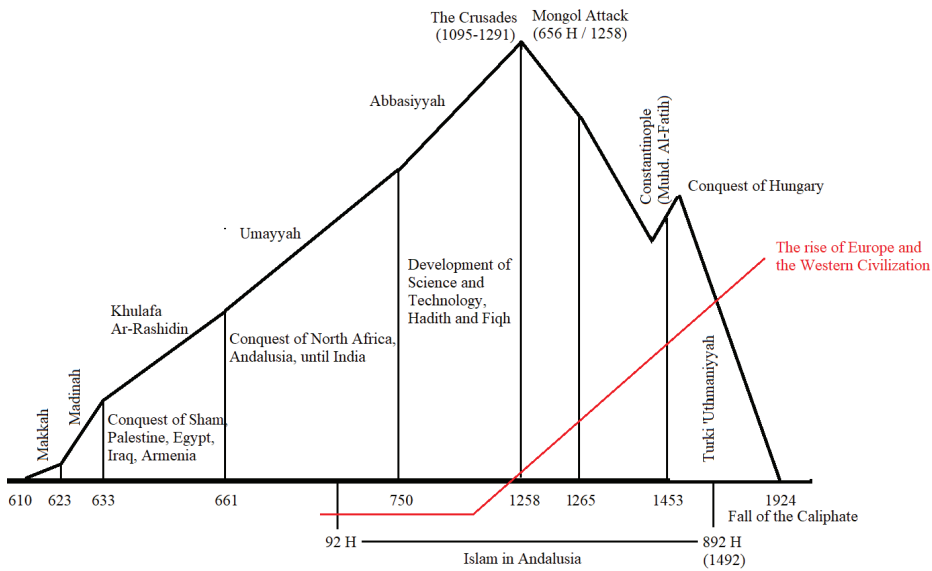


Figure 1. Graph of Muslim Civilization

Source: Translated from the Book “*Ini Sejarah Kita*” (This is Our History) (Ahmad, 2010)

Methodology

This study explains in some detail, six of Ibn Khaldun’s main economic thoughts and ideas that were written in his book *Al-Muqaddimah*. These economic thoughts are examined according to six main topics and their relevance to the contemporary economy is carefully analysed by comparing them to the modern economic theories and their application in today’s world. Some relevant data was obtained from other studies and will be presented to support the analysis. The study will then conclude whether Ibn Khaldun’s economic thoughts are still relevant in the contemporary world.

Ibn Khaldun's Economic Thought

The Protection of Individual Property Rights

Ibn Khaldun was a strong proponent of the protection of property rights. According to him, the failure to uphold the property rights would lose the incentive for the people to own properties, since any property they acquire with their own effort will ultimately be taken away. On this matter, Ibn Khaldun opposes strongly the ideas of communism and socialism which do not recognize individual property rights. He explained quite thoroughly, how the infringement of one's property is a strong form of injustice and that it could lead to the destruction of civilization. The wellbeing and advancement of a civilization relies on the productivity of the individual units in the society, which act based on the promotion and protection of their own interests. People would leave the place, where the rulers deny the individuals their property rights. Consequently, the population would decrease and eventually the civilization will decay and decline.

Karatas (2006) mentioned in his paper that Ibn Khaldun predicted that a country, with a stronger recognition of human rights, will do better economically, compared to those countries which do not have such a recognition, other things being equal. Khalil (2007) explained the term 'political invisible hand' to describe this thought of Ibn Khaldun, where the ruler imposes a law that promotes and protects the individual property rights to encourage the citizens to invest their capital and conduct productive activities. The ruler can then charge a reasonable tax on that production and this manner would eventually earn the ruler higher income as opposed to the act of seizing property forcibly.

In assessing this theory on the contemporary economic condition, we could recall and mention that the fall of Soviet Union and Eastern Europe as communist countries was mainly driven by the economic reason of infringing the individual properties' right. Lavigne (1999) explained in her book that the inherent economic flaws were one of the main roots of the fall of Soviet Union and Eastern Europe. This were indicated by the decline in economic growth, the deterioration of worker's output and productivity, a slow technical progress and mediocre standard of living. Weitzman (1985) further elaborated that the Soviet Union's fall was due to the systemic inability to balance the growth of capital with the decline of forced labour per unit of capital to the extent that the return on investment continuously declined to nearly zero by the middle of the 1970's.

Many empirical studies have been undertaken to prove this claim. Bergson (1987) investigated the economic performance of per capita income based on the Gross Domestic Product (GDP), the Gross Domestic Material Product (GDMP) and the Gross Reproductive Capital Stock (GRCS) for four communist countries (USSR, Hungary, Poland and Yugoslavia) in 1975 compared to entrepreneurial market economy (EME) countries. The results presented in the table below are not surprising, the GDP, the GDMP and the GRCS per capita for the communist countries are much lower compared to EME countries. The same observation was also made by Bryant (1998) who found that, during 1960-70's when North Vietnam attempted to implement communist strategies, income remained at a very low level.

Table 1.

Comparison of Economic Indicators between Communist and EME Countries in 1975.

Gross Domestic Product (GDP), Gross Domestic Material Product (GDMP),
Gross Reproductive Capital Stock (GRCS)
(USA = 100.0)

Country	GDP per Capita	GDMP per Capita	GRCS per Capita
EME Countries			
USA	100.0	100.0	100.0
Germany	88.3	90.9	107.3
France	89.5	92.2	83.0
Italy	60.7	61.3	61.6
UK	73.5	67.2	77.2
Japan	75.5	82.8	95.2
Spain	62.0	64.6	47.4
Communist Countries			
USSR	60.2	60.0	73.2
Hungary	56.3	61.1	70.9
Poland	54.2	54.8	51.6
Yugoslavia	41.2	41.5	35.9

Source: Bergson, 1987

The institutionalization of socialist and communist ideologies was only established in the beginning of the 1910's. However, these ideologies have now lost their

popularity and many countries have transformed their socialist and communist economies into market driven economies. Among those, as mentioned by Lavigne (1999) are China in 1980, Vietnam in 1980, Laos in 1980's, East Germany in 1989, Mongolia in 1991, Albania in 1991, Cambodia in 1991, and few other countries. The poor economic conditions of these countries prove Ibn Khaldun's point on the substantial importance of protection of individual property rights for the prosperity and advancement of a civilization.

Division of Labour

In the modern literature, the theory of division of labour is often credited to Adam Smith, traced back to his book *'The Wealth of Nations'* (Smith, 1904). However, Ibn Khaldun elaborated the same concept nearly four hundred years earlier. Al-Hamdi (2006) noted in his writing that the theory of division of labour was proposed and elaborated by Ibn Khaldun at three levels: the industry level, the society level and the international level. At the industry level, Ibn Khaldun eloquently explains that an individual will not be able to produce, by himself the absolute minimum of wheat to sustain his own life or even a needle. However, through division of labour and specialization, the same people could produce per capita significantly more than what they will need. Strangely, this is very similar to the example that Adam Smith gave, when he wrote on the production of a pin and the need for specialization at each step of the pin production. One must also note that Plato also came up with the idea of division of labour and specialization in his book *Republic* that dates back to 375 BC. He argued that a work is better done when a man has only one occupation rather than many (Plato, 1943).

On the society level, Ibn Khaldun emphasizes the importance of labour factor in the production equation. He stresses the need of cooperation among the people, not only within the same industry but also across industries and across economic sectors. Each individual will take a role in a different field, according to his skills and the cooperation of these people will lead to higher aggregate production, which turns into a surplus. On the international level, the surplus that the society produces is then traded with other products from other nations. However, he noted that this international division of labour is not based on the natural resources that the nation possesses, rather it depends on the skill that the inhabitants have. A nation that can allocate an efficient labour to the production needed for domestic consumption, will have excess labour to produce goods that can be exported to other nations.

The theory of division of labour is still used in the modern economic literature as an important foundation of the economic studies. Among the notable works on this subject are books written by Durkheim (2014), Massey (1995), Yang & Sach (2008), Munch (2016), Gilles (2018), and many others. Albeit in principle, division of labour is an agreed concept among most economists. Some however argue the negative impacts, which might come out of it. For example, Rosenberg (1965) pointed out the possible disastrous effects of the narrow-specialized job towards the morals and intellectuals of the laborers. Adam Smith, in his book, even argued his own theory and mentioned that the labourer, who performs the very same simple operation throughout his whole life, would have difficulties in creating significant invention, as he could not see beyond the simple task that he performs.

On the international level of division of labour, the contemporary economic literature agrees with the principle expounded by Ibn Khaldun in his theory, with some modifications to what is referred now as the competitive advantage theory. The term 'competitive advantage' means that a country or company could produce the same product with the same quality at a lower cost, due to different factors. In contrast to Ibn Khaldun's opinion that regards labour as the most important factor, the competitive advantage theory takes into account different elements such as national resources, government policy, macroeconomic phenomenon, etc.

However, Porter (1990) agrees, to some extent, with Ibn Khaldun that the meaningful concept of competitiveness at the national level refers to the productivity in employing labour and capital. He mentioned in his article that other factors do not correspond consistently with a nation's competitiveness. Besides that, Ibn Khaldun suggests that a surplus can only be made when the labour is able to produce more than what is required for domestic consumption. This implies that a nation, which exports goods to other countries, can suffice the domestic demand with its own production without importing from abroad. In the contemporary world, most if not all countries are both exporters and importers of different goods and commodities, depending on their competitive advantages. The following table shows the driving factors behind competitive advantages of different countries during their early economic development.

Table 2.

Driving Factors of Competitive Advantages

Driver of development	Source of competitive advantage	Examples
Factor conditions	Basic factors of production (e.g. natural resources, geographical location, unskilled labor)	Canada, Australia, Singapore, South Korea before 1980
Investment	Investment in capital equipment, and transfer of technology from overseas. Also requires presence of and national consensus in favor of investment over consumption.	Japan during 1960s, South Korea during 1980s large home market
Innovation	All four determinants of national advantage interact to drive the creation of new technology	Japan since late 1970s, Italy since early 1970s, Sweden and Germany during most of the post-war period
Wealth	Emphasis on managing existing wealth causes the dynamics of the diamond to reverse competitive advantage erodes as innovation is stifled, investment in advanced factors slows, rivalry ebbs, and individual motivation wanes.	UK during post-war period, USA, Switzerland, Sweden, and Germany since 1980

Source: Grant (1991)

Theory of Money and Value

According to Ibn Khaldun, the value of a product is indicated by the quantity of labour used to produce it. He also mentioned that the wealth of a country is not measured by the quantity of money it owns, but rather by the level of production of goods and services, as well as by its balance of payments (Boulakia, 1971). Boulakia further explained that although for Ibn Khaldun, money is not a measure of wealth of a nation, the economic measurement of the value of goods and services

is expressed in a certain manner. Ibn Khaldun used gold and silver as a monetary standard. Further, the money can only be issued by the ruler and the quantity of gold or silver in currency coins should not be changed once they are issued. This is to be sustained to maintain the standard of the money. He is also strongly against the falsification of money and any policies that attempt to fiddle with the value of currency, otherwise people will lose their confidence in it. The price of gold and silver is said to be relatively constant and not subject to frequent market fluctuations, thus, gold and silver money is seen not only as a medium of exchange but also as a store of value.

His view on gold and silver might not be as relevant in the contemporary world after the use of fiat money in replacement of gold standard in the 20th Century, as marked by the Bretton Woods Agreement and its aftermath and the use of electronic payments and cryptocurrencies in recent times. Many researchers have attempted to investigate whether gold standard is superior to fiat money as it provides a long-run price stability, which leads to lower level of inflation. Among those are Bordo *et al.* (2007). Albeit the popularity of such arguments, we could not deny that there is some kind of superiority that fiat money carries, including the practical characteristic of paper money and the resource cost in creating the money in comparison to gold money. On the issue of monetary policy, most of Ibn Khaldun's thoughts are relevant except his disagreement on currency debasement. What happens in today's world is not exactly what he warned against in his writings. The use of fiat money has given governments undue power, to indirectly influence the value of their national currencies in the market through the use of monetary tools.

Demand, Supply and Price

Ibn Khaldun discusses the impact of demand and supply of goods and commodities on the prices in the labour market as well as in the market for goods. He explains, when a city is highly developed, there will be an abundant demand for luxury goods that results in their shortage. People will compete to get them, as rich people will be willing to pay exorbitant prices to get them which will drive their prices even higher. The prices of goods are also affected by their supply, as he mentioned very clearly in the following passage:

“When goods are few and rare, the prices go up. On the other hand, when the country is near and the road is safe for traveling, there will be many to transport the goods. Thus, they will be found in large quantities, and the prices will go down.” - as translated by Rosenthal (2015)

Ibn Khaldun explained that the demand for labourers is derived from the demand for goods in the market. When goods are in great demand, for instance a craft, people will make every effort to learn the craft and earn from working in that profession. The same principle of demand and supply for price determination goes to the labour market and for determining the corresponding wages. He mentioned that the price of labour is higher in the city with advanced civilization compared to its price in villages, due to several reasons. Firstly, because there is a high need of labour in the city compared to the village. The labour's service is valued highly in the city as compared to the village. There are more prosperous people in the city that are willing to spend a higher amount of money for their needs as opposed to those who live in the villages.

Ibn Khaldun also explained the idea of price elasticity of demand through the example of spending on food, which he considers as a necessity i.e. people do not really have any choice but to spend on it. Unlike foodstuff and victuals, spending on other things is not a compelling need and depends on the willingness of the person. From the example that he brought on the increasing demand in highly developed cities, he also indirectly linked the linear relationship between demand and income. When the income increases, it is followed by an increase in the quantity and the diversity of goods demanded (Ali, 2006).

Ibn Khaldun elaborated very eloquently the theory of supply and demand which became one of the most fundamental theories in microeconomic. Almost all of today's economics textbooks start with this subject. Although Ibn Khaldun did not visualize his thoughts on a mathematical and structural graph of demand and supply relationship, his theory on how supply and demand interact and result in the price movement could be interpreted as the supply-demand graphs that we learn in our microeconomic books today. On the left graph, it could be seen that the decrease in aggregate supply from AS_0 to AS_1 would increase the price from P_0 to P_1 and decrease the quantity from Q_0 to Q_1 . This is exactly what Ibn Khaldun says would happen to the price when the goods are few and rare. On the right graph, the increase in aggregate demand from AD_0 to AD_1 will increase the price from P_0 to P_1 and at the same time increase the quantity from Q_0 to Q_1 . These graphs articulate Ibn Khaldun's thought on the increase of demand of luxury goods in the city which drives the prices to an exorbitant level.

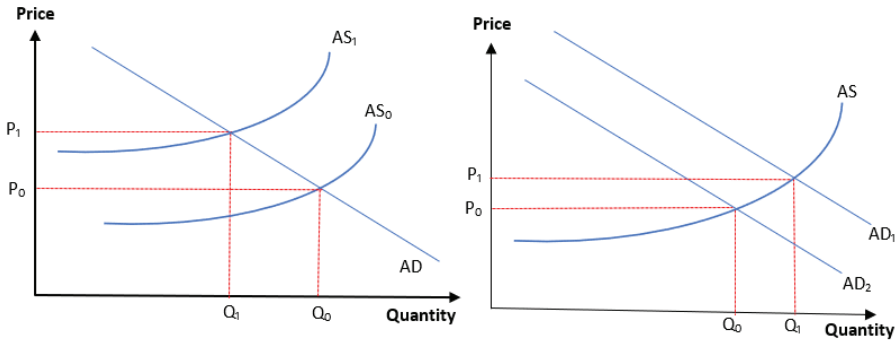


Figure 2. Graph of Supply and Demand Theory

Although he did not explain quite extensively the price elasticity of demand, he pointed out that certain goods such as staple food have almost perfectly inelastic prices. People have no choice but to purchase such goods due to their need. However, for other goods, the price is elastic of different degrees depending on how much the person values those goods.

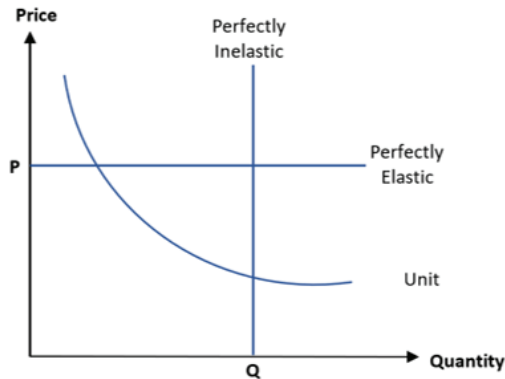


Figure 3. Graph of The Price Elasticity of Demand

Role of the State in Economy

Ibn Khaldun is of the opinion that the state should never be involved in the commercial activities in the market to earn revenues and compete with private businesses. He mentioned that the market itself faces enough competition, and when the rulers come to the scene, this will create unfair competition in the market and

the private players will be undermined and dissatisfied. Besides that, when the government trades in the market, the sellers have no power against it and cannot influence the prices, which tends to be much lower. The same goes when the government sells goods in the market, it will directly or indirectly force the price to be much higher than the equilibrium price in the market. This process will decrease the motivation of people to produce and trade things in the market leading to a decrease in the tax base that the government can charge and the amount of taxes it can collect. This decrease in tax revenue will be more significant than the profit the government gets from the trade.

Thus, Ibn Khaldun strongly opposed the idea of government's direct involvement in the commercial activity, as the government should be the ruler and not the competitor to its people. On top of that, the government does not have the same sense of motivation like normal entrepreneurs do. Entrepreneurs will always do their best in doing their economic activities as they would have to bear the profit and loss by themselves. The same motivation will not be found in the government as it acts using public money and thus it will not function as efficient as an entrepreneur would.

Ibn Khaldun also believes in the free market with minimum intervention from the government. According to him, the state should not interfere or set the price in the market which should be left to the supply and demand forces (Muslim, 2017). However, the government has the obligation to uphold justice and fairness in the market and ensure that the rights of both buyers and sellers are protected. He believes that the state's main function in the economy is its role of enablement by enforcing law and order to create a conducive environment for economic activities (Karatas, 2006). This includes building infrastructure such as road, transportation, communication, etc., to smoothen and facilitate the production and trade activities. Karatas (2006) further explained that according to Ibn Khaldun, the ideal state is one with minimum army to enforce law and order, and, minimum bureaucracy and level of tax to encourage economic activities. An excessive bureaucracy and army will significantly increase government expenditure to pay the salaries of people in those roles. This will force government to charge excessive taxes.

Ibn Khaldun's view on the role of state in the economy is what is reflected today in the free market economies. It is an economy, where the prices of goods and services are determined by the market through the supply and demand forces without any interference from the government. This is also known in the modern economics literature as *Laissez-Faire* as elaborated by Dale (2015) in a chapter of his book titled "The Orange Trees of Marrakesh: Ibn Khaldun and the Science of Man".

However, he did not elaborate clearly certain crucial issues on his free market ideas. *Laissez-Faire* is known as the strong foundation of capitalism ideology based on the survival of the fittest. One of the main critiques of this system is that it does not protect the weakest in the society. Some of the debated issues are the absence of minimum wages, corporate tax and involvement in the market. It also corresponds to one of the modern economic concepts called the theory of 'invisible hand', which stipulates that the market is efficient, if left to operate on its own without any intervention from outside.

Although Ibn Khaldun did mention that the government may regulate the market in some rare circumstances to uphold the justice, he did not specify to what extent and in what form the government may do this. One thing, that is sure, is that the Islamic economy has distinct redistribution tools, which are missing in the capitalist *laissez faire* economic system, and are expounded by Ibn Khaldun under different themes in his other writings. Among these are *Zakah* (compulsory poor due), *Sadaqah*, (voluntary charity) and *Awqaf* (endowments). Each of these has its different targets and characteristics.

On the other hand, Ibn Khaldun's view on the absence of government involvement in commercial activities has been practiced since the last few decades by many countries and is known as market liberalization. Market liberalization often refers to privatizing of state-owned enterprises. Many empirical studies have been done to see the effects of privatization on the performance of the companies. Among these is a study conducted by Park *et al.* (2006) that compared the performance of state-owned enterprise (SOEs) in 1992, which were privatized during 1993-1996 (SP) and state-owned enterprise that stayed under government ownership for the entire period from 1992-1996 (SS). They concluded that the privatized SOE performed better than their counterparts. They further analysed the effect of ownership change through regression and found that it had significant positive relationship with ROA and productivity.

Public Finance and Taxation

Ibn Khaldun believes that government spending, such as on infrastructure, is extremely important for the wellbeing of a society. It is also a part of important enablement to support economic activities in the country. Besides that, government expenditure is also part of the main demand in the market, which spurs the

economic development in line with the Keynesian school of economics (Keynes, 1939). Ibn Khaldun also mentioned the multiplier effect of government spending, where he emphasizes that the tax money from the people will revert to them (Islahi, 2015). However, although spending on the productive and necessary avenues is extremely important for the nation, he opposed the idea of extravagance and overspending. He is in favour of a balanced budget, where income and expenditure balance every year. The government may only spend as much as the normal and customary income that they project to receive. When the government starts to spend on luxurious things, they will need to find other source of revenues to pay for this spending. The government will seize the property of its citizens through increasing taxes, commercial transaction costs and even hostile acts. They will start imposing new taxes on commerce activities, which will eventually destroy the business, as people will lose their motivation to do trade due to the heavy taxation.

On the matter of taxation, Ibn Khaldun recognizes tax as one of the main elements of government revenues, which is then used to fund government's functions and responsibilities towards its citizens. However, he believes that, in difficult circumstances, the ruler could charge people with tax justly and should not charge too much. He even emphasized to impose as low tax as possible from the businessmen and from those who undertake productive activities. According to him, low taxes charged on business, encourage people to produce more. Their motivation to earn profit for themselves is an important factor to the economic development. On the other hand, high level of taxes will discourage people from work and from production. This thought led him to propose his theory of optimum level of tax rate. He believes that tax revenue will start diminishing at a certain point, as the total income eligible for tax (tax base) will start decreasing due to tax avoidance and tax evasion. The optimum level of tax rate is the rate where it does not discourage people from working and producing. He is also against discrimination in tax imposition on different groups of people in the society as it might create jealousy and disunity in the community. He says:

“Therefore, distribute (the land tax) among those to whom it belongs, and do it justly, fairly, equitably, and generally. Do not make a nobleman (sharif) pay less because of his nobility, or a rich man because of his wealth, or one of your secretaries, or one of your intimates and entourage... ..Treat all the people justly. This makes it easier to gain their friendship and is more certain to achieve general satisfaction.” - As translated by Rosenthal (2015)

His taxation theory is very similar to what we know today as supply side economics. This theory believes that the main driver of economic growth is increased production through tax cuts and deregulation (Canto *et al.*, 2014). Supply side economic theory believes in the multiplier effect of tax cut on the increased demand and production. President Reagan put this theory into practice in the 1980s, which made the theory to be referred as 'Reaganomics'. Looking back to the previous paragraph on government spending, it is interesting that Ibn Khaldun's ideas are, to some extent similar to those of Keynesian economics and supply side economic theory, which are usually mentioned against each other. On the issue of optimum tax rate, a renowned economist investigated Ibn Khaldun thought and proposed the Laffer Curve theory (Laffer, 2004).

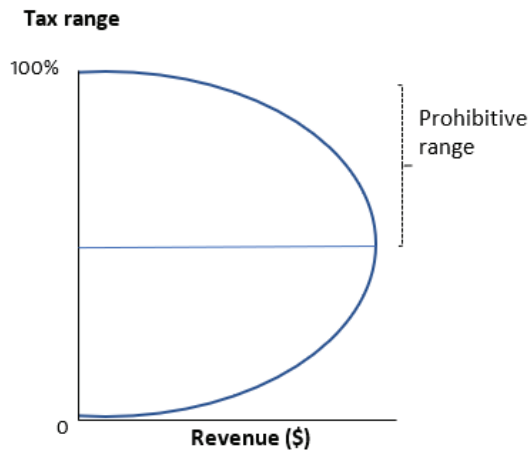


Figure 4. The Laffer Curve Optimal Tax Theory

Source: Laffer, 2004

The Laffer curve shows that at tax rate of 0%, the government will not be able to collect any tax revenue no matter how big the tax base is. On the other end of 100% tax rate, no one will be willing to work as the after-tax income would be zero which will turn into zero tax revenue. Laffer believed that in the US, most tax rates are in the prohibitive area, thus, to increase the tax revenue the government shall do tax cuts. He investigated the theory by comparing the tax revenue, GDP growth and unemployment rate before and after-tax cut in the USA during the reigns of president Harding, Kennedy and Reagan. His research showed that during the three periods of tax cut, the inflation-adjusted revenue, real GDP growth and unemp-

loyment rate (except during Reagan tax cut which result in an increase of 0.2% in unemployment rate) showed an improvement, as compared to the situation prior to the tax cut.

However, his research is not supported with a statistical analysis to measure what factors drive this positive change. An empirical evaluation should be done to further validate whether tax cut is among the significant factors driving the improvement in the tax revenue, GDP and unemployment rate as mentioned by Laffer. Laffer's curve received much criticism from different circles. Among these, is Mirowski (1982) who questioned some essential concepts in it. The first is the low tax incentive to increase the supply production. He pointed out that such an incentive is not large enough, and some studies support his claim that there is small variation in working hours across different tax brackets, due to the strong institutional force. He also pointed out the lack of empirical evidence behind Laffer's theory. The third rebuttal that Mirowski gave to Laffer is the possibility of omitting relevant variables, since economics is a science of a well-articulated models which consist of all relevant factors and possibilities. The last is the controversy about the size of underground economy that Laffer assumed to exist and ready to jump in the economy with a reduction in the tax. In this regard, Ibn Khaldun and Laffer theory of diminishing tax seem to be unpopular opinions and need further justification.

Bunescu & Comaniciu (2013) investigated the relationship between tax burden and tax revenue in Romania during 1995-2011 and could not form a defined relationship between the two indicators. The tax revenue recorded an increase every year, although with different growth rates, regardless of the changes in the tax rate.

Conclusion

Ibn Khaldun's book *Al-Muqaddimah* was written nearly seven hundred years ago and is often referred to, as one of the first works on the economic thought. The circumstances and the system he lived in were completely different from what we have in today's world. A big question that arises is to what extent his economic thoughts are still relevant, used and practiced in the contemporary world. This paper has categorized Ibn Khaldun economic theory into six main themes and carefully analysed whether each of them is still relevant either in economic theory or in practice. The paper confirmed the following:

First, on the issue of the protection of individual property rights, Ibn Khaldun's thought holds true till day, as upholding property rights has been proven

to lead to better results in the economic growth and development. This is confirmed by the economic failure of socialist and communist systems, which had been infringing on the private property rights for a long time and are reverting to the market system.

Second, the theory of division of labour, specialization and cooperation is still used in the modern literature, although some economists argue that labour is not always the most important factor for a nation to prosper. There are other factors that could be put into the equation such as natural resources, investment in capital equipment, etc.

Third, on the theory of value and money, Ibn Khaldun emphasizes the use of gold and silver as a currency which has long been replaced with fiat money and other types of money. Ibn Khaldun might not have thought about fiat money when he wrote *Al-muqaddimah*, hence, most of his points are only relevant for gold and silver money.

Fourth, on the laws of demand, supply and how they affect prices, Ibn Khaldun explained eloquently the interaction between the three factors, which are popularly used in the microeconomics textbooks. He even mentioned the concept of price elasticity of demand.

Fifth, on the role of the state in the economy, Ibn Khaldun's thought is similar to the free market economy concept to some extent and his strong opposition to government's involvement in the market is being practiced by many countries for the last few decades.

Lastly, on public finance and taxation, Ibn Khaldun is a strong supporter of a lower taxes in order to increase production, which corresponds to supply side economy. He also discussed the idea of diminishing returns in tax revenue with an increase in tax rate. This theory was made popular by renowned modern economist who visualized Ibn Khaldun's theory into his Laffer curve. However, this theory has received much criticism from other economists.

To sum up, most of Ibn Khaldun's economic thoughts are still quite relevant in the contemporary economic thought and practice. Some of them, however, are quite debatable. Further research needs to be done to investigate his original theory of optimum tax level with the use of empirical data. However, it must be acknowledged that his thoughts on these economic concepts were ahead of his time. As

explained throughout this paper, his thoughts have contributed to the foundations of the economic theory from the past until today. It is not unlikely that it will continue to do so in the future.

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