Ibn Taimiyah’s concept of market mechanism

Islahi, Abdul Azim

Islamic Economics Research Center, KAU, Jeddah, KSA

27 July 1983

Online at https://mpra.ub.uni-muenchen.de/18466/
MPRA Paper No. 18466, posted 09 Nov 2009 01:48 UTC
Ibn Taimiyah's Concept of Market Mechanism

Abdul Azim Islahi

Introduction

The main objective of this paper is to study and analyse the concept of the market mechanism as seen by Ibn Taimiyah. The paper will also attempt to compare his views with those of some other Muslim thinkers and Western writers until mid-eighteenth century. The first section is devoted to the analysis of Ibn Taimiyah's views and the last two sections are meant for comparison.

The concepts of demand and supply are most fundamental in the science of economics. They are the essence of market mechanism. But the idea of classifying all market forces into these two broad categories and of price determination through demand and supply was a very late development in the history of economic thought. According to Schumpeter, "As regards the theory of the mechanism of pricing, there is very little to report before the middle of the eighteenth century... (Schumpeter, p. 305). Yet it is interesting to discover that as early as the thirteenth century Ibn Taimiyah (1263-1328 CE/661-728AH) had a concept of market mechanism.

Market Mechanism as Conceived by Ibn Taimiyah

Ibn Taimiyah had a clear notion of the prices in a free market being determined by the forces we now call demand and supply. He says:

"Rise and fall in prices is not always due to injustice (zuln) of some people. Sometimes its reason is deficiency in production or decline in Import of the goods in demand. Thus if the desires for the good increase while its availability decreases, its price rises. On the other hand if availability of the good increases and the desires for it decrease, the price comes down. This scarcity or abundance may not be caused by the action of any people; it may be due to a cause not involving any injustice or, sometimes, it may have a cause that involves injustice. It is Allah the Almighty who creates desires in the hearts of people..."(Ibn Taimiyah, 1381, vol.8, p. 523)."

* Abdul Azim Islahi is Assistant Professor of Economics, Department of Socio Technical Studies, College of Engineering, King Abdulaziz University, Jeddah, Saudi Arabia. The author is highly indebted to Prof. M.N. Siddiqi, Dr. M. Anas Zanqa and two anonymous referees for their substantial comments on earlier drafts of this paper.

* The Arabic text of this as well as the subsequent quotations from Ibn Taimiyah are reproduced in the Appendix, numbered in the sequence they appear in the text.
From the preceding statement of Ibn Taimiyah it appears that one prevailing opinion at his time held rising prices to be the result of injustice or malpractices on the part of sellers. The original word used by him is 'zulm' which means transgression or injustice. Here it is used in the sense of manipulations by sellers leading to imperfections in the market, like hoarding. According to Ibn Taimiyah this is not always true. He states the economic reasons for the rise and fall of prices and the role of market forces in this regard.

Ibn Taimiyah mentions two sources of supply - local production and import of the goods demanded \( (\text{ma yukhlaq aw yujlab min dhali'k al mal al matlub}) \). \( \text{al matlub} \) has its root 't.i.b.' which is the synonym of the word 'demand' in English. To express demand for a good he uses the phrase 'raghabat fi'l shai', i.e. desires for the good. Desire which reflects needs or 'taste' is one of the important determinants of demand, the other being the income. This second factor is not mentioned by Ibn Taimiyah.

A change in supply, the other market force beside demand, is described by him as an increase or decrease in availability of the good. He had already noted the two sources of supply: local production and import.

The aforementioned statement suggests that Ibn Taimiyah is referring to what we now call shifts in demand and supply functions, though he did not state them as such. That is, more being demanded at the same price and less being supplied at the same price or conversely, less being demanded and more being supplied at the same price leading to an ultimate decline of the price. He combines two different changes in one. No doubt, if a decreased supply accompanies an increase in demand, rise in the price will be more pronounced. Similarly, if an increase in supply is associated with a decrease in demand, the fall in the price will be larger, because both changes help the movement of price in the same direction. However, it is not necessary to combine the two changes or to find their occurrence simultaneously. \( \text{Cetris paribus} \), we can experience the same result if only one of them changes. For example, if demand decreases while supply remains the same, price will come down and vice versa. A number of such possibilities can be imagined, which seem to be implied in Ibn Taimiyah's above statement. In his book \( \text{al Hisbah fi'l Islam} \), Ibn Taimiyah describes the two changes separately as he says:

"If people are selling their goods according to commonly accepted manner without any injustice on their part and the price rises due to decrease of the commodity \( (\text{qillat al shai}) \) or due to increase in population \( (\text{kathrat al Khalq}) \), then this is due to Allah" (Ibn Taimiyah, 1976, p.24).

Here he gives the reasons for increase in price to be either a decrease of commodity, or an increase in population. "Decrease of commodity", can he appropriately translated as a decrease in supply. Similarly, an increase in population is more likely to cause an increase in market demand, so it can be translated as increase in demand. An increase in price due to a decrease in supply or due to an increase in demand is characterised as an act of God, implying the impersonal nature of the market mechanism.
In the preceding passages Ibn Taimiyah has distinguished between an increase in price due to market forces and one which is caused by people's injustice, e.g. hoarding - a distinction that provides a ground for price regulation by authorities. Ibn Taimiyah was a strong supporter of price control in the case of imperfection in the market; but he was against such controls if price rises were caused by the market forces of demand and supply. (Islahi, pp.79-90; Kahf, and al Mubarak, pp.107-125).

It should be noted here that in the texts quoted above Ibn Taimiyah analyses the effect of the changes in demand and supply on prices but he does not note the effect of high or low prices on quantity demanded and supplied (i.e., a movement along the same curve from one point to another). At one place in `al Hisbah' he reports with approval the view of an earlier jurist Abul Walid (1013-1081 CE-403-474AH) that "administrative setting of too low a price that leaves no profit results in a corruption of prices, hiding of goods (by sellers) and destruction of people's wealth" (Ibn Taimiyah, 1976, p.41). This awareness of the supply drying up should the price fall too low brings Ibn Taimiyah very close to indicating a direct relationship between the quantity supplied and price.

On another occasion, in his Fatawa he gives some of the factors that affect demand and consequently price. He says (Ibn Taimiyah, 1383, vol.29, pp.523-525):

(a) "People's desire (al raghabah) is of different kinds and varies frequently. It varies according to the abundance or scarcity of the good demanded (al matlub). A good is much more strongly desired when it is scarce than that when it is available in abundance.

(b) "It varies also depending on the number of demanders (tullab). If number of the persons demanding a commodity is large, its price goes up as against when their number is small.

(c) "It is also affected by the strength or weakness of the need for the good and by the extent of the need, how great or small is the need for it. If the need is great and strong, the price will increase to an extent greater than if the need is small and weak.

(d) "(The price also varies) according to (the customer) with whom exchange is taking place (al mu'awid). If he is rich and trustworthy in paying debts, a smaller price from him is acceptable (to the seller) which (price) would not be acceptable from one known for his insolvency, delay in payment or denial of payment due.

(e) "Also (the price is influenced) by the kind (of money) paid in exchange; if it is in common circulation (naqd ra'ij), price is lowered which is not the case if payment is made in money less common in circulation. Like dirham and dinar these days in Damascus where payment in dirhams is the common practice."

(f) "This is because the purpose of contracts is (reciprocal) possession by the two parties (to the contract). If the payer is capable of payment and is expected to fulfill his promise, the objective of the contract is realised with him contrary to the case if he is

* For an explanation, see what follows the quotation.
not fully capable or faithful regarding his promise. The degrees of capability and faithfulness differ. This applies to the seller and the buyer, the lessor and the lessee, the bride and the groom in marriage. The object of the sale is sometimes (physically) available and sometimes it is not. The price of what is available is lower than the price of what is not (physically available). The same applies to the buyer who is sometimes able to pay at once as he has money, but sometimes he does not have (cash) and wants to borrow (in order to pay) or sell the commodity (to make payment). The price is lower in the former case.

   (g) "The same applies to one who rents out (an object). He may be in a position to deliver the benefits to which the contract entitles so that the lessee can avail of these benefits without any (further) costs. But sometimes the lessee cannot avail of the benefits without (additional) costs as happens in villages visited by oppressors in authority or by robbers, or in places infected by predatory animals. Obviously the (rental) price of such land is not at par with the rental price of land which does not require this (additional cost)."

   As we have noticed earlier, Ibn Taimiyah takes `desire in the sense of demand. Subsequently he uses the exact word `al matlub and `al talibun for the goods demanded and for demanders respectively. In his analysis of increasing and decreasing prices, Economic and non economic factors and individual and collective actions are mentioned together.

   To say that a scarce good is much more strongly desired than one available in abundance is to conceive of demand and supply as interdependent which is not true, generally speaking. Ibn Taimiyah records its as a psychological fact he observed: that some individuals finding a good in short supply may expect it to be in shorter supply in future and hence increase their demand for that good now.

   An increase in the number of demanders causing an increase in price is an economic phenomenon and it is one of the cases of a change in the market demand functions. Smallness or largeness of need as distinct from its intensity may refer to the commodity's place in the total basket of goods needed by the consumer. Should this interpretation be correct, Ibn Taimiyah is associating intensity of need, coupled with its relatively large size as a proportion of the totality of his consumption expenditure, with high prices. In contrast, a less intensely felt need for a commodity needed in a small quantity in proportion to the totality of his needs will be a cause for lower prices.

   The next point (i.e., (d) above) relates to sale on credit. It deals with a specific case not very relevant to an analysis of market prices, except when this becomes the general case so that sellers have to take into account the uncertainties regarding payment.

   The matter of price in terms of silver coins being lower (para (e) above) is a reference to the peculiar monetary situation in Damascus at that time. The reason might have been an increasing quantity of alloy in gold coins or the frequent unfavourable changes in dinar and dirham ratio, as testified by the history of that period (Qalaqshandi, vol. 3, p. 438; Maqrizi, vol. 1, p. 899). It should be noted that towards the end of his reign, Nasir Muhammad b. Qalawun - the Sultan contemporary to Ibn Taimiyah forbade
people to sell or buy gold. All were obliged to surrender their gold to the mint and take dirhams in return. (Maqrizi, vol.2, p.393). This also might have been responsible for relatively higher prices in terms of dinars.

The specific individual case of charging a lower price for a commodity presently available and a higher price for that which is not presently available in the market (para (f) above) can be interpreted as a case of extra payment being made for procuring the commodity which is difficult to come by. Ibn Taimiyah has noted this case along with the case of the cash price for a commodity being lower than its price when payment is deferred. This he had already noted (in (d) above).

The example given in (g) aims at making the point that any Costs which must be incurred by the buyer in order to utilise a rented objet have to be taken into account by the one who rents out the object. Ibn Taimiyah finds a common element between the cases d, e, f and g: uncertainties or costs involved cause prices to be different from what they would have been without them. This, in it self, is a significant contribution to economic analysis. Add to this his awareness of the effects of changes in supply and demand on prices. It wilt be interesting, therefore, to compare his ideas in this regard with those of some other Islamic thinkers and Western writers until the advent of Economics during mid-eighteenth century.

Price Formation as Seen by Some Other Muslim Thinkers

The earliest record of increase and decrease of production with respect to price changes I was able to find is in Abu Yusuf (731-798 CE/113-182AH). But instead of giving any theoretical account of demand and supply and their effect on prices, he states, "There is no definite limit of cheapness and dearness that could be ascertained. It is a matter decided from the heaven' not known how? Cheapness is not due to plentifulness of food, nor dearness is due to scarcity. They are subject to the command and decision of Allah. Sometimes food is plentiful but still very dear and sometimes it is too little but cheap" (Abu Yusuf, p. 48).

In the above passage, Abu Yusuf denies a common impression of the negative relationship between supply and price. It is true that price does not depend on supply alone. Equally important is the force of demand. Therefore, increasing or decreasing price is not necessarily related to decrease or increase in production. Insisting upon this point Abu Yusuf says that there are some other reasons also, which he fails to mention "for the sake of brevity" (Abu Yusuf, p.48). What are those factors? What did he keep in his mind? Whether changes in demand, or changes in money supply of the country, or hoarding and hiding of goods, or all of these? It remains to be explored whether he or any of his contemporaries touched these points.

In the opinion of Siddiqi, the context in which Abu Yusuf discussed the issue of prices i.e. proportional agricultural tax (nizam al muqasamah) is better and more justifiable than fixed land tax (nizam al misahah), did not require an explicit and detailed description of all the factors involved. (Siddiqi, 1964, pp.79-80, 85-87).
Ibn Khaldun (1332-1404 CE/732-806AH) is another important figure in whose writings we find description of both demand and supply in respect of rise and fall of prices. In his famous work `al Muqaddimah', under the heading 'Prices in Towns', he divides the goods into necessaries and luxuries. According to him, when a city expands and its population increases, prices of necessaries decrease comparatively and those of luxuries increase. The reason given by him is that the foodstuffs and similar commodities being the necessaries of life get the first and the foremost attention of every man and thus their supply increases; causing prices to fall. On the other hand, the production of luxuries and conveniences does not attract the attention of every one, while their demand increases due to changes in life patterns causing their prices to increase. In this way Ibn Khaldun gives a reasonable account of demand and supply and their effect on prices. He also notes the role of competition among the demanders and increasing cost of supply due to taxation and other kinds of duties in the towns. (Ibn Khaldun, pp. 288- 289).

At another place Ibn Khaldun describes the effect of increased or decreased supply on prices. He says:

"... When goods (brought from outside) are few and rare, their prices go up. On the other hand, when the country is near and the road safe for travelling, there will be many to transport the goods. Thus they will be found in large quantities, and the price will go down". (Ibn Khaldun, p.314).

The foregoing quotations show that like Ibn Taimiyah, Ibn Khaldun also considers both demand and supply to be important in determination of prices. Ibn Khaldun then goes on to say that a moderate profit boosts trade whereas very low profits discourage traders and artisans and very high profits decrease demand (Ibn Khaldun, pp.315-316). Indeed, Ibn Khaldun goes beyond Ibn Taimiyah in his clear mention of the elements of competition and different costs of supply on which Ibn Taimiyah is not very explicit. After his statement of demand and supply, Ibn Khaldun cites examples of different goods and their supply in different countries and their high or low prices according to their availability. He merely makes these observations but does not prescribe any price control policy. He seems to be more concerned with the facts while Ibn Taimiyah is interested in policy issues. Ibn Taimiyah does not confine his analysis to discussing the effect of increase and decrease in demand and supply on prices, but he opposes fixation of any price as long as market forces work normally. In the case of imperfection in the market or injustice on the part of suppliers he recommends price control. (Ibn Taimiyah, 1976, pp.25-51; Islahi, pp. 79-90; Kahf; and Mubarak, pp. 107-125). At one place in the Muqaddimah, Ibn Khaldun examined the depressing effect of state trading on the prices of goods sold by private competitors and suppliers, (Ibn Khaldun, pp.223-224) but it has nothing to do with the price control policy.

Western Thinking on Price Mechanism Until Mid-Eighteenth Century

According to the historians of economic thought, the Greek philosophers Aristotle and Plato could not present a theory of price formation by the operation of supply-demand mechanism in the market. (Gordon, p.46; Schumpeter, p.60). Almost the same is the case with the famous scholastic thinker Thomas Aquinas (1225-1274 CE) whose ideas influenced an epoch.
At the beginning of this paper we have noted Schumpeter's remark on the theory of the mechanism of pricing on the part of Western writers. He did not find much worth mentioning before the middle of eighteenth century. He has also said there that, "The contributions of even the brightest lights, such as Barbon, Petty, Locke, do not amount to much, and vast majority of the Consultant Administrators and Pamphleteers of the seventeenth century were content with the kind of theory they found or could have found in Pufendorf." (Schumpeter, p.305). Samuel Von Pufendorf (1632-94) a Swedish jurist was born more than three hundred years after Ibn Taimiyah. We have no access to the works of Pufendorf whom Schumpeter held to be the leader of so many thinkers. The only reference to his contribution given by Schumpeter is as follows: "Distinguishing value in use and in exchange (or pretium eminens), he (Pufendorf) lets the latter be determined by the relative scarcity or abundance of goods and money. Market price then gravitates towards the costs that must normally be incurred in production" (Schumpeter, p.122).

This brief quotation on the substance of Pufendorf's contribution is not sufficient for a critical examination or a comparison with Ibn Taimiyah's contribution. To say that value in exchange or price is determined by the relative scarcity or abundance of goods and money is more related to a quantity theory of money than the theory of the mechanism of pricing. And perhaps, that is what Schumpeter also meant, because Barbon,* Petty (1623-1687), and Locke (1632-1704) whom he mentioned in this connection were more concerned about the effect of money supply on prices than any thing else. Credit for discovery of the quantity theory of money is usually given to a French jurist Jean Bodin (1530-1596) who developed it in 1568 in a "Reply to the Paradoxes of M. Maletroit" (Speigel, p.89). Although implied in this theory is the application of demand and supply analysis to money, it is a different subject. Ibn Taimiyah did not apply demand and supply to money. At one occasion only, he said, "The authority should mint the coins (other than gold and silver) according to the just value of people's transaction, without any injustice to them... and a ruler should not start business in money by purchasing copper and minting coins and thus doing business with them..." (Ibn Taimiyah, 1381, p.469).

Apart from Jean Bodin, Pufendorf, Barbon, Petty and Locke, there are other Western writers before Adam Smith who used the analysis of demand and supply to explain changes in price. Schumpeter does not mention them. But Barry Gordon, in his book Economic Analysis Before Adam Smith mentions John Nider (1380-1438), Navarrus (1493-1586), Luis Molina (1536-1600) and Lessius (1554-1632) and gives a brief account of each. Stating Nider's views he says, "Moreover, by as much as a greater number of men have need of a commodity and desire to possess it, whereas the available supply of it is less, by so much is it more likeky to be estimated and sold at a higher price" (Gordon, p. 232). Gordon writes about Navarus that "He was an opponent of a system of stationary price fixation, arguing that when the goods were abundant, it was quite unnecessary and that when they were scarce, the system might do the welfare of the community more harm than good ...A new emphasis was lent to the operation of supply determinants and the idea of "a market' was brought into sharper focus" (Gordon, p. 239). According to Gordon, Molina explained, "If, for example goods are supplied at

* Known for his book 'Discourse of Trade' (1690).
retail in small quantities, they will command a higher unit price than in bulk. He is the first among scholastics to use the word competition” (Gordon; p.240). And about the Belgian Jesuit, Lessius, Gordon writes, “Not only variation in supply conditions, but a wide range of other forces, quite properly, influence the making of prices. Among the factors he lists as relevant are following... the goods themselves, and their abundance or scarcity; the need for them and their usefulness; the sellers and their labour, expenses, risks suffered in obtaining the goods in transporting and storing them; the manner of the sale, whether offered freely, or on demand; the consumers, and whether there are few or many, and whether money is plentiful or scarce” (Gordon, p.269).

Conclusion

It is clear from the above that until the mid-eighteenth century, no Western author could present an analysis of demand and supply better than Ibn Taimiyah did in the 13th-14th century. Only Leonard Lessius added a few important variables affecting prices which are not found explicitly in writings of Ibn Taimiyah, such as cost of production and the risks suffered in obtaining the goods, and transporting and storing them, etc. Ibn Taimiyah also discussed different forms of imperfection in the market and advocated a detailed policy of price control where market forces were not allowed to work. We have already examined it elsewhere (Islahi, pp.79-90).

References

Ibn Khaldun, al Muqaddimah, Beirut, Dar al Fikr, n.d.
Appendix: Arabic Texts

(1) “إن الغلاء والرخص لا تتتحسر أساسه في ظلم بعض بل قد يكون سبب قلة ما يخلق أو يجلب من ذلك المال المطلوب، فإذا كثرت الرغبات في الشيء وقل المرغوب فيها؛ ارتفع سعره، فإذا كثر وقتهم الرغبات فيه انخفض سعره، والقمة والكتة قد لا تكون بسبب من العباد وقد تكون بسبب لا ظلم فيه، وقد تكون بسبب فيه ظلم. والله تعالى يجلب الرغبات في القلب.”

(2) "إذا كان الناس يبيعون سلعهم على الوجه المروى من غير ظلم منهم وقد ارتفع السعر

إما لقمة الشيء، وإما لكترة الحلق فذا هذا إلى الله.”

(3) "قال أبو الوليد: ووجه ذلك أنه بهذا يتوصل إلى معرفة مصالح الباعة والمشترى. ويجعل للباعة في ذلك من الربح ما يقوم بهم وللا يكون فيه إجحاف بالناس وإذا سعر عليهم من غير رضى بما لا يربح لهم فيه أدى ذلك إلى فساد الأسعار وإخفاء الأوقات وإتلاف أموال الناس.”

(4) "فؤغبة الناس كثيرة الاختلاف والتنوع، فإنها تختلف بكثره المطلوب وقلته، فقد قلته

يرغب فيه مالا يرغب فيه عند الكثرة. وبكثره الطلاب وقلته، فإنا كثر طالبوه يرفع مثنه، يخلاف ما قل طالبوه. وبحسب قلة الحاجة وكثرتها وقرونها وضعفها، فعند كثرة الحاجة وقوتها ترفع القيمة مالا يرتفع عند قلةها وضعفها وبحسب المعاوض. فإن كان مليا، حينا: يرغب في معاوضته بالثمن القليل، الذي لا يبذل مثله من يظن عجزه أو مطله أو جحده.

وبحسب العوض قد يرغب فيه إذا كان ينفد راجع مالا يرغب فيه إذا كان ينفد آخر دونه.

في الوجهين: كالدراهم، والدنازين بدمشق في هذه الأوقات، فإن المعاوضة بالدرهم هو المعاد.

وذلك أن المطلوب من العقود هو التقابل من الطرفين، فإذا كان الباقيل قادرًا على التسليم، موفيًا بالعهد، كان حصول المقصود بالعقد معه؛ خلاف ما إذا لم يكن تام القدرة أو تام الوفاء.

ومресурс القدرة والوفاء تختلف.
وهذا يكون في البائع وفي المشتري، وفي المؤجر، والمستأجر، والناكح والمنكوة، فإن البيع قد يكون حاضراً، وقد يكون غالبًا، فمسعر الحاضر أقل من سعر الغائب، وكذلك المشتري قد يكون قادرًا في الحالة على الأداء، لأن معه مالًا، وقد لا يكون معه لكنه يريد أن يفرض أو يبيع السلعة.
فالتمان مع الأول أخف.

وذلك المؤجر قد يكون قادرًا على تسليم المنفعة المستحقة بالعقد بحيث يشترتها المستأجر بلا كلفة، وقد لا يتمكن المستأجر من استيفاء المنفعة إلا بكلفة؛ وقد لا يتمكن المستأجر من استيفاء المنفعة إلا بكلفة؛ كالتقرير الذي يتآمها الظلمة من ذي سلطان أو لصوص أو نتفها السباع، فليس فيمنها كقيمة الأرض التي لا تحتاج إلى ذلك.

(5) ابن تيمية: مجموع فتاوى في الإسلام ابن تيمية، الرياض، 1383، ص 294، ص 524.

(6) "وإذا قلت وعده غلت أثناها، وأما إذا كان البلد قريب المسافة والطرق سا ث بالأمن حيث يكثر ناقلوها فتكثر وترخص". (ابن خلدون، المقدمة، دار الفكر، ص 412).

(7) "وهذا ينبغي للسلطان أن يضرب لهم فلولًا تكون بقيمة العدل في معاملاتهم من غير ظلمهم. ولا يتحذو السلطان في الفلوس أصلاً، لأن يشتري حاسمًا يفطره هو فيتحر فيه".

(ابن تيمية: مجموع فتاوى شيخ الإسلام أحمد بن تيمية، مجلد رقم 29، ص 469.)