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Ibn Khaldun's Economic Thought

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Abstract

This article describes the economic thinking of Ibn Khaldun. This study uses the historical approach of Islamic economic thinking through textual exegesis. The results of this study indicate the economic concept of Ibn Khaldun implying an economic system that requires five components is the Shari'a, government, society, ownership, free and fair economic activity.

Keywords: *Islamic Economics, Ibn Khaldun, Social, Fair, Free*

JEL Classification: A11, A13, B00, B11, E20

A. Background

Ibn Khaldun is known as one of the founders of economic theory and as the largest Muslim economist recognized by Western economists. Unlike previous scholars who had a tendency to be normative, Ibn Khaldun used a historical and social approach to understanding a nation's economy. Ibn Khaldun is very positive in understanding the economy.

The study of the economic thought of Ibn Khaldun by Muhammad Nejatullah Shiddiqy (1976)¹, explains his contribution to the economic field, including the doctrine of values, the division of labor, the price system, the law of supply and demand, consumption and production, money, capital formation, population growth, macroeconomics of taxes and public spending, trade cycles, agriculture, industry and trade, property rights and prosperity, and so on. He also discusses the various stages that society passes in the development of its economy. he also finds the basic understanding embodied in the curved labor supply curve. Ijtihad-ijtihad Ibn Khaldun is still eternal and a reference in the development of the modern economy.

The study of Jean David C. Boulakia (1971)², reveals that Ibn Khaldun had discovered a large number of fundamental economic ideas and ideas, centuries before his "official" birth (in Europe). He discovers the primacy and necessity of a division of labor prior to the discovery of Smith and the principle of the value of labor before Ricardo. He had cultivated a theory of population before Malthus and insisted on the role of the state in the economy before Keynes. Even more than that, Ibn Khaldun has used these conceptions to

¹ Shiddiqy, M.N. (1976). *Studies in Islamic economic: Muslim economic thinking, a survey of contemporary literature*. Jeddah: International Centre for Research in Islamic Economics King Abdul Aziz and The Islamic Foundation.

² Boulakia, J.D.C. (1971). Ibnu Khaldun: A fourteenth century economist. *Journal of Political Economy*, 79 (5), 1105-1118, p. 1.

build an easy-to-understand dynamic system in which economic mechanisms have directed economic activity to long-term fluctuations.

While the study of M. Umer Chapra (2008)³, states Ibn Khaldun presents the theory of multidisciplinary and dynamic development. This theory argues that the development or decline of the economy or society does not depend on a single factor, but rather on the interaction of moral, social, economic, political and historical factors over a period of time. One of these factors acts as a trigger mechanism and if another response in the same direction, development or decrease gain momentum through a chain reaction until it becomes difficult to distinguish the cause of its effect.

This paper will analyze the concept of economic thought from Ibn Khaldun. What is the difference between Ibnu Khaldun's concept of thought and conventional economic thinking at the present time? By exploring Ibn Khaldun thoughts and ideas about his economic ideas aimed at prospering society, this article will seek to answer that question.

B. Literature Review

The study of economic thought from Ibn Khaldun can be traced through research from Abdul Azim Islahi (2006)⁴, revealing that Ibn Khaldun did not discuss public finances in a conventional manner. His focus is on taxation. Ibn Khaldun argues for low tax rates so that incentives to work are not killed and taxes are happily paid. The tax effects on incentives and productivity are very clearly visualized by Ibn Khaldun that he seems to have understood the concept of optimal taxation. He also analyzed the effect of government spending on the economy, he advocated a wise and productive public expenditure policy. Ibn Khaldun's ideas are comparable to a supply-side economy that emphasizes incentives and tax cuts as a means of economic growth.

Another study of Ibn Khaldun is in the research of M. Umer Chapra (1999)⁵, suggesting that Ibn Khaldun's thought offers a dynamic and multifaceted analysis of the resurrection and fall of society. Islamic finance is closely related to the vision of Islamic economic development, which provides the primary importance for the realization of socio-economic justice and the well-being of all human beings.

Nurul Huda's study (2016)⁶, examines the thoughts of Ibn Khaldun, by trying to understand the philosophical framework of his economic thinking. Based on the results of this study, there are two approaches underlying the economic thought of Ibn Khaldun, namely: first, the sociological approach, namely description of Ibn Khaldun in observing and analyzing various ongoing economic activities in a society. second, juridical approach, legal

³ Chapra, M.U. (2008). Ibnu Khaldun's theory of development: Does it help explain the low performance of the present-day Muslim world? *The Journal of Socio-Economics*, 37(2), 836-863, p. 1.

⁴ Islahi, A.A. (2006, November). *Ibnu Khaldun's theory of taxation and its relevance today*. In Conference on Ibnu Khaldun, Madrid, during (pp. 3-5), p 2.

⁵ Chapra, M.U. (1999, October). *Islam and economic development: a discussion within the framework of Ibnu Khaldun's philosophy of history*. In Proceedings of the Second Harvard University Forum on Islamic Finance: Islamic Finance into the 21st Century Cambridge, Massachusetts, Center for Middle Eastern Studies, Harvard University (pp. 23-30), p. 1.

⁶ Huda, N. (2016, May). *Epistemologi pemikiran ekonomi Ibnu Khaldun*. Proceeding of International Conference On Islamic Epistemology, Universitas Muhammadiyah Surakarta, p. 211.

provisions used to regulate economic activity in order to run well. In addition to these two approaches, there are factors that underlie economic activity, namely: freedom and justice.

Another study was described by Hendra Pertaminawati (2016)⁷, analyzing the concept of Ibnu Khaldun's market mechanism and pricing in Islamic economics. Market mechanisms or pricing are the free market trends to keep market prices in balance, thus rising to the same amount of supply and demand. At this point, because there is no excess demand or oversupply, there is no pressure on the price for the change again. Supply and demand are not always in equilibrium and some markets may not achieve balance quickly when conditions suddenly change, but the trend persists, that the market usually leads to equilibrium.

In the study of Abu Bakar Jaafar and Abdul Ghafar Ismail (2017)⁸, revealed about the analysis of tax rates Ibn Khaldun which shows that the optimal level of taxation can be determined. Economists argue that to obtain higher tax revenues, it is necessary to lower tax rates.

While the study of Dimas Dwi Setiawan (2018)⁹, revealed Ibn Khaldun has a concept of free trade that is still relevant today. The concept includes supply and demand, market balance, and production and distribution. Ibn Khaldun's thoughts can be used to contribute to the international trade of Indonesia through three things. First, the increase of Indonesian Economic Complexity Index. Second, increase the skilled workforce. Third, develop a science-based economy.

Previous studies have only given Ibn Khaldun's economic ideas partially on a particular issue, so in this discussion, the author of the article will attempt to portray the economic ideas of Ibn Khaldun simultaneously.

C. Methodology

The method used in the historical approach of Islamic economic thought in this article through textual exegesis.¹⁰ While the steps are performed by using the scientific method (scientific method) that is a series of steps in the form of tracing the existing classic texts, problems, gathering data within the scope of existing problems, quoting and synchronizing with other posts and drawing conclusions.

D. Results and Discussion

1. Purchase Theory

According to Ibn Khaldun trade is an attempt to develop property by buying merchandise at cheap prices and selling them at a more expensive price. And various types of merchandise can be in the form of clothing, animals or animals slaughter, the result of the plantation. According to Ibn khaldun sale price is more with the purchase price is what is called profit, and the person who pays the profit when he bought the

⁷ Pertaminawati, H. (2016). Analisis pemikiran Ibnu Khaldun tentang mekanisme pasar dan penetapan harga dalam perekonomian Islam. *Jurnal Kordinat*, 15(2), 195-216, p. 195.

⁸ Jaafar, A.B., & Ismail, A.G. (2017). Tax rate and its determinants: An opinion from Ibn Khaldun. *International Journal of Academic Research in Business and Social Sciences*, 7(4), 881-899, p.1.

⁹ Setiawan, D.D. (2018). Pemikiran perdagangan bebas Ibnu Khaldun dalam kitab muqaddimah. *Skripsi Sarjana Ilmu Ekonomi Islam*. Universitas Islam Negeri Sunan Kalijaga, Yogyakarta.

¹⁰ Marcuzzo, M.C. (2008). Is history of economic thought a "serious" subject? *Erasmus Journal for Philosophy and Economics*, 1(1), 107-123, p. 108.

merchandise in large quantities then sell it when the price of merchandise soared or buy merchandise then sell it in different regions or countries, then in this way two traders will get big profits that are obtained in large amounts of trade even though the excess sale price of the purchase price is considered less than the greater the sale of the stock of merchandise that many will generate profits.¹¹

In contrast to al-Ghazali's opinion relating to profit in trade. According to al-Ghazali the way to get big profits ie by reducing the profit margins by selling cheaper prices will increase sales volume, and this, in turn, will increase profits. This shows that Al-Ghazali does not reject the fact that profit is the motive of a trade activity.¹²

2. Theory of Production, Consumption and Economic Growth

Man is a creature of production and that is what makes man regarded as an economic being. Production is done to meet the needs. In the production process required labor. In addition, a social organization of production is required. Thus, it takes a division of labor and specialization. This is the key to creating a surplus in a production whose estuaries bring economic prosperity. Increased economic prosperity will eventually increase people's demand for goods and services. This is where economic growth will be created.¹³

Not only national, international trade and international organizations of production must be created. The comparative advantages of international trade are not on natural resources, but on labor being the factors of production. Specialized labor is more profitable than a country's natural resources. Here Ibn Khaldun also strongly emphasizes the free market. He opposes intervention and only specializes in services for the poor.

3. Distribution Theory

According to Ibn Khaldun, the price of a product consists of three elements, namely salary, profit, and tax.¹⁴

a. Salary.

Since the value of a product is equal to the amount of labor it contains, salary is a key element of the price of goods. The price of labor is the basis of the price of a good. But the price of labor itself is determined by the law of demand and supply. In this case, everything is left to the market mechanism, because the greater the salary earned, undoubtedly increasingly stronger purchasing power.

b. Profit.

Profit is the difference between the selling price and the purchase price obtained by the trader. But this difference depends on the law of demand and supply, which determines the purchase price through salary and determines the selling price

¹¹ Ibn Khaldun. (2006). *al-Muqaddimah Ibn Khaldun*, Kairo: Maktab al-Usrah.

¹² Irawan, M. (2016). Mekanisme pasar Islami dalam konteks idealita dan realita (studi analisis pemikiran al-Ghazali dan Ibnu Taimiyah). *Jurnal Ekonomi Dan Bisnis Islam (Journal Of Islamic Economics And Business)*, 1(1), p. 70.

¹³ Karim, A.A. (2004). *Sejarah pemikiran ekonomi Islam*. Jakarta: PT. Raja Grafindo Persada.

¹⁴ Ulum, B. (2016). Kontribusi Ibnu Khaldun terhadap perkembangan ekonomi Islam. *Jurnal Iqtishodia*, 1(2), 17-32, p. 28.

through the market. For Ibn Khaldun, the nature of trade is to buy cheaply and sell at a high price. This has generally been practiced in the global economic system with the principle of capital as small as possible with the greatest possible return on profit.

c. Tax.

The state is an important factor in production, ie, through spending that will increase production and through taxes will be able to weaken production. The government will build the largest market for goods and services that are the main source for all development. The decrease in state expenditure not only causes business activities to be lonely and decreases profits, but also leads to a decrease in tax revenues.

4. Theory of Value, Money, and Price

a. Value Theory.

For Ibn Khaldun, the value of an item is determined by the number of work activities and all the accumulated costs incurred to produce the goods. Because with the work, will produce the production of goods. So between the quantity of work and production, there is a reciprocal relationship. If the quantity of labor decreases, then the production will decrease, and vice versa, if the number of workers increases, then the production will increase as well. To determine the unit of value of a good produced can be determined by price. Therefore, the price provides an assessment standard of an item formed from a combination of the amount of work and all costs incurred to produce a certain item.¹⁵

b. Theory of Money.

Money is a tool to meet human needs. Since ancient civilization, the coin has become a regular means of payment even though it is not as perfect as it is today.¹⁶ Even if the size of a nation's wealth is not determined by the amount of money it has, the economic size of the value of goods and services is necessary for humans if it wishes to trade it. The measurement of this value must have a certain number of qualities. This measure must be accepted by all parties as a legal tender and its publication must be free of all subjective influences.

In the eyes of Ibn Khaldun, two metals which in this case gold and silver are a measure of value. These metals are accepted naturally as money where their value is not influenced by subjective fluctuations. Therefore, Ibn Khaldun supports the use of gold and silver as a monetary standard.¹⁷

c. Price Theory.

Price is the result of the law of demand and supply. Pricing is done by market forces that are the power of demand and the power of supply. The demand encounter

¹⁵ Huda, N. (2016, May). *Epistemologi pemikiran ekonomi Ibnu Khaldun*. Proceeding of International Conference On Islamic Epistemology, Universitas Muhammadiyah Surakarta, p. 212.

¹⁶ Suprayitno, E. (2005). *Ekonomi Islam: Pendekatan ekonomi makro Islam dan konvensional*. Yogyakarta: Graha Ilmu.

¹⁷ Karim, A.A. (2001). *Ekonomi Islam: suatu kajian kontemporer*. Jakarta: Gema Insani Press.

with the offer must be voluntary. At that price level, no party feels compelled to make a transaction at that price level.¹⁸

Ibn Khaldun acknowledges the influence between demand and supply informing prices. For that, he offers the concept of moderate price, where the price is not burdensome to consumers and does not harm the manufacturer. Moderate prices can promote mutual prosperity. However, for the poor, it must be subsidized at a price lower than the market price.¹⁹

5. Cycle Theory

a. Population Cycle.

Production is determined by the population. The more the population, the more products it produces. Likewise, the larger the population, the greater the demand for the market and the greater the production.

What needs to be observed here is that the population itself is determined by production. The greater the production, the more demand for labor in the market. This brings the consequences of the higher salaries, the more workers who are interested to enter the field and the greater the increase in population. Consequently, there is a cumulative process of population growth and production, economic growth determines population growth and vice versa.²⁰

b. Public Finance Cycle.

1) Government Expenditures.

For Ibn Khaldun, the public expenditure side is very important. The country is an important production factor. With its expenditure, the state increases production and with its taxes, the state makes production sluggish. On the one hand, some of these expenditures are important for economic activity. Without state-prepared infrastructure, it is impossible for large populations to occur. Without the security of order and political stability, producers have no incentive to produce, because they are afraid of losing their savings and profits due to chaos and war.²¹

2) Taxation.

According to Ibn Khaldun, taxes are essentially the main source of state income in today's modern era. That is why taxes must be managed in order to provide maximum positive results. Ibn Khaldun also stated that the taxation institution is a very important institution for the state. If the government increases its spending value, or the more it uses its own budget for development purposes, its impact will be better for the economy of the country. With sufficient budget to

¹⁸ Karim, AA. (2007). *Ekonomi mikro Islami*. Jakarta : PT. Raja Grafindo Persada.

¹⁹ Ibnu Khaldun. (2000). *Muqaddimah* (Ahmadie Thoha, Penerjemah). Jakarta: Pustaka Firdaus.

²⁰ Ulum, B. (2016). Kontribusi Ibnu Khaldun terhadap perkembangan ekonomi Islam. *Jurnal Iqtishodia*, 1(2), 17-32, pp. 29-30.

²¹ Ulum, B. (2016). Kontribusi Ibnu Khaldun terhadap perkembangan ekonomi Islam. *Jurnal Iqtishodia*, 1(2), 17-32, pp. 29-30.

be used by the state, the state can do things that are needed by the people, including to ensure legal, economic and political stability in the country.²²

Discussion

Based on the study of Muhammad Nejatullah Shiddiqy (1976)²³, Ibn Khaldun is a Muslim thinker who is also the father of the world economy has contributed much thought to the economic field, including the doctrine of values, division of labor, pricing system, law of supply and demand, production, money, capital formation, population growth, macroeconomics of taxes and public spending, trade cycle, agriculture, industry and trade, property rights and prosperity, He also discusses the various stages that people pass through in their economic development. We also find the basic understanding embodied in the labor supply curve whose slope is tilted backward. Ijtihad-ijtihad Ibn Khaldun is still eternal and part of the referral in economic development. The author agrees with the study of Muhammad Nejatullah Shiddiqy that Ibn Khaldun's contribution to the economic field is very large ranging from the theory of production, consumption, distribution and so forth.

E. Conclusions

In the trajectory of Islamic history, there are many figures who discuss economic issues that sociologically helped build the theories / economic concepts one of which is the most prominent is Ibn Khaldun. Ibn Khaldun is often referred to as the most distinguished intellectual giant in the world. Ibn Khaldun is called the Father of Economics because many of his economic theories are far ahead of Adam Smith and Ricardo. That is, he is more than three centuries ahead of these modern Western thinkers. In simple terms, Ibn Khaldun proposed several economic theories such as buying and selling theory, production theory, a theory about value, money, and price, the theory of distribution consisting of salary, profit and tax, and cycle theory that is population cycle and public finance cycle.

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²² Agustri. (2015). Pajak sebagai salah satu konsep keuangan publik perseptif Ibnu Khaldun. *Jurnal Tamaddun Ummah*, vol, 1, 1, p. 7.

²³ Shiddiqy, M. N. (1976). *Studies in Islamic Economic: Muslim Economic Thinking, A Survey of Contemporary Literature*. Jeddah: International Centre for Research in Islamic Economics King Abdul Aziz and The Islamic Foundation.

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