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An understanding of the past: The Economics of Ibn - Khaldun in the perspectives of Neo-liberal economics

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Abstract

The dynamic and mosaic nature of knowledge in most cases is not known by both scholars and students, who are the main producers and consumers of knowledge. The aim of this study is to see whether past knowledge is a static thing which has no relevance in the modern world. Through a content study of past and present literature the study reveal interesting findings of similarities of thinking despite the difference in factors of cultures, geography and time. These realities suggest that problems of economic and other related concepts are not bounded by such factors, it exist in the existence of every men civilization. The study therefore concludes that the study of the past events is very important and can be useful in dealing with present and future problems.

Keywords: Understanding, Past, Economics, Perspectives, and Neo-liberalism

Introduction

The discovery of scientific knowledge in various field of studies including economics date back to seventh century, before Christ (BC). Well-articulated literatures on economic thought can be seen from the writings of Guan Zhong (725-645) in China, the Creek thought of Hesiod (800 BC), and Xenophan (355 BC), the Arab-Islamic thoughts of Al-Ghazzali (1058-1111), and Ibn-Khaldun (1322-1406), the scholastic thoughts of Thomas Aquinas (1225-1274) down to classical economics, neoclassical and presently the neo-liberalist writings of the modern day economics. These various writings of the past scholars, i.e. Despite its antiquity traverses mainstream economic issue because it is centered on core economic issues of demand and supply, price stabilizations, inflation, population, usury, regulations etc. as it affects the circumstances of their economies.

For instance, Guan Zhong in his book *Guan Zi* discusses ideas that are central to mainstream economic thinking. His argument on "light/heavy" theory revolves around issues of supply/demand theory. The theory claims that; " when a good is abundant in the market, it became light, and its price would fall. On the other hand, when it is locked away it became heavy, and its price would rise". This entails the popular theory of the contemporary thoughts of "demand and supply". He also wrote on "quantity theory", "countercyclical fiscal policy", and workings of the market.

Similarly, Greek thinkers, particularly Hesiod and Xenophon, studied the administration of resources at the level of the household and its relationship to an appropriate division of labor. Aristotle and other Greeks examined the role of private property and incentives. Many of such Greek writings were then translated into Arabic by the Arab scholars of the middle ages. Arab scholars thus influenced scholastic thought in philosophy, ethics, science, and economics to a degree that has been fully recognized only during the past fifty years. (Shamsudeen 2011)

However the sequence of the writings of different scholars on economics does not suggest a progression of thought towards the grand final of the present day thought because in some instances the depth of the understanding of past scholars transcend modern thought. Harry and David () argued that prior to 1500BC scholars were not concerned exclusively with understanding economics as a field of study but were interested in questions of economic policy which significantly increased the quantity of economic literatures in western Europe.

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The subject of economics as a field of study began when many parts of Europe and America transitioned to mechanized mode of productions. This is a time when the mercantilist and physiocrats contend that economy could be formally studied. The mercantilists achieved the first tentative insights into the role of money in determining the general level of prices and into the effects of foreign trade balances on domestic economic activity. The most significant contribution of the physiocrats was their concept of the interrelatedness of the various sectors of an economy.

Therefore economics as a field of study in this research is seen to mean is the study of mankind in his environment as it relates to the manners he adopts in satisfying his basic needs and that of his society by harnessing exchange between individuals and institutions.

Basically in broader terms economics deals with questions of scarcity of resource, allocation of such scarce resource through market or through government policy which invariably affects issues of balance of trading between and amongst nation countries.

This study is an attempt to draw connections or philosophical linkages from past economic ideas of the Middle Ages to relate with contemporary issues especially the neo-liberal thoughts. This is not just to fill the void of digging the past in much academic literatures but also in the teaching approaches in our universities. Hence by extension, the universality of knowledge will be appreciated from the point of view of history.

The study therefore purposely chooses the ideas of ibn-Khaldun an Arab Islamic scholar of the Middle Ages and the ideas of the Neoliberals in the contemporary main stream economics. The choice of the neo-liberalist is informed on the fact that many countries have joined it bandwagon irrespective of whether it is socialist or capitalist due to the domineering influence of World Bank (WB) and international monetary fund (IMF) (Nasiru 2019). While the enormous contributions of ibn-Khaldun, especially in social science attracts scholarly attentions.

Therefore the proceeding aspects of this research include review of relevant literature, empirical discussions, findings and recommendations.

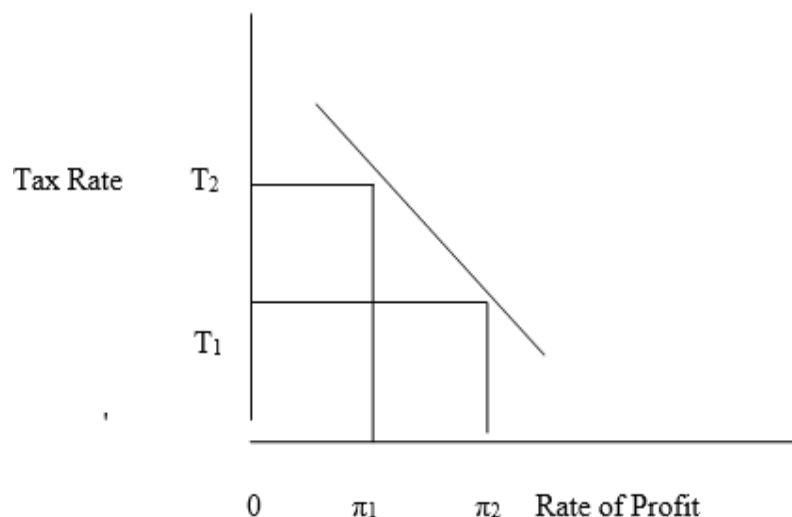
Literature review

The focus of this review is segmented into sections representing the past and present. The past is represented by the ideas of ibn-Khaldun while the present by the ideas of the Neo-liberalist.

Ibn-Khaldun is not just famous but referred by his contemporaries as " man of his time, not like others of his time" because of his exceptional qualities in scholarship. His enormous contributions on other field of studies such as, education, town planning, environmental, music, magic, Art of war etc is still underutilized for academic and nonacademic purposes.

In his famous book, *The Mugaddimah: An Introduction to History, the Classical Islamic History of the World*. His economic ideas centered on the issues of Taxation and Public Expenditures. Specifically he focused on the consequential effects of taxation on business, economic growth and developments. He noted that the state is the greatest market, the mother and the base of all trade because the state is responsible for stimulating aggregate demand through its fiscal policies in its tax administration. In this context he argued that taxation constitute the most important source of generating income or revenue for the state because it can be generated from different source such as tax on properties, agricultures produce, import, export, and poll tax.

Similar to his cyclical theory (rise and fall) of the state in political science, he stressed the effects of moderate tax policy and excessive tax policy. He hypothesized that; moderate taxation expand the growth and development of an economy because it boost individual (entrepreneurs) spirit to engage in cultural enterprise (commerce, innovation and creativity in crafts) which will in consequence improves the revenue base of the state in expanding its public expenditures services especially on security matters. While on the contrary, he noted that; when tax assessment increases beyond the limits of equity, it dwindles entrepreneurs' passion to engage in cultural enterprise especially when individual expenditures, tax and profit is compared. In situations where profits are consumed by tax and expenditure the real basis of survival (labor) becomes unappreciated as such, resulting to labour migration or unemployment. This can be demonstrated using the figure below.



Source: design by the authors, 2019

From this figure it can be summarized that T_1 which is low taxation is equal to π_2 which means an expanded profit with its potential consequences. In contrast T_2 which is equal to π_1 is depicted to mean high taxation with low profits with its potential consequences.

He further argued that: even on the account of financial strains and expenditure difficulties the state should not engage in business activities with a view of generating more revenues for the reasons that;

- It will stifle the private sphere due to its powers of appropriation
- Creativity and innovation will not take place in cultural enterprises due to state monopoly
- There is a tendency for the state to fix prices without due considerations to trade cycles
- Possibilities of dwindling revenue base due to corruption in the state enterprise because it is unlikely that customs duties would be levied on state enterprise (ruler's commercial enterprise) let alone paying into the treasury.

On the account of this he emphasizes creating an enabling environment for business to thrive and for the state to play a kind of regulatory role where he argue that: "the finance of a ruler can be increased and his financial resources improved only through equitable treatment of people with property and regards for them so that their hope rise and they have the incentives to start making their capital bear fruit and grow".

While on the other hand, a long march into the present era advocate of neo-liberalism concluded that Neo-liberalism is a good replacement of modernization theory as the official approach to development in the 1980s. Their core concerns are the economic policies and institutions which are seen as holding back development because they limit the free market.

Neoliberals argue that governments prevent development, especially when it gets too large it restricts the freedom of creative individuals who drive development forwards. Neoliberals cite examples with the communist regimes in Eastern Europe, though industrialized, they don't allow human capital enough freedom to bring about the kind of consumer culture (based on individual freedom of choice and expression) that emerged in Western Europe in the 1960s, so development stagnated in those countries because of governments having too much power. Similarly neoliberals argue that even in Capitalist countries where there is too much 'red tape' – or too many rules, regulations, and taxes and so on, it's harder to do business and so harder for economies to develop.

Neoliberals are also critical of the role of Western aid money by pointing to the many corrupt African dictatorships which emerged in Africa in the 1960s -1980s. These were often propped up by aid money from Western governments and during this period billions of dollars were siphoned off into the pockets of government officials in those countries and not used for development at all.

Neoliberals insists that developing countries should remove obstacles to free market capitalism and allow capitalism to generate development. The argument is that, if allowed to work freely, capitalism will generate wealth which will trickle down to everyone.

Another way of putting this is that neoliberals believe that private enterprise, or companies should take the lead in

development. They believe that if governments promote a business friendly environment that encourages companies to invest and produce, then this will lead to exports and direct foreign investments which will encourage free trade. So encouraging 'free' trade is a central neoliberal strategy for development. In conclusion neoliberalism in this research is taken to mean those set of economic policies which have become popular in economic development over the last 30 years (since the late 1980s) namely increased privatisation, economic deregulation, Public-private partnership (PPP), out-sourcing and lowering taxation.

Although, Neoliberalism has been criticized on the following grounds, that:

- A report from the CEPR compared the period from 1960 to 1980, when most countries had more restrictive, inward looking economies to the period 1980 to 2000 the period of neo liberalism and found that progress was greater before the 1980s on both economic and social grounds.
- Those countries that have adopted free market policies have developed more slowly on those countries that protected their economies
- Dependency theorists argue that neo-liberalism is merely a way to open up countries so they are more easily exploitable by Transnational Corporations.
- Transnational Corporations do not tend to invest in the poorest countries, only in LDCs

Discussion

These two theories despite at arm length in history, share a lot in common the ideological preposition of ibn-Khaldun on the consequential effects of taxation on business is in tandem with the arguments of the neo-liberalist on the effects of low tax regime in stimulating private business and direct foreign investments in the less developing economies. By extension it can be argued that expanding the private sphere connotes what the two school of thoughts claims to be individual enterprise and creativity. This therefore emphasized their arguments for less state intervention "derigist state", as suggested by Majone (1994) where state is expected to assume a steering role by providing an enabling environment for business expansion through which the state will get an expanded revenue base. Similarly their opinion on the negative effects of state monopoly in terms of stifling innovation and breeding institutional corruption can be interpreted in the words of Daron and James (2012) to mean that; "extractive political system results to lack of creative destructions and innovations". In another perspective ibn-Khaldun emphasis on dealing justly with subjects concurs with the criticisms of corrupt African leaders by the neo-liberalist.

However on the contrary the ideas of Ibn Khaldun was built on rudimentary economics with a feudal base that lacks sophisticated technology of the modern economy which serves as the base for the neo-liberal ideas. Due to simplicity of society in the times of ibn Khaldun trading on usury (interest) was socially detestable unlike in the present times of the neo-liberalist where it forms the basis of the most modern economies. Chinese, Greek, Arab-Islamic, and scholastic thinkers did not pursue economics as a separate discipline instead they were interested in much broader, more philosophical issues. However, the economic activity they observed during those early times was not organized into a complex market system, thus concentrated

not on the nature and meaning of a price system but on ethical questions concerning fairness, justice, and equity. This is in contrast to what is obtainable in the modern economics of the neo-liberalist, creating subservient individuals and public debt crisis in less developed (heavily indebted poor countries) countries due to trading in usury. Underlining this assumption is the belief that most of the developing countries are embroiled in perpetual poverty due to the consequential effects of usury charged by World Bank (WB), international monetary fund's (IMF) and their allies. The reaction therefore is the proliferation Islamic financial solutions in other to meet the variegated needs of the modern economy (mohammad 2010). Another contrasting view point is on the emphasis on the agent of *individual enterprise* and *creativity*. Ibn Khaldun sees the state as the main agent of promoting development not the *market* as argued by the neo-liberalist and the concept of free trading. The reasons for such might be due to time variation, and the nature of institution building process of a particular environment.

Findings

Insight offered from this study shows that economic thinking predates the modern era especially citing the work of Guan Zhong (725-645) on *light and heavy* theory and the study of other scholars in different part of the world that came after him. This therefore revealed the needs to explore history for possible connections and correlations with the present for better future interpretations. The time variation of knowledge productions is not a factor to be considered but the circumstances of Where, When and How to apply it is the main source of concern looking at the comparison of ibn Khaldun and the neo-liberalist. Knowledge is thus a universal property which should transcend beyond all boundaries.

Conclusion

This study has explored relatively the history of economic thought from the past down to the mainstream economic thinking of the present era. It focuses mainly on the literatures of the middle ages specifically focusing on the thinking of ibn Khaldun and the neoliberals of the present era. The synthesis found a high degree of similarities of ideas at the same time contrasting opinion due to factors of time, environment and cultures. It therefore confirms the hypothesis of the need to understanding the past events in solving present and future problems. Although, this study may be limited in scope, but further studies can be conducted to broaden the scope in different ramifications.

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