

# Islam's free market heritage

Chris Berg & Andrew Kemp

American strategy in the Islamic world has been aimed at the establishment of political democracy—a worthy goal, but a worryingly incomplete one. Social and political freedom cannot be fully established unless they are united with the other pillar of liberalism, economic freedom.

One of the late Milton Friedman's great insights was the inherently peaceful nature of an open economy: the free market, he wrote 'does not care what [the participants'] religion is; it only cares whether they can produce something you want to buy. It is the most effective system we have discovered to enable people who hate one another to deal with one another and help one another'.

This point also applies to states, as proved by the *Economic Freedom of the World Index*—reported in the December 2005 edition of the *IPA Review*. The higher a state's measure of economic freedom, the less likely it is to wage war on other states. Economic freedom encourages valuable interdependencies between individuals which governments are reluctant to break.

While an Islamo-capitalism has yet to show its face in the most troubled parts of the Middle East, Muslim history and literature displays a sadly under-recognised liberal free market tradition. Islam is not inherently illiberal, as is sometimes portrayed, and there is a clear strand of Islamic tradition and thought that provides a stable base for a free society.

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## The Qur'an and the market

It is no coincidence that Makkah (modern Mecca), the site of Islam's seventh-century theological birth, was also home to a thriving trading community. The early history of the Muslim world is a history of commerce—religious texts describing this period are replete with contextual references to commercial institutions, merchants and markets, commodities traded and commercial practices.

It would be hard to find a successful civilisation without a stable economic base at its origins, but it is worth emphasising the extent to which Islam, in particular, was conceived in a commercial environment. Makkah was a strategic trading hub, providing a gateway between East and West. Furthermore, its shrines to ancient gods attracted vast numbers of pilgrims, establishing the city as a form of sanctuary—an area recognised as free from interference by the internecine tribal rivalries of the time.

As a result, the Qur'an is infused with the smell of spices and the din of markets. Indeed, Muhammad himself, before arriving in history as a religious preacher, was a caravan trader and business manager. As the historian M.A. Shaban writes, 'to attempt a study of Muhammad's activities in Makkah and Arabia without taking trade into consideration is equivalent to studying contemporary Kuwait or Saudi Arabia without paying attention to oil'.

In a powerful article for the Islamic Free Market Institute Foundation, 'Islam and the Free Market', Peter J. Ferrara and Khaled Saffuri describe a Qur'an which strongly defends the market economy. The endorsement of voluntary trade is a keystone of the Qur'an's attitude towards economic life, and is proclaimed in this early passage:

O ye who believe!  
Eat not up your property  
Amongst yourselves in vanities.  
But let there be amongst you  
Traffic and trade  
By mutual consent (Qur'an, 4:29)

# Muhammad, as the Marxist historian Maxime Rodinson wrote with perhaps a tinge of regret, simply ‘was not a socialist.’

The Qur’an defends, amongst other things, private property, contract law, and profit through trade. It prohibits fraud. Muhammad himself prohibited price-fixing. The liberal scholar Dr Imad-ad-Dean Ahmad has argued that, even from a political perspective, the sacred text provides much guidance for believers in liberalism—advocating limited taxation, decentralisation, and strict restraints on the public sector.

Believers are to draw their income from the natural resources granted to them by God—it is not a legitimate role of the state to obstruct this process. The Qur’an is clear about Islamic priorities: pray, then profit.

And when the prayer is finished, then may you disperse through the land, and seek of the Bounty of Allah: and remember Allah frequently that you may prosper. (Qur’an 62:10)

The Qur’an is not a free market Bible. Islamic socialists have long pointed to an emphasis on the hero of ‘social justice’ within its pages, and many have drawn an inference in favour of state-granted minimum incomes, and even a large role for heavy public expenditures. Others have cited Qur’anic prohibitions on usury (interest) as an indicator of anti-capitalist sentiment in Islam—even as an insurmountable problem for contemporary Islamic liberalism. (This objection will be dealt with below.)

But Muhammad, as the Marxist historian Maxime Rodinson wrote with perhaps a tinge of regret, simply ‘was not a socialist’.

As with many other religions, justice and fairness play a key role in Islamic theology, but it is disingenuous to ignore the emphasis on charity. *Zakah* refers to Muslims’ obligation to spend a fixed proportion of their income on the poor and needy—often supplemented by further charity (*sadaqah*). Just as voluntary charity is a vital part of a capitalist economy, *zakah* is the third of the Five Pillars of Islam.

## Ibn Khaldun and *The Wealth of Nations*

These strong theological exhortations to prosper from God’s bounty have been reflected in early Islamic scholarship. Occupying a unique place in intellectual history, Ibn Khaldun was a medieval historian, historiographer, sociologist and economist who lived in Tunis, Granada, and Egypt in the fourteenth century. Largely written out of Western intellectual history—Joseph Schumpeter slandered Islamic scholarship by arguing that there existed a ‘great gap’ between the Greek scholars and the Christian scholastics—Ibn Khaldun deserves a central place in economic thought.

Indeed, Imad A. Ahmad argues forcefully that Adam Smith was ‘simply picking up where Ibn Khaldun left off’. Ibn Khaldun’s writings display a clear and unambiguous familiarity with many of the cen-

tral tenets of what we know as classical economic thought—for instance, an appreciation of supply and demand, of causality, and an understanding of the difference between normative and positive analysis.

His support for the labour theory of value—the theory that the value of something is determined by the amount of labour that has gone into its production—is an open academic question. However, Ahmad convincingly argues that he had a strong appreciation of subjective value—a good’s value is solely determined by how much people are willing to pay for it—which would place him even higher on the intellectual hierarchy than many of the great nineteenth- and twentieth-century economists. While he wrote that labour was an important factor in production, elaborating on the work of Greek scholars, he nominated the utility of a good as a determining factor in its price.

Ibn Khaldun’s writings are rich with insights, and his clarity makes writing a review of his economic thought just that much easier. It is hard to avoid the temptation to quote him at length. For instance, he writes on the commercial ethic:

It should be known that commerce means the attempt to make a profit by increasing capital, through buying goods at a low price and selling them at a higher price, whether these goods consist of slaves, grain, animals, weapons, or clothing material. The accrued amount is called ‘profit’. The attempt to make such a profit may be undertaken by storing goods and holding them until the market has fluctuated from low prices to high prices. This will bring a large profit. Or the merchant may transport his goods to another country where they are more in demand than in his own, where he bought them. This will bring a large profit. Therefore, a veteran merchant said to a person who wanted to find out the truth about commerce: ‘I shall give it you in two words: Buy cheap and sell dear. That is commerce for you’.



He recognises the role of entrepreneurial risk and its relation to the supply of goods:

The transfer of goods from far away countries or through dangerous zones is of greater profit to traders and secures the fluctuations of the market in their favor, because the transferred good is rare and eagerly demanded, owing to its distant source or the risk incurred in its importation. It becomes thus rare, and much demanded and its price consequently rises.... If, however, its exporting country was near and its communications secure, there would be many importers and it would be abundantly supplied and its price would tend to be low.

Ahmad's characterisation of Ibn Khaldun as the Islamic Adam Smith is hard to dispute after reading his description of the advantages of a division of labour:

[T]he individual human being cannot by himself obtain all the necessities of life. All human beings must cooperate to that end in their civilization. But what is obtained through the cooperation of a group of human beings satisfies the need of a number many times greater (than themselves). For instance, no one by himself, can obtain the share of wheat he needs for food. But when six or ten persons, including a smith and a carpenter to make the tools, and others who are in charge of the oxen, the plowing of the soil, the harvesting of the ripe grain, and

all other agricultural activities, undertake to obtain their food and work toward that purpose either separately or collectively and thus obtain through their labor a certain amount of food, (that amount) will be food for a number of people many times their own. The combined labor produces more than the needs and necessities of the workers.

Of course, no figure in intellectual thought can withstand all criticism, and Ibn Khaldun is no exception. For instance, he posited a beneficial role for public expenditure, writing, 'if the state decreases its expenditures, the other markets follow its way and slacken much more'. But he quickly recognised the limits of this proto-Keynesianism, anticipating the Laffer Curve by about six centuries:

In the early stages of the state, taxes are light in their incidence, but fetch in a large revenue ... As time passes and kings succeed each other, they lose their tribal habits in favor of more civilised ones. Their needs and exigencies grow ... owing to the luxury in which they have been brought up. Hence they impose fresh taxes on their subjects ... [and] sharply raise the rate of old taxes to increase their yield ... But the effects on business of this rise in taxation make themselves felt. For business men are soon discouraged by the comparison of their profits with the burden of their taxes ... Consequently production falls off, and with it the yield of taxation.

# Ibn Khaldun recognised the limits of proto-Keynesianism, and he anticipated the Laffer Curve by about six centuries.

Murray Rothbard's two volume *Austrian Perspective on the History of Economic Thought* rightfully rehabilitates the Christian School of Salamanca in Spain as heretofore unacknowledged giants in economic history, pre-dating Adam Smith with many of the Scotsman's key insights, but unfortunately he too neglects Islamic scholars such as Ibn Khaldun.

But as Ahmad notes, the Salamanca School was born shortly after the *reconquista* of Spain from the Muslims in 1492. Given the intellectual cross-pollination of Medieval Europe, it is hard not to imagine that the leading scholars of the School of Salamanca did not have at least a passing familiarity with Ibn Khaldun's work—he only died in 1406. Ibn Khaldun may have until recently been neglected by economic historians, but his work was not so neglected by his contemporaries.

It is hard not to be struck by Ibn Khaldun's discussion of Islamic liberty:

Those who, of their own free will and without any compulsion, act according to the Qur'an and the Sunnah [the practice of the Prophet] wear the turban of freedom.

Ibn Khaldun may be a shining light in intellectual history, but he was by no means alone. For instance, one of his students, the Egyptian historian al-Makrizi applied his theory to the contemporary Arabic world, concluding that the causes of Egypt's economic woes at the time were government corruption, high taxes, and depreciated coins.

## Earlier Islamic Economists

Preceding Ibn Khaldun, the eleventh-century scholar Abu Hamid al-Ghazali had an enormous influence on Islamic economic thought.

Al-Ghazali investigated the relationship between the materialistic behaviour of the physical world on the one hand, and the moral foundations underpinned by religion on the other. Despite these conflicting elements, al-Ghazali clearly recognised individuals are motivated by self-interest. Observing traders, al-Ghazali wrote,

The motive behind all these activities is the accumulation of profits, undoubtedly. These traders exhaust themselves by travelling to satisfy others' needs and to make profits, and then these profits too are eaten by others when they themselves obtain things from others.

Al-Ghazali was hardly an advocate of selfish behaviour, however. A conservative with many traditionalist underpinnings, al-Ghazali argued for moderation in the pursuit of profit, and was vehemently opposed to the excessive profitmaking of merchants.

A more accommodating view on the pursuit of profit and individual achievement was presented by the twelfth-century merchant

Dimishqi, a Muslim writer from Damascus. Dimishqi wrote:

the wealthy individual is here considered a respected person who deserves people's esteem because he is rich, not in need, and because he makes for good use of his fortune.

A similarly secular observation is seen by the Persian prince, Kay Kavus, who, in giving advice to his son, wrote:

Do not be indifferent to the acquisition of wealth, yet do not cast yourself into the danger for the sake of it. Assure yourself that everything you acquire shall be the best quality and is likely to give you pleasure.

Ibn Taimiya, whose life overlapped with Ibn Khaldun's, showed an earlier, although less rich, appreciation of the role of supply and demand:

People's desire is of different kinds and varies frequently. It varies according to the abundance or scarcity of the good demanded. A good is much more strongly desired when it is scarce than when it is available in abundance... It varies also depending on the number of demanders. If the number of persons demanding a commodity is large, its price goes up against when their number is small... It is also affected by the strength and weaknesses of the need for the good and by the extent of the need, how great or small the need is 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.

## The Usury Problem

Depending on the interpretation, the Qur'an either forbids all interest, or merely usury, the charging of excessive interest on a loan. Known as *riba*—literally 'in excess' or 'in addition'—this practice is repeatedly denounced throughout:

Those who charge *riba* are in the same position as those controlled by the devil's influence. This is because they claim that *riba* is



Doha, Qatar.

the same as commerce. However, Allah permits commerce, and prohibits *riba*. Thus, whoever heeds this commandment from his Lord, and refrains from *riba*, he may keep his past earnings, and his judgment rests with Allah. As for those who persist in *riba*, they incur Hell, wherein they abide forever (Qur'an, 2:275).

This seemingly unambiguous position has not been the restraint on economic activity that it is often assumed to be. As Maxime Rodinson noted in *Islam and Capitalism*, the practice of financial lending at interest was well entrenched within Meccan society before the birth of Islam, and remained a feature of Islamic commerce well after. Rather than grinding to a halt, with the assistance of Islamic scholars, Muslim money-lenders and merchants devised an array of legal devices (ruses, or *hiyal*) to avoid the prohibition on *riba*.

One technique, described supportively in a Shi'ite legal treatise, while in the same breath condemning *riba*, seems to indicate that this prohibition was not taken very seriously:

There is a way of avoiding *riba*. For example, Zeid sells Emru a bushel of wheat, in exchange for some other commodity, while Emru sells Zeid two bushels of wheat in exchange for something else. The goods handed over in exchange for the wheat being of little value, and being given in payment for the wheat, there is no *riba* here, since the things being exchanged are identical neither in kind or in weight.

A translator of this legal text notes that 'no one could recommend more naively a legal way of breaking the law'. More sophisticated were the techniques detailed in the *Book of Escapes and Ruses*.

Regardless of the extent to which the prohibition on

*riba* was enforced in Islamic commerce, or whether it refers to all interest or merely 'excessive' interest, the usury problem should not be overstated. Prohibitions against usury have been common in all cultures, including Judaism, Hinduism, Buddhism and Christianity. It is hard to beat the fifteenth-century Dominican prior Sant'Antonino's condemnation of usury as 'diabolic', the great 'harlot' of the Apocalypse, and those who practise usury 'worthy of death'. Despite Antonino's passion, Christian banking has not suffered from his opposition.

#### Liberal Enclaves in Modern Islam

None of this discussion is to imply that the Islamic religion is consistently or inherently liberal, or necessarily free market. If nothing else, the process of discerning a liberal tradition in Islam illustrates the subjective nature of theology—individuals interpret sacred texts, rather than being controlled by them.

Further, authors should always be careful to interpret another culture's religion. This article highlights a perspective of Islam not often examined in the west. Around the world, a small number of woefully under-funded free market think tanks are attempting to broadcast a liberal message to the Islamic world.

Organisations such as the Minaret of Freedom Institute and the Islamic Free Market Institute may be small but, with the fostering of Islamic liberalism constituting one of this century's greatest challenges, their inheritance of the free market tradition has never been more important.

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