# Understanding the Market Mechanism before Adam Smith: Economic Thought in Medieval Islam

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## 1. Introduction

Although economic science is not more than some two centuries old, discussion and analysis of economic matters has existed for a very long time. Roman A. Ohrenstein and Barry Gordon, who have attempted to outline the understanding of economic processes in Talmudic literature, explain the contributions of various civilizations to the history of economic thought as follows:

> Economics, as we know it today, began to take shape in Europe during the eighteenth century. Yet, economic analysis has a much longer lineage. Such analysis may be found in the writings of the ancient Greek philosophers, Islamic scholars, medieval schoolmen, and the Mercantilists of the sixteenth and seventeenth centuries. The literature of ancient China, as well as that of India, also provides instances. (1992, preface)

Medieval Islamic scholars in particular made important contributions in the field of political economy in their *ayeneha* ("mirrors for princes") and their philosophic, theological, and ethical writings. Their understanding of the market mechanism was particularly substantial.

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It is possible to argue that Islamic scholarship, itself inspired by Greek philosophy and Islamic ethics, inspired and influenced scholastic writings in Europe. According to Karl Pribram, the scholastics "derived their intellectual armory from the works of Arab (and other Muslim) philosophers" (Pribram 1983, 21). Will Durant discusses the tremendous impact of Islamic-Aristotelian rationalism on medieval Europe, triggering alarmist concerns about the "threat of the liquidation of Christian Theology," and inspiring St. Thomas Aquinas to write *Summa Theologica.* Aquinas was inspired by Muslim theologian-philosopher Abu Hamed Ghazali; he was also influenced by Ibn Sina, Ibn Roshd, and other Muslim philosophers (Durant 1950, 954–58). S. M. Ghazanfar discusses six ways in which Islamic knowledge was transmitted to Western Europe: numerous Christian scholars traveling to the Muslim world and learning Islamic sciences during the eleventh and twelfth centuries, European students attending Muslim universities from the eleventh to the fourteenth centuries, extensive translation of Arabic writings to Latin, oral transmission, transmission of economic knowledge through commerce, and the diffusion of economic institutions and processes (1993, 20–21).

However, while the contributions of Muslim scholars were well recognized by their contemporaries during the Middle Ages, until recently modern Western historians of economic thought have ignored the contributions of medieval Muslim writers in political economy. This neglect is particularly obvious in Joseph Schumpeter's encyclopedic *History of Economic Analysis*, which is the locus classicus of almost all works in the field of history of economic thought. In regard to Schumpeter's omission, as Ghazanfar argues, "economic analysis begins only with Greeks, not to be reestablished until the scholastics emerged with St. Thomas Aquinas; the many 'blank' centuries within that span represent the Schumpeterian 'Great Gap.' This thesis has been deeply entrenched as part of the accepted tradition and is reflected in almost all relevant literature" (1991, 117).

Schumpeter's analysis has its roots in William Ashly's book (1888), which also ignored Islamic contributions to political economy. As a result of this foundational interpretation, various later historians of economic thought continued to ignore Islamic contributions, or mention them only in footnotes. For example, Eric Roll's *History of Economic Thought* (1953) contains not a single reference to Islamic contributions. Henry Spiegel's edited volume (1964) also contains no reference to Muslim writers. There is no mention of any Islamic contribution in Rima's *De-*

*velopment of Economic Analysis*. Barry Gordon's *Economic Analysis before Adam Smith* (1975) does not do justice to Muslim scholars of the medieval period. The same can be said about the books on the subject by Robert Lekachman (1959), Oser and Bruce (1988), and Colander and Landreth (1988).

Because of their contributions to political economy and their links to Greek and Christian scholastics, medieval Muslim scholars are far too important to be ignored. Their contributions enable us to fill the Schumpeterean gap. In addition, this neglect is simply unbecoming of our profession. Yassine Essid notes that "it is very curious that historians of economic thought, usually so quick to find a deceased precursor for every theorist, have remained silent about the contributions of Arab-Muslim authors" (1992, 39).

More recently, however, historians of economic thought have taken contributions of medieval Muslim writers in the field of political economy more seriously. Examples are Joseph Spengler, Louis Baeck, and Pribram, as well as S. Todd Lowry, whose edited volumes contain essays on the contributions of Muslim scholars during the Middle Ages. Various historians of economic thought with Islamic backgrounds also have tried to demonstrate the contributions of medieval Muslim writers. Included in this group are Ghazanfar and myself in the United States, M. Yassine Essid in Tunisia and A. Azim Islahi in India (these writers are to be distinguished from other writers who are proponents of Islamic economics).

The purpose of this article is to demonstrate that various medieval Muslim scholars had a sophisticated view of the market mechanism derived from various factors: Islam sprang from a mercantile society, commercial activity grew tremendously during the Islamic golden age, Islam placed an emphasis on the economic aspects of life, Islamic nations expanded to include highly cultured Hellenic and Persian[1] territories, and Islam tried to incorporate and internalize Hellenic and Iranian thought (such as Zoroastrianism and Manichaeanism) from its earliest days. Although Islamic scholars commanded a substantial understanding of economic processes and the market, for various reasons they did not create an independent discipline in economics.

I will argue that Muslim scholars during the Middle Ages developed two distinct theories of exchange (trade): one praising wealth for its own

1. The name of this geographic area was changed to Iran only in 1935.

sake and a second, an ethical theory, which posits that this world is a preparation for the next. I will analyze the contributions of two Arabic Muslims (Dimishqi and Ibn Taimiyah) and two Persian Muslim writers (Ghazali—or Algazel, as he was known in Europe—and Kay Kavus Ibn Iskandar). These medieval Muslim writers had a thorough understanding of the market mechanism long before the eighteenth century.

Ghazanfar, Essid, and Islahi are correct in emphasizing the earlier neglect of the contributions of Muslim scholars by various historians of economic thought. Yet, in a manner similar to Western writers ignoring Islamic contributions, they view all Muslim writers as Arabs. Thus, they fail to appreciate the importance of non-Arab Muslims (primarily Persian-speaking Iranian people) in the building of Islamic civilization, a culture which has always been very diverse and at its beginning benefited tremendously from the inclusion of Persian and Hellenic civilizations. A great number of Muslim philosophers and writers, whose writings, for obvious reasons, were mostly in Arabic, were Persian speaking (Ibn Sina [known as Avicenna in Europe], Ghazali, Khajeh Nasir Tusi, Fakhr Razi, Abu Ali Mohammad Ibn Miscavieh [known as Ib Miscavieh], Asaad Davani, Suhrovardi, and possibly Abu Nasr Farabi). In fact, even today many Muslim theologians of non-Arab countries still publish their theological works in Arabic (including the Ayatollah Khomeini).

## 2. The Islamic View of Trade and the Merchant during the Middle Ages

It is a well-known fact that trade was already important in the pre-Islamic Middle East. The life of the prophet Muhammad, himself a merchant until the birth of Islam as a religion, is testimony to this fact. However, on the eve of the rise of Islam, the importance of the merchant in pre-Islamic Arabia and Persia was obscured for various reasons. In the Arab Middle East, the role of the merchant was obscured by the fact that tribal tradition played a dominant role in deciding social status, and in the Persian Middle East, the Zoroastrian religion held the merchant in contempt. In addition, in contrast to Europe, which viewed trade and the merchant negatively for centuries (effectively until the twelfth century), the rise of Islam in the seventh century elevated the status of trade and the merchant substantially. In fact, the early Islamic position on trade and the role of the merchant could be regarded as revolutionary, yet directly linked to Islam's anti-ascetic ethic. Islam, from the very beginning, teaches its followers that the path to human salvation does not require withdrawal from the world but rather encourages moderation in worldly affairs. This can be seen in the Qur'an, the *hadith* (the reported words and acts of the Prophet), and other sources of Islamic teaching. Numerous Qur'anic verses are indicative of this very fact (3:174, 24:22, 62:10, and 73:20). In numerous principal texts of the Islamic religion, economic activity and the quest for profit have traditionally been viewed with favor, and trade has been placed on the same footing with *jihad* (vigorous action in the cause of God). It is a common belief among Muslims that the Prophet praised honest merchants, saying that they will be seated among the prophets at the side of God's throne on the day of judgment. "Since Islam sprang from a mercantile society and the Prophet himself engaged in commercial exchange, production for a market and trade were pictured in the Qur'an as noble practices and merchants favorably portrayed. The commercial symbolism is even extended to God's relation with man" (Essid 1988, 78).

The substantial growth of commerce in Islamic societies of the Middle Ages, particularly during the eighth to the thirteenth centuries, bears this out. It is no wonder that Maxime Rodinson wrote that "the capitalist sector was undoubtedly well-developed in a number of aspects, the most obvious being the commercial one. The development of capitalist trade in the Muslim period is a well known fact" (1978, 28).

The economic system in Islamic societies changed in many ways shortly after the death of the Prophet. Embracing Persian and Hellenic lands and cultures, Islam rapidly evolved into a much more complex and sophisticated economic system. This is reflected in the writings of Muslim scholars active of this period.

Of course, the prohibition against usury (*riba*) in the Qur'an and other sources of Islamic law definitely posed an obstruction to the development of capitalism. But, this prohibition was circumvented by devices (such as certain partnerships and agreements having the appearance of non-interest transactions), and interest-bearing loans existed. The money-lending role was often played by religious minorities, including Jews, Christians, and, to a lesser extent, Zoroastrians. According to Nasser-Khusraw (the Persian poet, essayist, and traveler who lived from 1003 to 1060) there existed some two hundred money-changers in the Iranian city of Isfahan in 1052 (Nasher-Khusraw 1939, 42).

Thus, in contrast to its Christian counterparts during the Middle Ages, Islamic society regarded trade as an honorable profession, and the merchant was a highly respected member of the Islamic community. In fact, the status of trade was raised even further when, as time went on, Muslim governments diverged further and further from the ideal Islamic state (Hosseini, forthcoming).

This high esteem can be seen in an essay written in praise of trade by an early Muslim writer by the name of Jahiz. It is interesting to note that he reminds his readers that the prophet Muhammad was a merchant for a part of his life and that trade was the occupation of the forefathers of the Muslims (including the first convert to Islam, Muhammad's wife Khadijeh).

## 3. Two Theories of Trade in Early Islamic History: The Views of Dimishqi and Ghazali

The complex economic and social system that emerged during the first few centuries of Islamic history gave rise to various debates among Muslim thinkers. These debates included discussions of economic issues among Muslim jurists, philosophers, ethicists, and writers of "mirrors for princes." For example, the issue of the naturalness of the market was discussed in great detail in the literature of *hisba*[2] (introduced below), and it was debated among Sunni jurists and the followers of the Islamic rationalist school known as the *Mutazila* (many of whose followers were Shiite). There seemed to exist a long-standing understanding of the market mechanism among Muslims. For example, the prophet Muhammad opposed price regulation. To him, only God has the right to set prices, not civil authorities. "Saying that only God is entitled to set prices is to assert that the market corresponds to God's will. Thus, from Muhammad's point of view, the natural regulation of the market corresponds to cosmic regulation" (Essid 1988, 81). The prophet Muhammad opposed coercing merchants to sell at prices that would result in loss on the grounds that such policies would only impoverish the commercial class, destroy the market process, and put an end to trade.

During the early centuries of Islam, Muslim theorists developed two theories of trade. While the first theory praised wealth for its own sake,

2. The *hisba* literature began as a collection of juridical advice and opinions on questions of public morality and market behavior. By the ninth century, it had been compiled into handbooks for the use of market officials (*muhtasibs*). The handbooks include the responsibilities of the *muhtasibs*, which were to monitor the sale of the manufactured goods, their condition, and any non-Islamic practices.

the second theory (the ethical one) stemmed from the Islamic assumption that for Muslims this world is a preparation for the next. I will discuss Dimishqi's writings as an example of the first category and Ghazali as an example of the second.

The writers of the first category seem to have been inspired by two non-Islamic sources, Hellenic philosophy (Platonic, Aristotelian, and neo-Pythagorean) and Persian "mirrors."[3] Through the Hellenic sources, Muslim philosophers and thinkers became aware of the science of household management as found in book 1 of Aristotle's *Politics*. This influence can be seen in the works of Farabi, Ibn Sina, Tusi, and Davani. Some merchants were inspired by these Hellenic sources as well, and Dimishqi is a very good example. The second influence, the "mirrors for princes," emphasized the art and practice of government (including its economic requirements), rather than its theory, very much like mercantilist pamphlets in Europe a few centuries later. The first mirrors were the works of Ibn Muqaffa, an eighth-century Persian convert from Zoroastrianism, who tried to reconcile the radical views of Kharijis[4] with the "conservative" Persian view of the rights of kings. In spite of their common Persian origins, the mirrors were diverse. Other important mirrors include Jahiz's *Book of Crown*, written in Arabic during the ninth century, and three eleventh-century Persian mirrors: *Qabus Nameh*, written by Prince Kay Kavus Ibn Iskandar (hereinafter Kay Kavus), *Siasat Nameh*, written by the great theorist-statesman Khajeh Nezam-ul-Muluk, and Ghazali's book *Nasihat-Ul-Muluk*.

Dimishqi, a twelfth-century merchant from Damascus, was among those Muslim writers influenced by Greek sources, particularly by the neo-Pythagorean Bryson of Heraclea. However, I would argue that he was also influenced by the Persian mirrors. In fact, his book, *Kitab-al-Ishara ila Mahasen*, can be regarded as the most pointedly economic of the genre, a point also emphasized by Louis Baeck (1993, 13). This book's chapters deal with the essence of wealth, the excellence of wealth and the need for a medium of exchange (money), the way to test gold, commodities and their prices, bad merchants versus good ones, crafts and

3. These "mirrors" were manuals of conduct for rulers and governors, which were inspired by pre-Islamic Persian theories of government.

4. An early Islamic movement that opposed both Sunnism and Shiism. They wanted to restore an Islamic state based on the strict wording of the Qur'an and the prophet's traditions. They emphasized that action rather than belief should be the criterion for Islam. They believed that even slaves should be able to be elected as caliphs.

industries, advice to merchants, the excellence of trade, three classes of merchants, the administration of wealth, and the need to protect wealth. Dimishqi, in contrast to many other Muslim writers, approves of wealth for its own sake. He sympathizes with merchants and discusses the contribution of the merchant to the common good of the community. He writes, "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 good use of his fortune" (quoted in Essid 1988, 41).

Being a practitioner of economic activity himself, a merchant, Dimishqi was free of theological constraints in his manual and followed the practical tradition of the genre. This worldly approach could be due to the influence of Greek rationalism, because throughout various chapters, Dimishqi remains close to the neo-Pythagorean Bryson. Discussing the duties of three types of merchants (the wholesaler, the traveling merchant, and the exporting merchant), Dimishqi praises trade as an economic activity and demonstrates a thorough understanding of the roles of demand and supply and the uncertainty associated with them.

> The wholesaler (*Khazzan*) is a merchant who buys cheap and sells dear, in other words buys when the goods are abundant and the demand is weak and sells in inverse ratio to that. The temptation to cheat and to make big and unjustified profits is hidden there, and that is the reason why it is necessary to state how risky and uncertain is the merchant's business. Because steady traffic and relative safety of the roads contributes to the growth of trade and fluctuations of prices, the wholesaler must investigate not only the state of the market, but also the distance and danger of the roads as well as the scarcity of wares. The traveling merchant (*raqqed*) is a merchant who moves with his merchandise from place to place. He has to establish a list of prices anywhere he goes. If he needs to buy something and calculate his profit he should refer to that list, compare the different rates with the different places and add to that the customs duties and the transportation costs.
>
> The exporting merchant's (*Mujahhiz*) prosperity rests on the good or bad choice of his agents. (Quoted in Essid 1992, 42)

Thus, Dimishqi formulated what modern economics calls price theory. For many medieval Islamic scholars, discussions of price were usually integrated into discussions of retail trade, engaged in by shopkeepers in urban centers. Dimishqi avoided the traditional Islamic debate concerning whether God or man determines price. In other words, although a devoted Muslim, he refrained from theological explanations of price determination. In his price theory, Dimishqi "makes a distinction between normal periods in which market prices are based on cost of production, as opposed to periods of scarcity or oversupply, in which speculators' drive manifest itself" (Baeck 1993, 13). For Dimishqi, prices were determined by forces a merchant was expected to understand and manipulate if he wanted to prosper.

Following Aristotle, and in the tradition of Persian-inspired mirrors, Dimishqi adhered to the ethic of the golden mean. This explains why he argued that goods have their median prices, to which they tend, as an ideal state. Actual prices may vary from this median according to short-term abundance or scarcity, proximity to the marketplace, or institutional factors that are intrinsic to mercantile activity (local conditions, custom duties, safety of the roads, government control, and disorganization). For Dimishqi, these factors can disrupt the supply-and-demand mechanism and consequently the median price is that price which brings profit to the market without harming the community. Thus, it is an optimal and a just price (Essid 1992, 43).

Among the most prominent medieval Islamic writers to advocate an ethical theory of trade was the Persian Sunni theologian Ghazali (1058–1111). Ghazali, who was born in Tus and educated in the Persian cities of Tus, Nishabour (the birthplace of Omar Khάyyam) and Gorgan, taught theology at Nezamieh University in Baghdad (established by his friend Nezam-al-Mulk, a famous mirror writer and a vizier of one of the Iranian Saljuq kings). After several years, he visited various Arab cities and then returned to teach in Persia. He died in Tus.

Ghazali was a conservative theologian who tried to combine traditional Islamic tenets with rationalism and Sufism.[5] What brought this Sunni jurist to a discussion of politics (and thus to developing an Islamic theory of the Caliphate[6]) and economics was an attempt to preserve Islam during a critical time when the institution of the Islamic caliphate was weak and declining, particularly in Persian-speaking territories (the Iranian

5. Sufism, or Islamic mysticism, is an Islamic movement which emerged in early Islamic history (and has continued to today) as a reaction to Islamic formalism and materialism.

6. Islam does not believe in the separation of church and state. Following the death of Muhammad in 633, Muslims elected politico-religious leaders know as caliphs. The first four, called *rashedins*, were elected by the elders of their time. After that the institution changed in nature and became dynastic.

plateau), where various dynasties had acquired de facto independence from the caliphs in Baghdad. Ghazali wrote some one hundred books on theology, philosophy, and other aspects of Islamic life. While much of his political analysis is present in his mirror *Nasihat-al-Muluk* (in Persian), his economic views, in the main, appeared in his most famous Arabic book *Ihya-al-ulum-al-Deen* and the Persian version *Kimiya-e-Saadat* (which he regarded as containing the essence of *Ihya*). Ghazali, who understood economic issues thoroughly, was very much an advocate of Islamic justice and the orderly conduct of the Islamic community and its economy. In the section of *Kimiya-e-Saadat* that deals with economic issues (entitled "Rules and Characteristics of Trade"), he discusses: the excellency and rightness of trade and the conditions which must be fulfilled if transactions are to be valid, the need for equity in transactions, the rightness which lies beyond equity, and the need for the exercise in transactions of the compassion demanded by religion (Ghazali 1940, 256; author's translation). As an introduction to this section he writes,

> This world is only a passing stage on the way to the next one. As human beings, we have the need for food and clothing, which cannot be satisfied unless we hold occupations. We will be doomed if we occupy ourselves only with worldly affairs. It would be desirable if we were occupied only with otherworldly affairs. But moderation requires that we occupy ourselves with both, while accepting the latter as our ultimate goal and the first as the means of achieving it. (Ghazali 1940, 255; author's translation)

In this section of *Kiamiya-e-Saadat*, Ghazali lays down seven ethical constraints to be observed by those who engage in trade (in Persian called *bazzaris*). Essentially these constraints are as follows: (a) Every morning a man should go to the bazaar merely to obtain sustenance for himself and his family. Having done that, he should go to the worship of God; each man should treat the people with compassion. (b) He should realize that life is only made possible by a division of labor and cooperation, and he should therefore go to the bazaar with the resolution that the life of the Muslims should be made easier by his efforts. Ghazali also warns against undesirable occupations. (c) Whoever earns his living in the bazaar should resolve that the commerce of this world should not keep him from caring for the next world and attendance at the mosque. (d) Man should practice the remembrance of God while in the bazaar. (e) He should not be unduly eager to make a profit in his transactions.

(f) Whosoever goes to the bazaar to earn a living should resolve to avoid any transactions of a doubtful nature and to refrain from transactions with tyrants or those connected with them. (g) Whoever would occupy himself with commerce should resolve to be honest in his dealings.

Thus, while emphasizing the importance of otherworldly affairs, "Ghazali considers the development of the economy as part of divinely ordained, socially obligatory duties and he insists upon efficiency in such pursuits, for doing so is part of fulfilling one's religious duties" (Ghazanfar and Islahi 1990, 382).

In *Ihya*, Ghazali identifies three reasons for the pursuit of economic activities: self-sufficiency, the well-being of one's family, and assisting others in need. He insists that these are necessary steps to be taken (Ghazali n.d., 2:63, 249). In fact, he identifies the human propensity to accumulate wealth as a natural one.

> Man loves to accumulate wealth and possessions of all kinds of property. If he has two valleys of gold, he would want to have a third. Man has high aspirations. He always thinks that the wealth which is enough now may not last, or might get ruined and then he would need more. He tries to overcome these fears by further accumulation. But such fears do not end—even if he has all the possessions of the world. (Quoted in Ghazanfar and Islahi 1990, 384–85)

Thus, for Ghazali, human beings are wealth maximizers.

In *Ihya*, Ghazali recognizes the importance of self-interest, the profit motive, and the market; he theorizes the evolution of markets and voluntary exchange; he understands the existence of various stages of production, the need for division of labor, and linkages among various sectors of the economy; and he even seems to grasp the market failures leading to the Coasian discussions of the role of the firm.

> So the farmer needs blacksmiths and carpenters, and they in turn need farmers. Naturally, each will want to satisfy his needs by giving up in exchange a portion of what he possesses. But, it is also possible that when the carpenter wants food in exchange for tools, the farmer does not need the tools. Or, when the farmer needs tools, the carpenter does not need food. So such situations create problems. Therefore, pressures emerge leading to the creation of trading places where various tools can be kept for exchange and also warehouses where farmers' produce can be stored. Then, customers bring produce to the markets and if

> they cannot readily sell or exchange what they possess, they sell them at a lower rate to the traders who in turn store the produce and sell to the buyers at a profit. That is true for all kinds of goods. Then, such practices extend to various cities and countries. People travel to different places to obtain tools and food and transport them. People's economic affairs become organized into cities which may not have all the tools needed and into villages which may not have all the foodstuffs needed. People's needs and interests necessitates transportation. Then, a class of traders who carry goods from one place to another emerges. The motives behind all of these activities is the accumulation of profits. (Ghazanfar and Islahi 1990, 386)

Ghazali seems to have understood the laws of demand and supply. He argues that "if the farmer does not get a buyer for produce, then he sells at a very low price" (27). This seems to suggest that, to him, price and quantity supplied are directly related. As Ghazanfar and Islahi argue, in *Ihya*, he was aware of change in demand and the concept of price-elasticity of demand; they say, "his awareness of market forces is evident when, concerning high food prices, he suggests that the price should be induced down by reducing demand, implying leftward shift in the demand curve (*Ihya*, 3:87). He also seems to have some insight into the concept of price elasticity of demand: "'a cut in profit margin by price reduction will cause an increase in sales and thus in profits' (*Ihya*, 2:80)" (Ghazanfar and Islahi 1990, 387–88).

Ghazali understood that prices are determined by market forces. He makes various references to "prevailing prices" being determined by market practices. The price he is referring to is what others (some other Muslim thinkers as well as Western scholastics) have called "just price," and which presently is called "equilibrium price" (Ghazanfar and Islahi 1990, 385). In *Kimiya*, on the basis of Islamic laws, Ghazali develops certain ethical guidelines or constraints for price determination. He discusses two general constraints and several specific ones. The specific ones are as follows: (a) The seller must not praise the commodity being sold beyond what is worth. Otherwise, it would be deceitful, cruel, and sinful. (b) The seller must not conceal the defects of the commodity being sold. The seller must be frank, otherwise he is guilty of fraud, cruelty, and sinfulness. (c) There must not be fraudulent measurement of the quantity of goods being sold. (d) There must not be fraud in the pricing of goods. The seller must not hide the correct price; it is wrong and sinful to get a price higher than the prevailing one from travelers. In general, to Ghazali, it is essential that the information conveyed to the buyer is truthful and accurate. (1940, 1:273–79).

## 4. Kay Kavus Ibn Iskandar's Understanding of the Market Mechanism

During the Abbasid rule in Baghdad (750–1258), "mirrors for princes" emerged to explain the practical aspects of politics, economics, and other social institutions. In contrast to Islamic jurists and philosophers, the authors of "mirrors" were not concerned with theoretical considerations. Rather, their aim was to advise rulers, their ministers, and even would-be merchants how best to conduct their affairs. In terms of their economic beliefs, they praised wealth for its own sake, so long as Islamic principles were not being violated.

*Qabus Nameh* is a book written in Persian by the Persian prince, Kay Kavus, as advice to his son. This book, which consists of 44 chapters dealing with very different subjects (among them, how to play chess, how to play polo, how to entertain guests, how to govern a nation, how to buy a house, etc.), is an extremely wise and practical account of government, the economy, and society. Of these 44 chapters, 6 deal explicitly with economic affairs. Kay Kavus's economic analysis, like that of Dimishqi, is devoid of theological arguments and rather tends to be very positivistic and impersonal in nature. In his discussion of some of the things a merchant should not do, he warns against doing business with close friends, if the desire is to make a profit.

Kay Kavus demonstrates a thorough understanding of wealth, its importance, its acquisition, and its utility. The six chapters that deal with economic matters definitely give the impression that Kay Kavus praises wealth for its own sake, and that he believes that wealth provides man with utility and should be maximized. "My son, do not be indifferent to the acquisition of wealth, yet do not cast yourself into danger for the sake of it. Assure yourself that everything you acquire shall be the best quality and is likely to give you pleasure. Once you have acquired it, do not let it go for anything; indeed, preserving is more difficult than acquiring" (Kay Kavus 1951, 90).

He seems to have assumed diminishing marginal utility in the accumulation of wealth. In the chapter dealing with the acquisition of wealth, he argues, "Should your wealth amount to a great matter, set it to a good use and yet with proper control, a little used with circumspection is better than a great quantity extravagantly consumed" (91).

In general, he understood the notion of utility and its maximization. He wrote, "You have not attained completely the happiness and pleasure of worldly riches; indeed, the perfection of pleasure lies in seeing what you have not already seen, eating what you have not hitherto eaten and experiencing what you have not yet experienced" (16).

As with his views of wealth, Kay Kavus's view of poverty also differed from the prevailing views of poverty in the medieval Christian West. He wrote, "You must realize that the common run of men have an affection for the rich, without regard to their personal concern, and that they dislike poor men, even when their own interests are not at stake. The reason is that poverty is man's worst evil and any quality which is to the credit of the wealthy is itself a derogation of the poor" (92).

At the same time, Kay Kavus is realistic enough to know that poverty will exist. Although he encourages giving alms, he seems also to justify the existence of difference in regard to the ownership of wealth. "God had power, truth to tell, to make all men rich; but in his wisdom he decided that some should be rich and others poor, that rank and honor due to different men might be clearly shown and the more noble be distinguished" (18).

Naturally, emphasizing wealth to the extent that he did and being as pragmatic as he was, Kay Kavus must also have believed in the importance of self-interest. "And never, in anything that you do, lose sight of your own interest—to do so is superfluous folly" (109). But, he is also aware of the limits of self-interest. He states, "But he (the merchant) must also be honest and not seek other people's loss for his own gain, nor desire to bring other men into misfortune for his own benefit" (157).

Kay Kavus's economic understanding seems to extend to the market process; he describes the need for both domestic and international trade and the gains and the benefits they can bring. Some seven centuries before Adam Smith, this Persian writer articulated the benefits that international trade can bring to societies. He writes, "To benefit the inhabitants of the west they import the wealth of the east and for those of the east the wealth of the west, and by so doing become the instrument of the world's civilization. None of this could be brought about except by commerce" (156).

Kay Kavus was very much aware of the risks of both domestic and international trade and commerce. He says, "Clever men say that the root of commerce is established in venturesomeness and its branches in deliberateness . . . merchants, in the eagerness for gain, bring goods from the east to the west, exposing their lives to peril on mountains and seas, careless of robbers and highwaymen and without fear either of living the life of brutal people or of the insecurity of roads. This means a risking of money, and needs a venturesome, long-sighted man to have the courage to buy goods in little demand on the expectation of increase" (156). Because of the complications and problems involved, therefore, Kay Kavus regarded long-distance and international trade as very risky. Interestingly enough, he viewed investment in real estate as rather risk-free. As he states, "An estate, you must understand, represents wealth without risk" (111).

In a modern way, Kay Kavus was also aware that for the market mechanism to function, a legal framework is needed and that laws pertinent to the market must be observed. He also understood the importance of contracts in making transactions. Regarding the legal framework, he writes, "Understand, My son, that whenever you make a purchase, whether it be land, houses or anything else you wish, you must observe the provisions of the law" (109).

Regarding the importance of contracts he wrote, "If the merchant is handed a letter with the request that it be delivered in such a place, let him read it before accepting it, for many misfortunes may be contained in a sealed letter and one never knows how conditions may be" (160). Elsewhere he writes, "At the time of negotiation, do not forgo bargaining, but once the contract is made, bargain no more" (161).

Long before the eighteenth century, he believed that laws exist explaining commerce (the market) and that these laws are not very accurate. "My son," he wrote, "although commerce is not an occupation which can with complete accuracy be called a skilled craft, yet properly regarded, it has laws just as the professions have" (156).

Kay Kavus demonstrated his understanding of the forces of demand and supply and their role in price determination. In his positivistic discussions of demand, supply, and price determination, there are only free markets and voluntary exchange. He presents no discussion of price regulation of any sort, including the Islamic institution of *hisba*. In his advice to his son as buyer as well as seller, he said: "Further, you must buy when the market is slack and sell when the market is brisk" (109). The chapter titled "The Purchase of Houses and Estates" is quite interesting and modern: "If you wish to buy a house, buy one in a street where prosperous people reside and not on the outskirts. Also look first of all to your neighbors, not closing the bargain until the land has been valued and is free of doubtful qualities" (109–110).

On the role of supplier-producers, Kay Kavus believes that suppliers must be cost-minimizers; he is also aware of the efficiency of large-scale commerce. "A merchant whose capital is small . . . must never buy with new capital any merchandise of a nature to deprive him of a percentage of profit or which involves him in heavy expenditure" (160). He seems to be aware of the increased efficiency possible with large-scale operations in the following statement. "Be brisk in your buying and selling, trustworthy and honest. Let your commerce be on a large scale" (161). He articulates the need for efficiency again, in reference to production, in his discussion of agriculture and craftsmanship.

> If you become a cultivator of the land, make yourself familiar with the due seasons for performing the tasks demanded by agriculture, never letting the time for an essential operation pass by without your having performed it. Keep the implements used in cultivation and tilling in good repair and ready; give orders that good oxen should be brought and well fed, always keeping a yoke of oxen well rested and apart from the others, so that if some disease befalls one of your oxen you will not be behind and with your work and the time for sowing will not pass you by. . . . It is necessary always to be engaged in improving the land in order to make agriculture profitable. (237)

Kay Kavus was also aware of competition, the impact of low prices and quality on attaining a larger market share, and the importance of (modern) marketing.

> If you are a craftsman in the bazaar, whatever your craft, let your work be quick and worthy of praise, so that you may acquire many patrons; and whatever the work you do, let it be better than that of your fellow-craftsmen. Be content with modest profit, for while you sell at eleven a single article which costs you ten, you may sell two at ten-and-a-half a piece. Do not drive customers away by importuning and overinsistence; thus you will gain a livelihood from the practice of your craft and more people will transact business with you. In the course of selling an article, exert yourself to say "My friend," "My dear sir" or "My brother," and to make a show of humanity, and with all your strength restrain yourself from harsh and foul language. By

your gentleness the customer will be shamed from bargaining and you will gain your object. (237–38)

## 5. Ibn Taimiyah: His Understanding of the Market and Its Regulation

Another proponent of the ethical theory of markets in Islamic intellectual history is Tachi al-Dim Ahmad bin Abd al-Halim, known as Ibn Taimiyah (1263–1328), a Sunni theologian of the Hanbali branch. He was born in the Syrian town of Harran (now in southern Turkey) but spent most of his life in Damascus and Cairo, two very important intellectual and commercial centers after the fall of Baghdad in 1258. Ibn Taimiyah was a very strict Islamic jurist who "sought to cleanse Islam from everything which was, to his mind, incompatible with Islamic Shariah" (Ghazanfar and Islahi 1992, 49). This differentiates his views from those of the more tolerant Ghazali, who had tried to accommodate various movements in his time. In contrast, Ibn Taimiyah, who is regarded as the grandfather of the strict Wahabi sect within the Hanbali branch, opposed the Sufi ideal of a life of seclusion and otherworldliness, and yet also criticized the rationalism in Greek philosophy.

Notwithstanding his religious concerns, Ibn Taimiyah had a thorough understanding of economic forces. He discussed economic issues in great detail and his discussion of them was normative, with extensive positive analysis. His acquired pragmatism had many roots: the demise of the Arab-ruled Islamic empire, culminating in the fall of Baghdad in 1258, and thus ending the traditional institution of the caliphate; his childhood experience witnessing the Mongol invasion of Tus, leading his family to emigrate to Damascus; his awareness of the loss of Mediterranean Islamic territories to the Crusaders; his experience as a soldier fighting against the Mongols in Syria; his imprisonment by the Mamluk sultans in Egypt; his exposure to the tremendous prosperity of Syria and Egypt; and his knowledge of the enormous volume of East-West trade at the time (Lane-Poole 1925, 313). His pragmatism, combined with his interest in the politico-economic administration of the post-Abbasid Islamic society, made his understanding of the economy, particularly those parts pertaining to the market mechanism, quite sophisticated. His views on various economic issues are discussed in *Al-Hisbah Fil-Islam* (1976), *Al-Siyasah-Shariyah fi Islah Al Rai wa'l-Riyah* (1971), and in his religious decrees (collected in the multivolume *Fatawa* [1967]).

Ibn Taimiyah discusses various economic issues that have relevance today, even though he wrote in an age when economic science as a separate discipline had not yet emerged. His discussions include the economic systems of barter and money; the right to property ownership; public finance; wealth and poverty; distribution of income; monopoly, hoarding, and other market imperfections. But, as an Islamic jurist interested in economics, politics, and Islamic justice, his main concern was the "establishment of a just economic order" (Ghazanfar and Islahi 1992, 60). He writes, "the welfare of the people and the country can be achieved though commanding the good and forbidding the evil. The well-being of the people, their economic well-being, lies in obedience to God and his prophet, which is possible only by enjoying good and forbidding evil" (Ibn Taimiyah 1971, 89).

Ibn Taimiyah demonstrates "rather detailed knowledge of the operations of a voluntary exchange, market economy that naturally evolves among freely acting individuals, motivated by self-interest and mutual necessity—through such environment is conditioned and guided by a divinely inspired code of ethics and moral values" (Ghazanfar and Islahi 1992, 59). He was well aware of the forces of demand and supply and their roles in price determination. He believed in an orderly market characterized by honesty, fair play, freedom of choice, and knowledge. In contrast to a prevailing view during his time that high prices necessarily stemmed from unjust use of power on the part of sellers, he writes,

> Rise and fall in prices is not always due to an injustice by certain individuals. Sometimes the reason for it is deficiency in production or decline in imports of the goods in demand. Thus, if desire for the goods increases while its availability decreases, its price rises. On the other hand, if availability of the good increases and the desire for it decreases, the price comes down. This scarcity or abundance may not be caused by the action of any individual; it may be due to a cause not involving any injustice, or sometimes, it may have a cause that does not involve injustice" (Ibn Taimiyah 1967, 8:583).

On the basis of this quotation, Ibn Taimiyah understood the forces of demand and supply, domestic and foreign sources of supply and changes in supply (which he regards as changes in availability of the good). He also recognizes demand, which he equates with the desire for the product. It is also obvious that he understands what today we call shifts in demand

and supply. As Ghazanfar and Islahi also argue, to him, the reasons for price increases may be a decrease in supply or an increase in population (which he calls number of buyers) (Ghazanfar and Islahi 1992, 51).

In volume 29 of the *Fatawa*, Ibn Taimiyah recognizes other "determinants" of demand and supply and their impact on price determination. He argues

> 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 as against when their number is small. . . . It is also affected by the strength and 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. (Quoted in Ghazanfar and Islahi 1992, 52)

Here, he recognizes that price can be influenced by other determinants of demand and supply. These factors, which are also identified by Ghazanfar and Islahi, are intensity and magnitude of demand, relative abundance or scarcity of a good, credit conditions, and discounts for cash payments. According to Ibn Taimiyah, the price of the products varies "according to the [customer] with whom exchange is taking place. If he is well-off 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 payments, or refusal of payment due. . . . This is because the purpose of contracts is [reciprocal] possession by the two parties" (Ghazanfar and Islahi 1992, 52). In addition, reflecting the monetary circumstances in Damascus at the time, the price will be influenced by the kind of money paid in exchange; if the currency is in common circulation, the price will be lower. To Ibn Taimiyah, this is because in a contract the objective must be realized.

Although Ibn Taimiyah was an advocate of free markets, he was by no means a believer in an absolute form of an invisible hand. He argues, as stated above, that no one should force sellers to sell objects that they are not obliged to sell or restrict them from selling a (religiously) permissible object. To him, the just price, which he calls the compensation equivalent, is a price that is determined by the forces of demand and supply, absent monopoly power. As he argues in *Hisba*, price controls can be invalid or valid (quoted in Ghazanfar and Islahi 1992, 53). In the same work, he regards the prophet Muhammad's reported opposition to price control as only a special case. "It was a special case and not a general ruling. It is not in that *hadith* [report] that someone had refrained from selling or doing something which was obligatory, or charged more than the compensation equivalent" (Ibn Taimiyah 1971, 42).

Ibn Taimiyah believed in freedom of entry and exit in the marketplace, and he opposed price controls if they were imposed on the prices of goods which would increase as a result of market forces, such as supply shortages or demand increasing more than supply. However, he supported price controls in times of emergency (war, famine, and so on), or when a monopoly power existed. To him, in a time of emergency, the state must intervene to guarantee a fair price. "It is for the authority to compel a person to sell his goods at a fair price when people are in need of it. For example, when he has surplus food and people are faced with starvation, he will be forced to sell at a just price" (Ibn Taimiyah 1976, 24). The state should also intervene in situations of *price discrimination.* "A seller is not allowed to charge a high price, not common in society, to an unaware person but must sell his goods at the customary price or near to it. If a buyer has been charged such an exorbitant price, he has the right to review his business contract. *A person known to* discriminate in this way should be punished and deprived of the right to enter the market" (Ibn Taimiyah 1976, 359–60).

The administration and supervision of price controls in medieval Islamic societies (and even up to more recent centuries) took place through the institutional mechanism of *hisba*. Of course, *hisba* was by no means a strictly economic institution, since it also included moral and spiritual controls on society as well. In fact, classical Persian poetry views this institution negatively because of its strict moral and spiritual controls. For instance, the poetry of Hafiz, the great classical Persian poet, contains numerous negative portrayals of this institution. Ibn Taimiyah explains that the aim of *hisba* is "to promote what is good and forbid what is evil" (quoted in Ghazanfar and Islahi 1992, 54).

The *muhtasib*, the economic morality policeman, was the individual in charge of the institution of *hisbah*. Among the *muhtasib*'s responsibilities was market supervision. According to Ibn Taimiyah, these responsibilities are as follows: "The Muhtasib shall enforce the Friday and other congregational prayers, ensure truthfulness of conduct and behavior, repayment of deposits; and he shall prevent such evil behavior as telling lies, dishonesty, improper weights and measures, fraud in industries, trades, and religious matters, etc." (Ibn Taimiyah 1976, 19–20).

## 6. Summary and Conclusions

The purpose of this article is to demonstrate that medieval Islamic scholars had a thorough understanding of the market mechanism. I argue that in medieval Islamic societies the institution of the market mattered and that its functions were understood by merchant-practitioners as well as by Islamic jurists, Muslim philosophers and authors of the "mirrors for princes." Muslim scholars (particularly Arabic and Persian ones) were more than mere "interpreters" and "translators" of Greek thought. These writers made substantial contributions that, in turn, influenced European scholastics. Various Muslim writers understood the market mechanism rather well, thanks to the mercantile nature of Islamic society and the teachings of Islam (which emphasize a place for temporal affairs, including respect for trade, the merchant, and profit, and which also accepted the influence of both Greek and Persian thought). Medieval Muslim writers developed two theories of trade: one emphasizing wealth for its own sake, and another emphasizing ethical behavior in the marketplace. To demonstrate this, I have examined four writers, two Arabs (Dimishqi and Ibn Taimiyah) and two Persians (Ghazali and Kay Kavus). Three of these writers lived and wrote several centuries before St. Thomas Aquinas. Ibn Taimiyah was a contemporary of St. Thomas yet had no knowledge of emerging scholastic thought in the Christian West. In his religious decrees, he discusses the concepts of just price and just wage. His analysis of what he calls just compensation (relevant when a person is held responsible for causing injuries to the lives or properties of others and used to settle contracts in the event of defects) (1967, 29:520) and just price (which he calls the price of the equivalent) which is "that rate at which people sell their goods and which is commonly accepted for it and for similar goods at that particular time and place" (29:350). In *Hisba*, Ibn Taimiyah calls the just price that price which is determined by the forces of demand and supply (1976, 25). The existence of these texts proves that the "Great Gap" thesis in the history of economic thought is patently untenable.

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