

# Markets in the Islamic World

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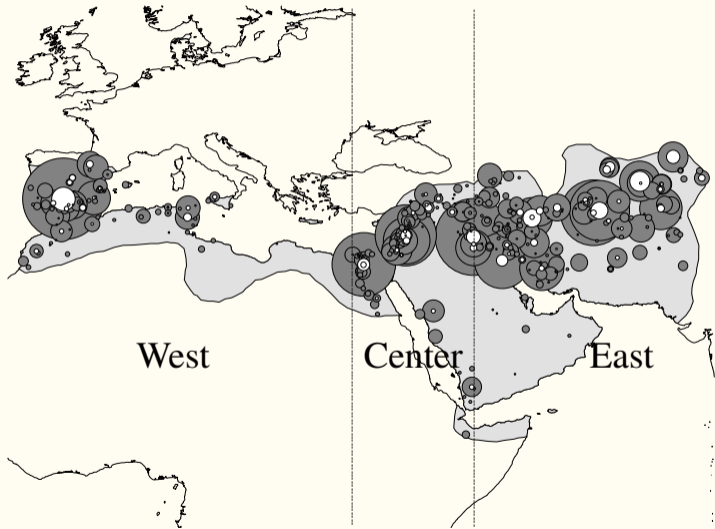
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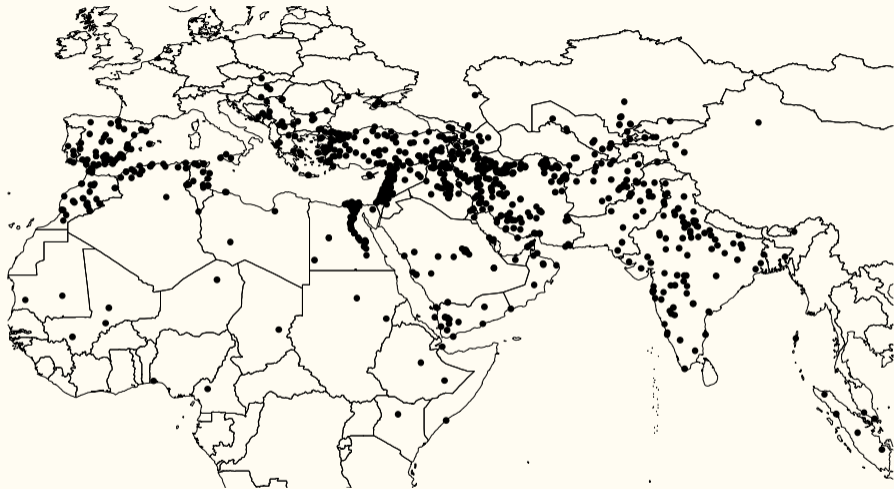
September 27, 2021

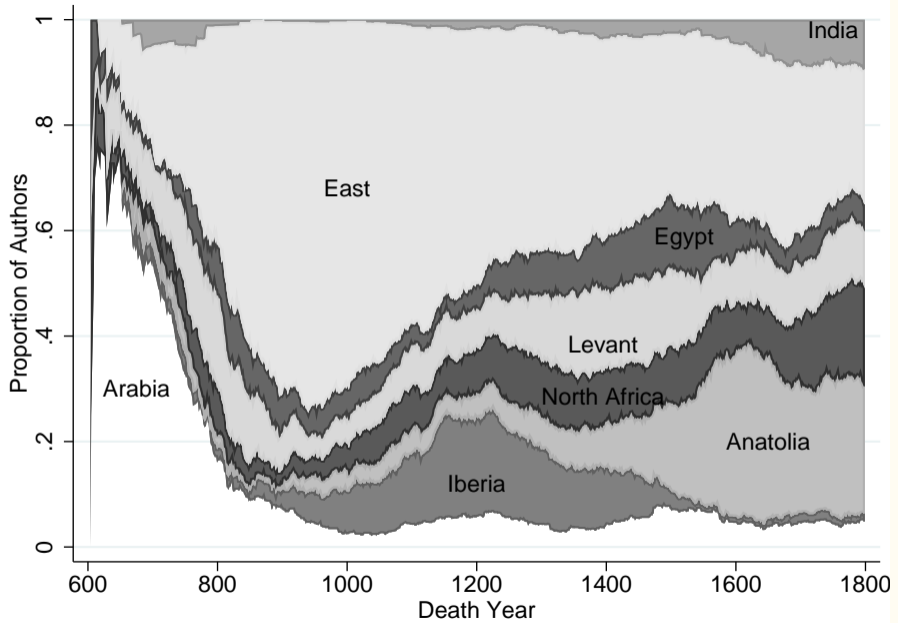
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# Background

- Starting in the 7th century, the Arab conquests quickly extended Islamic rule to Hellenistic and Persian areas.
- Both regions were among the most developed of Late Antiquity and had a rich cultural inheritance.
- Examples of importance:
  1. Many of the most exciting thinkers of the era (Avicenna, Al-Razi, Al-Ghazali) were Persian, not Arab.
  2. Translations from classical Greek into Arabic through Syriac speakers: Hunayn ibn Ishaq (809-873).
  3. Persian and, later, Byzantine structures of governance (particularly salient later in the Ottoman Empire).
  4. Egypt as the “grain center” of the classical world.







# Science and culture in the Islamic world

- The creation of a unified polity in the Mediterranean world and the Middle East under the three major Caliphates (Rashidun, 632-661; Umayyad, 661-750; and Abbasid, 750-1258) opened an era of cultural effervescence.
- This era is often called the *Islamic Golden Age* ( $\approx$  8th-13th century).
- Institutions such as the House of Wisdom (*Bayt al-Hikma*).
- A few references:
  1. *A History of Islamic Societies, 3rd ed*, by Ira Lapidus (2014).
  2. *Philosophy in the Islamic World: A history of philosophy without any gaps, Volume 3*, by Peter Adamson (2016).
  3. *The House of Wisdom: How Arabic Science Saved Ancient Knowledge and Gave Us the Renaissance*, by Jim Al-Khalili (2011).



# Markets in the Islamic world (I)

- Deep reorganization of traditional economic links within the Mediterranean world.
- Breakdown of traditional north-south links and creation of east-west connections.
- Rebuilding of a fiscal state severely damaged during late antiquity.
- A few references:
  1. *Mohammed and Charlemagne*, by [Henri Pirenne \(1937\)](#).
  2. *Framing the Early Middle Ages: Europe and the Mediterranean, 400-800*, by [Chris Wickham \(2007\)](#).
  3. *Origins of the European Economy: Communications and Commerce AD 300-900*, by [Michael McCormick \(2002\)](#).



## Markets in the Islamic world (II)

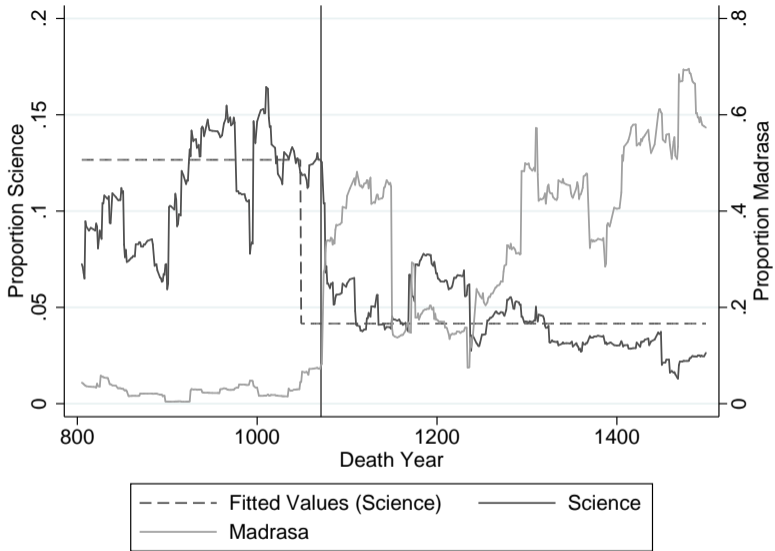
- During much of this time, there was also a revival of economic activity.
- For example, new monetary system around the dinar (from the latin *denarius*).
- Fatimid Caliphate (909-1171) is a particularly salient case.
- The Fatimid caliphs kept, to a large extent, an open-arms policy toward trade and markets and favored meritocratic administration.
- Particularly crucial in an incredibly diverse region of the world (languages, religion, ...).

# Lack of sustained economic growth

- Why did economic activity slow down?
- Unfortunately, this is a hugely under-studied area in economic history.
- We do not even have good data (are we sure about the scope and depth of economic slow-down?)
- Why?
  1. University system in much of the Middle East.
  2. Linguistic barriers.
  3. Traditionally: lack of interest by western academics.
  4. Today: easy to get engulfed in controversies.

## Some leading theories

1. Traditional explanations: the role of external shocks such as the Crusades, Mongol invasions, or colonialism.
2. Three slightly more subtle versions:
  - 2.1 Higher exposure to nomads invasions.
  - 2.2 Climate change, especially in the context of more fragile ecosystems (Richard W. Bulliet, Columbia, and Ronnie Ellenblum, Hebrew).
  - 2.3 Rise of the Atlantic world (Daron Acemoglu, MIT).
3. Timur Kuran (Duke): contractual arrangements and lack of a good impersonal court system.
4. Eric Chaney (Harvard-Oxford): increase in the political power of elites who opposed change and economic growth → less separation of powers than in Western Europe.
5. Gunpowder Empires: Ottoman, Safavid, and Mughal empires.



From 1300 to 1700, three “gunpowder empires” dominated parts of Europe, Africa, & Asia



## Economic thinking in the Islamic world

- Islamic world produced a sophisticated and nuanced analysis of economic activity that was ahead of most contemporary thinkers in other regions.
- Much of it appears in “mirrors for princes.”
- Closely related to issues of faith and ethics.
- Also, directly linked with the Greek tradition. For example, Al-Farabi (c. 872-c. 950) and Avicenna (Ibn Sina, c. 980-1037), deeply influenced by Aristotle.
- And, consequently, directly and indirectly with European medieval thought.
- *Medieval Islamic Economic Thought*, by S.M.Ghazanfar (2003).

- Al-Ghazali (c. 1058-1111) was born in Tabaran, modern-day northeastern Iran (he wrote some of his works in Farsi, although most of his literary output was in Arabic).
- He lived across the Islamic world: Baghdad, Damascus, Jerusalem, ....
- He is a central figure in philosophy, theologian, and law.
- His autobiography, *Deliverance from Error*, is a remarkable early example of inward-life examination.
- *Al-Ghazali's Philosophical Theology*, by Frank Griffel (2010).

# Al-Ghazali's economic analysis

- We will, however, concentrate Al-Ghazali's thinking on economic issues:
  1. Voluntary exchange and markets.
  2. Production theory.
  3. Money and interest.
  4. Public finance and social welfare.
- Much of his economic analysis appears in *Ihya' Ulum al-Din* (The Revival of Religious Sciences).
- *Economic Thought of an Arab Scholastic: Abu Hamid Al-Ghazali (A.H. 450-505/A.D. 1058-1111)*, by S. M. Ghazanfar and A. Azim Islahi, History of Political Economy 1990 22(2): 381-403.



- Al-Ghazali saw markets (i.e., voluntary exchanges) as part of the “natural order of things.”
- Traders add value by making goods available at the right place and time.
- Al-Ghazali outlined ideas of demand and supply and (equilibrium) market prices.
- Perhaps one of the first thinkers to understand the idea of markets as a spontaneous order.

- Al-Ghazali highlights the division of labor and specialization.
- Talks about the many stages in the production of needles (similar to Adam Smith's famous example of a pin factory).
- Distinguishes between primary, secondary, and tertiary production.
- Understood that the primary goal of money is to facilitate trade and that, to no small extent, this can be accomplished with intrinsically worthless tokens.

- Governments should ensure peace, security, and justice to promote economic growth.
- Governments should provide public goods: defense, education, roads, and bridges.
- Taxation based on a mixture of benefits and ability-to-pay.
- Governments should only borrow against clear future revenues.

# Ibn-Khaldun

- Ibn-Khaldun (1332-1406), born in Tunis, probably of Berber-Iberian mixed ancestry with a Yemeni component from the male line.
- *Muqaddimah* (also known as *Prolegomena*).
- Rich socio-economic thought:
  1. Asabiyyah.
  2. Division of labor.
  3. Limited government.
  4. Dynamic of demand and supply.
  5. Capital accumulation.
- Ibn-Khaldun searches for “natural laws” of societal development.
- *Ibn Khaldun: Life and Times*, by [Allen Fromherz](#) (2010).