Markets in the Islamic World

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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.
Figure 1: Centres of Intellectual Production Prior to 1500 CE

Larger circles denote more books written by authors born in location, white circles denote scientific works.
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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:

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:

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.
Figure 2: Madrasas and the Fall of Islamic Science 800-1500

50-year moving average, solid vertical line denotes break in madrasas.
From 1300 to 1700, three “gunpowder empires” dominated parts of Europe, Africa, & Asia

The Safavid Empire

The Mughal Empire

The Ottoman Empire
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.

• 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).
We will, however, concentrate Al-Ghazali’s thinking on economic issues:

1. Voluntary exchange and markets.
2. Production theory.
3. Money and interest.

Much of his economic analysis appears in *Ihya’ Ulum al-Din* (The Revival of Religious Sciences).

• 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.