Perception of market and pricing among the sixteenth century Muslim scholars

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PERCEPTION OF MARKET AND PRICING AMONG THE SIXTEENTH CENTURY MUSLIM SCHOLARS

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ABSTRACT: The present paper investigates the perception of market and mechanism of pricing among the sixteenth century Muslim scholars, a period hitherto unexplored. In the commencement it briefly states the insufficient attention that the subject of market – the most fundamental element of Economics – has received in the conventional economics. To set a proper perspective it examines the situation in the Islamic tradition in earlier centuries before it studies the understanding of market and pricing among the Muslim scholars of the study period. It also deals with their stand regarding the price regulation. For comparison purpose, it examines the treatment of market and pricing in the work of their contemporary Western scholars. The paper ends with a note on 'just price', one of the most important economic concepts in the medieval period.

Market is mainly a subject of economics but at the same time it has been one of the most neglected economic themes. Barber says: "The history of economic thought shows surprisingly a small amount of attention given to the idea of market" (Barber, 1977, p. 18). In his opinion, 'the notion of market is so much a part of the economist's world view that little attention is paid to it as just one of the ways in which individuals can enter into exchange relationship with one another. Like the fish who ignores the water that surrounds it, the economist does not isolate the market for specific study'1 (Dworkin, Gerald et al., 1977, p. 3). Barber's conclusion is based on survey of a number of important works on economic ideas. He does not find 'a single general article on the idea of the market' (ibid.) 'Even the great figures had said relatively little about the market as such …' (ibid., p. 19). The same is situation with works written by socialist authors. For example, Sweezy (1942) has 'nothing on the market'. Adam Smith's long tome, *An Inquiry into the Nature and Causes of the Wealth of Nations*, mentions the market in one chapter, entitled "that the Division of Labour is Limited by the Extent of the Market". Even in Joseph Schumpeter's enormously detailed and immensely scholarly work *History of Economic Analysis*, with 1200 pages, there is no section on "the market" and the "market" is not even indexed in a subject index that is 30 pages long (ibid, p. 20). If this has been the state of affairs in the modern history of economic thought, one may not be very hopeful and ambitious to find a clear treatment of market as a social institution in the writing of earlier scholars.

Surprisingly we find substantial discussion on market, pricing and imperfections in the writings of Muslim scholars up to fifteenth century. It is worth while to have a look over the past before we examine the situation during our study period.

Starting from the first century *hijrah* (7th AD), we find a chain of works that addressed the functioning of market. First, during the time of the Prophet himself the question of interference in market arose when prices increased. But reasons, as Ibn Taymiyah (1976, pp. 41-42) argued, were economic, and not any imperfection created by non-market agents, so the Prophet refused to fix the price administratively. Thus, he approved and encouraged the role of a free-market. This tradition provided a note of precaution and need for twice thinking before recommending any interference in the market functioning. As early as 3rd/9th century Abu Bakr Yahya b. Umar al-Kinani (213-289/828-901), an Andalusian Malikite jurist, authored *Kitab Ahkam al-Suq* (A Book on Rules of the Market). It is perhaps the first work exclusively dealing with issues related to market problems, price, demand and supply, competition, monopoly, etc. Scholars like al-Shafiʿi, (d. 205/820), Abu Yusuf (d. 182/798), Ibn al-Muqaffaʿ (d. 139/756), al-Jahiz (d. 295/869), Qadi Abd al-Jabbar (d. 415/1023), al-Juwayni (d. 478/1085), al-Ghazali (d. 505/1111), Ibn Taymiyah (d. 728/1328), Ibn Khaldun (d. 808/1406) and many others have dealt with the issue of the price and market.[2] Especially the last two scholars took the discussion to the level on which the latter Muslim scholars could have constructed a scientific theory of market.[3] Although there was relatively advanced thinking on market and pricing in Islamic tradition, scholars who came later did not care to improve upon it. The lead was taken by European scholars as we shall see below.

2. Understanding of price fluctuations and market forces

The sixteenth century saw a great number of fluctuations in prices. This must have attracted the attentions of thinkers of the period to find out the reason behind such fluctuations, and they really did it. The historians who report such incidences they also point out the reasons. They were fully aware that it is demand for and supply of a good that determine the price and changes in these two market forces result fluctuations in the price. However, these scholars were more worried about supply and less bothering of demand. But they knew that, *ceteris paribus*, a decrease in demand would result a fall in price while an increase in demand would result an increase in the price. For example, Ibn Tulun (d. 953/1546) notes that in the year 923/1520 prices increased because of he influx of Turkish people and their settlement in Damascus (1998, p. 376) causing an increase in demand. Similarly it was observed that the arrival of pilgrims generally caused an increase in prices in Makkah if provisions of required quantity of goods were not made (al-Jaziri, n.d., pp. 807, 927, 1008 etc.). Al-Jaziri notes that prices decreased in 969/1565 in Hijaz because death of a large number of people resulted a decrease in demand (ibid. p. 1038). Or the price of beef declined when people refrained from its consumption due to mad-cow disease (Ibn Tulun, 1998, p. 291).

As noted above the sixteenth century scholars paid more attention to the element of supply and various factors that affected supply and eventually the price. There have been two major sources of supply – domestic product and import. There was active trading with other countries and barter exchange was a major portion. Even foreign traders preferred to buy local goods at time of return to their countries to profit in two-way trading. The reason for that there was no complaint against foreign traders may be because people realized the mutual benefits of foreign trade.

The scholars of the period report that the factors that mainly affected the domestic supply included non-flooding of the Nile and scanty rainfall (Ibn Iyas, 1960, vol.4, p. 217, 241, Ibn Tulun, 1988, p. 298, Al-Jaziri, n.d., pp. 1163-1164). Imposition of heavy taxes, (Ibn Iyas, 1960, vol.4, pp. 329, 357), deteriorating law and order situation and rioting by unruly elements (ibid. pp. 295, 353, 369, 408, 427, 463-64, 486) were some other reasons that affected the domestic supply. On the other hand, the timely flooding of the Nile, sufficient rains (ibid. p. 295), cut in taxes, and peace and security boosted supply (ibid., p.304). Domestic supply was also affected by hoarding, middlemanship, and monopolization. Speculation exerted its two-way effects on expansion and contraction of supply (Ibn Iyas, p. 295, al-Jaziri, pp. 966, 973, 1151).

The import was a very important source of supply during the period under study. Al-Jaziri does not miss to report the arrival, delay or non-arrival of Indian goods in the Makkan market and accordingly their effects on the prices (al-Jaziri, p. 1009, 1055, 1128, etc.). When ship laden with merchandise arrived, prices decreased; when delayed or failed to reach, prices soared. The main reason that affected the supply through import was the existence of Portuguese piracy (al-Jaziri, p. 1155). Import was also affected by frequent changes and debasement of the currency. Increase of duties on foreign traders (Ibn Iyas, 1960, vol. 4, p. 424) and sometimes monopolization of spice trade by the Sultan discouraged supply of goods through maritime trade (al-Jaziri, p. 966). Some other factors that disturbed supply were acts of forestalling, middlemanship and speculations (ibid, pp. 973, Ibn Iyas, 1960, vol.4, p.355).

Muslim scholars were in favour of free competitive market. They criticized trading by the Sultan and his monopolization of certain trades. They stressed that if the Kings began trading, the ordinary persons could not survive because the latter had no power to compete the former (al-Jaziri, pp. 975, 1081). They were also against hoarding and profiteering by some officials or big traders (ibid. pp. 966, 972, 999). Thus, they were quite familiar with the pattern of monopoly, on which they bestowed an impulsive hatred, and with competition, which they conceived to be the normal pattern without bothering to define it.

3. Administrative Price Fixation

Price control and administrative fixation has been a controversial matter in the history of Islamic economic thought. A comprehensive treatment of the subject is found with Ibn Taymiyah[4] (1976, pp.24-51) and Ibn al-Qayyim (d.751/1350) (1953, pp. 24-44, 247, 258). The issue did not attract enough attention of the subsequent scholars and hardly any noticeable improvement was made on this topic in the sixteenth century. But one may find instances of price regulations in this period. Recognizing responsibilities towards need fulfillment of the citizens, especially the price of necessary goods were fixed (Ibn Tulun, pp. 216, 364, Ibn Iyas, 4:338) and there was existing the *hisbah* institution to supervise the market. But the enforcement of price control was not always very strict. Especially during the Mamluk period when the official machinery weakened and the government control loosened, corruption entered the *hisbah* institution. The post of *muhtasib* was secured through offering money and the sellers violated price regulations by offering bribery to the *muhtasib* (Ibn Tulun, p. 216, al-Jaziri, pp.1000, 1144). Whenever an honest market officer was appointed the situation improved and objective was achieved. Otherwise, it defeated the purpose. Examples are also found when price control resulted in black marketing or further shortage (al-Jaziri, p. 978). Subsidy and rationing was adopted to solve the problem of shortage arising out of authoritative fixation of the price (ibid. p. 1164).

In the Ottoman Turkish the term *narkh*[5] was used for the prices fixed by officials for various commodities. To ensure fair price fixation, the *qadi* was also involved in determination of the price. Proposals were sought from those who were involved in production and procurement of the goods. Then he used to decide the price in the light of their proposals as well as opinions of knowledgeable persons and the suggestions of the *muhtasib*. In this connection cost of production was taken into consideration and a profit of 10-12 percent was ensured. A strict vigilance was carried out to ensure full compliance to the fixed prices (Kutukoglu, 1993, E I, 7: 964).

During the thirteenth and fourteenth century, the concept of just price with the Muslim scholars and their view about its determination was far superior and clearer than their contemporary Western Scholastics. Since it is out of the scope of our study, we just present a single example. It is stated that regarding the determination of just market price, the fifteenth century German Dominican John Nider (d. 1438) stated that '.. by as much as a greater number of men have need of a commodity and desire to possess it, whereas the available supply of it less, by so much it is more likely to be estimated and sold at a higher price' (Gordon, 1975, p. 232). A century prior to him, the Muslim scholar Ibn Taymiyah (d. 728/1328) described the same idea in more clear words. He says: "Rise and fall in prices is not always due to wrong practice (*zulm*) of certain individuals. Sometimes the reason for it is deficiency in production or decline in import of the goods in demand. Thus, if desire for the good increases while its availability decreases, its price rises. On the other hand, if availability of the good increases and desire for it decreases, the price comes down. This scarcity or abundance may not be caused by the action of any individuals; it may be due to a cause not involving any injustice, or sometimes, it may have a cause that does involve injustice" (Ibn Taymiyah, Vol. 8, p. 583). At another occasion he said: "If people are dealing their goods in the normal ways, without any injustice on their part and the price rises either due to shortage of the goods (i.e. decrease in supply) or due to increase in population (i.e. increase in demand, then it is from Allah. In such cases, to force the sellers to sell their goods at a particular price is a wrongful pressure" (Ibn Taymiyah, 1976, p. 24).

Even the sixteenth century European scholars could hardly add any thing to what already was mentioned by Ibn Taymiyah, Ibn Khaldun and some other Muslim scholars in earlier centuries. A few examples from the sixteenth century will be in order:

4. Examples from the Sixteenth Century

We hardly find views of the Western scholars of the sixteenth century on market and price in books dealing with the early modern period. Only Gordon (1975) has given opinions of a few such scholars. It will be interesting to compare them with those already found with the Muslim scholars of earlier centuries. In the sixteenth century Cardinal Cajetan[6] further strengthened the idea of just price and in his comments on St. Thomas Aquinas (1224-74), he claims that in Aquinas' views a just price is one, which at a given time, can be obtained from the buyers, assuming common knowledge and in the absence of all fraud and coercion' (Gordon, 1975, p. 236). Elsewhere we have shown that Ibn Taymiyah's concept of just price referred to a price determined in a free competitive market by forces of demand and supply with full knowledge of the market actors and without any fraud (Islahi, 1988, pp. 83-84).

A follower of Cardinal Cajetan, Domingo de Soto[7] suggested that the price is to be set 'by the opinion of prudent and fair-minded men', in the light of prevailing market conditions in a given area (Gordon, p. 237). This is reminiscent of the committee idea that was suggested by an early scholar Ibn Habib (d. 238/852). According to him, the authority should call a meeting comprising the representatives of the market and some other experts. And in the light of their cost and other expenses and consideration of the interests of all parties, he should fix a price that is just and fair. It must bear a reasonable profit to the sellers and it is not burdensome to the buyers (al-Baji, 1332H., Vol. 5, p. 19). As noted above in the period under study Ottomans applied similar method to fix prices of essential commodities.

From among the sixteenth century Western scholars Martin de Azpilcueta Navarro[8] (Navarrus) was an opponent of a statutory price fixation, arguing that when goods were abundant it was quite unnecessary, and that when they were scarce the system might do the welfare of the community more harm than good (Gordon, p. 239). Such a line of thinking was not uncommon among the earlier Muslim scholars. Ibn Qudamah (d. 682/1283), an opponent of price control analyzed the authoritarian price fixation and pointed out the disadvantages of this type of price control. According to him, price fixing will bring about a result exactly opposite of what it intends. It is obvious that price fixing must lead to expensiveness. This is so because when outside traders hear about price control they will not bring their goods into that area where they would be forced to sell at a price against their will. And local traders who have the stocks will conceal them. The needy consumers will demand the goods and having their demand unsatisfied will bid the price up. The price will thus increase and both parties will suffer – the sellers will suffer as they have been restricted from the sale of their goods and the buyers will suffer as their wants have been left unfulfilled. (Ibn Qudamah, 1972 Vol. 4, pp. 44-45).

British theologian John Major[9] (1478-1548) and the Spanish scholars Luis Molina[10] (1536-1600) gave more weight to cost of production in setting the just price of merchandise (Gordan, 1975, pp. 240-241). It may be noted that about two hundred prior to Molina, the famous scholar of Muslim Spain and North Africa Ibn Khaldun (d. 808/1406) noted that supply of goods and the price is affected by the production and procurement costs such as cost of rent, wages, duties, taxes on profits, risks attached to storage (Ibn Khaldun, 1967, pp. 339-40, 341).

The readers will notice that we juxtaposed contributions of Western scholars of 16th century with those of Muslim scholars that lived in previous centuries. It is true, and that is the sad aspect of our story, that in spite of willingness to compare with the scholars of the same period and draw a parallel between West and East on the subject of market and price, we failed to do so because we could not find such analyses in works of sixteenth century Muslim scholars. No doubt, they had the perception of factors affecting supply and demand as we noted above and they must have been aware of the contribution of their predecessors on the subject but they could not develop it. This is clear from their treatment of the just price or price of the equivalent – an important concept in Islamic tradition that could have proved to be a foundation for building a clear theory on market and pricing.

5. A word on the just price

Early Islamic scholars' remarks on the just price or the price of the equivalent were made against a background of stable economic situation, growth and prosperity. As we discussed elsewhere, their contention was that the just price was the prevailing free-market price (Islahi, 1988, p. 83). But the price and market situation became very disturbed during the period under study due to unrestricted money supply, bad domestic production and decline in import because of other local and international factors. Especially, range of price fluctuation during the first quarter of the sixteenth century greatly widened. For example the price of wheat in a normal year was half an *ashrafi* per *ardabb*, but in 917/1511 it was sold at one *ashrafi* per *ardabb* – a one hundred percent increase (Ibn Iyas, 1960, p. 217); then it reached five *ashrafi* per *ardabb* (ibid, p. 241). These circumstances were demanding for a fresh look at the concept of just pricing and an advanced analysis of the forces determining the price. But in a situation when doors of *ijtihad* (creative thinking and independent decision making) were closed, this could not be realized. Some great scholars of the sixteenth century like al-Suyuti (1996, Vol. 2, pp. 79-80) and Ibn Nujaym (1980[a], p. 362) seem to be having the feeling that in pricing one may face abnormal situations but they pass with brief remarks and quotations of the opinions of past scholars.

In the end it may be noted that early scholars generally discussed their ideas on market and pricing mechanism in works on *al-hisbah*, but very few such works appeared in the sixteenth century and had no significant discussion on the market. This is a proof that a kind of stagnation in economic thinking was fast taking into its grip the minds of scholars of the period. Our best minds were concerned mainly with orderly and systematic presentation of the thought of their forebears mainly in traditional sciences. They could demonstrate an encyclopedic command of earlier thought but they did not try to make an addition or innovation. This is what we find with respect to market and pricing.

Endnotes

[1] About the pricing mechanism which is key to the market economy, Schumpeter says: "As regard the theory of mechanism of pricing, there is very little to report before the middle of the eighteenth century. The contributions of even the brightest lights, such as Barbon, Petty, Locke, do not amount to much, and the vast majority of the Consultant Administrators and Pamphleteers of the seventeenth century were content with the kind of theory they found or could have found in Pufendorf. They attended to practical problems of regulative policy, but the analytic side they took largely for granted and were slow to realize the need for rigorous conceptualization and proof (Schumpeter, 1997, P. 305).

[2] For a survey of the opinions of these scholars one may refer to Islahi, 2005, pp. 27-30.

[3] For a detailed discussion on Ibn Taymiyah's concept of pricing mechanism refer to Islahi, 1986, pp. 55-66 and for a brief comparison between his ideas and those of Ibn Khaldun on market forces see pp. 246-47.

[4] For detailed analysis of Ibn Taymiyah's views on price regulation refer to Islahi, 1988, pp. 93-101.

[5] '*narkh'* a Persian equivalent of Arabic *si'r* = rate, price.

[6] Thomas de Vio, Cardinal Cajetan (1468-1534) was one of the leading figures who revived Thomastic ideas who belonged to Italian Dominican Order and was elected General of this Order in 1508.

[7] Domingo de Soto (1494/1560), a Spanish Dominican and one of those who laid the foundation for the intellectual pre-eminence of the University of Salamanca.

[8] Martin de Azpilcueta Navarro (Navarrus) was sometime professor at Toulouse, Cahors, Salamanca and Coimbra. He acted as counselor to the King of Portugal and later of Philip II of Spain.

[9] John Major (1478-1548) was a British theologian.

[10] Luis Molina (1536-1600) was a Spanish scholar.

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