

## **Islam and Economic Development**

### *A Discussion within the Framework of Ibn Khaldun's Philosophy of History*

**M. Umer Chapra\***

#### **ABSTRACT**

Islamic finance is closely related to Islam's vision of economic development, which gives primary importance to the realization of socioeconomic justice and the well being (*falah*) of all humans. Although one can quote at length from the Qur'an and the *Sunna* to indicate the kind of well being that Islam envisions, it is useful to explore why the Muslim world is unable to realize the Islamic vision now when it could in earlier centuries. A helpful model to guide analysis is Ibn Khaldun's, for it offers a dynamic, multifaceted, and Islamic perspective on human society. Though the Muslim world has languished into poverty and drifted away from democracy and accountability, the future prospects for realizing the Islamic vision of economic development seem bright.

#### **I. INTRODUCTION**

The subject of Islam and economic development raises a number of questions, one of which is about the relevance of the subject to a discussion forum on Islamic finance. This question is not difficult to answer because finance and development are very closely interrelated. Finance is not an end in itself: it is one of the essential means to development, which in turn leads to a rise in financial resources for accelerating development. The juxtaposition of Islam and economic development in the title also raises some other questions. One of these is whether Islam is an asset or a liability for development and whether Islam and development can coexist without hurting each other. If Islam is capable of promoting development, then the second and third questions are about the kind of development that Islam visualizes, and the reasons for the failure of Muslim countries to realize development of this kind.

The first question, about Islam's being an asset or a liability for development, acquires importance only because Western news media try to paint an unsavory image of Islam. Nevertheless, I will not try to answer this question because most scholars of Islamic history agree that Islam played a positive role in the development of the Arab bedouin society and transformed it to such a remarkable extent that it not only overcame its own handicaps but also brought about a revolutionary change in the societies that came under its influence.<sup>i</sup> Consequently, the Muslim lands became the most advanced parts of the world at that time and enjoyed supremacy in the world of science and technology for almost four centuries, from the middle of eighth to the middle of twelfth centuries. Even after the loss of their leadership, they continued to make valuable contributions for at least two more centuries.<sup>ii</sup> There is no reason to assume that Islam is not capable of bringing about once again a revolutionary change in the Muslim world to help its inhabitants accelerate development.

The second question about the kind of development that Islam visualizes is very closely related to the vision of Islam. Every society has a vision, and Islam is no exception.<sup>iii</sup> Its vision gives primary importance to the realization of socioeconomic justice and the well being (*falah*) of all humans. Why? They are all vicegerents (*khalifat*) of God and brothers unto each other. Islam also places a balanced emphasis on the material and the spiritual aspects of life, in step with some other major religions and in sharp contrast to the materialist worldview that dominates conventional economic philosophy. While economic development is indispensable, it is not sufficient to realize human well being. It is also necessary to have mental peace and inner happiness of the individual, human dignity, brotherhood and socioeconomic justice, family and social harmony, and minimization of crime and anomie. All religious worldviews emphasize that these can be better achieved if a spiritual dimension is injected into human life. Any society in which wealth and consumption have been maximized but where there is poverty amidst plenty, where people do not have mental peace and satisfaction, where families are disintegrating, and where crime and hopelessness are rising, cannot be said to have attained well being in the true sense of the term.

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\* Chapra is Senior Economic Advisor at the Saudi Arabian Monetary Agency in Riyadh, Saudi Arabia. The following is the text of Chapra's Keynote Speech on Islamic Economic Development at the Second Harvard University Forum on Islamic Finance.

## II. WHY IBN KHALDUN?

I can quote at length from the Qur'an and the *Sunna* to indicate the kind of well being that Islam desires. However, the limited time at my disposal does not allow me to do so. I will, therefore, concentrate on answering the third question of why the Muslim world is unable to realize the Islamic vision now when it was able to do so in earlier centuries. Why are Muslim countries faced with excruciating poverty alongside affluence, a state of affairs that corrodes the fabric of brotherhood and social solidarity and serves as one of the prime causes of crime, social unrest, and political instability? Why are they also beset with macroeconomic imbalances and a rising debt-service burden? Why is there as much crime and anomie in Muslim countries as in the rest of the world? The failing on the part of Muslim countries is all the more serious because of Islam's uncompromising emphasis on human dignity, brotherhood, and socioeconomic justice, which will remain empty slogans as long as all the essential elements of well being are not ensured for all members of society.

A number of efforts have been made by scholars to explain the rise and fall of a society or civilization. These include those of Ibn Khaldun (d. 1406) and Gibbon (d. 1794) in the past, and those of Spengler (1947), Schweitzer (1949), Sorokin (1951), Toynbee (1935), North (1973 and 1990), Kennedy (1987), and several others in modern times. While all of these scholars provide valuable insights into the rise and fall of civilizations, I intend to utilize the model that Ibn Khaldun presented in his *Muqaddima*, which is the first or introductory volume of his seven volume history called *Kitab al-'Ibar*, or the *Book of Lessons [of History]*.<sup>iv</sup> Even though I will modify his model to some extent to reflect the change in historical circumstances, one may still wonder why I prefer the model of a person who lived 600 years ago when more recent models are also available.

There are a number of reasons for this preference. First, his model is directly related to Muslim society, which was in a process of decline during Ibn Khaldun's own lifetime. The Abbasid caliphate had ended after the pillage, burning, and near-destruction of Baghdad and the surrounding areas by the Mongols in 656 A.H./1258 C.E., around three-fourths of a century before Ibn Khaldun was born in 732 A.H./1332 C.E. In addition, the Circassian Mamluks (784-922 A.H./1382-1517 C.E.), during whose reign Ibn Khaldun spent the last one-third of his life, were corrupt and inefficient and were following policies that could not but accelerate the decline.

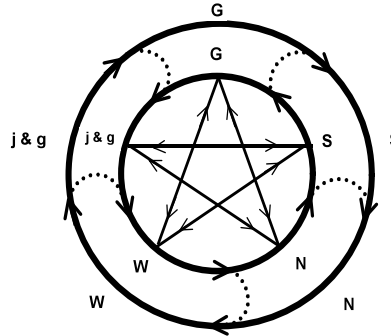
Second, his model is multidisciplinary and dynamic. It is multidisciplinary because it does not attribute the development and decline of a society to a single cause, but rather to a number of factors, including moral, psychological, political, social, demographic, and historical ones. Together they determine the quality of the individuals, the families, the society, the market, and the government, and thereby influence the overall performance of a dynasty or civilization. Even though only one of the crucial factors may serve as the trigger mechanism, other factors tend to be affected over time. Accordingly, it is not possible to talk of just economic decline within the framework of this model. When a society starts decaying, it decays in practically everything: economic decline becomes a part of the overall deterioration. This creates the effect of circular causation. The model is also dynamic because Ibn Khaldun takes into account three generations, stretching over a period of 120 years. However, he was talking of a dynasty, while we are talking of a civilization and the period involved may therefore be much longer. Over such a long period of time, none of the variables remains constant. Every variable affects every other, and in turn do they influence itself, until it becomes difficult to distinguish cause from effect.<sup>v</sup>

## III. DEVELOPMENT AND DECLINE IN IBN KHALDUN'S MODEL

The centerpiece of Ibn Khaldun's analysis is the human being himself (N). He or she is the end and means of development. He is the end because it is his well being that is desired. He or she will not be efficient or creative until it is ensured. Societies in which the common man is unable to reap the fruits of his hard labor are not likely to grow rapidly. The human being is also the means because nothing can work effectively until he is right. He is the input of the market, the government, the family, and the society. The market and the government may not operate efficiently and equitably, the family may disintegrate, and the society may be soulless and uncaring if the human input of all these institutions and organizations does not have the moral and mental qualities needed for their successful operation. If the human being is not right, the market may not serve the social interest, the government may be corrupt, ineffective, and unjust, husbands and wives may not be able to get along with each other, families may fall apart, children may not get the needed care and upbringing, and the society may be unable to secrete the glue of mutual care and cooperation necessary for social solidarity and all-round development.

**FIGURE 1. IBN KHALDUN'S MODEL OF SOCIOECONOMIC AND POLITICAL DYNAMICS**

**(Circular Causation in the Development and Decline of Societies)**



G	=	Political authority
S	=	<i>Shari'ah</i> (values and institutions or rules of behavior)
N	=	People (individuals, families, groups, and society)
W	=	Wealth (the economy)
j	=	Justice
g	=	Development (not just economic but overall)

This is perhaps the main reason all the prophets of God concentrated on the reform of human beings (N) and the institutions (S, G, and W) that affect them. They struggled hard for their education and socioeconomic uplift. This is the reason the Qur'an says: "God does not change the condition of a people until they change their own inner selves" (Qur'an, 13:11; see also 8:53). If human beings are reformed in a way that makes them willing and able to render their best in service of their own interests as well as those of their society and mankind, then the market, the government, the family, and the society may all tend to operate effectively in a way that leads to the well being of all.

All the other variables in Ibn Khaldun's model (G, S, W, g, and j) affect human beings (N) and determine their willingness and ability to do their best for themselves and their society. The two factors that affect them most are development (g) and justice (j). These two elements affect the well being of all. If there is no development (g), then there may be paucity of the resources needed for well being and to render justice to all. Moreover, a society does not generally remain stagnant: it moves either forward or backward. That is why Iqbal, the poet-philosopher of the Indo-Pak sub-continent, says, "I am, as long as I move. Not moving, I am not."<sup>vi</sup> This is truer of societies than of individuals. The development (g) referred to here is not just economic development but all-encompassing development, which incorporates all aspects of society, including moral, institutional, intellectual, social, economic, and political. If even one of them lags behind, it may affect the quality of the human being (N) and thus retard development in the future.

While development (g) is important, justice (j) is indispensable. It induces people to work hard and be conscientious, honest, and creative. It also promotes cooperation and social solidarity, and reduces socially harmful behavior. Human societies cannot function effectively and develop without justice. Absence of justice may weaken the effective operation of incentives and deterrents, lead to discontent, crime, anomie, social unrest, and ultimately to a decline in development. However, when we talk of justice, we have to take it in a broad sense. Fulfillment of promises, obligations, and contracts is as much a part of justice as is giving everyone his or her dues. A society in which contracts are not fulfilled and people are unable to get their rights may accentuate uncertainties and hurt

incentives for people to do their best. Moreover, all sectors of society must receive their rights, whether they are rich or poor, white or colored, male or female, adults or children, powerful or ordinary.

This is perhaps why the Qur'an makes the establishment of justice the primary reason for which God sent His prophets to mankind (Qur'an, 57:25). It also says that a society that perpetuates injustice ultimately gets destroyed (Qur'an, 20:111). The Prophet Muhammad, may the peace and blessings of God be on him, equated injustice with absolute darkness because the greater the injustice in a society, the greater may be the discontent and the lesser the development.

This stress on justice in the Qur'an and the *Sunna* has been reflected in the writings of almost all prominent scholars in Muslim history, including Abu Yusuf (d. 182 A.H./798 C.E.), al-Mawardi (d. 450 A.H./1058 C.E.), Ibn Taymiyyah (d. 728 A.H./1328 C.E.), and Ibn Khaldun (d. 808 A.H./1406 C.E.). Ibn Taymiyyah considers justice an essential outcome of *tawhid* (belief in One God).<sup>vii</sup> To him, justice is a wide concept. "Everything good is a component of justice and everything bad is a component of injustice and oppression. Hence, justice toward everything and everyone is an imperative for everyone and injustice is prohibited to everything and everyone. Injustice is absolutely not permissible irrespective of whether it is to a Muslim or a non-Muslim, or even to an unjust person."<sup>viii</sup> Accordingly, he zealously upheld the adage prevailing in his times: "God sustains a just society even if it is not Muslim, but does not sustain an unjust society even if it is Muslim."<sup>ix</sup>

Ibn Khaldun reflects the same philosophy when he states unequivocally that it is impossible for a country to develop without justice,<sup>x</sup> something that has now been belatedly recognized by the pundits of development economics after a long flirtation with injustice.<sup>xi</sup> He goes to the extent of emphasizing that "oppression brings an end to development"<sup>xii</sup> and that a "decline in prosperity is the necessary and inevitable result of injustice and transgression."<sup>xiii</sup> He elaborates that "oppression does not consist merely in taking away wealth and property from its owner without cause or compensation. It has rather a wider connotation. Anyone who seizes the property of others, forces them to work for him against their will, makes unjust claims on them, or imposes on them burdens not sanctioned by the *Shari'ah* is an oppressor."<sup>xiv</sup> He also emphasizes that "confiscation of people's pecuniary reward reduces the incentive for earning and acquisition" and that "a loss of incentive leads to abstinence from effort and enterprise."<sup>xv</sup> These ideas permeate the thinking of practically all classical Islamic writers.

Justice (j) is, therefore, the most important criterion for judging the degree of Islamization of a Muslim society. Justice, however, cannot be realized without certain rules of behavior or values and institutions (S). Every society has these rules of behavior. In a Muslim society, the *Shari'ah* serves as the basis for them. These rules of behavior in general require people to fulfil their obligations toward each other and abstain from harming others.

The rules of behavior (S) are, however, meaningless if they are not enforced. Some people may act upon them on their own volition, but others may violate them. If the violators are able to get away unscathed, the circle of such people may gradually expand and the violation of laws may become a part of the social mood through path dependence and self-reinforcing mechanisms. Incentives and deterrents are what help their enforcement. A balanced religious worldview, such as that of Islam, emphasizes the role of both material and moral incentives to encourage the right behavior and discourage the wrong. The moral factor is indispensable because it induces people (N) to abide by the rules of behavior (S) on their own volition and thereby reduces the costs of enforcement.

In Ibn Khaldun's model, it is the job of the government (G) to ensure the enforcement of the rules of behavior and the effective operation of incentives and deterrents. The rules or the *Shari'ah* must be reflected in the laws and constitution of a country. The government must also establish effective machinery to detect violators and impartial judicial and police machinery to punish them promptly. If the rules of behavior are not implemented, then the *Shari'ah* (S) cannot be effective. That is why the Prophet, may the peace and blessings of God be upon him, said, "God restrains through the sultan what He does not restrain through the Qur'an." The Qur'an can only give the rules: be honest, fulfil contracts, do not cheat, do not be unjust, do not hurt others. It cannot by itself enforce them. The government (G) has to do so, and if it does not perform this task fairly and impartially, then it will impair the realization of both justice (j) and development (g).

This raises the question of when a government (G) enforces the *Shari'ah* (S). This happens best when it (G) is accountable before the people (N), and they are able not only to participate in decision-making but also to elect and remove important functionaries of the government. If this is not ensured, then government functionaries may be able to get away with corruption, inefficiencies, and inequities. This may give rise to an ineffective use of scarce resources. This is where Muslims have lagged behind. One of the major causes of their problems is the existence of illegitimate governments, unaccountable to the people. It is impossible for the people to question or check them.

Islam laid down a democratic structure for the government (G) in the form of *khilafah* and *shura*. This was, however, too radical a reform for the bedouin society of the early days of Islam. After the undoing of the *khilafah* by Mu'awiyah in 41 A.H./661 C.E. and the hereditary succession of his son, Yazid, to the caliphate in 60

A.H./679 C.E., Muslim societies moved more and more toward greater authoritarianism and away from the political accountability that Islam stands for. There were a number of efforts to undo the illegitimacy and to restore the system of *khilafah* and *shura*, but they did not succeed. As a result, most Muslim countries today have undemocratic governments controlled by powerful landholding families, armed forces, and bureaucracies. There is little freedom of expression, and the judicial system is not truly free from political pressures. The Western world needs to be complemented for having established effective democracy to ensure accountability of political authority.

The absence of democracy has led to a misuse of public resources for the private benefit of the rich and the powerful. Inadequate amounts are hence available for moral and technical education, health, infrastructure construction, expansion of employment opportunities, and the general well being of the people (N). While moral education has to some extent continued to be provided through *madrasas*, mosques, families, and reform movements, technical education, which was supported in earlier centuries by governments, has suffered considerably because a substantial proportion of resources are absorbed by defense, corruption, unproductive spending, and debt servicing.

This brings us to what may stand not just for wealth but for the economy as a whole. The market system is one of the best ways of effectively utilizing the resources of society. Throughout Muslim history, markets operated to a great extent within the disciplinary framework of the *Shari'ah* (S). Ibn Khaldun and many other scholars opposed government ownership and running of businesses.<sup>xvi</sup> Nationalization of industries and businesses, therefore, is a concept alien to Islam. However, a number of Muslim countries, including Algeria, Syria, Iraq, Egypt, and Pakistan, resorted to it under the influence of socialism. This policy has brought nothing but tears to the Muslim world. Fortunately, political illegitimacy and socialism are both losing ground among Muslims. It may be hoped that the emergence of true democracy, along with land reforms, a free press, a strong and independent judiciary, and the growth of effective and impartial institutions for detecting and punishing corruption and inefficiency, will promote the use of public resources for the development of the economy and the well being of the people.

#### IV. THE FINANCIAL SYSTEM

The financial system, which is an integral part of the economy and the main theme of the Harvard Forum, has an important role to play in the mobilization and efficient and equitable use of an economy's resources for furthering development (g) with justice (j). Unfortunately, this is not yet taking place in the Muslim world. One of the defects of the conventional financial system is that it promotes living beyond means by both the public and private sectors. Combined with political corruption, loans are extended to political favorites without proper scrutiny of the projects or the projected cash flow, and often without adequate collateral.

Pakistan is a clear example of this. Its government has been borrowing excessively in domestic as well as external financial markets. Consequently, 46% of total government spending were absorbed by debt servicing in the 1998/99 budget. Since another 24% were allocated to defense, only 30% remained for all other purposes.<sup>xvii</sup> Given that at least half of this balance was used to meet administrative expenses, the remaining half is absolutely inadequate for supporting education, health, infrastructure, and other nation-building activities. This leads to a low-level development equilibrium, hurts the poor people, and accentuates social and political unrest. If Pakistani governments had been serious in their commitment to Islam, and in particular to the prohibition of interest, they would have tried to reduce their budget deficits by streamlining the tax system and curbing corruption and unproductive spending. A reasonable amount of financing needed for productive investment and other essential expenditures could also have been raised, without significant difficulty, through Islamically permissible modes of financing. This would have helped reduce the resort to inflationary financing as well as excessive interest-based debt, which has now become a burden.

Moreover, reform of the banking system to remove corruption and promote development as well as socioeconomic justice does not seem to have received significant attention. The result is a highly inequitable financial system. In 1994, 56% of the resources that 28 million depositors provided to the banking system were lent out to a little over 4,000 privileged borrowers.<sup>xviii</sup> This is certainly not going to help promote an equitable distribution of income and wealth, which is an imperative within the framework of the *Shari'ah* (S). The inequity will also slow down development and worsen social unrest, particularly if the resources provided to the rich and the powerful are not used productively. This tends to happen in a corrupt political system in which loans extended by nationalized banks to influential people are often written off, meaning that there is little compulsion for their productive use.

## V. CONCLUSION

Unless all the factors incorporated in Ibn Khaldun's multidisciplinary, circular causation model function effectively to make their potential contribution, it may be difficult for any society to attain and sustain economic development, let alone realize the Islamic vision. Fortunately for the Muslim world, future prospects seem bright. All Muslim nations have gained independence from foreign domination after having been colonized in the 18<sup>th</sup> and 19<sup>th</sup> centuries. Progress in the democratization of these countries is steadily gaining momentum. The revival of Islam is taking place and people are becoming more educated about Islamic values, thereby raising the hope that their future behavior will conform to Islamic norms. Technical education is also becoming more and more accessible. This should help raise the productivity and income of the poor. Female education is spreading, and their participation in the affairs of their societies is steadily rising: both are in step with Islamic teachings. *Fiqh*, which had become stagnant over the last several hundred years and was, therefore, responsible for blunting the dynamism of the *Shari'ah*, has now started to respond to the challenges faced by the *umma* by gradually becoming more liberal and realistic. Democracy will force political parties to moderate their views to make themselves acceptable to broader sectors of the population. In other words, all indicators point toward the reversal of the cycle of circular causation, from the negative to the positive direction. This should help ensure justice and social harmony, and promote spiritual as well as material development, of Muslim societies in the future.

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- <sup>i</sup> See, for example, Toynbee (1957), Hittle (1958), Hodgson (1977), Baeck (1994), and Lewis (1995).
- <sup>ii</sup> See Sarton, 1927ff; and Sezgin, 1983ff.
- <sup>iii</sup> The Qur'an says "Every nation has a direction [or vision] toward which it turns; you therefore try to excel in everything that is good" (al-Qur'an, 2: 148)
- <sup>iv</sup> The full name of the book (given in the References) may be freely translated as "The Book of Lessons [derived from] the Record of Cause and Effect in the History of Arabs, Persians and Berbers and their Powerful Contemporaries." Several different editions of the *Muqaddima* are now available in Arabic. The one used by me in the writing of this paper is that published from Cairo by al-Maktabah al-Tijariyyah al-Kubra without any indication of the year of publication. It has the advantage of showing all vowel marks, which makes the reading relatively easier. The *Muqaddima* was translated into English in three volumes by Franz Rosenthal. The first edition of this translation was published in 1958 and the second edition in 1967. Selections from the *Muqaddima* by Charles Issawi were published in 1950 under the title, *An Arab Philosophy of History: Selections from the Prolegomena of Ibn Khaldun* (1332-1406).
- <sup>v</sup> Ibn Khaldun, *Muqaddima*, p. 40.
- <sup>vi</sup> Iqbal, 1954, p. 150.
- <sup>vii</sup> Ibn Taymiyyah, *Majmu' al-Fatawa*, 1961, vol. 18, p. 165.
- <sup>viii</sup> Ibn Taymiyyah, *Minhaj al-Sunnah*, 1986, vol. 5, p. 127.
- <sup>ix</sup> Ibn Taymiyyah, *Al-Hisbah fi al-Islam*, 1967, p. 94.
- <sup>x</sup> Ibn Khaldun, *Muqaddima*, p. 287.
- <sup>xi</sup> See Chapra, *Challenge*, 1992, pp. 143-56 and 168-9.
- <sup>xii</sup> Ibn Khaldun, *Muqaddima*, p. 288.
- <sup>xiii</sup> *Ibid*, p. 288.
- <sup>xiv</sup> *Ibid*, p. 288.
- <sup>xv</sup> *Ibid*, p. 286.
- <sup>xvi</sup> Ibn Khaldun, *Muqaddima*, p. 19. See also al-Dimashqi (d. after 570/1175), who is against the direct involvement of the state in business and says: "Some wise men have asserted that if the ruler participates with the subjects in their businesses, they are ruined." (Al-Dimashqi, *al-Isharah ...*, 1977, p. 61).
- <sup>xvii</sup> The percentages are based on the budgetary data given in the *State Bank News*, 16 June 1988, p. 5.
- <sup>xviii</sup> These figures are based on data given in the State Bank of Pakistan, *Statistical Bulletin*, July 1995, pp. 32-33 and 46-47.