

The Idea of Free Market in Early Islam



Introduction

To derive Islamic attitude towards economy is already a challenging and arduous task since Islam as a religion is the aggregation of various texts, beliefs, views and practices among which the economy per se is neither the main focus of attention nor an elaborately devised pillar of the world-view that Islam in general entails. One gets further confused when the task is to examine Islamic standpoint about notions like capitalism, socialism, free market economy or command economy as these are modern concepts that are meant to explain perceived economic reality and thus there is always the hazard of succumbing to extrapolations, anachronisms and hasty generalizations in comparing Islam with these concepts which themselves desperately seek commonly agreed meanings. Bearing these caveats in mind, my main argument in this essay will be that the early Islamic history and the main texts about economic world of this epoch attest to an appreciation of what one could call the basic tenets of free market economy or capitalism. Instead of attempting to a consummate definition of “free market economy”, I will rather focus on various significant aspects of free market capitalism like the relevance of private property, the emphasis on supply-demand correlations, the limited extent of state intervention and proper regulations of marketplace. The historical and textual *tour de horizon* that I plan to undertake comprises, in a rather simplified manner, the practice of Arabian trade in the wake of and after the Islamic expansion, the views of particular Islamic scholars ranging from Abu Hanifa to Ibn Haldun on

the nature of economic transactions and lastly the historical post of *muhtasib* which provides us with considerable insight about the practical aspect of intervention in early Islamic states.

Pre-Islamic Mecca and Its Hinterland: A Conspicuous Example of Free Market

The soil that gave birth to a world-religion, Mecca, was remarkably fecund for another reason as, in the 6th century CE, it was a major hub of peninsular trade route that reached to modern-day Syria in the North and Yemen and Abyssinia in the South. Indeed, the incomparably swift expansion of early Islamic polity is pervasively explained by the existence of what is almost unanimously called “the Meccan trade”. This is succinctly expressed by historian M. A. Shaban who says that “to attempt a study of Muhammad’s activities in Makkah and Arabia without taking trade into consideration is equivalent to studying contemporary Kuwait or Saudi Arabia without paying attention to oil”.¹ This view is shared by the author of two authoritative books on the life of the Prophet, J. M. Watt, who asserts that the rise of Islam was heavily indebted to the vibrant trade orchestrated by Hijazi traders.²

The question that concerns us here is whether this trade was conducted in a free market environment and the early chronicles of Islamic history demonstrate that this really was the case. To begin with, the pre-Islamic Meccan traders were extremely sensitive about the protection of private property to which they almost attributed a sacrosanct value. Ibn Ishaq cites in his “*Sîrat Rasul Allah*” that the reason for the attack of Yamani king on Yathrib (modern-day Madina) was the killing of one of his men who had been caught cutting the date

¹ Quoted in Berg, C. & Kemp A. *Islam’s Free Market Heritage. Institute of Public Affairs Review*, Vol. 59, No. 1 (2007) pp. 11. Please note that direct quotations from Turkish sources are my translations.

² Heck G. W. "Arabia without Spices": An Alternate Hypothesis. *Journal of the American Oriental Society*, Vol. 123, No. 3 (2003) pp. 549

clusters of a farmer. The words that the farmer utters, “the fruit belongs to the man who cultivates it”³, are particularly interesting as they include a crude yet concise formulation of John Locke’s private property definition. The Covenant of the Fudul (Hilf al-Fudul), a covenant declared by the gentry of Makka shortly after the birth of Muhammad, should also be mentioned as its main aim was to protect the property rights of those who trade with Meccans and to ensure the smooth operation of trade in the city⁴. In the absence of a strong polity, the willingness of various tribal units to conduct free trade without hindrance is exemplified in this covenant. In the aftermath of this covenant, Meccan families reached an agreement on the allocation of the services offered to the visitors of Mecca (both for religious and commercial purposes) and this had considerable commercial implications as these tasks involved, among others, the “substantial logistical coordination”⁵ of the traders, again an input to the arrangement of the free market.

Meccan traders had a substantial advantage in this peninsular trade because seasonal movements engendered by Hajj led to dramatic alterations in supply and demand correlations of the region. As Heck argues, even though Meccan traders exported and imported similar commodities in their famous summer and winter trade campaigns, the provision of pilgrims was likely to open them a lucrative way of trading where the shifting demands of the region are advantageous to buy in Damascus and sell at a higher price in Hijaz.⁶

³ Guillaume A. *The Life of Muhammad: A Translation of Ibn Ishaq’s Sirat Rasul Allah*, Oxford: Oxford University Press (2004) pp. 7

⁴ *Ibid.* pp. 57-58

⁵ Heck, *op. cit.* pp. 575

⁶ *Ibid.* pp.

From Abu Hanifa to Ibn Haldun – Approval of Free Market

Islam emerged in such an environment which is labeled by Gene Hack as a “free market”⁷ without hesitation. Islamic chronicles of history demonstrates that very few had changed with the introduction of Islam into the region. The Prophet, himself a commercial agent of various Meccan traders, was eager to continue this tradition of free trade and the polity that he laid the foundations of was to secure the interests of entrepreneurs in a larger area which had never been politically united until the 7th century. One or two incidents from the reign of the Prophet may be illuminating for this point. To begin with, he was strikingly concerned with the material conditions of the market in order to make the commerce possible on a free and equal basis. He was involved in the inspection of the marketplace to check the accuracy of the measures, he assigned particular places for different mongers in the market and he was fiercely opposed to merchants who try to tempt the producer-farmer at the entrance of the city before arriving to the marketplace lest they buy at a lower price⁸. Indeed, the post of Muhtasib that one sees in later Islamic states was inspired both by his personal conduct in the market and by his appointment of Umar b. Hattab to Medinan marketplace⁹. The Prophet was equally sensitive to the rights of the sellers and he was against the price-fixing at times of scarcity. When he was asked at a time of expensiveness if he would limit the prices, he answered saying, “the seller and the buyer, the one who provides and who fixes the prices are nobody but the God. I don’t wish to die whilst people having demands of life and property from me”¹⁰. Considering the specific words that he uses, one can hardly withstand the lure of comparing these to Adam Smith’s idea of “invisible hand” and the liberal understanding of

⁷ Ibid. pp. 550, 563, 572

⁸ Kavakcı Y. Z. *Hisbe Teşkilatı*, Ankara: Baylan Matbaası (1975) pp. 78

⁹ Ibid. pp. 41

¹⁰ Ibid. pp. 90

right to life and property. Without far-fetching the argument, though, one can aver that Muhammad confined the role of the state in the economy to mere regulation and inspection.

The stance of the Prophet and of Islam, in general, on the issue is further elaborated by later Islamic scholars in a larger detail. At this point, Abu Hanifa, the renowned jurist and the founder of Hanafi law school of Islam, can be a great reference point for the advocacy of free market in Islam. Himself a relatively wealthy merchant, Abu Hanifa regarded the economical sphere as one having its own dynamics and thus requiring no further intervention on the part of other institutions including the Islamic polity. For him, individual's right to property and to accumulate it was essential. Al-Mawardi cites a striking example of jurisprudence by Abu Hanifa where he bans the market intendant to spill the wine of a non-Muslim in case of a public drinking since he argues that wine is a "stipulated and rightfully guaranteed property"¹¹ of non-Muslims. His oft-cited opposition to pious foundations (waqfs) has similar grounds as he finds the establishment of these foundations as a threat to the free circulation of the private property¹². Abu Hanifa's ideas on price-fixing can be derived in one of his pupil (Abu Yusuf)'s Kitab-ul Harac and they are mostly an appreciation of what the prophet said: "expensiveness and cheapness are in God's will and they do not keep their level all the time... Surely this is an affair of the Heavens and it cannot be known"¹³.

Another Islamic scholar who wrote extensively on economy is al-Mawardi who, in his famous book al-Ahkam al-Sultaniyya (The Ordinances of Government) touches upon various issues ranging from agriculture and taxation policies to the post of market supervisor (muhtasib). With including a long chapter on the functions of the muhtasib, the state officer in charge of the moral and economic supervision of the market, al-Mawardi circumscribes the

¹¹ Al-Mawardi. *The Ordinances of Government* (translated by By Wafaa H. Wahba), Reading: Garnet Publishing (1996) pp. 272

¹² Akgunduz A. *İslam Hukukunda ve Osmanlı Tatbikatında Vakıf Müessesesi*, Ankara: Türk Tarih Kurumu Basımevi (1988) pp. 26

¹³ Kallek C. *İslam İktisat Düşüncesi Tarihi: Harac ve Emval Kitapları*, İstanbul: Klasik (2004) pp. 93

extent of state intervention in the economy. For him, the market supervisor is simply a coordinator of marketplace on the principles of “enjoining the right and forbidding the wrong” which has a far larger moral dimension than an economic one.¹⁴ He ensures that Muslims attend the Friday prayer, fast in the month of Ramadan and non-Muslims comply with the rules that concern them in terms of comportment, conduct and attire¹⁵. His functions pertaining to the economic realm is restricted to sumptuary regulations and the inspection of the measures, quality of the products and the uprightness of the contracts in the market. Mawardi severely opposes any kind of property encroachment on the part of muhtasib and he strips him off any judicial powers. He concurs with Abu Hanifa on price-fixing asserting “he may not fix the price of goods or other stuffs for the public, whether in times of ease or inflation”¹⁶. Muhtasib is the highest economic representative of the governing body in a city and his range of action in the marketplace, which more or less constituted the whole economy in a pre-modern setting, is extremely limited. Although one sees exceptions to this rule in, for example, Famiid Egypt and in some cities of the Ottoman Empire in late 16th century, muhtasib’s functions in reality was limited to what scholars prescribed.

Another great figure that one can hardly ignore in a discussion of free market economy in Islam is Ibn Haldun, the renowned Islamic polymath of the 14th century. Indeed, some scholars went as far as to consider him the forerunner of Adam Smith taking his ideas on division of labor, surplus and his appreciation of free market into account¹⁷. Having lived in a period when there was no authoritative Islamic state along the North Africa and Spain, Ibn Khaldun based his economic theory on the free circulation of commodities, the importance of entrepreneurial risk and determination of prices with respect to shifts in supply and demand in various regions. In this scheme, the state is supposed to provide justice and security in its area

¹⁴ Al-Mawardi, op. cit. pp. 260

¹⁵ Ibid. pp. 263

¹⁶ Ibid. pp. 278

¹⁷ Berg & Kemp, op. cit. pp. 12

of jurisdiction since it is the origin of a cycle of equity that includes military force, bureaucracy and the productive units of a society¹⁸. However, he disapproves the direct involvement of the state into the economy through investments worrying that the state would be too powerful to compete for the private sector.¹⁹

Assessment

Islam was born in a pervasively commercial milieu and both Muhammad's deeds and the Quranic verses point to the appreciation of a morally supervised, regulated yet free market where private entrepreneurship is encouraged. Equally important about this standpoint is the historical post of muhtasib which delineated the extent of intervention in the market for an Islamic state. According to scholars, the Islamic state cannot fix prices, confiscate private property or invest in the market at the expense of the private sector. As a result, it seems plausible that the state should simply be the protector of free trade and commerce on the basis that it was ensured for Meccan traders in the Quranic verse: "for the protection of Quraish, for their protection during their journey in the winter and summer, so let them serve the lord of this house, who feeds them and gives them security against fear".

¹⁸ Kozak E. *Ibn Haldun'a Göre İnsan-Toplum-İktisat*, İstanbul: Pınar Yayınları (1984) pp. 160

¹⁹ *Ibid.* pp. 167

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