Introduction

The purpose of the paper is to provide an introductory comparison between the thoughts of the great fourteenth-century thinker, Ibn Khaldun with the New Institutional Economics (NIE) scholars in particular of the Nobel laureate, Douglass C. North. Their parallel lines of thinking and similar methodology of using historical political economic analysis to explain economic sources of growth should provide for interesting in-depth research. While a large portion of Islamic economics literature has been devoted to monetarism and finance, there is a lack of theoretical and empirical studies addressing the sources of economic backwardness of many Muslim countries from the political and institutional perspectives. This is where a comparative analysis between the Ibn Khaldun economic themes and the broad ideas of NIE can bring forth better appreciation of the former’s opinions. We are forced to limit our scope to North and few other institutionalists for the simple reason that NIE itself has evolved into numerous branches and more specific research threads and fragments.

NIE itself is a very young theory. Although Coase wrote ‘The Nature of the Firm’ in 1937, it only began to take shape in the 1960’s and 1970’s, with major contributions from Alchian, Coase, Demsetz, North, Williamson, and gradually developed into an acknowledged research program in the 1980’s and 1990’s. The fundamental components are: 1) transaction costs analysis of the trade-off among modes of organization, 2) recognition of the central role played by the institutional environment including the role of laws and political regimes in affecting transaction costs and volume, thus influencing development and growth.

1 See Alatas (2000) for his comments on the dearth of research in political economic issues such as uneven development, unequal exchange, bureaucratic capitalism, corruption and the role of the state.
The first section of the paper will look into the main aims and methodologies of Ibn Khaldun and North. It will be followed by a section comparing their thoughts on the role of formal institutions in influencing economic development through property rights and transaction costs arguments. In the third section, we will put forth the ideas and reasonings by Ibn Khaldun and North that complements and reinforce each other with regards to the institutional effect of social cooperation i.e. or informal institutions as referred by North or group feeling (assabiyah) by Ibn Khaldun.

**Comparison of Central Objectives and Methodologies**

As aptly summarized by Fida (1998), Ibn Khaldun’s main aim is to simply study and understand the nature and causes of the conditions prevailing in the Islamic world of his time and in particular the decline and disintegration of the Islamic society in Spain and North Africa\(^2\). However, his celebrated theory of economic cycle provides an inter-temporal analysis of the changes a society evolving economically, politically and socially. His observations of the history of a society and its organizations reveal certain patterns of human behaviour as individuals and as a group as they go about organizing activities to achieve their wants and needs. Satisfaction of those wants and needs gave rise to new ones thus, subtly and incrementally requiring their economic structure and organizations to change in response. The process continues and is the key to economic progress.

Notwithstanding the above, we also agree with Lauer (1991) who finds that to Ibn Khaldun, the individual is neither a completely passive recipient nor a full agent of the historical process. Neither is the society is made up of one person, no matter how forceful and influential his thoughts and strengths are. The general societal make-up and condition of the time determines the path and degree of their political and economic changes.

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\(^2\) Fida (1998) p. 27
Ibn Khaldun accurately observes societies which are similar in structure and organization will operate under similar laws although endowed with different resources or location at different geographical regions/climates. Thus, for Ibn Khaldun, laws are sociological and not physical in nature, and it is that sociological make-up of the society which holds the secret to economic growth and decline. This must be one of his main contributions to the field of political economics.

Ibn Khaldun’s adoption of historical deductions to understand sociological-economic evolution of a society is similarly embraced by North. North’s appreciation of history as a source of knowledge on the forces behind development takes place can be seen in the following quotes:

“History matters. It matters not just because we can learn from the past, but because the present and the future are connected to the past by the continuity of a society’s institution…”\(^3\)

“(Institutional economics) is a study in economic history which focuses on the costs of human coordination and cooperation through time which I regard as the key dilemma of societies past, present and future…The evolution of societies is a function of the quantity and quality of human beings, the human command over nature, and the structure human imposes on their interactions, an understanding of the interaction between demographic, technological and institutional factors would provide fundamental insights into societal evolution.”\(^4\)

The NIEs also share with Ibn Khaldun a multidisciplinary approach to explaining economic phenomena. While this is a familiar approach amongst early scholarly writings, the interface of multiple branches of knowledge such as law, sociology, politics, management, mathematics and economics has given NIE some degree of advantage over mainstream economists.

\(^3\) North (1990a p. vii)
\(^4\) North (1997 p. 149)
Coming back to the main objectives of their work, we observe Ibn Khaldun’s absolutist tone to be absent in North’s presentations. For example, Ibn Khaldun predicts an economy will rise and meet its demise within the span of three generations. On the other hand, North’s main query is why some economies never actually took off at all while others flourish with the same amount of resources and even formal structures. North was not very particular about putting a time frame to the economic cycle but rather on the nature and rate of incremental changes of institutions that supports or inhibits economic and political progress of the society. This point will be elaborated further later in the paper.

We like to add a note regarding Ibn Khaldun’s scientific approach of using logic and deduction in building his theories, while have often been criticized as secularistic, actually underlines his objectives clearly. His objective is more towards ‘explaining’ (using his incredibly astute powers of observation) as opposed to ‘prescribing’ economic laws that should be implemented in the society. His analysis is by nature a positivist take on political economy obtained from interpretation and logical deduction. On the other hand, Islamic economics has its own methodology and is very normative with regards to a society’s philosophy, organization and activity. This is not to say that his analysis cannot fit into the Shari’ah doctrinal framework. Many of his examples stress that a society which turns its back on the religious tenets of Islam is in fact sowing its own seeds of destruction. One can read deep normative biases in his views regarding excessive taxation, extravagance and economic injustices on profit and labour to see that his observations are not divorced from critical analysis based on the Quran and Hadith.

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5 See also Soofi’s (1995 p. 390) and Alatas’s (2000 p. 320) discussions on the matter.
6 For a detailed discussion on Ibn Khaldun’s methodology, please see Baali (1988 p.15-21)
Institutional Change: Formal Institutions

a) Cooperation and organization of production

Back in the fourteenth century, before Adam Smith, Ibn Khaldun has already made the connection between cooperative production and surplus output. The organized interaction and interdependence among actors in the production process provides for specialisation and division of labour. In fact, Ibn Khaldun’s ideas on the development of the firm as a formal form of cooperation remain important in understanding the most significant source of economic growth. The creation of surplus from cooperation in production allows for exchange as foundation for income and wealth.

“The power of the individual human being is not sufficient for him to obtain (the food) he needs, and does not provide him with as much food as he requires to live…but through cooperation, the needs of a number of persons, many times greater that their own can be satisfied” (1:69).

“…a great surplus of products remains after the necessities of the inhabitants have been satisfied, (This surplus) provides for a population far beyond the size and extent of the (actual one), and comes back to the people as profit that they can accumulate...Prosperity, thus, increases and conditions become favourable” (2:244).

Ibn Khaldun’s rationale for firms to exist as an expression of cooperation is also reiterated by the NIE’s. In introducing institutions’ importance in the economy, North wrote, “Institutions are rules of the game in a society or more formally are the humanly devised constraints that shape human interactions.” It is easily observed that cooperative behaviour among individuals persists when they repeatedly interact, have a great deal information on each other and there are only a small number of actors in the group.

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8 North (1990a p.3)
Instead, greater production and wider exchange networks imply the need for greater levels of institutional and organisational cooperation to allow the players to take advantage of opportunities for international trade or other complex exchanges. Institutions and organisations affect the economy through their effect on the production and transaction costs of exchange and production. This is the message Coase’s sends in his ‘Nature of the Firm’ essay: when it is costly to transact, institutions matter. Consequently, transaction costs is accorded a central theoretical position in the NIE framework: there is no possibility of taking advantage of the division of labour and specialisation without organising transactions, and all arrangements that can be implemented for doing so have a cost. North reasons as the size of market grows, trade results in sharply higher transaction costs, because the dense social network is replaced by more infrequent clientization of the players; hence, more resources must be devoted to measurement and enforcement. As to how to identify and measure these costs, or whether it is possible at all to do so in the first place is beyond the scope of this paper.

b) Changes in economic structure and technology

With rising wealth, Ibn Khaldun observes there is increasing need for more sophisticated, quality and differentiated products and services, even luxury, all of which requires further specialization and skills enhancement. Development of new technology and innovation became common. Skilled workers are attracted by the physical and intellectual infrastructure available in the cities and thus migration increases.

“With regard to the amount of prosperity and business activity, cities and towns differ in accordance with the difference sizes of their civilization (population)” (2 :234).

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9 In fact many agreed that Ibn Khaldun’s theory of international trade was based on international division of labour (skills of the inhabitants) instead of the comparative advantage of a society’s resources.
10 See Menard (2004) and Williamson and Masten (eds) 1999 for more thorough understanding of transaction cost economics
11 North ibid p.120
Ibn Khaldun realizes that dexterity in skills or craftsmanship is not necessarily inherited but can be mastered by those who have a strong interest and persevere in its training. Various forms of skills enhancement or craft centers are established to promote the creation and diffusion of knowledge and technology. He says,

“Each particular kind of craft needs persons to be in charge of it and skilled in it. …The particular group (practicing the craft) is coloured by it)… the craftsmen become experienced in their various crafts and skilled in the knowledge of them. Long periods of time and the repetition of similar (experiences) add to establishing the crafts and to causing them to be firmly rooted.” (2:250).

Weiss (1995) notes that Ibn Khaldun was aware that education and a high level of science and technology increases productivity. Once technical capacity is available, it attracts talent, which in turn strengthens the technical potentials. That is why technology is located in the cities where demand and the income are high and buyers sophisticated. As Boulakia (1971) also shows in his article, this is how Ibn Khaldun tries to show the cumulative process of development based on increasing intellectual infrastructure of the society. Production activities began to be relatively more capital-intensive and businesses were able to exploit far more effectively the economies of scale and scope than before. At the same time, institutional changes must take place to accommodate the economy’s new structure. Interestingly, Ibn Khaldun predicts that this process of economic sophistication and income creation will continue for two or three rounds, a precursor of the income multiplier mechanism discussion in modern mainstream economics.

The same triangular relationship involving demography, technology and institutions also became the focus of North thesis, in particular on the interaction between the last two, because of their impact on transaction costs. According to him, one of the most important vectors of growth-enhancing changes is the development of institutions, either public or private, to support and diffuse scientific knowledge. It entails more than the restructuring of organisations, in fact, the entire structure of the society must be transformed. Previous informal constraints centred around tribal or personal relationships and repetitive
individual exchanges are replaced with new formal rules and organisations and an increased role of government.\textsuperscript{12} This is necessary because technology and the accompanying scale of economies are the inevitable outcome of specialisation, minute division of labour, impersonal exchanges and urban societies.

North also uses the distinction between allocative efficiency and adaptive efficiency to explain the above concepts further.

“The systematic investment in skills and knowledge and their application to an economy suggests a dynamic evolution of that economy that entails a specific set of institutional characteristics. A description of these characteristics requires us to think of the issues of efficiency in a context different than straightforward allocative efficiency. In allocative efficiency, the standard neoclassical Pareto conditions obtain, Adaptive efficiency, on the hand, is concerned with the kind of rules that shape the way an economy evolves through time. It is concerned with the willingness of a society to acquire knowledge and learning, to induce innovation, to undertake risk and creative activity of all sorts, as well as to resolve problems and bottlenecks of the society through time.”\textsuperscript{13}

In another passage in the \textit{Muqaddimah}, Ibn Khaldun offers the motivation for higher interests in technology and intellectual capital as compared to agricultural endeavours:

“When civilization increases, the availability of labour again increases. In turn, luxury again increases in correspondence with the increasing profit, and the customs and needs of luxury increase. Crafts are created to obtain luxury products, the value realized from them increase, and, as a result, profits are multiplied in the town. Production there is thriving even more than before. And so it goes with the second and third increase. All the additional labour serves luxury and wealth, in contrast to the original labour that served the necessity of life.” (2:272)

\textsuperscript{12} North (1997 p. 158)
\textsuperscript{13} North (1990a p. 80)
Again we find that North made similar deductions,

“we observe in modern Western societies, specialisation has increased, agriculture is a small percentage of the labour force and gigantic markets that are national and international characterise economies…Everyone lives by undertaking a specialised function and relying on the vast network of interconnected parts to provide the necessary multitude of goods and services. The occupational distribution of the labour force shifts gradually from dominance by manufacturing to dominance, eventually, by what are characterised as services. It is an overwhelmingly urban society.”

However, North observed that instead of agriculture being gradually neglected, it has merely changed its form into a large-scale production industry with fewer players. Ibn Khaldun was more pessimistic as far as agriculture and rural economy is concerned, predicting famine and pestilence as a result of the economic structural transition.

c) Protection of Property Rights

Another cost of economic structural transition discussed by Ibn Khaldun comes in the form of the degree and nature of state’s involvement in the market as a competitor. Rising capitalist and royalists involvement in productive enterprises require enhanced governing and enforcement. It is a well-accepted fact that an economy cannot thrive without sufficient protection of property rights, intellectual as well as physical. Put in another way, infringement of private property rights by the government or other private parties would cause reduction of private sector’s incentive to produce and would dampen economic activity. The following quotes from *Muqaddimah* provide important insights into Ibn Khaldun’s views on the matter.

“The owner of property and conspicuous wealth in a given civilization needs a protective force to defend him”(2:250)

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14 North ibid. p. 120
“Royal authority requires soldiers, money and the means to communicate “ (2:23)

“It should be known that attacks on people’s property remove the incentive to acquire and gain more property. People, then become of the opinion that the purpose and ultimate destiny of (acquiring property) is to have it taken away from them” (2:103-4)

Similar sentiments are displayed by North (albeit using a more modern context) in his writings,

“The next (advanced) stage, the creation of capital markets and the development of manufacturing firms with large amounts of capital, entails some form of coercive political order, because as more complex and impersonal forms of interchange evolve, personal ties, voluntaristic constraints and ostracism are no longer effective… International specialization and division of labour requires institutions and organisations to safeguard property rights across international boundaries so that capital markets as well as other kinds of exchanges can take place with credible commitment on the part of the players.”

Secure property rights will require political and judicial organisations that effectively and impartially enforce contracts across space and time. Further specialisation and investment necessitates that more resources to be put to the protection of property rights, so much so that the transaction sector accounts for rising portion of an economy’s output. In modern times, we are referring this to specialisation in trade, finance, banking, and insurance as so on and so forth.

Even back in the fourteenth century, the cost of protecting property rights was not insignificant. Although Ibn Khaldun refers only to real estate in his example, the same lines of argument can be generalised to cover business entities and intellectual property. Seen from a reverse angle, Ibn Khaldun theorises that towards the end of a dynasty and in

15 North ibid p. 121
the transition of setting up a new rule, real estate loses its attractiveness, due to the chaos and poor protection of property rights. Property’s utility is diminished and its price fall hence it’s traded cheaply or underappreciated.

The same relationship between weak governments and insecure property rights is discussed by North. He says that since a weak ruling government would hesitate to antagonise powerful constituents (including firm connected to the ruling parties) by enacting efficient rules that were opposed to their interests, poor enforcement of property rights persist.

As a result, costs of transacting will rise (including the use of bribes, payoffs or black markets) while at the same time insecure property rights forces firms to restrain from making substantial capital investment or long-term contractual commitments (except firms operated or protected by the government). Indeed, in such scenario, organisational and eventually, economic growth will suffer.

According to Ibn Khaldun, until a new state has firmly established itself and order and prosperity returned, then only will real estate becomes once more attractively considered. In another place, Ibn Khaldun writes to illustrate the strength of a ruling regime is a necessary (though not sufficient) for secure property rights environment.

“Dynasties are prior to towns and cities. Towns and cities are secondary (products of royal authority)… As a matter of fact, human beings must be forced and driven to build cities, The stick or royal authority are absolutely necessary for the building of cities and the planning of towns. (2:235).

d) Increasing Transaction Costs

Ibn Khaldun’s obvious biases towards minimal role of government (especially in creating monopolies) and increased privatisation can be seen in various places in the Muqadimmah, a few which we will discuss here:

16 North ibid p. 52
“The trouble and financial difficulty and the loss of profit which it causes the subjects takes away all incentives to effort, thus ruining the fiscal structure. The trading of the ruler may cause the destruction of civilization (2:95)

“Commercial activity on the part of the ruler is harmful to his subjects and ruinous to the tax revenue. Competition between them (the subjects) already exhaust...their financial resources. Now when the ruler; who has so much more money than they, competes with them, scarcely a single one of them will be able to obtain the things he wants...(the subject) thus exhaust his capital and has to go out of business.”2:83-85

“Were the ruler to compare the revenue from taxes with the small profit (it reaps from trading) it would find the latter negligible in comparison with the former”

Other than the ‘crowding out’ argument that may be implied from his second quote above, we are equally interested in his views regarding the tendency of business organisations that represent the rulers’ interests to be inefficient. It is inevitable that such organisation created have objectives and mechanism other than those that normally advance economic efficiency. North posed the same dilemma using the nineteenth century history of U.S.A.\textsuperscript{17}, where the basic institutional framework (including the Constitution and the Northwest Ordinance) encouraged the development of economic and political organisations (Congress, family farms, merchant houses etc.). While their self-interest maximising activities may have directly and indirectly promoted investment in technology and education, not all of their business choices were always optimal or welfare-enhancing. Profitable opportunities were sometimes reaped from tariff creation, exploitation of slaves, or the formation of a trust. All of which leads to higher transaction cost of doing business, thus, sacrifices economic efficiency. Put differently, for an efficient economic market to exist, healthy market competition via arbitrage and information feedback, one approximated the Coase zero transaction cost conditions should prevail\textsuperscript{18}.

\textsuperscript{17} North (1990a p.8)
\textsuperscript{18} North ibid p. 51
Productivity and hence government revenue collection may actually fall if these firms choose to play more redistributive rather than productive role in the economy. Ibn Khaldun was certainly referring to this tendency where rulers prefer to create monopolies rather than promote competitive and conducive conditions for private competition. North extended the analysis further by arguing that such a path can persist because the transaction costs prevailing in the political and economic markets of such economies together with the existing subjective models of the actors stops them from pursuing more efficient outcomes. He used a historical example of Netherlands to illustrate this point. The prosperous urban towns of the Low countries (at a time of overwhelmingly rural societies) suffered internal conflicts between the patrician and crafts and the consequent creation of local monopolies led to a drying up of revenue sources. The Burgundian and later Habsburg rulers came and stopped restrictive practices and improved trade rules and property rights protection. As a result, they were rewarded by a level of prosperity which generated tax revenues “that made the Low countries the jewel in the Habsburg empire”.\(^\text{19}\)

It is also inevitable that such powerful connections between the organisation and the rulers would indirectly shape the general institutional legal-economic structure in their favour. Indeed, in the long run, political and legal institutions define rules within which transactions can develop, either expanding or restricting business opportunities. Coase discussed the significance of laws and the legal regime with respect to positive transactions costs while North provided valuable insights into the relationship between political and economic markets and their effect on economic development. Coming back to the point above, North’s book ‘Structure and Change in Economic History’ (1981) acknowledges that rulers do devise property rights in their own interests. The transaction costs that resulted in typically inefficient property rights prevail. The situation may persist for a long time and severely jeopardise the economy’s potential for economic growth.

\(^{19}\) North (1997 p. 154)
Ibn Khaldun also alludes to the emergence of predatory governments as a precursor to the downfall of a dynasty, one which is prone to squandering the wealth of the country and exploiting its people, in particular the business community through unjust taxes and misappropriation of resources and profits. Weingast (1993), when arguing for strong constitutional constraints to govern political decision-making, writes “markets cannot survive without strong political protections from the state itself”. Valentinov (2005) also acknowledges the institutional changes that take place may not always be based on the efficiency or cost-minimisation assumptions. Instead, organisational structures can develop in such a way as to maximise the power of stakeholders’ ability to influence future course of activities. North equally recognised that institutions are not necessarily or even usually created to be socially efficient but rather to serve the interest of those with bargaining power to devise new rules\textsuperscript{20}.

Nevertheless, with respect to private-to-private business dealings, enforcement mechanisms are still required in order to make commitments credible. Ibn Khaldun strongly advocates the presence of a body to monitor, measure and enforce accepted rules of trade and contracts especially in the context of large complex economy with impersonal exchange across time and space. According to him, the role of Hisba institution (market supervisor) is to prevent and punish abuses, fraud, wrongful measurement as well as public interests erosion. Public control and support should complement freedom of enterprise. North’s own example was the development of the Law Merchant code in Europe\textsuperscript{21}. As the size of markets grew between the eleventh and fourteenth centuries, a trading system based on reputation or ostracism mechanism alone was insufficient. Thus, the society needed a legal code and enforcement body to exist. We believe a critical feature shared between the conceptual formation of the Hisba system and the Law Merchant is that they both evolved from informal codes of conduct to formal coercive enforcement by the state.

\textsuperscript{20} North (1990a p. 15)
\textsuperscript{21} North (1997 p. 151)
Ideally, the third-party enforcement should involve “a neutral party with the ability, costlessly, to be able to measure the attributes of a contract and costlessly, to enforce agreements such that the offending party always had to compensate the injured party to a degree that made it costly to violate the contract”\textsuperscript{22}. These conditions are difficult to meet at any time in history. North reasons that because the enforcer is an agent and has his own utility function and interests, his perceptions and actions are often coloured by it. “If the state has coercive force, then those who run the state will use that force in their own interest at the expense of the rest of the society.”

However, even with the assumption that the established entities to monitor and enforce property rights and trade codes are just and fair, it does not necessarily mean the individual firms can totally escape other risks of contractual hazards with other firms or from within. For the NIE’s, this problem constitutes another reason for increasing transaction costs\textsuperscript{23}. As Menard suitably described the problem in his preface to the “International Library of New Institutional Economics” series\textsuperscript{24},

“Coase had the intuition of the importance of contracts in his 1937 discussion of the integration issue and of what differentiates the allocation of resources and tasks in a firm by contrast with markets. Williamson established the centrality of contracts for organising and coordinating transactions while at the same time exhibiting the incompleteness of contracts. In a world in which uncertainties combine with positive transaction costs, contracts remain inevitably incomplete, thus generating hazards the require safeguards. \textbf{These safeguards may be entrenched in the contracts}

\textsuperscript{22} North (1990 p. 58)
\textsuperscript{23} A good summary of the transaction costs foundations can be found in North’s book “Institutions, Institutional Change and Economic Performance” (p. 27 onwards) as well as in another article (1990b p. 362) “Transaction costs are the costs of measuring and enforcing agreements. I economics, what are measured are the valuable attributes of goods and services or the performance of agents; enforcement consists of the costs associated with realizing the terms of exchange. Measurement consists of the physical and property right dimensions to goods and services and the performance characteristics of agents. While measurement can frequently be costly, the physical dimensions have objective characteristics (size, weight, colour etc.) and the property rights dimensions are defined in legal terms. Competition plays a critical role in reducing enforcement costs. The judicial system provides coercive enforcement. Even so economic markets throughout history and in the present world are frequently very imperfect, beset by high transaction costs and defined by institutions that produce incentives that work against economic efficiency”.
\textsuperscript{24} Menard (2004 xiv)
themselves; they may also rely on complementary governing devices or on external enforces, among which courts and governments are major actors. Another element that contributes to incomplete contracts is the importance of unanticipated events and the behaviour of parties to the contract. NIE paid early attention to the strategizing behaviour of agents and, more generally, to exploring a more complex representation of agents than the one dominating the standard approach in economics.”

Interestingly, the above transaction costs arguments could also sit in well within Ibn Khaldun’s discussion regarding the relationship between taxes and entrepreneurial incentives. In the simplicity of his language, he may generalise the overall costs of protecting property rights whether self-initiated (through elaborate contracts) or through the various layers of government institutions into the all-encompassing term ‘tax’, (we acknowledge that he attributes declining morality and greed of the ruling parties and higher social overhead costs of increasing population to the higher tax). Excessive taxes (including for governance and enforcement) may adversely erode profit margins and hence erode commercial initiatives of the private sector. The clues are evident in these well-known quotes from Muqadimma,

“the strongest incentive for cultural activity is to lower as much as possible the amount of individual impostes levied upon persons capable of cultural enterprises”

“It should be known that at the beginning of a dynasty, taxation yield large revenue from small assessments. At the end of the dynasty, taxation yield a small revenue from large assessment.”2:80

“In the latter years of the dynasty (taxation) may become excessive. Business fall off and all hopes (of profit) are destroyed.”
Institutional Change: Informal Institutions

North provides persuasive arguments regarding the pervasiveness of informal constraints and their significance on economic performance. History shows that same formal rules and/or constitutions imposed on different societies can produce different outcomes due to the tenacity of informal values and constraints. Even massive and total institutional change, such as revolution or military conquest may not eliminate the culture and informal values of a society. Strikingly similar threads of thinking can be found if we look into Ibn Khaldun’s exposition regarding the role of Assabiyah (group solidarity, group consciousness) in the development and decline of a society and civilization.

According to Ibn Khaldun, development of civilization is a continuum with badawah (tribal lifestyle) at one extreme and hadarah (sedentary/settled lifestyle) at the other. In the Badawah system, the small society is bound together by common familial, religious and cultural ties. The institutions created or organized are simple in nature but effective in accommodating personal and repetitive economic exchanges. Religious precepts usually impose standards of conduct on the players and unified political structure or formal rules are usually unnecessary.

For North, the characteristically self-imposed or governed informal constraints found in simple economies are expected. He writes, “In all societies from the most primitive to the most advanced, people impose constraints upon themselves to give structure to their relations with others. Under conditions of limited information and limited computational ability, constraints reduce the costs of human interaction as compared to a world without institutions.”

He also noted anthropologists’ insights into the tribal societies economic network, where people have good knowledge of each other’s reputation and the threat of violence or retaliation serves as a effective deterrent to undesirable business practices.

a) Fortification of Assabiyah

25 North (1990a p. 36-39)
As production surplus from division of labour and specialisation materialises, the size and nature of economic interactions and network grew. This calls for stronger and more structured relationship in order to take advantage of newly available opportunities. The existing social solidity is both conducive in promoting economic activities and at the same time, the pursuit for economic fruits provide further impetus for the social binding, they end up creating a synergy. In brief, Ibn Khaldun’s *assabiyah* is a group feeling and energy that emerges from the unity of social, political and economic interests. Fida described *Assabiyah* as the ‘motor of social change’^26^ He outlined the factors that create and strengthen *Assabiyah*, which excerpts we reproduce here:

1. power: According to Ibn Khaldun, the greatness of a community is often judged by the organization of its power structure. The potency and effectiveness of it, to a great extent, depends upon how power is budgeted in society and the ability of those in power to galvanize scattered and incoherent group feelings into an action-oriented cohesive unit. Economic conditions are such that the leader of the tribe is always dependent on the goodwill of society.

2. leadership: *Assabiyah* feeling is dependent on the confidence and trust that a leader inspires among the people and the prudence with which he leads them.

3. religion: According to Ibn Khaldun it acts as an extremely powerful factor in socialization and facilitates unity of thought and action among its followers.

Many scholars also noted that Ibn Khaldun believes the initial authority may initially develop from moral and culturally based to politically based, a transition described as evolution from Khilafah leadership to one of al Mulk or royal authority:

“The Caliphate substitutes the Lawgiver to protect religion and to exercise political leadership of the world. The Malik is someone to act as a restricting influence and

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^26^ For excellent discussions on the emergence and genesis of Assabiyah development, please refer to Fida Mohamad’s article (1998 p. 36-38) as well as Fuad Baali’s works, amongst others.
mediator in every social organization, in order to keep members from fighting with each other. The person must by necessity have superiority over the others in the matters of opposite feelings… It is more than leadership. Leadership means being a chieftain, and the leader is obeyed but he has no power to force others to accept his rulings, Royal authority means superiority and the power to rule by force.”

North described the formalisation of institutional power as a movement from, again, one extreme of a continuum (taboos, customs and traditions) to another (constitutions); with similar explanation of the motives i.e. due to the increasing specialisation and division of labour associated with more complex societies. His modern version of the transition to ‘royal authority’ is the development of increasingly formal economic and political institutions;

“Formal rules can complement and increase the effectiveness of informal constraints…may also be enacted to modify, revise, or replace informal constraints. Formal rules include political (and judicial) rules, economic rules, and contracts. …Political rules broadly define the hierarchical structure of the polity, its basic decision structure, and the explicit characteristics of agenda control. Economic rules define property rights, that is the bundle of rights over the use and the income to be derived from property and the ability to alienate an asset or resource. Contracts contain the provisions specific to a particular agreement in exchange”

b) Disintegration of Assabiyah

Ibn Khaldun writes as Assabiyah declines (which he contends to be by the third generation), the evolving society which is characterized by bigger population but features increasing dissension among leaders. As a result, the followers are torn between conflicting loyalties. Eventually struggle emerges between sub-groups or there may be other tribal groups seeking to wrest power from the current rulers. The struggle would

27 North (1990a p. 46)
end with the group possessing superior solidarity (*Assabiyah Kubra*) subduing the ones with lesser or declining solidarity and bring them under submission.

We here base our elaboration of factors that weaken *Asabiyah* on Fida Mohamad’s outline and our own discussion in previous sections. According to Ibn Khaldun:

1. wealth and corruption: Among the things that corrupt in sedentary culture is the disposition towards pleasures and indulgence including sexual indiscretions and homosexuality. People are more individualistic and social solidarity weakens ultimately. Economic injustices (infringement of property rights, business patronage) and inequality (from redistributive and rent-seeking economic activities) prevail and increase from day to day, uncompensated for. To preserve power and maximise their material interests, rulers employ mercenaries or elaborate bureaucratic structure, thus require higher taxes to pay for them and thus increases business’s transaction costs.

   “When the dynasty continues in power…(it becomes) sophisticated… Every individual impost and assessment is greatly increased, in order to obtain a higher tax revenue…in correspondence with the gradual increase in the luxury customs and many needs of the dynasty…The assessments increase beyond the limits of equity. The result is that the interests of the subjects in cultural enterprises disappears, since when they compare expenditures and taxes with their income and gain and see the little profit they make, they lose all hope. Therefore, many of them refrain from cultural activity.”2:80-81

2. power : Ibn Khaldun warns that power can be the narcotic of the mind, its abuse intoxicates the ruler possessing it. Continuous and glaring abuse of power produces resentment and frustration amongst the followers. He says,

   “The corrupting influence of power demoralizes the social system and produces a climate of thought and emotion in which assabiyah becomes

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28 Fida (1998 p. 39)
ineffectual. The frequent misuse of power leaves the masses depressed and they drift towards deceit and treachery.”

With respect to the first factor, a ruler can act like a discriminating monopolist, offering the different groups of people economic protection in return for tax revenue. However, North explains that different groups have different opportunity costs and bargaining power with the ruler, thus, different bargains result. But overall, he would certainly agree with Ibn Khaldun, in saying that after-tax margins would suffer.

On the government’s side, there are definitely economies of scale in the provision of these (semi-public) goods of law and enforcement. However, eventually the ruler will find that his revenue have not increased all that much as a result of added layers of agents (a bureaucracy) and their ensuing hazards. In North’s extended analysis, the situation gets more complicated in the modern democratic context with diverse vocal interest groups, thus requiring a much more complicated institutional structure devised to facilitate the exchange between interest groups and the ruling parties. Even in planned economies of the twentieth century, Murrel and Olson’s (1991) study show how institutions, which were initially developed for providing support to an authoritarian regime, demands more and more information to be used as control and defence against attack on their authority. This increases the size of the bureaucracy, generate collusion among subgroups; and end up contributing to the collapse of the economy.

In relation to the second factor, Levi (2000) offers an interesting discussion with regards to the impact of distrust or absence in trust, as a result of the assabiyah’s breakdown, on the performance of the economy. 29

“The absence of trust is the source of the free-rider dilemma. Potential cooperators perceive their structural interests as similar; all prefer the provision of the collective good to its non-provision. However, without a basis for believing that others will honour promises to do their share, there is no rational reason to contribute. Someone

29 Levi (2000 p. 140)
who mistakenly trusts others to cooperate will suffer a welfare loss, whether or not that loss is the non-cooperator’s gain and intention. Distrust varies significantly in its intensity. Distrust can lead to inaction, or it can motivate positive action, albeit defensive action against the distrusted. It can lead to a decision not to take a risk, or to make oneself vulnerable to another. It may generate concern, even fear that the distrusted will exploit or bring harm and thus impel the distrutor to protect oneself.”

In the same vein, we may talk about political uncertainty as a factor in encouraging corrupt behaviour. As abuse of power is a guaranteed source of dissension and frustration, some of the ruling elites must be aware of impending political instability from its culmination. In their pursuit of capturing maximum economic interest in the limited time frame, they actually more often than not succeed in aggravating the negative perception and injustices in the economy. Another NIE scholar, Terry Moe (1990) observes

“…Because dangers of political uncertainty can be anticipated from the outset, however, today’s authorities need not leave their creations unprotected. They can fashion structures to insulate their favoured agencies and programs from the future exercise of public authority. In doing so, of course, they will not only be reducing their enemies’ opportunity for future control; they will be reducing their own opportunities as well.”

Concluding Remarks

In this paper, we have compared various aspects of Ibn Khaldun’s thought with New Institutional Economists, focusing mainly on that of Douglass C. North and a little of other relevant individuals. To examine and compare thoroughly the extensions and separate threads of research under the NIE would be impossible because the NIE itself has grown into various branches and fragments while Ibn Khaldun’s Muqaddimah is a

30 Moe (1990 p. 227)
basically a sociological work that describes the society as a whole and not in terms of its separate disciplines of knowledge as we know it today. Nevertheless, despite the limited focus, we found endless similarities of ideas and reasoning that proves NIE may actually be closer to Ibn Khaldun’s theory than we thought, be it in methodology and positivist approach as well as to the theories and rationales themselves. As with other comparative work on Ibn Khaldun in relation to modern economic thinkers, once we get pass the terminologies, the essence of thoughts show themselves to be strikingly similar.

This paper has elucidated the evolution of a society’s on Ibn Khaldun’s continuum of badawah to hadarah with respect to the NIE’s changes in informal and formal institutional setup based on transaction costs and property rights arguments. Since time immemorial, man’s motivation for change mainly lies in the cost benefit ratios he perceived of alternative choices. Not all choices are rational. On the hand, other motivations or even negative perceived benefits may still contribute to the same outcome or decisions. A wider interpretation of the cost benefit must be employed, one that looks as well into the institutional environment and social constructs of the time.

The same holds true for a group, as seen in their solidarity in defending and promoting their interests, the core of assabiyah strength and resulting success. Both Ibn Khaldun and North agree on the incremental nature of change, albeit Ibn Khaldun taking a more absolutist stand among the two. Nevertheless, the economic performance of a society cannot be divorced from the existence and effectiveness of institutions in the society, be it economic or political as well as the social binds of the time.

In modern application, social cohesion and institutional efficiency continue to be more important than the amount of resources endowment in bringing about development and higher civilization. These two factors are seriously lacking in many Muslim countries and if not promoted sincerely and thoroughly, will not move the countries from where they are today - socially, politically and economically. Many scholars have talked about the need for institutional reforms in various aspects of the society, but without a certain degree or form of assabiyah feeling i.e. in the context of the energy and the strong united
desire to achieve clear common goals, institutional reforms alone may not be sufficient or lasting. Japan and Germany has showed how social solidarity helped overcome destruction and fed the economic comeback of their countries in a time when institutions and resources were almost wiped out in World War II.

This paper also hopes to pave the way for more research, theoretical and empirical, regarding the manifestations of Ibn Khaldun’s ideas in the history of medieval and modern economies. Not all evidence may lend support to his theories, neither to the NIE’s, but the investigations relating to them themselves are worth the trouble if we would like to understand the factors shaping the changes in an economy and society.
References


