

## Labour as a Source of Value and Capital Formation: Ibn Khaldun, Ricardo, and Marx – A Comparison<sup>1</sup>

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*Abstract.* Exclusive writings on the contribution of Ibn Khaldun to economics in the English language have not been many, the references to his work also remain scanty and far between. Even in what little is available mostly authors talk about his views on professions, markets and the cloud he casts on merchants.

The present paper avoids treading the familiar tracks. It sees close similarities between the views of Ibn Khaldun (1332 – 1406), David Ricardo (1772 – 1823) and Karl Marx (1818 -1823) in regarding labour as the measure of value and source of capital formation in the course of economics maturing to an academic discipline. The three agree directly or indirectly that labour creates economic surplus that it does not get. Even so, the policy implications each derives from this conclusion are interestingly much different.

Ibn Khaldun did not – indeed imbued with Islamic faith he could not – think of workers’ predicament becoming a source of social turmoil. Ricardo implicitly saw labour exploitation in a free enterprise system of organizing production but himself being a great capitalist he could not swallow the pill and once tended to regard cost of production – wages plus profit – as the measure of value. Marx regarded exploitation of labour as the intrinsic vice of capitalism that revolution alone could obliterate.

### 1. Introduction

The *Muqaddimah* of Ibn Khaldun (1332 – 1406), a celebrated Muslim scholar and historian of the fourteenth century, is a comprehensive treatise couched in a holistic Islamic mold. It became better known to the Western world with the publication of its

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(1) This is a modified and enlarged version of a paper done under the same title with **Nurhafiza Abdul Kader Malim**, my Research Assistant, and presented at the International Conference on **Ibn Khaldun** held in Madrid Spain on November 3-5, 2006.

translation in the English language by Franz Rosenthal in three volumes after the middle of the last century. We shall refer to the work hereafter as *Introduction*.

Exclusive writings on the contribution of Ibn Khaldun to economic ideas are not many; references to him even in the writings on Islamic economics are rare and far between albeit one finds precise positions and candid explanations in the *Introduction* regarding resource scarcity, agents of production, division of labor, demand and supply, markets, competition, price formation, monopoly, trade, commerce and transportation, costs and profits, capital accumulation and so on. Indeed, at some places, he provides explanations pre-presenting modern concepts.

Recent writings in economics – Islamic and mainstream -- seem to be taking note of Ibn Khaldun<sup>2</sup> and the present conference, coming on the heels of the one held in Madrid last week, will provide, we believe, further impetus to this trend. However, until recently mention from the *Introduction* was usually made of Ibn Khaldun's views on division of labour and international trade or to his comments on the 'cunning' of the traders: their greed, deceit, frauds, and exploitation of the customers<sup>3</sup>. Also, writers often refer to the passages on the corrupt practices of the state authority and its functionaries in the Muslim lands<sup>4</sup>. The selections often meant to serve some predetermined objectives. However, it is gradually being realized that there is much more in the *Introduction* that is positive, useful, and researchable than has so far been explored.

Of the many problems that remain unresolved in economics, theoretical and applied --the crucial one is: *What is the source of wealth?* It is apparent that work creates wealth while nature provides in her benevolence the resources from the universe. But profits are also there. Where does profit come from? Does capital create wealth, like labour, or are profits merely an appropriation from the wealth that labour creates?<sup>5</sup> These questions constitute the reference frame for the present work.

The issue was addressed by Adam Smith (1723 – 1790) in his *Wealth of Nations* but his treatment of the subject was confusing. He initially declared that labor spent on producing a commodity alone measured its value. But land and capital are too

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- (2) One can find write ups in Wikipedia, the encyclopedia from which extracts are posted on web site: [http://en.wikipedis.org/wiki/Ibn\\_Khaldun](http://en.wikipedis.org/wiki/Ibn_Khaldun) regarding his bibliographic account, education, early years, political activities, and last years in Egypt, and his writings.
- (3) The passages often quoted from Volume II of the *Introduction* we paraphrase here under:  
 Commerce is the natural way of making profit. However, most of its practices and methods are tricky and are designed to obtain profit between the purchase prices and sales prices. The surplus makes it possible to have profit. Therefore the law permits cunning in commerce for it contains an element of gambling, .....Now, traders are few. It is unavoidable that there should be cheating, (and) tampering, with the merchandise. (*Introduction*, 317, 327)
- (4) In Rodinson, for example, one mostly comes across negative elements highlighted from the Muslim history. For support he invariably relies for documentation on adverse Western sources. He talks little of Muslim contribution to knowledge, science, and astrology or to transparent administration and justice norms observed in Muslim lands when Europe still stayed in darkness.
- (5) See **Hasan** (2006) Chapter 1 for the mention of several other unresolved issues in economics –mainstream or Islamic.

mentioned in one place as sources of value. This implied that to him a cost of production theory explained value<sup>6</sup>. Still, he regarded wages as the measure of value. Finally, he thought that labour measured value only in primitive societies. “In civilized society, on the contrary, there is still a smaller number [of cases] in which [value] consists altogether in the wages of labour”<sup>7</sup>. It is difficult to reconcile these conflicting views.

David Ricardo (1772-1823) appeared to have caught the bull by the horn, so to say, but could not attract much attention until Karl Marx grafted his branch of socialism on the trunk he provided<sup>8</sup>. Interestingly, Marxian analysis of the capitalist system has started occupying greater attention and space in mainstream economics after the collapse of communism in Europe.

This brief note argues that Ibn Khaldun provided a candid explanation concerning the source of value much earlier and better than Smith or Ricardo. However, he did not discover in that, as did Karl Marx, the road to socialism, *albeit* Islam contains much in its doctrine that is pro- poor without being anti-rich. The *Introduction* also provides some clue as to why Marx reached the conclusions he did regarding the fate of capitalism.

The paper is spread over seven Sections including the present one. In Section 2 that follows we shall briefly deal with the concept of labour as an agent of production. This is necessary as Ibn Khaldun, David Ricardo, and Karl Marx use the word having different meanings and context. In Section 3 we analyze the views of Ibn Khaldun on labour being a measure of value and source for capital formation. Section 4 presents the views of Ricardo on the issue while Section 5 puts forth the Marxian argument. In Section 6 we present a sort of synthesis of the position the three writers have taken. Finally, Section 7 contains a few concluding remarks.

## 2. Concept of Labour

Labour in economics refers to any mental or physical exertion undertaken with a view to obtaining a pecuniary gain. But the notion has assumed contextual variations over time. For example, in pre-industrial societies the firm in any area of productive activity was a tiny owner-operated entity. The owner committed his land, building, capital, work effort, managerial skills and risk-taking abilities to the firm. After meeting his payment obligations to the outsiders whatever was left of the sale proceeds was regarded as his profit. This was the model of a firm the classical writers focused on in their economic excursions. The number of firms in any activity was quite large and competition among them fierce. This scenario was later summed up in what we call the perfect competition model. Here no buyer or seller in the market has power to influence price by his own isolated action. Profits are normal, resource use is optimal, and social welfare maximum. As all earnings from business went to the owner-operator, his income could easily be seen as reward for his *labour*.

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(6) How Smith starting from the labour theory of value switched over to a cost of production version and landed in confusion, see **Gide** and **Rist** (1953, 93-96).

(7) **Adam Smith**, *Wealth of Nations* (1937 Print, 35).

(8) **Gide** and **Rist** (1953, 454).

However, it can be shown at the theoretical level that the perfect competition model contains the seeds for its own destruction (Hasan1975) and the world of business confirms the claim. Today we are left only with as much of competition as the firms have not been able to eliminate: destruction of competition makes profits larger and durable.

The advent of industrial revolution separated ownership from work in a firm. Owners brought in the required capital and hired workers to do the job giving rise to wage labour. Workers were divided into skilled and unskilled. Management and risk-taking became distinct economic functions. Managers could easily be put in the labour group. Risk-takers assumed the exalted nomenclature of entrepreneurs. Entrepreneurs are usually capital providers or have control over it. But they work for the firm as well. So economists sometime count them among the capitalists, sometimes among the workers.

The difficulty in understanding the similarity or divergence between the views of scholars, especially when the time distance among them is as large as in the present case, often arises due to the contextual non-appreciation of economic terms.

### 3. Labour as A Source of Value In Ibn Khaldun

Ibn Khaldun begins with explaining the concept of *sustenance or rizq* in Islam in the formulation of his views about labour as the source of value<sup>9</sup>. He observes that all human beings are alike in their desire and effort to have things for satisfying their needs. "Thus, whatever is obtained by one is denied to the other unless he gives something in exchange for it" (*Introduction*, 311). Scarcity of resources and occupational specialization underlie this observation. But exchange essentially involves real goods; Ibn Khaldun uses the word barter more often than exchange. Even when money is a go-between, exchange takes the nature of barter as gold and silver – the real goods -- alone are considered money (*Introduction*, 313). For that reason, he keeps the concept of utility restricted to the use of goods and does not by implication consider it relevant to the explanation of the value in exchange.

Sustenance includes the minimal basic needs – food, clothing and shelter -- of the people and the Qur'an exhorts them to seek it from God (29:17)<sup>10</sup>. Hasan (1988, 40) concluded that even though people may differ in regard to the *quantum* of *rizq* i.e. sustenance granted to them, all creatures of the Almighty have an equal *right* to a livelihood from His inexhaustible treasures of the earth and the heavens. Now, we find confirmation of this position on sustenance from the *Introduction* as well. Ibn Khaldun regards this as the essence of sustenance. He does not agree with the Mu'tazilah who held that wrongfully acquired property or anything forbidden is not included in something that could be called sustenance. Ibn Khaldun writes: "Yet, God sustains him, who acquires property wrongfully, and also the evildoer, the believer as well as the

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(9) He explains quoting verses from the Qur'an that God created all things in the world for man, gave him control over them so that he could use them for his benefit. **Ibn Khaldun** holds that this arrangement is made to enable people to search their sustenance in the land of God.

(10) We believe that the fulfillment of basic human needs is the minimal element of sustenance even as it is not so explicit in the verses of the Holy Qur'an.

unbeliever. He singles out whomever he wishes for His mercy and guidance [not necessarily the believer]" (*Introduction*, 312). In any case, one has to work for obtaining his sustenance<sup>11</sup>.

When one has control of him, and is beyond the stage of his original weakness that is he is earning enough to meet his basic needs, he strives to make a profit (*Introduction*, 311). Profit is the excess of earnings over what one spends to meet his 'interest and needs'.<sup>12</sup> There is accumulation of capital if profits are greater than required for meeting his needs. When the use of such accumulation is available to a man, he enjoys its fruits i.e. what remains beyond his sustenance (*Introduction*, 312). Sustenance is one part of profit; the other adds to his capital. Human labor is necessary for profit and capital accumulation (*Introduction*, 313; 314).

The capital a person acquires, if resulting from a craft, is the value realized from his labor. This is the meaning of *acquired* capital. There is nothing *original* here except labor, and this labor is not desired for acquiring capital for its own sake but for the value realized from it that is production and profit (*Introduction*, 313).

Some crafts are partly associated with other crafts. For example, carpentry and weaving are associated with wood and yarn respectively for production. However, the labor that goes into the production processes is more important and its value is higher (*Introduction*, 313). In that Ibn Khaldun was foreseeing, so to say, the current day preference of economies for high value added production lines.

If profit results from something other than a craft, the value of that profit and of the capital acquired from it is the contribution of the labor spent in obtaining them. That there must be a *share* of labor in profit is obvious (*Introduction*, 312). The implication is that even as labour produces all profit, all does not accrue to it. We shall see that Marx had an identical position; he also did not bestow all profit on labour. But in some cases, argued Ibn Khaldun, the share of labor may be concealed. To illustrate, take the case of foodstuff prices. Here, gain and profits in their entirety or for most part, are value realized from human labor (*Introduction*, 278; 314).

Ibn Khaldun lists numerous sources of profit. Profits may come from the power to take them away from others, for example, through imposts and taxes levied by the government. It may come from hunting, fishing, cultivation of land, crafts or trading, or by hoarding goods and observing market fluctuations which may affect prices favorably. Dealing in market fluctuations is *commerce* (*Introduction*, 314).

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(11) "It should further be known that profit results from the effort to acquire (things) and the attention to obtain (them). Sustenance requires effort and work, but even as one tries to get it, he must seek it from God in prayers. For, God said: "Thus, ask God for sustenance." The effort to (obtain sustenance) depends on God's determination and inspiration. Everything comes from God", (*Introduction*, 1967, 312-313).

(12) **Ibn Khaldun** uses this formulation more than once in his *Introduction*, without explaining what he means or includes in 'interest'.

Commerce is the natural way of making profit. However, most of the commercial practices are tricky and are designed to force a gap between purchase prices and sales prices for obtaining profit: the *surplus* (*Introduction*, 317; 345 n; 367)<sup>13</sup>.

The central point in the above views of Ibn Khaldun is that *labour alone is the source of value and so it is of profit*. Profit is a *surplus* that leads to the accumulation of capital. This point he emphasizes time and again in his *Introduction*. It is obvious that underlying this formulation of labour being a source of value and capital formation Ibn Khaldun had the model of an owner-operated firm the one we have explained earlier. One could not expect him to isolate different functional returns in a firm's revenue as we do in modern days<sup>14</sup>. And there is room for presumption that the classical writers – David Ricardo and Karl Marx – might have been influenced by his views. In any case, the similarities in their views are striking.

#### 4. Labour Theory of Value In Ricardo

Ricardo begins his book *On the Principles of Political Economy and Taxation* with a chapter on value. The opening sentence of this chapter reads as under:

*The value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production, and not on the greater or less compensation which is paid for that labour.*

Ricardo put the sentence in italics to emphasize that he could avoid the confusion of circular reasoning that trapped Adam Smith in his formulation of a labour theory of value. The wage paid to a worker for labor embodied in the commodity need not be the measure of the value of that labour.

Also, utility is necessary for commodities to have value, said Ricardo, but is not its measure. For him commodities derive their exchange value from two sources: (i) from their scarcity, and (ii) from the quantity of labour spent on them. The value of commodities in case (i) is determined by their scarcity alone; it is wholly independent of the quantity of labour originally employed to produce them. Old coins, rare paintings, and special soil grapes are examples. Such commodities, however, form a very small part of the mass of commodities that daily pass through the market. By far the largest part of commodities that people desire is procured by labour. They may be multiplied not in one country alone, but in many, almost without limit, if we could provide the labour to obtain them<sup>15</sup>.

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(13) See **Hasan** (1975, Chapter V) who regards this desire among the strongest that invoke in modern firms what he calls 'propensity to monopolize' that aims at destroying competition the force that attempts to discipline the market so that firms in the long run could earn no more than *normal* profit.

(14) It may be mentioned that **Ibn Khaldun** in the original Arabic work has used the word *Omran* (not *Amal*). To translate it as labour may not be seen by some as correct. *Omran* could include the work of the owner-operator both in his capacity as a business manager and as the entrepreneur of the later vintage.

(15) **Robinson** and **Eatwell** (1973, 21) **Gide** and **Rist** (1953, 164), and **Ekelund, JR, R.B** and **Hebert R. F** (1997, 147)

In the Ricardian framework, it is not difficult to see labour as the only source of value. Rent of land does not enter the price (value) of a commodity, rather depends on it. The landlord having realized his share tells the capital owners and workers: "Gentlemen the residual you may divide among yourselves the way you like". And why should we make capital a separate factor of production, for it is only stored up labour? The meaning of labour might be extended, argued Ricardo, to include not only labour used in the production of commodities for immediate use, but also the labour that is spent to produce all those implements or machines that we require for making such commodities<sup>16</sup>.

It may, however, be mentioned that Ricardo may not have been entirely satisfied with his identification of capital with labour. For, it was not easy to apply the conception to such commodities as timber and wine whose value increases as the years roll by. After all the time and thought he had given to studying the issue, he felt conceding that the relative value of a commodity seemed to be determined by two factors: (a) the relative quantity of labour necessary for its production, and (b) the relative time required to bring the commodity to the market. In that the views of Ricardo appear to be premonitory of a time element in value that later became so important in the discussions on interest.

It may be noted that during the era of Ricardo the personality of the owner-operator had started disintegrating even though the process was slow. Wage labour had appeared on the scene in a big way. So unlike Ibn Khaldun he could talk of wages and profits as distinct factor shares in a distribution scheme the market enforced on society.

Thus seen, the correct way to state Ricardo's views on value would probably be to say that value is determined by cost of production that includes wages and profits, if not rent<sup>17</sup>. But despite this much being implicit in his *principles*, Ricardo was irrevocably committed to a labour theory of value as in his examples for explaining comparative cost theory of international trade, he explicitly uses labour time alone as measure of value.

## 5. Marx on Workers Exploitation

Karl Marx (1818 – 1885) in his explanation of value picked up from where Ricardo had left. Alexander Gray (1980) opens his chapter on Marx with an interesting remark that if Marx deserves a bust in the foreyard, there must be room somewhere in the background for an effigy of Ricardo. For developing his theory of value, Marx took ammunition from the Ricardian arsenal and made a frontal attack on the fortress of capitalism, even though it managed to stand erect. There is, to Marx, a quantitative relationship in the prices of various commodities; there is some element in common to

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(16) Ricardo continues: If fixed capital is not of a durable nature it will require a great quantity of labour annually to keep it in the original state of efficiency, but the labour so bestowed may be considered as really expended on the commodity manufactured, which must bear a value in proportion to such labour (*Principles*, 32).

(17) Ricardo demonstrated that rent was no part of value: Corn was not dear because land yields rent; but land yields rent because corn is dear. To him, a clear understanding of this principle was of utmost importance for the science of political economy (Gide and Rist 1953, 164).

them that could quantitatively be measured. He considered momentarily utility being such an element but later dropped it for good. He picked up labour as the common element, and regarded the labour time necessary to produce commodities as the source of relative prices – his primary concern.

Marx probably had a preset objective for his writings: to show that propertied class always thrived on the labour of the property-less working class, the possessors on the deprived, and the haves on the have-nots, and so on. This hardly was a new idea. Many writers including Sismondi, Saint-Simon, Proudhon, and Rodbertus had already shown their awareness on the point. The bases of their criticism, however, were social, not economic. With Marx it was the other way round: he directed his charge against the science of economics itself, especially against the conception of exchange. And, in that lies his originality.

According to Marx, the social cost of producing commodities was equal to labour spend on their production. Initially, he assumed away all differences in skill, temperament, and attitudes of the workers, treating them all as homogenous. Labour so conceived, allowed the substitution of one worker with any other within or across industries. This Marx called as *abstract labour*. The relative prices of commodities, he argued, reflect quantities of this abstract supply of labour. Then, to accommodate differences in skills, he relaxes his *homogeneity* of labour assumption: he introduces into the picture the notion of *socially needed* time to produce a commodity. Such labour time Marx defined as an average worker would take to produce the commodity. Labour skill higher than the average is adjusted, in his scheme, to the average by measuring the excess productivity of a worker and making an appropriate change to account for his labour hours. For example, if in an hour A produced 20% more than B, the average worker; the time of A will be treated equal to 1.20 hour relative to one hour of B for payment. In this way, all labour time is adjusted to equal the socially needed time to produce a given volume of commodities.

Another difficulty with labour theory of value is how to account for the influence of capital goods on relative prices. For this, Marx used the solution Ricardo offered. He supports the view that capital is nothing but stored up labour. The labour time spent in producing a commodity then is:

Labour time currently used + labour time used from capital store

Thus, capital consumption is measured in terms of labour time used from that stored in capital instruments employed. This solution has an important implication from an Islamic viewpoint. It shows that interest payment to finance capital has little logic as it is additional to the allowance for capital consumption. It also shows rent going to the landlords as an undeserved payment: for, “they love to reap where they never sowed”<sup>18</sup>.

Marx lays down the principle that labour is not merely the cause and measure of value; it is also its *substance*. He does believe, like Ricardo, that utility is a necessary condition for a commodity to have value, but it is not sufficient, he maintains, to explain

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(18) Adam Smith, *Wealth of Nations* (1937, 49).



its value in exchange. For, every act of exchange implies some common element, some degree of affinity between the commodities exchanged. "Socially necessary" labour time, to produce each alone is that element as stated earlier. Commodities will exchange in the ratio of this time contained in them. This brings Marx face to face with the question: but what determines the exchange value of this labour time?

Of course, if it takes a worker 10 hours to produce a commodity, 10 labour hours would be the value of his labour. But in a market bargain, argues Marx, the employer assumes for himself the right of having the product as his property; he sells it for its real value, 10 hours. The worker is cut off from the product with the payment of a wage. But what determines this wage? Of course, labour time for producing minimum consumption the worker would need to keep him available for 10 hours work. Suppose that consumption basket is produced in the economy with 6 hours labour time. The employer pays the worker a wage in commodities that 6 hours work produces in the economy. This looks fair on Marx own terms. But he argues that the surplus labour of 4 hours is of the worker's but its fruit – output worth 4 hours of labour -- the employer appropriates to himself. Marx thinks it is, in part, imperative for the working of the system. Some capital is needed to maintain the workers until the product emerges for sale. Thus, a distinction has to be made between the gross and net output. Marx stated that labour reproduces the value of the materials and wear and tear used up in production<sup>19</sup>. Net output is the surplus value that labour adds to constant capital. It is this surplus out of gross output that lies at the heart of the Marxian system of analysis. From the equity viewpoint, the division of the surplus between wages and profit is *the* issue. The ratio of surplus to wages ( $s / w$ ) constitutes what Marx calls the rate of labour exploitation in capitalism (Robinson and Eatwell, 29). Exploitation of labour to Marx was an organic vice intrinsic to capitalism.

## 6. The Comparison

Labour theory of value both in Ricardo and Marx is shown to have some serious blemishes and deficiencies. Both have met with much scathing and some valid criticism. We have deliberately not gone into that part of the story. For, our primary objective was to bring to light the fact that a detailed exploration of an important but unresolved issue that we raised at the start of this paper is found in Ibn Khaldun writing more than 400 years before it resurfaced in the writings of the Western scholars. Another reason of desisting from going over evaluations was our desire to shun the possibility of looking partisan one way or the other for that could take the focus away from our main objective. It would be appropriate to compare and contrast, even if briefly, the views of the three great scholars in the history of economic thought for putting the record straight.

Quoting from the Qur'an, Ibn Khaldun demonstrated that in stocking the universe with inexhaustible resources, God intended to help mankind operate as His

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(19) It may be noted that the difference between the gross and net output is working capital which includes what labour produces for its own maintenance. Thus, it would be utopian to argue that because labour creates all value in production; therefore, all should go to labour. That was never the position in Marx. Compare with the position of **Ibn Khaldun** on the point discussed earlier. The similarity is striking.

representative on the planet Earth. So, resources were created such that they would yield to human intelligence, creativity and effort to produce for him the means of sustenance and facility. Life on earth started with men and resources. But resources are only a contributory element; human effort (*labour*) must be combined with them for wealth creation. In course of time, man forged instruments or real capital to facilitate his productive effort and make profit. Profit being part of the product is as well the fruit of labour (*Introduction*, 311).

Centuries later even Adam Smith, the great thinker, could not deny this fact: he palpably declared that labour is the true source of wealth<sup>20</sup>. But it was presumably the compulsion of his environment that Smith later shifted, as we noted earlier, to a cost of production theory of value. He could see industrial revolution that scientific invention and capital accumulation made eminent, knocking at the door of England. But Smith was, it seems, overtaken by the phenomenon. Unlike Ibn Khaldun ahead of him and Ricardo after, he was not in a circumstance to realize that capital too was the product of labour. After division of labour and money, he regarded capital as the most essential source of national wealth. He wrote:

*The industry of the society can augment only in proportion to its capital augmentation and its capital can augment only in proportion to what can gradually be saved out of its revenue (Wealth of Nations 1937, 325).*

Here it is not clear as to what constitutes the revenue of the industry. Ibn Khaldun is explicit on the point. He regards profit as the fruit of labour as also the source of savings or acquired capital. We shall come back to this point later.

Ricardo was clearer and consistent in his explanation of the labor theory of value. He was one with Ibn Khaldun on the point that the source of both profit and capital accumulation was labour. Again, there is much affinity in the views of the two on labour not always being the exclusive source of value. Ibn Khaldun identified the contribution of nature to output. For example, “rain makes the fields thrive” in cultivation. This is true also, though less obvious, when animals, plants, or minerals are the source of gain (*Introduction*, 311-312). Crafts involve composite and scientific work. They entail thinking and speculation which is part of a sedentary culture. But inventions come from God. By implication, their contribution to profit results from some natural factor (*Introduction*, 316-317)<sup>21</sup>.

Despite being firmly committed to a labour theory of value, Ricardo too admitted in a letter to McCulloch the weakness of this theory. Being a great capitalist himself, it was hard on him to treat labour and capital at par. He contradicted his earlier position

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(20) This surely was Smith’s initial position. Note that *Wealth of Nations* (1937) opens with the sentence: “The annual labour of every nation is the fund which originally supplies it with all the necessities and conveniences of life which he annually consumes, and which consist always either in the immediate produce of that labour or in what is purchased with that produce from other nations”.

(21) It is unclear as to why **Ibn Khaldun** took this stand concerning inventions. His explanation that the source of inventions is part of divine scheme may be acceptable at a higher philosophical plane but would not be welcome to modern rationalistic thinking.

when he talked of value as dependent upon the sum of wages and profit, thus shifting to a cost of production formulation (Gide and Rist 164-165). Ibn Khaldun suffers from no such inconsistency. Profit is the fruit of labour and savings for capital formation come out of profit. “[T]he capital a person earns and acquires, if resulting from a craft, is the value realized from his labour. This is the meaning of “acquired capital” (*Introduction*, 313).

Karl Marx and Ibn Khaldun both regard profit as a surplus and attribute it to labour. In Marx, its appropriation by the capital owners is an act of exploitation because it is not the fruit of *their* labour. Marx sees in it the seeds of impending revolution that would dispossess capitalists of property and political power to usher in socialism that workers would run. Ibn Khaldun has no such illusions, and yet he may be regarded in some measure the forerunner of Marx. The difference between the two is this: while Ibn Khaldun sees the government imposts and taxation as signifying the act of appropriating what belongs to labour; Marx finds capitalists as the culprit. Ibn Khaldun suggested in a reconciliatory mode the sharing of profit with labour – a peaceful solution<sup>22</sup>. Marx saw conflict and revolution as the inevitable outcome of exploitation. The reason was that he was, unlike Ibn Khaldun, steeped in pure materialism to the exclusion of faith and spirituality. But for that, the difference between the two on the exploitation of labour is largely of form, not of substance. Nevertheless, that difference matters.

## 7. Concluding Remarks

To conclude, Ibn Khaldun, Smith (despite confusion), David Ricardo, and Karl Marx all agreed that labour, apart from nature, was the only source of value and capital formation. But none of them – or anyone else -- could provide a firm and feasible solution to the problem of wealth creation and its distribution in modern societies – an issue we raised in our introductory section as the reference frame. Indeed, the issue is as old as economics itself and would probably remain so unless the subject dies. However, the essential point of this work was to show that the *Introduction* of Ibn Khaldun contained the first rudiments of a theory showing labour as the measure of value and source of capital formation hundreds of years ahead of the classical writers like Smith, Ricardo, and Karl Marx. It is time that the history of economic thought is corrected on this point.

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(22) For advocacy of labour share in profit, see also Hasan (1975, 1983, and 2006).

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