

Ibn Khaldun: Economic Growth and Division of Work

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Abstract: The purpose of this paper is to discuss the welfare of the state in terms of aspects of economic growth that are implied in the division of labor. This paper is a qualitative research by narrating data descriptively. As the main source in this paper is the book *Muqaddimah* by Ibn Khaldun. The conclusion of this paper is that the welfare of the state is determined by the balance of state income and expenditure, as well as maximizing the production of a country, which has implications for the country's economic growth. State revenues and expenditures are determined by the economic activity of the community which is determined by the balance of prices. Balance is determined by demand, production costs, increase in tax rates, marginal propensity to consume, and hoarding by unscrupulous traders. Production maximization is carried out through expertise that focuses on day-to-day needs, office and army professions.

1 INTRODUCTION

The welfare of a country, according to Ibn Khaldun, is determined by the amount of income and expenditure. The greater the income of a country, the greater the expenditure. The greater a country's budget for development, the greater the country's income from various taxes and levies (Khaldun 1993). Ibn Khaldun emphasized that the economic growth of a country must be pursued together (Khaldun 1993). Togetherness in the business and economic fields encourages the creation of various kinds of economic activities so that it will produce the benefits that are spent again for economic activities. This theory is in line with Keynes's opinion about macroeconomics, when the economy is experiencing sluggishness, the government must spend a large budget to provide stimulus so that the economy will grow.

Ibn Khaldun's main idea is that economics is a moral science. Ibn Khaldun often criticizes the habits of rulers who are spree and selfish. This caused the country's economic collapse (Khaldun 1993). This shows that economic development must be accompanied by morality. Because economics is a moral science. Ibn Khaldun also often criticized the policies of the authorities who did not take sides with the people. Like the seizure of people's land to be

given to their cronies. The authorities do not take sides with the people, but defend the parties closest to power. Development should provide broad opportunities for all people. The authorities must strive to encourage all their people to engage in the economy and produce (Khaldun 1993). This clearly shows that economic development must contain human values. Development must not only be physical but must be a humanization process. National development theory which contains the meaning of human empowerment is in line with Ibn Khaldun's notion of *umrah* (Al-Araki 2006). The theory of *'umrah* that was built by Ibn Khaldun was translated as the concept of creating human civilization or civilization (Al-Araki 2006; Al-'Abidi n.d.).

National development is an effort to create mutual prosperity. Ibn Khaldun call it the term *al-'imarah* and *al-i'timarah* (Khaldun 1993). Ibn Khaldun said that the achievement of prosperity and advanced civilization can only be achieved if the productivity of society is high (Khaldun 1993). The size of a country's prosperity is not determined only by natural resources, but is determined by the number of economic activities carried out by the community (Khaldun 1993). Ibn Khaldun warns that if a development strategy is applied by a country without involving its people, then they will be reluctant to

produce so that it will result in the destruction of the country (Khaldu>n 1993). This meaning is in line with human empowerment or human empowerment as initiated by Sri Edi Swasono. Human empowerment will actually accelerate development for mutual prosperity. The more division of labor and specialization of work, the greater the production surplus from trade, so that the higher the profit will be for the country to prosper (Baeck 1994). The more people who are active and productive in economic activities, the more economic value added in the country (Swasono 2010). This is clearly different from if development only prioritizes economic growth without increasing the participation of the community.

The theory of economic growth of a nation, according to Ibn Khaldun experienced five phases of development. These developments are similar to those proposed by Rostow. The difference, Ibn Khaldun alludes to the interference of the authorities in economic development policies. While Rostow appeared to propose a theory of growth from the aspect of history, where the inter-phase will change by itself without interference from the authorities. Changes between phases will run naturally (Khaldu>n 1993; Rostow 1990).

Ibnu Khaldun, according to Sattar, explained that a country's economic growth experienced three phases. The first phase is nomadic with the pattern of life of the people who live by herding, fishing and hunting. Second phase, life is settled with life as a farmer. The third phase, urban life is characterized by a variety of skills, science, industry and art (Sattar 1980). Sattar also explained that Ibn Khaldun had formulated the principles of political economy. Economic growth will occur if society has been organized under solid government that can guarantee life, strengthen public performance and uphold justice (Sattar 1980; Khaldu>n 1993).

The concept of economic growth in a country described by Ibn Khaldun seems to be more compatible with the present reality. Like the country of Indonesia, currently only starting in the third phase. We have felt the first and second phases. That is the phase of seizing independence with a free market economy system. Then the authoritarian phase and now there has been a lot of development in the economic field (Andry n.d.).

The problem faced at this time that is the main problem in this paper is how the welfare of the country in terms of aspects of economic growth implied in the division of labor in perspective Ibn

Khaldu>n. This paper is a qualitative research with primary data sources is the Muqaddimah Ibn Khaldun.

2 ECONOMIC GROWTH: INCOME AND EXPENDITURE BALANCE

Ibn Khaldun emphasizes that the balance of income and expenditure determines the economic development of a country. State Budget (APBN). The APBN serves as a driver of economic growth. The amount of a country's APBN can affect inflation control. Finally it will affect economic growth. Even economic growth, according to Ibn Khaldun, can be seen from price stability in the market. Price fluctuations determine a country's economic growth. This happens because it is related to the driving factor of the community to carry out economic activities. Ibn Khaldun states that if the price of goods in the market experiences a long decline, it will result in a decrease in the profit level of the supplier, so that it cannot accumulate profits to re-invest. The long-term consequence is that it cannot cover the costs of production and the expenditure of goods which eventually the business will fall (Ali 2006; Khaldu>n 1993). In the modern economy this concept is called deflation.

The phenomenon of inflation, where the price of goods tends to rise due to the amount of money circulating in the community. Then such conditions will also afflict the community. Inflation and deflation will threaten the livelihoods and income of entrepreneurs and the community in general. If that happens for a long time then the economy will not experience growth, even the opposite will occur (Khaldu>n 1993). Economic growth of a country is closely related to price stability. Inflation and deflation are very influential on people's motivation to carry out economic activities. The negative impacts of deflation and inflation in the study of modern economics have in common with what was suggested by Ibn Khaldun. This shows that Ibn Khaldun's thinking> has preceded all theories of inflation or deflation.

Ibn Khaldun also put forward the theory of supply and demand to create a price balance. Competition between consumers will affect the demand side. Another factor that influences the price balance is the cost of production. The increase in tax rates, excise

and other levies will affect the supply side (Khaldun 1993). The theory was inspired by the phenomenon of rising and falling demand and supply that differed between city and village residents. Ibn Khaldun states, if a city is growing rapidly, its economy is progressing and its population is crowded, then the supply of staple food is abundant so the supply increases which results in the cheap price of the staple goods. So that the phenomenon that occurs is that staple goods in the city tend to be cheaper, because of excess inventory (Khaldun 1993).

While luxury goods will experience an increase, it can be assessed by the theory of demand and supply. The theory of supply and demand in modern economic studies is mentioned as an increase in disposable income among the urban population. In urban areas often experience excess income so that it will increase the marginal propensity to consume (the marginal tendency to consume) of luxury goods. So as to create new demand. Luxury goods tend to increase (E. Amalia 2010).

Another factor that is the cause of rising prices for goods is because of high production costs due to customs tariffs, taxes and other levies imposed by the government on goods (Khaldun 1993). Ibn Khaldun also highlighted the increase in the price of goods caused by the existence of behavior *ihitika* or hoarding by unscrupulous traders (Khaldun 1993). Another factor that influences the increase in the price of goods is the cost of distribution. Goods obtained from areas that are far away will be more expensive compared to goods produced from local areas. If the distribution costs are not expensive then the goods will also be cheap (Khaldun 1993).

According to Ibn Khaldun the price of goods greatly affects trade. Fair prices are very necessary for the continuity of trade. Producers will reduce the production of goods if the selling price is too low, while prices that are too high will result in low consumer interest in buying goods. It will cause the market to become sluggish (Khaldun 1993). This is where the importance of fair prices in business. Government oversight is needed to create fair prices in the community. Not being freed to be wild or restrained from being bound, but controlled and supervised. The ruler must be able to accommodate the interests of producers to obtain reasonable profits and the interests of consumers to get a fair price.

To prove his theory, Ibn Khaldun gave an example in the field of agriculture. If the prices of agricultural products are cheap, it will have a negative impact on the lives of many parties, ranging from

farmers, rice cultivators, farm laborers, agricultural processors to the authorities. Farmers will bankrupt because they do not have profits due to low harvest prices, even farmers will increase working capital for the next planting season. The government will also suffer losses, because the amount of tax that can be withdrawn from agriculture will decrease. If the state income from tax is reduced it will affect development and affect the welfare of the community (Khaldun 1993).

The life of the farmer described by Ibn Khaldun is not much different from that of farmers in Indonesia today. Indonesia must import rice even though Indonesia is known as an agricultural country. The economic situation of farmers in Indonesia is not prosperous. Prices of agricultural products such as rice, corn and soybeans are very cheap. Production costs cannot be met from the harvest. So that for the next planting period our farmers must be in debt (Sunarti and Khomsin, n.d.). The opposite phenomenon is deflation. Deflation is the process of decreasing prices in general and continuously in a certain period (Mankiw 2006). Deflation will have a negative impact on economic growth. Economic activity will slow down due to lack of money supply. The community will reduce or delay spending so that the price of goods decreases. In the end the producer will reduce labor or even terminate the work because there are no items sold. Deflation will result in a decline in business sector revenues, a decrease in income and termination of employment. Unemployment will increase and investment decreases (Mankiw 2006). The opposite of deflation is inflation. Ibn Khaldun also stated that if there was a high increase in the prices of goods, it would also damage the economy (Khaldun 1993). In the modern economy inflation is defined by an increase in the general price level continuously in a certain period (Rumapea and Haloho 1994). Samuelson defines inflation briefly, namely the general price increase (Samuelson and William 2005). Inflation has a negative impact on economic growth. Inflation will reduce income, trade becomes sluggish, production will decrease because of the increasingly expensive costs and distribution will also be disrupted because of the high costs so that investment will decrease and the level of life and welfare of the people decline (Mankiw 2006). The negative impact of deflation and inflation raised by Ibn Khaldun is generally the same as modern macroeconomic studies. This shows that Ibn Khaldun's thinking has preceded all theories of inflation or deflation.

The demand and supply theory of goods is known in economics with the terms demand and supply theory. Ibn Khaldun makes a simple picture of demand and supply theory. Ibn Khaldun states that if the demand for goods continues to increase then the item will occupy a position such as a staple item that is contested by all people. Conversely, if the demand for goods tends to decrease then prices will tend to fall (Khaldun 1993). Demand is influenced by the level of income, population, desires or tastes, prices of goods, prices of complementary goods and politics (Gilarso 2003; Danniell 2004). Ibn Khaldun said that along with population growth the demand for goods would increase as well (Khaldun 1993).

Supply, according to Ibn Khaldun, if the price of goods falls, the producer will reduce production and the available goods on the market will decrease, to avoid losses (Khaldun 1993). Another factor that can increase the price of goods, according to Ibn Khaldun, is by improving the quality of goods, thus the Government must encourage producers to produce good goods to increase selling prices, either through education or training for entrepreneurs (Khaldun 1993).

The economy initiated by Ibn Khaldun which contains values that are the same as the basis of Indonesia's economic democracy as outlined in Article 33 of the 1945 Constitution (UUD 1945), in the form of togetherness with the principle of kinship. Production branches that are important for the state and which affect the lives of many people are controlled by the state. The earth, water and natural resources contained therein are controlled by the state and used for the greatest prosperity of the people. The national economy is organized based on economic democracy, togetherness, efficiency in fairness, sustainability, environmental insight, independence, and by maintaining the balance of progress and national economic unity (Swasono 2015)

Sri Edi Swasono also asserted that the explanation of Article 33 of the first paragraph of the 1945 Constitution emphasized that the economy was not left free to walk alone. The Indonesian economy must be formulated together based on deliberation (Swasono 2015). This article rejects the notion of market fundamentalism (Swasono 2010a). The free market is precisely the opposite of Indonesia's economic democracy. The country's economic policies must be prepared by the government. The state must formulate policies in national development. Development is not left to the will of the market (Swasono 2015). The interpretation is also

similar to Ibn Khaldun's theory which states that the state is a large market (al-s>uq al-a'z}am) or the parent market (umm al-aswa>q) which must be able to regulate economic conditions. The government must be able to regulate the market not regulated by the market (Khaldun 1993).

3 DIVISION OF WORK TO CONTROL EXPORTS AND IMPORTS

The authorities must establish policies to create fair prices for goods on the market. The authorities must be fair in determining policies in trade. From the producer side, it cannot take big profits because consumers cannot afford the goods they need. This will have an impact on falling sales. But if the price is too low, the producer does not get a profit. As a result producers will reduce the quality of goods, so consumers will get goods that are not qualified. The government must create policies that make fair prices so that all elements in economic activities will not suffer losses (Khaldun 1993).

The division of labor theory expressed by Ibn Khaldun was reiterated by Adam Smith (1729-1790 AD) in a concept of division of labor. Adam Smith stated that labor productivity can be increased through the division of labor and specialization. But because humans have the nature of hedonism which if allowed to develop it will be able to create equal distribution of wealth when all the needs of human life have been fulfilled, it needs to be given freedom and must be eliminated the privileges of certain groups of people (Deliarnov 1997).

Adam Smith emphasized the importance of work specialization to achieve a large output from the economy and increased wealth (Spiegel 1983). Adam Smith offered the theory (Absolute Advantage), namely absolute superiority. There is a division of labor or work specialization, so a country can produce goods at a low cost compared to other countries, so that in international trade the country will get an advantage. So that a country will import goods that are not their specialty because they are not profitable due to the more expensive production costs. Similarly, other countries will do the same so they will get absolute benefits (Ikbar 2006).

The Division of Labor theory proposed by Adam Smith is similar to the division of labor described by Plato. Plato states that a person has a job that will

naturally suit each individual. Plato states that humans are destined to do work that suits their talents. But humans will need other parties to fulfill their needs. Based on the diversification of work in the community, they do not need to prepare all their needs alone. Plato stated that if humans do their work in accordance with their natural functions, then productivity will be more, easier and better (Spiegel 1983).

Plato's opinion is based on the division of labor. Plato explained that there are three types of work that become different human professions, namely: rulers or regulators, soldiers or troops and workers. The difference between Plato and Smith's division of labor theory that according to Plato the nature of hedonism must be eroded because humans are created with different traits and tendencies, if left unchecked it will be an obstacle to achieving a just and prosperous society equally. While Adam Smith agrees more with the nature of hedonism as a human right, it must be respected and allowed to develop because it will achieve a balance of prosperity by itself (Deliarnov 1997).

Adam Smith's labor division theory was developed again by David Ricardo. Ricardo called it Comparative Advantage, where two countries that carry out international transactions have two excess goods, then the country must carry out production specialization on goods that have relatively lower prices than other countries. Ricardo emphasized that as much as possible for a country to carry out export and import transactions. Because it will increase state revenue from large profits and also from high customs tariffs (L. Amalia 2007). However, in reality the system developed by Smith and Ricardo about the Division of Labor only benefited The Haves group. International trade, therefore, does not bring mutual prosperity but only benefits unilaterally (Stiglitz 2006).

The Absolute Advantage theory developed by Adam Smith and Comparative Advantage that Ricardo initiated was discussed by Ibn Khaldun. Ibn Khaldun states that every country has a specificity or specialization in producing an item. Ibn Khaldun gives rules and restrictions so that the division of labor can be achieved perfectly. These limits are low customs tariffs and balanced control of export and import trade followed by an emphasis on the nature of hedonism (Khaldun 1993).

Ibn Khaldun states that every type of economic activity requires people who have special skills to do so. Ibn Khaldun also stated that someone who has

become an expert in a profession will find it difficult to become another profession (Khaldun 1993). Ibn Khaldun wants to emphasize that everyone must have one skill that becomes his profession and continues to be developed. This shows that a production process requires the sharing of expertise and skills. The goal is to achieve maximum production results. However, the nature of human hedonism must be cleansed (Khaldun 1993).

Ibn Khaldun also revealed the division of the profession in society. As Plato divided the work into three groups, Ibn Khaldun also divided the work done by the community into three groups, namely: work that focuses on the daily needs of the day, both basic and additional needs. Jobs that focus on everyday human needs such as farmers, slaughterers, carpenters, blacksmiths and so on. The second group is the office profession, such as writers, teachers, singers and printing. The third group is the profession as an army and includes employees (Khaldun 1993). The division of this profession is almost the same as the division that was presented by Plato.

Ibn Khaldun also stated that the combination and variation of work would create better productivity. In addition, the main factor in achieving the balance of output in production is the nature of 'as} abiyah or mutual awareness between groups to work together to meet economic needs (Khaldun 1993). This theory is to eliminate selfishness and greed. So that cooperation with economic prosperity will be felt by all layers. Ibn Khaldun also gave an example of effective division of labor. For example in the field of agriculture, it turns out that not only farmers do economic activities but other fields. Other production factors such as blacksmiths, hoe makers, plow makers and tractor factories will also run. Equitable division of labor will produce maximum production so that the country will achieve self-sufficiency in goods and at the same time have excess supply. So that the country can export goods abroad. Then international trade will emerge. Even distribution of work will lead to production efficiency. Because it will reduce production costs so that product prices will be more competitive when entering the market. This division of labor theory will be able to create economic growth in the country. Improving the country's economy must be supported by boosting the domestic production side. So that there will be self-sufficiency and can export abroad. The proceeds from exports will increase the country's foreign exchange so that the balance of payments will be positive. Finally, the

country's wealth will increase and the economy will grow (E. Amalia 2010).

4 CONCLUSIONS

The finding in this paper is that Ibn Khaldun emphasized that the welfare of a country is determined by income and expenditure of the state budget. State revenues affect the amount of expenditure, and affect the state budget for development, so that the balance of income and expenditure determines the economic growth of a country.

Economic growth is determined by price stability in the market, which is influenced by the driving factors of the community to carry out economic activities. These factors are inflation and deflation, which are influenced by supply and demand to create a price balance. The government needs to pay attention to the balance of prices. Price balance needs to pay attention to competition between consumers will affect the demand side, production costs, increase in tax rates, marginal propensity to consume, hoarding by unscrupulous traders.

Ibn Khaldun also emphasized that the welfare of a country can be achieved through maximizing the production of the country. Production maximization can be achieved through the expertise that must be possessed to maximize production. The expertise needed in a country is focused on day-to-day needs, office and army professions.

Combination and variation of work will create better productivity. In addition, the main factor in achieving the balance of output in production is the nature of sifat as} abiyah (nationalism) or mutual awareness among groups to work together to meet economic needs. The biggest problem is that the nature of human hedonism must be cleansed.

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