JKAU: Islamic Econ., **Vol. 3**, pp. 63-79 (1411 A.H./1991 A.D.)

An Historical Approach to Islamic Pricing Policy: A Research on the Ottoman Price System and its Application

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ABSTRACT. The Ottomans resorted to price fixation with a view to ensuring stability in the market. Islamic law does allow price fixation in special cir circumstances. Ottoman monetary and commercial policies were also directed towards price stability and security. Guided by the Islamic principles. a number of institutional arrangements contributed to the welfare of the people by preventing fraud, hoarding and monopolistic practices.

Introduction

In societies where money is used as a medium of exchange, the price system determines resource allocation to a great extent. Relative prices prevail in various markets as they are guided by supply and demand. The price system, thus, allocates goods and services among consumers and it gives signals to producers about what to produce. In theory, resource allocation as it was brought about by the price system is "optimal" as far as the efficiency and the welfare of the society as a whole is concerned. However. none of the modern economies have exhibited a market or a segment in the economy where perfect competition is experienced so as to end up with the "optimal" solution.

As the degree of competition has varied over the markets, public administrators have intervened in markets by means of several regulatory acts, one of them being price control (*tas'ir/nerkh*). This was designed to protect consumers at times of high "inflation". In the past *nerkh* (*tas'ir*) was practiced when there existed insufficient supply due to rudimentary and costly transportation network or war conditions. Today, monopolistic tendencies and/or practices necessitate the very same policy. Price stability can be established at least in commodities regarded as basics. There are many other options for a government. It can establish safety and health regulations to prevent market failure, it can ban production of Islamically "unlawful" items, it can enter into market as a buyer to secure price stability and to protect consumers as well as producers.

It is to the best of interest of societies if governments take action in abolishing monopolistic practices, in reducing the number of middlemen who do not produce any real service and in securing a stable price level which is determined under normal supply and demand conditions. The paper aims at offering ways with which the above mentioned goals can be attained.

A. Basics in Pricing Policy of Islam

In Islamic economics, it is very important to curb the urge to monopolize markets while fostering an atmosphere for a liberal economy. The principle is, then, not to intervene if prices reflect normal supply and demand conditions. The Prophet (p.b.u.h.) in an incident related to importation reportedly said the following which is a rough translation: "It is Allah (s.w.t.) who regulates prices, who gives shortage as well as abundance, and who gives sustenance".(1) This constitutes an evidence against price controls under some circumstances. The Hadith teaches us that if intervention turns out to be prohibitive, there will not be supply of any amount of foreign goods. This leads to a situation of scarcity and practices of black market. Thus, for the benefit of the society the Prophet (p.b.u.h.) encouraged suppliers of goods, wanted liberal market conditions to prevail in order to prevent scarcity.(2) Nevertheless, the principle set by the above mentioned Hadith does not rule out government intervention in cases of monopolistic practices. Prophet's objection to price controls is only subject to normal price fluctuations generated by normal supply and demand conditions. Ibn Taymiyyah and Ibn al-Qayyim too, interpreted the very same Hadith the way we have expressed above.(3)

According to muslim jurists (*fuqaha*) government intervention in markets has to satisfy certain conditions. In this respect, nobody other than public authorities can regulate markets. Muhtesib[*], kadi[**] and/Or vezir[***] can be appointed for the job. In the case of interventions, experts of the field investigate real forces behind unusual price hikes, study cost and demand structures. After lengthy consultations experts determine market price inclusive of a normal profit. The announced price should be just for both parties, buyers and sellers, so as to establish mutual consent. If price does not cover costs, the likely outcome is that commodities disappear in the market and sellers look for other channels through which they can charge a price higher than their costs.(4) Quality differences have to be taken into consideration as well.(5)

Another option for the government in stabilizing markets, can be found on supply side. In particular, if excess supply due to a good harvest guides the market, a sharp decline in price is unavoidable. Government can announce a support price and buy up unsold quantities in order to keep them in stock. Later on, if a bad crop leads to excess demand, government can supply enough commodities from its stocks so, it can stop price from increasing.

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* *Muhtesib* is an officer who is in charge of controlling accuracy of weights and measures used in markets. He also is supposed to keep a close look at prices and at whether or not government regulatory provisions are fulfilled. *Mahtesib* works in *hisba* organization.

** *Kadi* is the canonical judge.

*** *Vezir* is the prime minister.

Self-destructive nature of unfair competition is subject to the rules of lawful competition. Although *fuqaha* favour the idea to ban price which deviates too much from normal market price, they tend to recognize genuine factors which lead to fluctuations in prices.(6)

Islamic strategy with respect to price controls is an integral part of a general principle which ties normative economics with morality as defined by the Book and the teachings of the Prophet (p.b.u.h.). Buyers and sellers are advised to show mutual respect, mercy and tolerance.(7) Therefore, a peaceful bargaining process is encouraged. Thus unusual exchange contracts and purchases can be avoided as a result of which price stability can be maintained.

In the Islamic history we have observed that price control practices were applied only in the case of basics. When rare items such as antiques, products of artists are concerned, price controls cannot be justified since the main factor determining the price is not cost but the way buyer appreciates the commodity. So far, we have seen that price control policies have one aim, that is price stability which draws special attention thanks to the priority given to justice and public welfare in Islam.

Monetary policy was a factor of price stability. Metallic money was used during the time of the Prophet (p.b.u.h.). In fact, there is not any directive as to what money should be made of, either in the Book or in the teachings of the Prophet (p.b.u.h.). Therefore, it is accepted as given to use metallic money as the medium of exchange. In this respect, gold and silver are mentioned by name in the Holy Qur'an (9:34). Some of the scholars in Islam claimed that precious metals like gold and silver were created for the purpose of being used as money. Gazzali and Ibn Khaldun shared the same view in this matter.(8) Imam Mohammed bin al-Hasan al-Shaybani, as an exception, classified "*fals*"* as equal to golden and silver money in terms of the category it belonged to.(9)

It seems that the consensus on precious metal as money is a necessary, although not sufficient, condition for price stability. Inflation due to ever increasing money supply was not a problem, since the cost of mining gold and silver limits their supply.

Profiteering and monopoly are also illegal. Speculative behaviours which take the form of not selling demanded goods while increasing inventories are prohibited by the Prophet (p.b.u.h.). There are sanctions for this unlawful practice.(10)

However, there are exceptions to the rule: Farmers can retain their produce and sell them whenever they want; craftsmen too are free to choose the time to sell their products. According to one opinion. importers and tradesmen who obtain goods from distant places, should not be regarded committing profiteering if they store goods for a while before selling. These exceptions make us understand that profiteering is closely related to whether the person who stores goods while there is excess demand is himself the producer. Even if producers are engaged in storing goods, it is a disliked and discouraged practice. There exist various sanctions depending on the extent of harm profiteering leads to.(11) Those sanctions aim at maintaining price stability by way of bringing already produced goods to market.

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* "*Fals*" is a metallic money made of copper. It was used in transactions of insignificant value.

Consumer protection is an essential part of regulations regarding commerce.[(12)] Speculative bidding is unlawful for if the speculator does not need the good it simply makes the real buyer pay more than what the price would have been without speculation. It is also unlawful to offer a higher price for something which the seller has al ready completed a deal with someone else. Another unlawful act defined precisely by Hadith, is to buy up the whole amount from a producer or importer before they supply to the market in order to make huge profits. The Prophet (p.b.u.h.) reportedly said: "Do not wait outside the town for persons who bring goods to the market in order to buy up their goods. No one should attempt to make deal over an already completed deal. Do not bid up prices intentionally to deceive consumer".[(13)] Intentionally and incorrectly revealed preferences to affect demand, and to act as such is prohibited.[(14)]

In the final analysis, the aim seems to be to shorten the chain between producers and consumers and to enable consumers to afford to buy goods. The system is designed to avoid middlemen who do not produce any real service. Moral principles are supported by the existence of sanctions so that useful competition can survive with out being killed by monopolies, and therefore price stability aim can be achieved.

Also, prohibition of *riba* is an important factor which allows for price stability. *Riba* has a very comprehensive definition. *Riba al-Nasia* is the interest charge in lending process. *Riba al-Fadl* comes from exchange relations. *Bay' al-Garar* is de fined to be contracts dealing with future commodities of undefined nature.

Islam generally tries to deal with conditions which lead to an unlawful consequence. By the same token, Islam creates an atmosphere in which *riba* becomes practically uninvoked. Especially. the insistence on capital stock to be productive rather than being idle is one of the precautions in this respect.

Riba al-Nasia is explicitly defined and prohibited by verses (11:275-76; XXX:39) of the Holy Qur'an. These verses differentiate between *riba* and profit by saying that *riba* is a means by which part of the wealth existing in the economy is put out of circulation so that potential of generating more income is handicapped. The argument put forth by intertemporal maximisation is rejected because the preference over time horizon is not recognized as an income generating factor. The source of prohibition from *riba al-fadl* and *bay' al-gharar* is Sunnah.[(15)] Contracts over goods which are expected to be generated in the future, set a fertile ground for speculative earnings. This alone is one of the causes of cyclical crises. Since the aim is to keep wealth active in production process and thus to generate more output and income, prohibition of *riba* is a contribution to price stability.

Islam preaches people to abstain from extreme behaviours, promotes moderation and justice in all aspects of life as well as in economic relations and decisions (XVII:26-29; XXV:67, VI:41; VII:31).[(16)]

Islamic principles set limits to production and consumption. Mass production can not be allowed at the expense of exhausting natural resources irresponsibly, unlike the capitalistic system. Basic needs such as food, clothing. shelter and transportation are to be provided to people satisfactorily in an Islamic society. Production of other commodities is invoked if there is a constant need for them. Contrary to the Islamic mentality, in a capitalistic market economy, first something is produced whether it is really a need or not. Then people are fooled to buy and consume those products by sophisticated marketing and advertising techniques New productive capacity and factors used thereof are bound to be idle in the case of lack of effective demand leading to many problems. Effective rehabilitation of prodigal minds in the society finally dampens the volatility of supply and demand, thus contributes to price stability. Therefore, people who are relatively in lower income brackets are not harmed by destructive inflationary waves.

B. An Application of Islamic Pricing System: The Ottoman Case

Ottoman pricing policy was a reflection of Islamic principles. The Ottoman archives are rich enough to provide evidence for the above statement. The Turkish Prime Ministry has the hold of the archives as well as Ottoman law archives. Those archives contain information about over twenty countries established on the lines of Ottoman State, not only about Turkey. They are the main source of economic application and public administration practices of an Islamic State covering a period of six centuries from 1300s to 1920s.

Capitalistic and socialistic theories of economics have emerged over the centuries out of social, economic. cultural and intellectual developments of the Western reality. The Islamic world has been a different phenomenon. Especially after XVIIIth century the Western world started to fill the vacuum generated by the social, economic and cultural deterioration in the Islamic world.

Some of the contemporary Muslim economists are raised under the influence of Western economic methodology. They may have been victimized by the Western claim of universality. No one can ignore that there are some elements and tools the Western intellectuals employ. Muslim intellectuals must acquire the skill of analysing things in an Islamic manner and must refer to original Islamic sources which can shed light on many issues concerning economics, history, legislation, ... etc.

Theory of Islamic economics should be benefiting extensively and comprehensively from the events that occurred in Islamic economic history. This study is an example to that end with its references to Ottoman archives.

1. Ottoman Monetary Policy as a Tool of Pricing Policy

An essential feature of Ottoman monetary policy was its emphasis on using metallic money which is made of gold and silver, and its efforts to discourage the use of non-precious metals for other purposes as much as possible. The Seldjuks and Otto mans tried to stop outflow of precious metals by putting ban on exportation with severe penalties while they provided incentives for the inflow of those metals. At times, gold and silver belongings which were kept in the treasury ended up in the mint (Darbhane)[17] when there was an urgent need to increase money supply.

The Ottoman monetary system was under constant pressure of having heretogenous coins which originated from Istanbul and Cairo. Another pressure was the discrepancy between domestic and foreign prices. It was always the case that over valued Istanbul coins were driven out of circulation (i.e. Gresham law). There was a continuous smuggling of precious metals from Ottoman provinces toward Iran, India and, naturally, Egypt where those metals had a considerably higher purchasing power.[18]

Scarcity of gold and silver had a direct effect on money supply. Money turned out to be more valuable than its face value. This led to a new long volume of transactions and thus depression. Under those circumstances, sometimes the edges of money were cut off (*taqsis*). Debasement of money by lowering gold and silver content of coins was often applied. In modern terms, *taqsis* and debasement were nothing but devaluation of the currency. If the State did not initiate *taqsis* operation, the market after being extremely squeezed by money shortage, did the *taqsis* itself.[19]

However, the extent of devaluation was not as high as we have in today's economies. On the average 0.2% devaluation had been realized up to 1740 since 1326, a year when the first Ottoman coin was minted. A study on consumer prices reveals that consumer prices had increased 1.2 and 1.4% respectively. If we also consider 0.2% annual average devaluation, annual rate of 'inflation' goes down slightly.[20] This remarkable result is due to the stable monetary system.

2. Commercial Policy

Ottoman administration, inspired by the Islamic tradition, preferred trade to take place under fairly liberal conditions. Incentives were given to foreign and transit trade, anti-monopolistic measures were taken and a control mechanism was established to protect consumer as well as producer.

Stability and security in markets was the responsibility of the administration. Foreign merchants were supposed to leave the country with goods they might purchase in the country. They legally were not allowed to do business and repatriate their profits in the form of cash. However, they were not able to purchase some goods which were considered strategically important due to export ban for those goods.

When the American continent was discovered, a substantial amount of gold and silver was shipped over to Europe leading to expanding money supply and rising prices throughout Europe. Due to overvalued European currency there emerged a pressure on Ottoman merchandise to fly to Europe. Basic foodstuff, defence items, industrial raw materials and semi-finished materials were subject to smuggling. Ottoman State inspired by the Hadith of the Prophet (p.b.u.h.) which prohibits the sale of merchandise and weaponry to enemy, put a ban on exportation of some merchandise such as wheat, olive oil, leather, cotton yarn and weaponry. However, it was not possible to deal with smuggling as long as European currencies remained overvalued.

Although the Ottoman provinces were becoming a big market for final goods while it stayed as a supplier of raw materials, terms of trade movements were in favour of Ottoman economy up to the XVIIIth century. Total exports were amounting to a bigger sum with respect to total imports when smuggling was included.[21] Some Turkish goods were successfully competing with European ones at that time.[22]

Because of the importance of transit trade Seldjuks and Ottomans kept custom duties very 1ow.[(23)] In peace agreements, the emphasis was given on reviving transit trade and other international commercial activities which were interrupted due to wars. They were mediating between two conflicting countries if possible since their conflicts constituted a threat to the security of trade.[(24)] We also know that they used to demand from countries with which they fought, not to impede trade.[(25)]

Provided that all the custom duties were paid, foreign merchants could feel free from any state intervention.[(26)] State was in constant fight with every factor threatening transit trade.[(27)] Foreign merchants were granted many protections among which exemption from *jizyah* was a typical one.[(28)] Every measure was to be taken for the sake of increasing merchandise supply including wide exemptions.[(29)]

There was one strict rule which stayed unaltered and disallowed foreign merchants to engage in retail trade. The purpose was to weaken the bargaining power of foreign merchants. Evidence suggests that to avoid this rule foreign merchants almost always dealt with non-muslim Ottoman citizens.[(30)]

At the base of Ottoman foreign trade regime there was the idea of maintaining price stability. Accordingly trade regime was liberalized as much as possible to ensure stable supply of commodities. The only exception was the temporary ban on importation of goods in wartime situations.[(31)]

3. Nerkh (Tas'ir) System

The principle of price intervention under imperfect competition was very effective as far as applied and theoretical Ottoman economics are concerned. The way Ottoman economy was structured necessitated *nerkh* system. The system had been applied almost throughout the Ottoman history.

To curb excessive monopolistic profits, to expand output from the level monopolists tend to fix toward what it would usually be under perfect competition were the aims of the system. Prices which were determined by *nerkh* system could be altered when there was a need to do so. Volatility of agricultural supplies in particular required price adjustments. In addition; seasonal adjustments were made in advance in response to anticipated demand side changes such as the usual demand in creases during the month of Ramadan. The price list was supposed to be submitted by the *muhtesib* to the mayor (*Kadi*) of Istanbul every month.[(32)]

Supply shocks due to war, blockade, drought, transportation bottlenecks were evaluated and prices were increased as a whole if supply had decreased, and vice versa. In case of devaluation of domestic currency, too, prices were increased as a whole. Wholesale changes in prices were not necessarily at the same rate. In addition, upon request some prices were increased if cost increases were proved to be genuine.[(33)]

A committee which was formed by participations of relevant guild, sheikh[*], *kathuda*, *yigitbashi*. *ahl-ihibra* and some other people, was in charge of determining prices under the leadership of *Kadi*, who also assumed the role of mayor. If a price in crease was requested, a detailed study was made on costs. Only if profit turned out to be insufficient, the request to increase price was approved.(34)

Actual profit rates varied from 10 to 20 percent depending on the characteristics of goods.(35) When imported goods or those brought from distant provinces were concerned, there used to be a margin over which *kadi* and the relevant guild held bargaining. Naturally this was due to difficulties in determining costs of acquiring those commodities.(36) Approved prices were kept in official records such as *Kadi sicilli* or *sicill-ishariyyah*[**] and announced to the public.(37)

Nerkh was determined separately for the wholesaler (*geturucu*, *musafir*) and retailer (*oturucu*, *mukim*). Wholesalers were not allowed to run retail shops.(38) Flow of goods was regulated such that retailers were supplied without interruption.(39)

In price determination factors such as the degree of processing, the nature of markets from which inputs were obtained were taken into consideration. For instance, if the product under consideration is a raw material or a semi finished good, it becomes extremely difficult to differentiate value added from final price. Therefore as long as price was not excessive, there was no way but to approve prices as charged by the supplier in the case of many agricultural and mining products.(40) *Nerkh* price was no thing but a price inclusive of supply side conditions.

a. Institutional Aspects of the Nerkh System: Islamic Guilds

The guilds in the Ottoman economy had a great say on industrial supply. *Those guilds which operated* by the principles *of futuwwa*[***] established a production strategy. Accordingly, production decisions were taken expost, i.e. production was made once needs were determined. They tried to avoid both unemployment and excess supply situations. To this end, the number of workshops, machinery and equipment were limited. Without approval, no apprentice could run a workshop by himself. He had to satisfy certain conditions among which competence and completion of training for a certain period can be mentioned.

Medieval Western guilds had similar features. However the guild system was modified slowly as capitalism developed. In the Ottoman economy the guild system had deteriorated leaving a vacuum. The decline can be attributed partly to economic factors peculiar to the West as capitalism evolved in the West.

A typical Ottoman guild was composed of various trade organizations and *kadi* was the authority in charge of auditing. The involvement of *kadi* shows how central administration controlled guilds and thus markets. *Kadi* was informed about production and the part which was supplied to the market. This close control empowered kadi to block unnecessary interventions.

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* *Sheikh*: Head of a guild: *Kathuda*: Stewird of a guild; *Yigitbashi*: Man responsible for carrying Out regulations of a guild; *Ahl-i- hibra*: Expert;

** *Kadi sicilli or sicill-i shariyyah*: Records of a Kadi's office (local magistrate and judge), Registry of shariyyah courts.

*** *Futuwwa* is a tradition of youth, hospitality, generosity, heroism etc.

Shifting trade routes from Ottoman land to the ocean was the first hit to Ottoman guilds. Thus merchants whose primary vocation was international trade were forced to become artisans and/or domestic traders. Army officers and soldiers too started to enter domestic market as artisans and traders for a second source of income, disregarding the ban which prohibited soldiers involvement in anything but national defence and *futuhat*.(41) They never followed the rules regulating domestic markets, and their misconducts and the corruption they caused filled up "sicillat-i kadi".(42) In addition foreigners cooperated only with non-muslim Ottomans as their business partners. All these factors weakened the position and the importance of Muslim tradesmen.

Sector-wise segmentation of production and trade activities through guilds plaved an important role to reduce unemployment and to impede fierce competition.(43) The power of guilds were increased as they become the allocator of raw materials.(44) The evidence shows that guilds made sure that raw materials ended up in the hands of people to whom they were originally allocated, not in the hands of speculators.(45)

Internal organization of guilds included an automatic directing mechanism for quality control and standardisation besides monitoring prices charged for a standard product. The Ottoman guilds were an integral part of *nerkh* policy.

b. Regulation of Markets

It should be kept in mind that the aim was always to secure price stability. *Nerkh* prices were flexible vis-a-vis genuine changes in supply side conditions. However. excessive and continuous price hikes due to imperfect competition were not tolerated.

The central administration had the knowledge of new markets established as well as the way markets functioned.(46) If there emerged a need, traders used to be transferred from one market to another.(47) The strict control over markets enabled the government to conduct its fiscal policy easily.(48) Thus, tax evasion was stopped as pedlary and dumping were forbidden.

By stable prices we do not mean steady price level for individual markets and for different locations. Price discrepancy was allowed over certain markets in different locations. But prices in the countryside were kept in line with what prevailed in big cities so that flow of goods, especially foodstuff, from countryside to the cities did not cease.(49)

As we mentioned earlier exportation of some foodstuff, weaponry and some industrial raw material was not allowed since Europe was *dar al-harb*. The list contained wheat, olive oil, shoes, boots, tents, leather. roan, Moroccan leather, horses, armament, raw cotton, cotton yarn, powder, wax, wool, sailcloth, hemp, rope, sulphur, lead, tallow and pitch.(50)

As long as foreign currencies stayed overvalued, the exchange rate was regarded as being detrimental to the well-being of people. Overvalued foreign currency made Ottoman goods attractive to Europeans and Ottomans experienced a positive balance in trade. The government did not attack exchange rate disparity to keep internal prices stable, instead it took fiscal measures to stop smuggling. Higher prices were paid in terms of goods for gold and silver in India and Egypt. To keep the limited supply of those precious metals at home. Ottomans forced eastern merchants to return to their country with goods,[51] i.e. they were not allowed to take gold and silver they acquired by selling goods they brought in. However, these measures did not curb the urge to smuggle precious metals to the east.

There was no export prohibition to Islamic countries at all. For example, the Otto man government once asked the *Beglerbeg** of Yemen, the *Sheriff* of Makkah and the *Begs*** of Jeddah and Aden to ship copper and horses to Ache (Sumatra).[52] Importation of only unlawful goods such as pork and alcoholic beverages were prohibited.[53]

C. Regulation of Production and Supply

Intervention on the supply side is supposed to recognize the rules of fair competition. Instead of first producing something new and then generating a demand for it by any means, Islam entails macro planning for production so that first the needs are determined and then production is undertaken accordingly. in addition, factors which may lead to permanent shrinkage in overall supply are fought with. Also, production plans which aim at producing unlawful goods are to be obstructed.[54]

Resource allocation and public policy of inventory investment were two important tools in regulating markets. Supply imbalances among different regions were corrected by necessary shipments from excess supply areas to areas where scarcity was experienced.[55] This was a strategy of having buffers to ease out cyclical supply fluctuations. This strategy entailed keeping sufficiently high stock of goods by the State.[56]

At times, the government supplied what markets needed urgently.[57] For instance, warehouses of army and navy in Istanbul were used in regulating the wheat market.[58]

This buffer policy naturally protected producers at times of glut and helped consumers at times of scarcity, by keeping supply and prices stable. The main target of the Ottoman State as stated in official documents was to maximize the social welfare.[59]

Public establishments had the priority in supplying to markets if fiscal policy required to do so.[60] However, the State always targeted social welfare as a whole, so it applied such policies only in emergencies. The State never used its power to procure commodities by paying less than the market value or the cost.[61] The State vigorously tried to protect farmers from being cornered by speculators by not letting buying-ups.[62]

d. Prevention or Monopolistic Tendencies

The Ottomans followed the Islamic tradition by taking measures to prevent developments which might put consumers under the mercy of one or few sellers. In doing so. as we emphasized previously, they tried to avoid monopolistic market solutions where for a smaller quantity of goods and services higher prices are charged and a considerable number of people stay dissatisfied. As a result of this policy, the magnitude of price fluctuations due to genuine supply side conditions was dampened.

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* *Beglerbeg* was provincial government.

** *Beg* was local governor.

It is agreed upon that Islamic perspective seeks consumers to get goods and services without being overcharged by a lot of middlemen. Speculators were not al lowed to buy up agricultural products at the source.[63] Also Ottoman *fiqh* recognized the right for producers to go out to market and sell their own product.[64] No one was granted any monopoly power as a middleman.[65]

One of the most important economic phenomena on which the Ottomans were very sensitive was profiteering (*ihtikar*). Many documents can be found about application of legal sanctions and execution of penalties thereof. Those documents clearly display the fact that profiteering was severely punished especially if the good involved was a basic necessity.[66]

Principally, products were supposed to be marketed in locations where they were produced. Therefore, there was no room for huge speculative profits by shipping goods from areas to places where prices turned out to be high.[67] The State took care of this imbalance through its interventions.

Government authorities could confiscate or force hoarders to supply goods they had kept for speculative purposes. As a precaution, market prices were fixed in such situations. In addition, people who were involved in such activities were imprisoned.[68]

Since in some goods, guilds were authorized to monitor market transactions or engage in retail trade, profiteering was automatically checked.[69] Documents mentioned that profiteering did not only increase prices over the determined market price, it reduced the volume of transactions, i.e. market size as well.[70]

Guilds which were given the right to be engaged in retail trade were not free to determine market prices. Actually the State was utilizing those guilds to control market by making them a sort of voluntary policemen. When there happened practical problems in pursuing this policy, profiteering incidents showed up.[71]

Price discrimination was used as a policy tool due to recognition of varying degrees of demand elasticities in different markets. For instance, in Istanbul prices were fixed higher in the city center compared to prices fixed for the suburbs. The reason for this policy was straightforward. Merchants located in the city center could acquire goods directly from ships, and if there was no price differential they could take the advantage of consumers whose demand elasticity was very low since they were living in suburbs. Therefore they would with old goods for profiteering purposes if there was no price differential. This naturally reduces the size of market and causes artificial shortages.[72]

e. The Administration of the Nerkh System

The procedure was in line with early Islamic applications. *Kadi* and *Muhtesib* were in charge of controlling markets. There was a self-control mechanism established within the guilds, before *kadi* and *mubtesib* intervened. Aets like *najash* which was forbidden by a Hadith were punished[73] The internal control mechanism of guilds followed the rules of *futuwwa* and *ukuwwa*[*]. This of course was a big help to the State.[74]

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* Brotherhood

People who wanted and attempted to corrupt this system were tried and failed.[(75)] The Sultan himself sometimes participated in price control patrolling.[(76)] This proves the importance attached to stability and justice by the State.

Quality controls and importance given to standardization aimed at preserving long term benefits for the entire society. The standards were well defined in the *sicillat-i kadi*,[(77)] and they were obligatory for even producers who were in distant locations.[(78)]

For the protection of consumers, quality controls were undertaken continuously and violators were presecuted.[(79)] Insufficient financial resources were seen as a cause of low quality production. Therefore, producers were given incentive to build up their own capital stock instead of using credit in exchange of usury. They were also advised to undertake their activities in their own shops not in rented places.[(80)] All this was achieved with an internal control mechanism through guilds.

Conclusion

The Ottoman Administration aimed at price stability. The importance of price stability is now realized after having double-digit annual inflation, unemployment and the consequent worsening of income distribution in modern economies.

The Ottoman way of conducting economic policies yielded price stability as a result of having stable and balanced overall supply. The *nerkh* system was exhaustively utilized.

As a result, monopolistic tendencies were curbed, resource allocation problem was dealt with in a "second best" manner and inflation was no longer public enemy number one.

The system was designed to prevent fierce competition which kills competition and finally brings monopoly or oligopoly. In other words, the *nerkh* system was used to establish market prices which would have prevailed if moderate competition had taken place. The system could be claimed to be healthy since black-market was not a common practice. This system also proved two sided cause and effect relationship between prices and market conditions.

Notes

1. **Tirmidhi,** *Sunan: Buyu'* Tradition No. **73; Ibn Majah,** *Sunan, Tijarah*,Tradition No. 27.
2. **Ibn Majah,** *Sunan, Tijarah*, Tradition No. 6; Darimi, *Musnad, Buyu'* Tradition No. 12.
3. **Ibn Taimiyah,** *al Hisba fi'l islam*, Misr 1387 A.H., p. 34. **Ibn Qayyimal Javzi,** *al Turuq al Hukmiyyah fi,l Siasat al Shar'iyah*, Cairo, 1317 A.H. pp. 223-224 and 237-238.
4. **Ibn Taimiyah,** *op. cit*., p. 33.
5. **Al Baji,** *al Muntaqa*, Misr. 1332, vol. 4, p.18.
6. **Yenichevi, Celal.** *Islam iktisadinin esaslari*, Istanbul, 1980. pp. 356-57.
7. **Bukhari,** *al jami' al Sahih*, Buyu', Tradition No. 16.
8. **Ibn Khaldun,** *Muqaddimah*, Misr. 1311 A.H., vol. II. pp. 322-323; **Orman, Sabri** *Gazali'nin iktisat felsefesi*, Istanbul, 1984. p. 166.
9. **Bayindir, Abdulaziz,** “Paranin deger kaybi ve cozum yollari” in *Islam acisindan enflasyon ve cozum yollari*, Istanbul, 1983, p. 19; 41.

10. **Ibn Majah,** *Sunan, Tijarah*, Tradition No. 6; **Darimi,** *Musnad,* Buyu' Tradition No. 12; Ahmad b. hanbal, Misr 1313 A.H., Vol. I, p. 21.
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منهج تاريخي لبحث سياسة سعرية إسلامية:
بحث في نظام الأسعار في الدولة العثمانية وتطبيقاته

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المستخلص : لجأ العثمانيون إلى سياسة تحديد الأسعار من أجل تحقيق الاستقرار في السوق. والشريعة الإسلامية تبيح تحديد الأسعار في أحوال خاصة. كما كانت السياسات التجارية والنقدية في الدولة العثمانية تستهدف استقرار الأسعار والأمن. وقد ساهم عدد من الترتيبات التنظيمية المسترشدة بمبادئ إسلامية في تحقيق بعض المصالح العامة للناس حينئذ، من خلال منع الغش والاكتناز والأعمال الاحتكارية.