Timur Kuran's Framework and Economic Underdevelopment in the Islamic World

Jared Rubin†

Introduction

This essay focuses on what I believe to be some of the most important insights of Timur Kuran's corpus of writings on the economics of Islam. In Kuran's first seminal piece on this topic, "Islam and Underdevelopment: An Old Puzzle Revisited" (1997), he lays out the question which has consumed much of his academic life since: "Why has the Islamic world been economically underdeveloped for the past few centuries relative to the West *despite* being ahead for so long following the spread of Islam?" Kuran has answered this important question in numerous articles and a groundbreaking book (Kuran 2011) by focusing on the pathways through which economic stagnation occurred in the Middle East and North Africa. All of these answers have one common theme, which I believe is the most important insight that Kuran provides: all of the legal, political, and institutional phenomena which have been at the core of underdevelopment in the Islamic world *were at one point in history optimal solutions to some economic exigency*. Kuran's work therefore confronts two questions: i) what were the circumstances under which the proposed solution was optimal?, and ii) why did this solution persist despite changing economic circumstances?

Before addressing Kuran's answer, it is necessary to note that the questions themselves are the right ones to ask. Although these are important questions for so

† Jared Rubin is an Assistant Professor in the George L. Argyros School of Business and Economics at Chapman University.

many reasons, they are ones that have largely evaded scholars until recently. Many scholars, from Max Weber to Bernard Lewis, have suggested that there is "something about Islam" – its "conservative" or "mystical" nature – which discouraged curiosity and prevented risk-taking, innovation, and mechanization.[1] Such explanations are highly Eurocentric, claiming that there is "something" about Western culture that predisposed the West to succeed economically. These explanations miss such an important part of the relative histories of the Middle East and Europe that they cannot be telling the whole story. This is, namely, that *the Middle East was more advanced economically, scientifically, and technologically for centuries following the spread of Islam*. If it is something about Middle Eastern culture or the nature of Islam that is behind the economic divergence of the past half-millennium, how can we account for the earlier lead that the Middle East held? This is why Kuran asks the correct question – a satisfying answer must account not only for the causes of long-run underdevelopment, but also account for earlier success.

Timur's Approach

Kuran's answers begin by seeking the reasons why economically inhibitive Islamic laws or institutions arose in the first place. In every case, he finds that they arose to address a certain problem occurring in a certain economic or political context. For instance, Kuran (2005) asks the question, "Why did the corporate form never arise in Islamic law"? A simplistic answer could assert that economic and legal conservatism discouraged merchants and those with commercial interests from forming new and larger types of partnerships. But such an explanation would confuse cause with effect. Conservatism is something to be explained; it is not a cause itself. Kuran's explanation for the persistent simplicity of Islamic partnerships is two-fold; he first explains the aspects of Islamic law that discouraged the formation of more complex partnerships and then proceeds to explain why they persisted over time. He points to two aspects of Islamic law to shed light on why Muslims had little incentive to form large partnerships: the relatively egalitarian Islamic inheritance system and the lack of a concept of legal personhood for anything but individuals in Islamic law. Because the inheritance system gave numerous heirs shares of a partnership upon the death of a partner, and any of these heirs could choose to dissolve the partnership at any time, incentives to cre-

[1] See, in particular, Weber (1978), Lewis (1982, 2002), Cromer (1908), and von Grunebaum (1966).

ate large partnerships were severely dampened. On top of this, one of the primary benefits of the modern corporate form – corporate legal personhood – would have been unthinkable in Islamic law, which did not recognize personhood for anything but individual persons.

The genius of Kuran's argument is that these two aspects of Islamic law were optimal responses to the economic circumstances under which Islam was founded. For instance, one of the reasons that Islam was so successful and spread so rapidly is that it brought legal and social cohesion to a region that was dominated by warring tribes. It addressed one of the biggest problems of the day, blood feuds between tribes, by only recognizing the rights of individuals and the Islamic community as a whole. It purposefully did not recognize the rights of smaller groups (such as corporations), because these were precisely the types groups that were the source of trouble in that period. Of course, there is no way that the original Islamic thinkers ever could have envisioned the corporate form or its possible economic benefits; it did not come into widespread use in Europe until the early modern period (although it was known in the medieval period and was employed by the Church and towns). By the time the corporate form spread in Europe, the series of marginal improvements made in Europe which allowed partnerships to flourish were absent in the Islamic world. This is the second aspect of Kuran's satisfying answer; it provides insight into why such laws *persisted* over centuries. Kuran notes that in Europe, due to primogeniture (which did not break up inheritance amongst many heirs) and the concept of legal personhood dating back to Roman law, individuals were *incentivized* to respond to new exigencies in different ways than their Middle Eastern counterparts. For example, one problem faced by larger-sized partnerships is complicated bookkeeping. In response, double-entry bookkeeping was invented in Italy in the late medieval period – after partnerships had grown in size to the point where such a remedy was demanded. A similar invention never arose in the Middle East for the simple reason that merchants were never faced with a situation that would require complicated accounting. Merchants were *incentivized* to keep their partnerships small and based on personal relations, and they rarely demanded new laws or financial instruments that would facilitate the growth of big business. This helps explain why the Middle East never truly adopted the corporate form until well after European colonization. The emergence of the corporate form in Europe was contingent on a series of path-dependent factors (such as the invention of double-entry bookkeeping) that eventually formed what Kuran calls the "institutional complex". It was the entire system of factors that allowed the European corporate form to work the way that it did; Middle Eastern business interests could not merely adopt this institutional form in the absence of an appropriate legal and institutional structure.

This argument is typical of Kuran, and it is very appealing. Intellectually, it is much more satisfying to believe that there is nothing inherently different about Europeans and Middle Easterners, and instead believe that long-run economic differences arose due to differing institutional structures and the incentives that they imposed. Moreover, even if one wants to argue that there is "something better" about European culture (which may seem biased, but no cause should be ruled out ex ante), and this is the reason why Europe and its offshoots economically dominated the world over the last few centuries, such an argument is inconsistent with history as recently as a millennium ago. Indeed, Kuran (2011) begins his book *The Long Divergence* by noting that an alien visiting the world in the year 1000 would have never guessed that it would be Europe that would eventually dominate the world economically and technologically.

What is so satisfying about Kuran's explanation is that it can account for early Middle Eastern success and ultimate stagnation by relying on one of the oldest economic dictums: *people respond to incentives*. Kuran takes this a step further by implicitly arguing that institutions respond to incentives as well. Early Islamic institutions arose in response to the relative instability of the pre-Islamic Arabian Peninsula. These institutions incentivized economic growth to a much greater extent than contemporary European institutions. For instance, the Islamic inheritance system – which would become a great source of stagnation over time – was much more egalitarian than anything known in Europe at the time. Yet, whether institutions change or remain stagnant over time is both a function of exogenous factors (e.g., climate, world economic conditions, or military invasions) as well as pushes for change from within. Kuran convincingly argues that numerous aspect of Islamic law discouraged such pushes for change from within despite changing economic conditions. An institutional "lock-in" emerged whereby all of the relevant parties had no incentive to seek change; although there may have been benefits from change, the costs were simply too high. This was unlike the situation in Europe, where the benefits from institutional change were similar to the potential benefits in the Middle East, but the costs were much lower due to the pre-existing institutional structure.

In other words, conservatism is not a cause of economic stagnation but a result of certain types of institutional structures. Where Weber and Lewis saw conservatism in Islamic economic history and ascribed something unique to the nature of Islam, they were confusing cause with effect. If we simply define conservatism as "lack of change over time", there are two possible reasons why conservatism arises. One, favored by the Weberian school, is cultural – there is something inherent about a culture or religion which predisposes people to dislike change. For reasons noted above, it is difficult to swallow this as the cause of the "long divergence" between the Middle East and Western Europe, as it is inconsistent with the fact that the Islamic world was so far ahead of Europe for centuries. The second reason why conservatism emerges is the one favored by Kuran and myself. The argument is simple: change does not occur where people are not incentivized to seek change. That is, a lack of change over time is a result of the incentive structure (generally arising from the institutional complex), not some inherent cultural difference. Of course, one has to argue why an institutional complex which discourages change arises in the first place, and this is precisely what Kuran's works do.

Timur's Influence on My Work

In my own work, I have applied this framework that Kuran proposes to also address the sources of long-run economic differences between Europe and the Middle East. For example, in Rubin (2011), I attempt to map out the consequences of two different institutional arrangements which arose in the two regions in response to different stimuli. This is, namely, that Islamic political authorities have always depended on religious legitimacy to a much greater extent than European political authorities. These aspects of the institutional complexes arose as optimal responses to the conditions under which the religions were born. Christianity was born as a minority religion in the Roman Empire, and it was both unnecessary and infeasible for early Christians to create a legal system based on religious principles. Hence, early Church leaders advocated a separation between political and religious institutions (i.e., Jesus' famous dictum "Render unto Caesar the things which are Caesar's, and unto God the things that are God's"). On the other hand, Islam was formed at a time of weak centralized power and tribal feuding in the Middle East. One reason that Islam was able to spread as quickly as it did was that it brought legal and political cohesion to the region. Because of this, the earliest Muslim caliphs were able to propagate their rule by either claiming a blood-line to Muhammad or by obeying Islamic dictates. Hence, early Muslim history led to Islamic ideals becoming those of the state, and there has never been a clear demarcation in the Islamic world between religious and legal authority like there was for much of Christian history. These differences in institutional structures are akin to the ones that Kuran points out in his works, as they were responses to economic and social conditions in a specific historical epoch.

These institutional differences were the result of the situations under which the religions were born which themselves were clearly exogenous to economic outcomes that arose centuries later. Yet, I argue that these differences can help explain aspects of the long run economic divergence between Western Europe and the Middle East. The basic argument is a game theoretic one which considers how political authorities, religious authorities, and commercial interests interact with each other under the two legitimizing regimes. It suggests that when religious legitimacy is important (as in the Islamic world), political authorities find it costly to enact policies which harm the religious authority (i.e., those that threaten its power or those that are contradictory to religious teachings). This is turn means that even if economic conditions dictate that commercial interests stand to make significant wealth by transgressing some type of religious dictum, they may not do so due to a "double cost" of transgression – those imposed by both the political and religious authorities. This is not the case when the legitimizing relationship is weak, as it was in Western Europe (relative to the Middle East). In this case, political authorities are more likely to permit commercial actions which are not approved by the religious authorities, since the benefits to doing so (a greater tax base) exceed the costs (a weakened religious regime). The ultimate upshot is that religious laws which inhibit economic activities are likely to be undermined over time when religious legitimacy is weak but are likely to remain intact as an equilibrium outcome when religious legitimacy is powerful.

I apply this insight to two cases which are both paradigmatic of the larger divergence in the economies of the Middle East and Western Europe. In Rubin (2011), I show how the theoretical insights outlined above shed light on the histories of restrictions on taking interest on loans in the two regions. Usury laws were eventually undermined in Europe as the power of commercial interests grew and the ability of the Church to legitimize secular authority weakened, whereas restrictions on taking interest were never fully alleviated in Islam. Instead, an equilibrium emerged in the Islamic world where some evasions of the interest ban were permitted as long as a ruse (which incurred a transaction cost) was undertaken. In Coşgel, Miceli, and Rubin (2012), we apply similar insights to shed light on why the printing press was heavily restricted in the Ottoman Empire despite spreading rapidly in Europe. The press threatened the religious establishment, who held an intellectual monopoly and garnered significant power from their hold on the oral transmission of the Qur'an. Since this was an important legitimizing source for the Ottoman sultanate, the costs of permitting the press (and undermining the religious establishment) outweighed the potential economic benefits. In Europe, the ability of religious authorities to legitimize political rule had been waning for centuries by the time that the moveable-type press was invented in 1450, so the Church could not have blocked the press had it wanted to.

Both of these examples, restrictions on interest and printing, are emblematic of Kuran's framework. Both restrictions arose in a setting where their long run economic effects could not have been foreseen. Early bans on taking interest on loans were economically efficient in a period when most loans were taken by poor individuals for consumption purposes. It was only after investment lending became viable on a large scale that these restrictions became inhibitive. Likewise, restrictions on the replication of words and images were hardly economically inhibitive in a pre-printing press world. Thus, like the examples that Kuran cites, interest and printing restrictions emerged in a certain context to suit certain needs. They persisted in the Islamic world due to the incentives imposed by the institutional structures (in this case, the manner in which religious authorities derived legitimacy), not due to an inherent conservativeness or anti-economic attitudes.

I further this framework in a book manuscript that I am currently preparing for Timur Kuran's (and Peter Boettke's) Cambridge Studies in Economics, Cognition, and Society series at Cambridge University Press. By themselves, restrictions on interest and printing were not close to enough to put the economies of Western Europe and the Middle East on divergent paths. Yet, I argue in this book that the reasons that differing views on interest and printing emerged in the two regions is the result of a larger institutional divergence that is one of the primary causes of the economic divergence. This institutional difference is, namely, that European rulers relied less and less over time on religious authorities to propagate their rule and instead turned to commercial interests (in Parliaments) to uphold their rule and provide tax revenue. This divergence happened over a very long time and was the result of path dependent processes stemming from very small initial differences (incidentally, the printing press does play a big and unforeseen role in this divergence through its facilitation of the Protestant Reformation, which provided the death knell to religious legitimacy in parts of Europe). Using a framework similar to Kuran's, I show how the differences that emerged at the birth of Islam and Christianity had long-reaching unintended consequences. Most importantly, it is clear that the identity of the person(s) legitimizing political rule can really matter. In the 16th and 17th centuries, numerous European rulers completely ceased using religious authorities to legitimize to legitimize their rule (as a result of the Reformation). In England, for example, the Tudor monarchs (especially Henry VIII and Elizabeth I) turned to Parliament to legitimize their rule and provide tax revenue. This was an important transformation, because the elite in Parliament primarily had goals that were consistent with broader economic success (e.g., secure property rights, poor relief, and naval protection from invasion and for merchants). This was not the case in the contemporary Ottoman Empire, where religious legitimacy continued to play an important role in propagating the sultanate. Because of these differences, the types of policies emanating from the two regions were very different; those in England favored commercial expansion and protection, while those in the Ottoman Empire did so to a much lesser extent. This is not to say that religious legitimacy is inherently a bad thing or that religious authorities are always against policies which favor economic growth. Indeed, the provision of poor relief by both medieval Christian and Islamic religious authorities almost certainly had a stimulating effect on the economy by providing a social safety net that would not have existed otherwise. The point is that any type of legitimizing agent that does not have economic interests driving their decisions may inhibit economic activity. This is as true of religious authorities as it is the military or a bureaucracy.

Conclusion

In sum, the framework that Timur Kuran has created over the past two decades is both powerful and intellectually satisfying. He asks the right questions, which is perhaps the most important thing of all. He answers these questions in a way that goes to the root of why people make the decisions that they make. This methodology can be used to explain fundamental features of long-run economic development without falling back on ad hoc explanations that are specific to any one region or time period. Of course, Kuran is far from the first scholar to hypothesize why certain rules or actions which seem economic inhibitive emerged historically. Nor is he the first scholar to shed light on why inefficient outcomes can persist over time. Yet, in combining these two strands of thought and applying them to one of the most important and misunderstood epochs in world economic history, he has forcefully argued that this manner of thinking about economic history and development can provide real insight into why some countries are rich and others are poor.

Another implication of Kuran's insights is that what works in some regions does not work in others. Kuran is quick to point out that there is not one path to economic development, nor is there one path to stagnation. Instead, what worked in Europe worked due to a long series of path-dependent events, all of which were molded by and in turn molded the relevant institutional complexes. The same is true of the Middle East. The constraints imposed by Islamic law may have been a barrier to European-style economic success, and Middle Eastern economic and religious institutions may have calcified for centuries. Yet, economic development is still quite possible in this region (with or without oil). One of Kuran's key insights, which stems from the types of questions he asks and the manner in which he answers them, is that the things that worked in Europe will not necessarily work in the same way in the Middle East. The institutions are too different, meaning that the incentives faced by the relevant interests (rulers, religious authorities, and commercial interests) are different, and that merely transplanting "Western-style" economic and political forms to the Middle East may not work. This is far from saying that all is lost; but it is to say that context is important, and we should not be discouraged if the path to long-run economic success is a long and unique one, as it was in Europe.

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