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Preface: The economic impact of culture, religion and the law

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1. Introduction

If a globally representative sample of educated persons were asked whether culture, religion, and the law matter to economic performance, most would reply that they obviously do. Societies that keep their women uneducated cannot compete with those committed to universal education, they might suggest, and that attitudes toward outsiders and openness to change often depend on religion. Many would find it self-evident that societies mired in anarchy suffer economically.

Suppose we were to ask the same sample whether the relative economic performance of India or Europe has been grounded in one or more of these factors. The answers would be far more varied and decidedly more equivocal, and for good reason. The cultures, religions, and legal systems of these land masses affect economic outcomes in innumerable ways, both positive and negative. Sorting out the various effects poses massive difficulties. Besides, we have become sensitized to avoid interpretations liable to reflect badly on a particular disadvantaged community. Although it remains quite acceptable to identify social characteristics that support economic success, eyebrows go up when some distinguishing characteristic of a poor society is held responsible for its failures.

Putting aside political sensitivities and focusing on the task of explaining observed outcomes, the problem boils down to finding the right level of analysis. To treat a particular religion in its totality as a source of economic advantage or disadvantage will beg abundant questions. What aspects of the religion have shaped economic performance, and how? Have the effects worked through economic attitudes, restrictions on economic choice, or religious organization? To isolate a specific mechanism that illuminates a particular economic outcome, such as a taxation pattern or a type of contracting, is not to make a categorical statement about the economic merits of the dominant religion, culture, or legal system. The associated claim is bounded, focused, and perhaps also delimited temporally. As such, it is easier to test and defend.

It is to develop "mid-level" explanations for patterns of civilizational performance that a conference was organized in February 23–24, 2007, under the aegis of the University of Southern California Institute for Economic Research on Civilizations. A total of 13 papers were commissioned from experts on particular civilizations, regions, or historical periods, in each case to identify one or more mechanisms that explain some civilizational pattern. The overarching goal was to illuminate how culture, religion or the law might have made a difference, individually or jointly. The paper writers and discussants were deliberately drawn from diverse disciplines in order to stimulate the cross-fertilization of ideas, but also to avoid privileging one of our three spheres—culture, religion, law—over the others by design. Although the invited paper writers were asked to reflect on the roles of this trio, no effort was made to constrain their answers.

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Most of the commissioned papers found that the legal system, religious practices, and cultural traits are thoroughly intertwined. Legal, cultural, and religious factors interacted with one another to produce particular outcomes, or they were inseparable to begin with. In diverse contexts, the papers thus demonstrate the fruitfulness of looking for specific mechanisms responsible for observed outcomes. In pointing to complex relationships, they also cast doubt on the merits of broad generalizations about the effects of a culture, or legal system, or religion. Although it is easy to find correlations between, say, legal systems and economic performance, explaining statistical regularities requires the identification of pertinent mechanisms.

Most of the papers presented at the conference were revised at least once and then refereed to ensure that they meet the rigorous scholarly standards of the *Journal of Economic Behavior and Organization*. The nine articles included in this issue thus represent a selection of the commissioned papers. They have been ordered with an eye toward facilitating the detection of methodological and substantive links.

2. Methodology

The first article, by me as the conference organizer, outlines the case for focusing on social mechanisms as the appropriate tool for understanding the economic evolution of the durable systems known as civilizations. The relevant mechanisms ordinarily involve interactions between "cultural" and "material" factors. They also entail complementarities that make it difficult to transform or transplant institutions. Institutional complementarities account for certain differences in economic performance across civilizations. They also shed light on the dynamics of any one unit. The mechanisms that explain a unit's economic performance at a particular time may or may not be self-sustaining. Identifying why a given institutional complex transformed itself, or alternatively remained stagnant, yields information critical to understanding the modernization process.

The opening article thus identifies methodological principles that the remaining eight articles deftly apply to specific historical puzzles, though without making the principles explicit. Each of the empirical papers deals with institutional change or its absence in a particular context, with reference to one or more regions of the world, or civilizations. The concept of a civilization, though not used explicitly in every article, offers advantages for the study of long-term economic development. For one thing, it conveys commonalities that transcend geography and political boundaries. For another, it connotes institutional complementarities, which are central to our main concerns here.

3. Commerce

The second article, by Ron Harris, explores why two institutions that were critical to maritime trade in the early modern era spread across civilizations unevenly. Having originated in Middle Eastern trade practices, the simple partnership came to be used, in one guise or another, in western Europe, India, and China. By contrast, the business corporation emerged as a European organization and remained distinctly European until the industrial era. Geography contributed to differences in the pace of adoption. Relative to Europe, the Middle East is located closer to the center of Eurasia, yet pre-existing institutional differences among the civilizations were more critical. In the Middle East the waqf and in China the family lineage provided the organizational means to fulfill most functions of the corporation. Harris thus pinpoints mechanisms that account for divergent institutional trajectories to explain why, in comparison to other regions, Western Europe reached the industrial era with the broadest array of organizational options.

Madeleine Zelin's article focuses on the commercial institutions of one particular civilization, China. In concert with Harris, she reports that China promulgated its first law of corporations in 1904, several centuries after the business corporation saw use in Europe. However, when the need arose, the adoption was quick because China entered the modern era with an appreciable repertoire of commercial institutions. The repertoire included the Confucian family system, the lineage trust, state-enforced durable partnerships, and courts. Underlying the argument are two claims. First, China's institutional evolution was demand-driven. Second, China's traditional institutions did not hamper its development for they carried within them all the ingredients of a modern commercial system.

In the next paper, Daniel Klerman contrasts the English and Ottoman responses to the challenge of encouraging foreign merchants to do business locally. As early as the 13th century, England enabled foreigners to be tried by mixed juries composed partly of foreigners. Meanwhile, it also streamlined debt collection procedures. These institutional reforms "leveled the commercial playing field," allowing English and non-English merchants to compete with one another on equal terms. The Ottoman solution to the same problem was to introduce special institutions for foreign merchants through trade treaties known as capitulations. In time the capitulations put local merchants at a disadvantage vis-à-vis their foreign competitors. Why did the Ottomans opt for a radically different solution that proved disastrous in the long run? Klerman invokes a mix of Ottoman and English institutions that led to radically different responses. In England, the non-religious character of the law, legal pluralism, and a politically powerful merchant class made it easier to modernize domestic institutions. In the Ottoman Empire, the religious character of the law and its centrality to Muslim identity helped both to stabilize Muslim practices and to legitimize special allowances for foreigners.

The fifth article, by Ghislaine Lydon, concerns another key element of economic modernization and growth: the rising reliance on documentation in the course of the transition from personal to impersonal exchange. Her context is the trans-Saharan caravan trade, long dominated by Muslim traders. Islam's holy book requires traders to record their contracts in writing, she observes, and in general this requirement was obeyed precisely, with the help of legal professionals. By the same

token, in failing to develop a concept of legal personality, Islamic civilization limited the role of paper contracts. Because paper contracts could not be invested with legal personality, ordinarily they carried legal weight only insofar as witnesses to their execution were available and willing to corroborate their authenticity. The upshot is that one element of the Islamic legal system limited the potential advantages of another. The handicap grew, of course, as the global economy gained complexity and desirable business relationships among personal entities became critical to economic performance.

4. States, communities and individuals

Where the articles of Harris, Zelin, Klerman, and Lydon all focus on commerce, the remaining four articles address issues involving state policy and the state's relationship with communities and individuals. Mikael Adolphson and Mark Ramseyer's article explores the strengthening of property rights in Japan. Medieval Japanese governments enforced private property rights unreliably, they show, stimulating a demand for alternative means of enforcement. Buddhist temples and monasteries, whose assets were exempt from taxation, filled the need by selling exemption rights to landholders eager to avoid confiscation. Thus, a landholder donated a plot of land to a temple or monastery, which then shared with him the harvest. Serving as a quasi-state, Buddhist organizations also provided other services to landholders, including dispute adjudication. The argument implies that religion played an important role in Japan's legal and economic development, through a specific channel.

Jean-Philippe Platteau's article on institutional obstacles to economic development identifies several mechanisms through which laws, customs, and identities inhibit economic growth. At the onset of the continent's colonization by Europeans, most Africans felt loyalty to a tribe. The establishment of modern states unintentionally reinforced tribal loyalties by giving tribes access to new sources of rent. In addition to causing massive state failures, the reinforcement of tribal, or ethno-religious, solidarity strengthened customs that limit capital accumulation by requiring successful entrepreneurs to share their gains with relatives and fellow tribesmen. One implication, Platteau observes, is that by weakening tribal loyalties, the spread of non-indigenous religions in Africa can promote growth and enhance the quality of governance.

The eighth article, by Kamil Kıvanç Karaman, addresses rural taxation in the Ottoman Empire in the 15th and 16th centuries, its high period. Rural taxes were generally collected by provincial delegates who had to restrict their extraction. Why the Ottoman state limited taxation is Karaman's main question. The reason, he explains, lies in state efforts to block political challenges from the countryside. In restricting the resources available to provincial fief-holders, the Ottoman regime also dampened the incentives to pursue top-down reforms aimed at improving rural productivity and wealth. The regime was loathe to raise the resources available to fief holders; for their part, fief holders would not invest in the countryside because of limits on their ability to extract the gains. The practices that enabled these self-sustaining outcomes were not part of Islam's classical legal tradition. Nevertheless, Islamic scholars, the guardians of Islamic law, accommodated them through appropriate reinterpretations.

The relationship between Islamic states and their legal communities is the subject of the final article, by Metin Coşgel, Thomas Miceli, and Rasha Ahmed. In the early centuries of Islam, the article proposes, Muslim scholars enjoyed power over rulers through their ability to deny Islamic legitimacy to state policies, including tax regulations. Over time, Muslim-governed states absorbed the religious community into the central administration in order to gain their loyalty and reduce policy constraints. Thus, in the high period of the Ottoman Empire the religious community dutifully legitimized diverse policies lacking a basis in Islamic law. The loss of clerical independence had two consequences for economic development, one of them unfavorable. On the one hand, it liberated statesmen from traditional rules and regulations inimical to economic progress. On the other hand, it gave the state a freer hand to pursue self-serving policies harmful to economic activity.

5. Culture, religion, and the law as determinants of economic performance

Eight independently written articles that focus on different civilizations, periods, and subjects cannot possibly deliver anything resembling a comprehensive formula for economic success. Neither individually nor collectively do the articles provide lessons invariant to context. Nevertheless, they permit some generalizations. They also offer methodological tips and point to promising new research avenues.

All eight articles show that the pace and nature of institutional change depend critically on the pre-existing institutional matrix that defines its cultural identity. Each article pinpoints local features that facilitated or hindered certain outcomes. Thus, the Confucian family system facilitated China's adoption of a corporate law, the tax exemptions of Japanese temples and monasteries enabled the strengthening of private property rights without direct involvement of the state, and deep-seated tribal identities still limit the capabilities of African states.

Without exception, every article identifies ways in which the law mattered to economic outcomes. If England and the Ottoman Empire opted for different solutions to the universal problem of making foreign merchants feel safe, one reason is that the Ottoman court system, but not that of the English, had a religious basis and was already accustomed to differentiating individuals according to religion. For another example, Islam's lack of "faith in paper" slowed North Africa's transition to impersonal exchange by keeping traders wedded to traditional networks.

The articles point to diverse ways in which religion affected economic performance. We learn that for an extended period scholars steeped in Islamic law exercised veto power over the administrative decisions of rulers and that in both China

and the Middle East corporate-like institutions with religious significance suppressed the need for a full-fledged law of corporations.

Several of the articles underscore the variability of culture, law, and religion, along with their influences on one another. The community of Islamic scholars lost power over time as temporal authorities managed to turn it into a docile instrument of legitimation. Whether secular or religious, legal systems lacking a concept of corporation eventually made room for it, transforming themselves in the process, often without acknowledging the change. Insofar as the analyzed units form systems of interconnected traits, there is nothing unusual about such interdependencies and bidirectional causal relationships. It bears reiteration that many of the institutions invoked in the articles belong to more than one sphere. “Islamic law” obviously belongs to both law and religion; it also defines an identity, making it integral to culture. In supplying property rights to landholders, Buddhist monks expanded the reach of Buddhism, transformed the legal system of Japan, and altered the Japanese cultural identity—all at once.

The group of eight articles reinforces the case, then, for exploring the mechanisms that govern economic performance without any commitment to the notion that one social sphere—legal, religious, or culture—drives the others. Each of these spheres is an abstraction that ignores important social relationships and suppresses empirically significant feedback mechanisms.

Students of a particular geographic area, time period, or civilization have much to gain from reading the articles whose emphasis lies outside their own scholarly domains. Some of the articles carry general lessons about cross-civilizational transplants. All of them outline mechanisms that can stimulate fresh thinking in other contexts. Consider the finding that Buddhist temples and monasteries helped to strengthen property rights in Japan. What might have kept monasteries in the Byzantine Empire, or those in western Europe, from providing to landholders the services offered by their Japanese counterparts? Why did the Islamic Middle East not develop similar private initiatives to strengthen material security? In seeking answers to such questions one may discover previously unnoticed historical patterns and relationships.

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