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The Economic Roots of Political Underdevelopment in the Middle East: A Historical Perspective

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Key institutions of the pre-modern Middle Eastern economy, all grounded in Islamic law, blocked the development of democratic institutions. This talk identifies three mechanisms that played critical roles. Islam's original tax system failed to produce lasting and credible constraints on governance. The waqfs (Islamic trusts) founded to provide social services to designated constituencies were politically powerless. Profit-making private enterprises remained small and ephemeral, hindering the formation of stable coalitions capable of bargaining with the state. The last two mechanisms jointly delayed the rise of a civil society able to provide the checks and balances essential to democratic rule.

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1. Introduction

The year 2011 will go down in history for two sets of events. One involves the financial problems of the Euro zone and the other the Arab uprisings. In several Arab countries, crowds accomplished what seemed impossible a year ago. Cumulatively, the toppled leaders Zinedine El Ben Ali, Hosni Mubarak, and Muammar Gaddafi had been in office 96 years. In several Arab countries work is underway to rewrite the constitution.

What makes the Arab Spring especially newsworthy is that the 21-member Arab League has lacked a single democracy. In the Muslim-majority countries of the wider region known as the Middle East and North Africa, which I shall call the "Middle East" as a shorthand, there exists a single democracy, in Turkey, and only recently has Turkey qualified as a full electoral democracy by ending, through a referendum, the "political watchdog" role of its huge military.

Democracy is an admired form of government because it supports social characteristics associated with the good life: rule of law, transparency in government, and civil liberties. Various global indices measure these characteristics individually. In practically all these indices the Middle East appears as a poor performer (see Table 1). Relative to the OECD, the club of economically advanced democracies, corruption is quite prevalent according to Transparency International. The Middle East also scores poorly in the World Bank's Rule of Law Index and

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Table 1. Comparative Indicators of Political Performance (2008–2009)

Region, Country, or Country Grouping	(1) Civil Liberties, 1 (most) to 10	(2) Political Rights, 1 (strongest) to 10	(3) Corruption Perceptions, 1 to 10 (least corrupt)	(4) Rule of Law, –2.5 to 2.5 (best)
Middle East	5.1	5.6	2.9	–0.3
Arab League	5.4	6.1	2.8	–0.6
Iran	6.0	6.0	1.8	–0.8
Turkey	3.0	3.0	4.4	0.1
OECD (except Turkey)	1.4	1.1	6.8	1.2
China	6.0	7.0	3.6	–0.3
African Union (except Arab members)	4.1	4.2	2.6	–0.8

The population figures used in the averages are for 2005. Sources: (1) and (2), Freedom House, *Freedom in the World Report*, 2009 (<http://www.freedomhouse.org>); (3) Transparency International, *Corruption Perceptions Index*, 2009 (<http://www.transparency.org>); (4) World Bank Rule of Law Indicators, 2008 (<http://info.worldbank.org/governance>).

in the Civil Liberties Index of Freedom House. There are variations within the Middle East, which is consistent with the argument that will follow. Although the entire region has been modernizing, Turkey started the process one to three generations before Arab countries, and over the past two centuries it has come the farthest in restructuring its social order. The differences in timing and pace are reflected in such indices.

A commonality of the Arab World, Iran, and Turkey lies in the dominant religion. A widespread view among interpreters is that Islam accounts for the political deficiencies captured by Table 1. There are reasons, of course, for skepticism. The governance problems observed in the Middle East are replicated in places where Islam is not a factor; Latin America offers an example. Also, Islam has been associated with diverse traditions regarding the state's role. It has been associated with social repression but also with shallow governance. Nevertheless, there are reasons to take the alleged link seriously. Islam gave the region a common economic legacy through Islamic laws that were enforced widely until recently, and these laws contributed to holding the region back economically (Kuran 2011). If Islam influenced economic patterns, perhaps it affected political patterns as well.

Economic opportunities shape political possibilities through various mechanisms. Here is a pertinent example. Under a wide range of situations, the enrichment of private merchants will strengthen civil society by increasing the resources available to non-state organizations; in turn, a stronger civil society will make it harder for the state to trample on property rights. For another relevant example, a globally competitive economy that provides broad employment opportunities will enhance, in the eyes of the citizenry, the legitimacy of the incumbent political system. People with a happy future are unlikely to revolt.

Focusing on economic outcomes that had political consequences, I'm going to consider the evolution of three economic institutions that played important roles in Middle Eastern economic history. Each institution is grounded in Islamic law, and it contributed, in some way, to the Middle East's economic underdevelopment. I will then identify mechanisms that link economic patterns of the region with its observed political trajectory.

Starting with taxation, I will suggest that Islamic law failed to produce lasting and credible constraints on government takings. Then I will argue that the trusts formed under Islamic law to provide public goods for the benefit of particular constituencies were politically powerless. Finally, I will propose that the atomistic nature of the private sector operating

under Islamic law made it difficult to form coalitions capable of bargaining effectively with the state.

2. Islam's Initial Tax System

The first Islamic community was founded by Muhammad in the seventh century in Arabia. It put in place a system of taxation to finance eight categories of expenditure specified in the Qur'an, Islam's holy book. Under the name *zakat*, this tax system grew out of the informal tithing practices among the earliest converts. As the Muslim community grew rapidly, in 622 Muhammad established what we recognize as a state. At that point, *zakat* turned into a tax to finance state expenditures. The required payments depended on the form of income and type of wealth. Mildly progressive, the rates were low in comparison to the typical rates of antiquity, and they were meant to be fixed (Rahman 1974; Zysow 2002; Kuran 2003).

In mandating the well-off to make fixed annual contributions to the Islamic state's governance, the *zakat* system also imposed a ceiling on obligations to the state. In effect, it tied the state's hands with regard to taxation. As such, it might have provided the doctrinal foundation of a social contract involving equity in taxation, predictable taxation, and limited government. Yet as Islam spread to the rest of the Middle East and beyond, and as the Islamic state's economic base became increasingly diversified, the constraints imposed by *zakat* vanished. What happened?

Influential groups, some located in Arabia and others in captured territories, demanded exemptions for one category of wealth or another. Rulers granted many requests for the sake of internal peace and to build political alliances. Having curtailed the coverage of *zakat*, influential groups then began to treat as sacred and thus unmodifiable the specifics of the restricted system, rather than the principles of taxpayer equity, predictable taxation, and limited government on which the original system was based. In the process, they choked off the state's capacity to raise revenue through *zakat*. Barely a few decades after the emergence of Islam, states ruling in its name were forced to raise other taxes; as a matter of practice, taxes ceased to be capped or predictable.

One might expect the beneficiaries of *zakat*-financed expenditures to have defended the initial system in the name of religion. This was not easy, because the Qur'an is subject to multiple interpretations on the relevant matters. It contains verses that discourage hoarding of wealth, including 9:34, which can be used to justify arbitrary taxation. Also, although in some places the Qur'an treats *zakat* as obligatory, in others it signals that payment is voluntary (2:261, 59:9, 55), and since in canonical compilations of the Qur'an verses are not laid out chronologically, their meanings are subject to interpretation. A person who reads the Qur'an cover to cover may easily overlook the principles of limited and predictable taxation that are implicit in certain verses.

What is critical is that within mere decades the *zakat* system ceased to constrain rulers governing under Islamic law on either taxation or the reach of government. Before long taxation turned out to be whatever the state could get away with. So Islam failed to establish a sustainable system capable of enforcing strong property rights.

In the short run the lack of effective constraints on predation benefited certain rulers, who responded to crises through arbitrary taxation or confiscation. Over the long run, however, the

region lost, because governments never gained the trust of people to be able to borrow internally at low cost, as European governments eventually did (North and Weingast 1989).

In observing that sustainable constraints on government predation did not emerge through Islam in the seventh century, I have not explained, of course, why such constraints did not emerge later. Other institutions explain why groups that suffered from predation remained unorganized for centuries and thus were incapable of advancing the rule of law.

3. The Provision of Public Goods through Waqfs

Paradoxically, the wealthy groups that decimated the zakat system through loopholes before the seventh century was out were left without protection against arbitrary takings. They began searching for a new institution to protect their assets. The result was the inclusion in Islamic law, a century after the emergence of Islam, of the distinctly Islamic trust known as the waqf. A waqf has an endowment whose income is reserved in perpetuity for the provision of a designated social service (Barnes 1986; Kuran 2001). A waqf-based madrasa, for example, would be maintained through the income generated by its endowment.

Economic Functions

Just as the canonical zakat rates protected property by capping taxation, so the waqf did so through the common belief that waqfs are sacred. This belief made rulers reluctant to confiscate waqf assets, lest they develop a reputation for impiety. In effect, the sacredness of waqfs served as a credible commitment device that shielded their assets from revenue-hungry rulers. Waqf founders and their families benefited personally from the shielding of wealth because the law allowed them to manage the sheltered assets themselves, in return for fees; they also designated the beneficiaries.

Vast private resources flowed into waqfs serving many ends, partly, if not largely, to shelter them from rulers. The share of real estate controlled by waqfs grew over time. By the 19th century, depending on the location, 25–50% of all real estate had been endowed as waqf.

The waqf's emergence in the Middle East coincides with the emergence, and the rising use, of the corporation in Western Europe (Berman 1983). The corporation is a self-governing organization that enjoys legal personhood. Both the trust and the corporation were present in Justinian's sixth-century codification of Roman Law. The interregional difference in institutional choices—the trust in the Middle East, mainly the corporation in Western Europe—contributed to the divergence in their political trajectories. As a prelude to the mechanisms responsible for the divergence, let us explore briefly why the Middle East and Europe made different choices.

Political Origins

Between the eighth and 10th centuries, the Middle East was ruled by strong states: the Umayyad, Abbasid, and Fatimid Empires. These states were capable of enforcing a far-reaching legal system but also of predation. The choice of the trust over the corporation reflected this reality in that the waqf provides material security to its founder from a strong state. Meanwhile, in the aftermath of the demise of the Western Roman Empire, Western

Europe had weak states unable to enforce law and order. An organization emerged in the West to compensate for the absence of enforceable law. Thus, the corporation supplies the means for self-governance. The West adopted the trust, too, but it played a small role.

For a millennium the waqf served as the delivery vehicle for functions that Western societies generally met through corporations. Whereas in the West universities were structured as corporations, their Middle Eastern counterparts, madrasas, were established as waqfs, which were not self-governing. In the West, urban services were provided largely by local governments or municipalities chartered as corporations; in the Middle East, by contrast, practically all urban services were provided by waqfs.

Waqfs and Civil Society

Given that waqfs came to control vast resources securely, they might have become powerful political players capable of constraining the state by resisting actions harmful to their constituencies. The resulting decentralization of power might have placed the Middle East on the road to democratization. In Western Europe, cities, guilds, and universities organized as corporations served exactly that political function. In constraining the powers of central governments, they served as agents of democratization.

However, for all their wealth, waqfs remained politically powerless for lack of key characteristics of corporations. The waqf is established to deliver specified services according to fixed instructions. Its resources cannot be managed flexibly. Also, unlike a corporation, a waqf has no standing in court as an organization. Most important, its capability to use resources for political ends differs. Whereas an incorporated European city or church was free to participate in politics, a waqf was not. Thus, in the pre-modern Middle East the suppliers of social services did not constrain sultans, nor did they foster political movements or ideologies. Unlike the politically vocal churches, universities, professional associations, and municipalities of Western Europe, they did not provide counterweights to the powers of monarchs.

Implicit in this argument is the concept of civil society, popularized by Alexis de Tocqueville (1835–40/2000), building on the works of Montesquieu (1748/1949). This concept refers to that part of the social system that lies outside of state control, in other words, to autonomous associations established to meet the needs of subcommunities. Free associations support democracy by hindering the despotism of the majority. Precisely because they are freely formed, they offer diversity in objectives, allowing individuals to select a menu of associations to meet their own personal needs. This diversity prevents despotism also by preventing the emergence of a monolithic majority. If we are all minorities along many dimensions, it is harder for one group to impose its will on everyone else.

There are two preconditions for the emergence of a civil society capable of standing up against the state. First, there must exist the freedom to found non-governmental organizations of one's choice. And second, there must exist organizational autonomy, which is to say that private organizations must have the power to act in their own interest. Early on in Islamic history, in the eighth century, the emergence of a waqf law put in place the first precondition. The founder of a waqf was free to select its objectives as well as its employees and beneficiaries. However, the same law inhibited the second precondition. The requirement to fix its objectives and procedures denied the waqf self-governance by tying the hands of its successive trustees. If one result was economic inefficiency, another was the inability to

become a political force for democratization. Waqfs could not use their vast resources to balance the state's power.

If democracy arose in the West, generating the desirable characteristics now reflected in global political indices, this is not because of benevolent kings and queens. Democratic rights were established through epic struggles driven by groups organized, usually as a corporation, within universities, as cities, as religious orders, as unions, and as merchant associations. Such groups demanded rights, and their successes stimulated the development of rules, regulations, and laws conducive to protecting those rights and strengthening civil society. Conversely, as civil society developed, it put in place rules that facilitated the creation of private organizations, and this gave private organizations more security. A virtuous circle thus promoted democracy and made it sustainable.

In the Islamic world, no such virtuous circle emerged. There was a vicious circle whereby the lack of waqf autonomy kept civil society weak, and, in turn, a weak civil society made it impossible to alter waqf law. Thus, strong private organizations could not be founded; absolutist rulers were less likely to be challenged from below; and political checks and balances were less likely to arise. Given the enormous economic significance of the waqf, its failure to become a self-governing unit played a critical role here. It left the Islamic world without politically influential social structures situated between the individual and the state.

To sum up, the weakness of civil society also had a major consequence for political development. As absolutism gradually lost strength in the West, it could not be challenged as effectively in the Islamic Middle East. Challengers might arise—the political system was not necessarily stable—but successful challengers would establish autocratic regimes of their own.

Waqfs and Corruption

Table 1 pointed to extensive corruption in the modern Middle East. This is a pattern to which the choice of the trust in early Islamic history contributed, as did the spurning of the corporation.

Over many centuries, as relative prices changed and new technologies emerged, the trustees of waqfs managed to take advantage of certain opportunities by reallocating waqf resources to new uses. As a matter of practice, then, waqfs were not totally rigid. However, the reallocations usually came about through acts of corruption. Changes were made with authorities looking the other way, by exploiting ambiguities in the wording of waqf deeds, and, frequently, by bribing judges. The commonness of such acts made it acceptable to break the law. An unintended effect of the waqf system was thus a culture of corruption.

Widely accepted law-breaking exists, of course, in every society. Although jaywalking violates American laws, it is common throughout the United States, and it does not automatically generate criticism from Americans. But in the pre-modern Middle East, circumvention of the law took place in many more contexts involving far more resources. Recall that waqfs came to control a vast share of real estate.

Where laws are commonly evaded, it is relatively hard to get people to obey new laws. Since everyone breaks the law, the act carries no significant stigma, and enforcement is costly. Consequently, laws enforced at low cost elsewhere do not get enforced. This culture of corruption raises the cost of making and enforcing laws. Indeed, traffic regulations, rules

against littering, and tax laws are openly flaunted in the Middle East even today. This is partly because for centuries the circumvention of massively significant laws enjoyed great tolerance.

In the historical literature on the waqf system evasions of waqf rules are often treated as perfect substitutes for formal and legitimate flexibility. Yet the long-term effects differed. Though evasions of the waqf fixity rules eliminated immediate obstacles to resource reallocation, they also reduced pressures against law-breakers. That made it difficult to change rules and regulations, which is integral to modernization. If the Middle East scores low in regard to rule of law, a reason is that historically breaking the law became very common.

Lasting Political Consequences

Starting in 1908 it became possible for Middle Easterners to form corporations under new local laws. Before long, the functions of waqfs were assumed by self-governing municipalities, professional associations, cultural groups, and charities. Still, political checks and balances remain limited all across the Middle East, and especially in the Arab world. Civil society remains weak because forming politically effective private organizations takes time, especially in the presence of states committed to undermining potential sources of opposition.

Meanwhile, states themselves remain weak, and one basic reason lies in the history of waqfs. In interactions with state agencies citizens are much more likely than their counterparts in advanced democracies to rely on personal relationships with government employees. Nepotism is also more common. This makes it difficult for states to implement policies and monitor their employees. These patterns are reflected in the corruption perception statistics shown in Table 1. They indicate that in the Middle East relationships with government agencies are commonly viewed as personal business deals.

4. Organizational Stagnation of the Commercial Sector

A final reason why the Middle East remains largely undemocratic has to do with the history of its commercial sector. Traditionally Middle Eastern profit-making enterprises were tiny and short-lived. In the 17th century, a time when in Europe overseas trading companies were being formed as perpetual organizations through capital provided by hundreds of investors, in the Middle East indigenous commercial enterprises with five or more members were rare, and few lived more than a few years. The pattern lasted until the 20th century.

As I have argued at length in a recent book (Kuran 2011), two Islamic institutions accounted for this particular pattern and its persistence. The first is the Islamic commercial partnership, whose rules allowed any member to pull out unilaterally, at any time. A partnership's premature dissolution by one partner imposed costs on the others. For this reason alone, merchants and investors kept their partnerships small and short-lived. The second institution that limited the size and duration of Islamic partnerships is the Islamic inheritance system, which is highly egalitarian by pre-modern standards. A sudden death forced remaining partners to deal with the possibly numerous heirs of the deceased shareholder. So partnerships were kept small and ephemeral also to minimize the probability of dealing with heirs.

Small and short-lived enterprises do not face the sorts of coordination and communication problems that haunt large and long-lived companies. Accordingly, Middle Eastern

entrepreneurs of the second millennium did not feel a need for institutional creativity. The consequent organizational stagnation turned into a huge handicap for the region during the Industrial Revolution, because the efficient exploitation of modern technologies required large and perpetual companies, which could not be founded under Islamic law.

It is the political consequences that are relevant here. Tiny and ephemeral Middle Eastern businesses could not bargain collectively with the state, as their much larger counterparts in Western Europe did in the centuries leading to the Industrial Revolution. They could not strengthen property rights; arbitrary taxation and expropriations remained much more common. Nor could the region's private sectors help to make states accountable to the public. This is a major reason why states could not borrow on a large scale domestically, except at exorbitant rates, by European standards.

Because the commercial sector was atomistic the transition to impersonal exchange was delayed relative to Western Europe. Exchange remained largely personal until modern times. Evidence of the delay lies in court records. In the 17th century it became essentially impossible for Europeans to sue for unpaid debt on the basis of an oral claim alone. Documentation of financial claims became mandatory. By contrast, in Istanbul, the commercial center of the Eastern Mediterranean, only 13% of all debt trials involved documentation. Evidently, exchange in Istanbul remained largely personal. One of the long-term consequences is that by global standards, trust in large-scale organizations remains strikingly low in the Middle East.

5. Conclusion

It is time to wrap up. I have identified several elements of traditional Islamic law that jointly kept Middle Eastern economies stagnant. The same institutions also kept civil society weak, I have suggested, delaying the development of civil liberties. Indeed, autocratic institutions did not begin to face challenges until the 19th century (Mardin 1969; Browsers 2006). Precisely because they were not subject to checks and balances, states remained weak. High corruption, still a characteristic of Middle Eastern economies, is among the manifestations of weak governance.

In the 21st century, the problematic institutions no longer present direct obstacles to democratization. They have been abrogated formally in some countries, including Turkey and Tunisia. In others, they have been replaced quietly by modern laws with foreign origins. Nevertheless, the region remains in a transition from personal exchange to impersonal exchange, and in most countries the development of civil society is at an early stage. These patterns, both rooted in the Middle East's historical economic institutions, limit its capacity for democratic rule.

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