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*Philosophy Social Criticism* published online 28 March 2013

DOI: 10.1177/0191453713477350

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# The political consequences of Islam's economic legacy

*Philosophy and Social Criticism*

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DOI: 10.1177/0191453713477350

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## Abstract

Several of the Middle East's traditional economic institutions hampered its political development by limiting checks on executive power, preventing the formation of organized and durable opposition movements, and keeping civil society weak. They include Islam's original tax system, which failed to protect property rights; the *waqf*, whose rigidity hampered the development of civil society; and private commercial enterprises, whose small scales and short lives blocked the development of private coalitions able to bargain with the state. These institutions contributed to features that sustain autocracies and keep democracies unstable: high corruption, low trust, widespread nepotism and high tolerance for law-breaking.

## Keywords

Civil society, democracy, Islam, Middle East, political development, *waqf*, *zakat*

Democracy is a cherished form of government because it supports social characteristics associated with the good life: rule of law, transparency in government, and civil liberties. There exist global indices that measure these characteristics by country. According to all such political indices, the Middle East stands out as a poor performer. The 'corruption perceptions index' of Transparency International indicates that in the region corruption is high by global standards. The Middle East also scores poorly in the World Bank's rule of law index, and in the civil liberties index of Freedom House (Table 1).

There are intriguing variations within the Middle East itself. By each measure, Turkey's score stands midway between the average for the Organisation for Economic Cooperation and Development (OECD), the club of economically advanced democracies, and the rest of the Middle East, consisting of Iran and the 22-member Arab League.

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**Table 1.** Comparative indicators of political performance, 2011–12 (Standardized and population weighted, with 0 worst and 10 best).

Region, country, or country grouping	Government cleanliness	Rule of law	Civil liberties
Africa (non-Arab)	2.7	2.9	5.8
India	3.1	4.9	7.0
China	3.6	4.2	4.0
Middle East	3.0	3.7	5.3
Arab League	2.8	3.5	4.4
Iran	2.7	2.8	4.0
Turkey	4.2	5.3	7.0
OECD (except Turkey)	6.6	8.0	8.6

Note: The population figures used in the averages are for 2005.

Sources: (1) Transparency International, *Corruption Perceptions Index*, 2012 (<http://www.transparency.org>), with transformation 1-x; (2) World Bank Rule of Law Indicators, 2011 (<http://info.worldbank.org/governance>), with transformation 2.5x-1; (3) Freedom House, *Freedom in the World Report*, 2011 (<http://www.freedomhouse.org>).

With respect to Iran and the Arab League, Turkey's political performance looks impressive; by the OECD's gold standard, Turkey seems corrupt, undemocratic and repressive.

A common feature of the Arab world, Iran, and Turkey is the dominant religion, namely, Islam. A widespread view among interpreters both outside and within the Middle East is that the political deficiencies captured by such statistics are linked to Islam, the dominant religion in all three of its constituencies. Yet the connections between Islam and political performance are rarely spelled out. The objective of this article is to identify historical mechanisms through which Islam delayed the Middle East's democratization. I shall show that several of the region's traditional economic institutions, all part of Islamic law, hindered its political development by limiting checks and balances, preventing the formation of organized and durable opposition movements and keeping civil society weak. They include Islam's original tax system, which failed to protect property rights; the *waqf*, whose rigidities hampered the development of civil society; and the region's private commercial enterprises, whose small scales and short lives prevented the development of private coalitions capable of bargaining effectively with the state. These institutions contributed to extensive corruption, low trust, nepotism and high tolerance for law-breaking. Such features help to sustain modern Middle Eastern autocracies. They also keep the region's democracies flawed and unstable.

## Reasons to doubt that Islam mattered

Table 1 gives one reason to doubt that Islam can explain the Middle East's poor political performance. The governance problems observed in the region are replicated in places where Islam is not a major factor. China's scores, like those of Africa, are comparable with the Middle East's scores.

Another reason for skepticism lies in the content of historical Islamic discourses. Over the ages these discourses have harbored diverse traditions regarding the state's role and the authority of rulers. Clerics who have justified state repression have also supported the

relegation of most public services to privately established and operated organizations, which would keep the state shallow. Also, throughout the Middle Ages Islamic philosophy grappled with the challenges of reducing arbitrariness in governance. On that basis, it has been claimed that if rule of law is weak in the modern Middle East, this is in spite of Islam rather than because of it (Feldman, 2008).

Yet another reason to doubt the existence of linkages between Islam and economic performance involves the performance of secular regimes of the modern Middle East. The region's most oppressive regimes have included ones committed to secularism. Iran's political performance as measured by civil liberties was not better under the secular Pahlavi monarchy than under the theocracy that succeeded it in 1979. And Arab countries ruled over the past four decades by essentially secular dictators have not had better political records than those ruled by regimes committed to Islamization in one form or another. Secular regimes have been just as repressive as their religious counterparts. Cumulatively, the three North African dictators toppled in 2011 (Zine El Abidine Ben Ali, Hosni Mubarak and Muammar Gaddafi) had been in office 96 years, an average of 32 years. Each dictator excluded Islamists from his ruling coalition and strove to deny them a voice. In Turkey, since political power passed from secular parties to the mildly Islamist AK Parti in 2002, basic political indices have not worsened but improved. The country's civil liberties score has jumped from around 3 to 7, and its governance cleanliness index from around 3 to over 4.

Nevertheless, there is a basic reason to expect Islam to have influenced the Middle East's political development. Islam gave the region a common economic legacy through laws that were enforced widely until the mid-19th century, and, in some places, until the early 20th century. These laws held the region back economically by delaying its transition from personal to impersonal exchange (Kuran, 2011). The institutions of the modern economy, including banks, the corporate form of organization, and stock markets, were transplanted to the region from abroad because they did not evolve locally, out of the region's indigenous institutions. A region's economic institutions are among the determinants of its political structures. Hence, the Middle East's economic trajectory might have influenced its political trajectory as well.

If in fact the Middle East's economic history constrained its political possibilities, all modern governments of the region would be affected, not only ones with a religious coloration. Whether measured by rule of law, corruption, or civil liberties, political performance would be limited because of inherited institutions, regardless of the politics of the moment. It would not matter to overall performance whether power was in the hands of, say, secular politicians promoting secular lifestyles or devout politicians pursuing an Islamization agenda.

The identity of the repressed subpopulations would depend, of course, on the political preferences of the incumbent government. The Iranian theocracy represses people who favor a secular order. Tunisia's secular dictator Ben Ali repressed Islamists. The post-revolutionary Islamist governments in Tunisia and Egypt are in the process of instituting blasphemy laws that can be used to curb the expressive freedoms of secularists (Al-Hibri, 2012).

The history of the Turkish Republic offers another illustration of how the identity of the repressed groups may vary. From 1923 to 2002 Turkey's secular regimes persecuted

vocal Islamists for sedition. After AK Parti came to power, Islamists gained political freedoms. Although the political freedoms of secularists were initially not affected, they came under challenge after AK Parti won a second term. As of mid-2012, 140 generals are in jail on charges of coup-plotting, all vocal supporters of secularism. More than 70 journalists are also behind bars, many of them critics of Islamism or AK Parti specifically (Filkins, 2012). Although civil liberties have expanded on the whole, Islamists have benefited disproportionately.

## Key economic institutions that mattered to political development

Until the modern era, the law of the land throughout the Middle East was Islamic law (*sharia*). Several elements of Islamic law contributed to the ineffectiveness of the region's non-governmental organizations and, hence, to various observed political patterns. Non-governmental organizations provide critical functions in any democracy, including the checking of executive power.

Of the three institutions in question, the first involves taxation. At the rise of Islam in 7th-century Arabia, an attempt was made to cap taxation and make it predictable. But this attempt at constraining government failed. Islamic law did not produce a lasting and credible constraint on taxation. That failure led to a search for a wealth shelter. A distinctly Islamic form of the trust, known as *waqf*, was developed, and it became Islam's device for providing public goods while also sheltering assets from the state. The *waqf* is the second of the three economic institutions that mattered critically to the region's political development. Although they controlled vast resources, *waqfs* were politically powerless both individually and collectively. They did not provide the political checks and balances essential to democratization.

Meanwhile, the atomistic nature of the private commercial sector operating under Islamic law made it difficult to form coalitions capable of bargaining effectively with the state. Specific elements of Islamic law were responsible for keeping the private commercial sector underdeveloped structurally.

The upshot is that the Middle East reached modern times without an effective civil society. Beginning in the mid-19th century transplanted institutions enabled civil society to grow and strengthen, but even now it remains weak. I will return to the present after reviewing the development of Islamic law, with a focus on political consequences.

## Islam's original tax system and its loss of relevance

Islam emerged in western Arabia in the 7th century. Its holy book, the Quran, came into being during the lifetime of Muhammad, the religion's founder, through verses that he articulated in stages. Remarkably, the Quran instituted a system of predictable taxation to finance eight specified categories of expenditure. Called *zakat*, this system grew out of the informal tithing practices among the earliest converts (Kuran, 2003).

As the community of Muslims grew, Muhammad established what we recognize as a state. At that point, *zakat* became obligatory. Except the very poor, Muslims paid *zakat* at rates tied to the forms of their income and wealth. Mildly progressive, the rates were

strikingly low compared with those typical of antiquity. The established rates on gold, camels, sheep and a few other forms of wealth were all meant to be fixed. In mandating the well-off to make fixed annual contributions to the Islamic state's governance, the *zakat* system also imposed a ceiling on individual obligations to the state. In effect, it tied the state's hands with regard to taxation. As such, *zakat* might have provided the foundation of a social contract involving equity in taxation, but also predictable taxation and limited government.

That did not happen, and the reason has to do with Islam's meteoric transformation from an Arabian religion to a global religion. Outside of Arabia, the economic base differed from that within. The constraints imposed by *zakat* vanished as the conquerors strove to adapt the tax schedule to the evolving tax base. Meanwhile, influential groups both within Arabia and in captured territories demanded *zakat* exemptions for one category of wealth or another. For the sake of peace, rulers used exemptions to co-opt many of these groups. The *zakat* system began to look like the United States tax code: full of holes.

Having curtailed the coverage of *zakat*, these wealthy and influential groups then began to treat as sacred, and therefore immutable, the specifics of the restricted system, rather than the principles of taxpayer equity, predictable taxation and limited government on which the original system rested. In the process, they choked off the Islamic state's capacity to raise revenue through *zakat*. States ruling in the name of Islam were forced to raise other taxes. The principles of limited and predictable taxation lost relevance.

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 Quran is subject to multiple interpretations on the relevant matters. For example, its verses that discourage the hoarding of wealth can be used, in isolation, to justify arbitrary taxation. Also, the Quran treats *zakat* as obligatory in certain verses that date from Muhammad's late years, but voluntary in certain very early verses (Hurgronje, 1957[1882]). The difference reflects changes in the Muslim community's size. This is seldom understood, however, because in its canonical ordering the Quran's chapters (*suras*) are laid out according to length rather than chronologically, rendering it difficult to make sense of contradictions. In any case, the principles of limited and predictable taxation are themselves hard to extract from the Quran. They are not obvious when the Quran is considered in its totality.

The upshot is that within mere decades the *zakat* system ceased to constrain Muslim rulers on either taxation or the reach of government. Before the 7th century was out, taxation turned out to be whatever the state could get away with. Islam had not put in place a sustainable system capable of enforcing strong property rights.

Scores of rulers benefited from the lack of effective constraints on predation by resorting during crises to arbitrary taxation or confiscation. In the long run, however, the region suffered, because governments never gained the trust to be able to borrow internally at low cost, as European governments eventually did.

The foregoing account of why sustainable constraints on government predation did not emerge in the 7th century does not explain, of course, why such constraints did not emerge later. Other institutions account for why the victims of predation remained unorganized and thus incapable of advancing the rule of law.

## The use of *waqfs* as wealth shelters

This brings us to the second economic institution that shaped the Middle East's political trajectory and delayed democratization. The elites who decimated the *zakat* system through loopholes found themselves without protection against arbitrary takings. Within a few decades they developed an alternative institution to protect private assets. This was the *waqf*, a distinctly Islamic form of trust modeled after Persian and Byzantine variants. A *waqf* has an endowment whose income is used to provide a social service in perpetuity. Thus, the typical *madrasa* [Islamic college] was backed by assets such as farms and shops, whose income paid for teacher salaries, student stipends, administration and upkeep (Kuran, 2001).

Just as the canonical *zakat* rates protected property by capping taxation, so the *waqf* protected property rights through the common belief that *waqf* assets are sacred. The belief probably originated in the eastern Roman Empire, where churches were commonly financed through trusts. Whatever the precise origins, it made rulers reluctant to confiscate *waqf* assets, lest they develop a reputation for impiety. The sacredness of *waqf* properties served as a credible commitment device that shielded them from rulers seeking revenue.

*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, and to designate their beneficiaries. Hence, some of the assets endowed by founders returned to them and their families. Partly for this reason, vast private resources flowed into *waqfs* serving many ends, including mosques and religious schools but also non-religious services, such as fountains, inns for merchants and soup kitchens. The goal was partly, if not largely, to shelter assets from rulers. The share of real estate controlled by *waqfs* expanded over time. By the early 19th century, depending on the region of the Middle East, 15 to 50 per cent of all real estate belonged to a *waqf* endowment.

The *waqf*'s emergence in the Middle East coincides with the emergence in western Europe of the corporation, which is a self-governing organization that enjoys legal personhood. In the centuries following the western Roman Empire's collapse, rule of law was weak in western Europe. In this environment, the corporation served as a convenient vehicle for securing order within narrow contexts. Thus the corporation was used widely to provide public goods supplied in the Middle East exclusively through *waqfs*.

The Middle East's institutional choice reflects the greater capabilities of its states. Indeed, during the 8th to 10th centuries, the Middle East was governed by strong states, chiefly the Umayyad, Abbasid and Fatimid empires. The powers of these states were evident in their capacity to enforce a far-reaching legal system and in their abilities to prey on their subjects. *Waqfs* provided material security to their founders from strong states.

What matters is that for a millennium the *waqf* served as the delivery vehicle for functions met in the West generally through corporations.

Western universities were corporations; as such they were able to restructure themselves and redeploy their resources. Their Middle Eastern counterparts, the *madrasas*, operated according to their founders' instructions. For another example, in the West urban services were provided primarily by local governments, or municipalities,

chartered as corporations. Churches also played a role, but they, too, were organized as corporations. In the Middle East, practically all urban services were provided by *waqfs*.

## The *waqfs* impact on political development

Given that *waqfs* came to control vast resources securely, and were used to provide so many types of services, they might have become powerful political players. They might have used their resources to constrain rulers by resisting actions harmful to their constituencies, such as students, teachers, and recipients of urban services. The resulting decentralization of power could have placed the Middle East on the road to democratization. After all, in western Europe, cities, guilds and universities organized as corporations served exactly that political function. In limiting the powers of central governments, they became agents of democratization.

However, for all their wealth, *waqfs* remained politically powerless. The reason is that they lacked key characteristics that made corporations politically effective. First of all, *waqfs* had to deliver specified services according to fixed instructions. Their resources could not be managed flexibly. Second, unlike corporations, they had no standing in court as organizations. Third, their ability to use resources for political ends differed. Whereas an incorporated European city or church was free to participate in politics, a *waqf* was not. Finally, whereas the constituents of a corporation could replace a poorly performing leader, as with the residents of a city choosing a new mayor, the constituents of a *waqf* had no say over the caretaker, who was not accountable to them. If the caretaker of a *waqf* was monitored at all, it was by state officials. For all these reasons, in the pre-modern Middle East the suppliers of social services barely constrained sultans, and they did not foster political movements or ideologies.

This brings us to civil society, which I am using in the sense of Alexis de Tocqueville (2000[1835–40]). It consists of associations that stand between the state and the individual. An enormous literature views a strong civil society as a barrier to despotism. What makes a country's civil society strong? Three factors are especially relevant here.

There must exist the freedom to found non-governmental organizations of one's choice. The *waqf* provided this freedom. The founder of a charitable complex was free to select its objectives, employees and beneficiaries. There must also exist organizational autonomy; in other words, the established organizations must be empowered to act in their own interest. This freedom, the *waqf* blocked. The requirement to keep its objectives and procedures fixed in perpetuity denied *waqfs* self-governance. Finally, the constituents of the established organizations must have control over their officials. In fact, the beneficiaries of a *waqf*'s services had no capacity to monitor its caretaker. It is the last two factors that kept *waqfs* from becoming a political force for democratization.

If democracy arose in the West and generated the desirable characteristics now picked up in global political indices, this is not because of benevolent monarchs. Democratic rights got established because of epic struggles driven by groups organized, usually as corporations, within universities, as cities, as religious orders, as unions, or as merchant associations. Such groups demanded rights. They articulated requests. They developed blueprints for alternative orders. They stimulated intellectual life. Their successes led to the development of rules, regulations and laws conducive to protecting individual



rights and strengthening civil society. By and large, there was a virtuous circle. As civil society developed, it put in place rules that facilitated the creation and maintenance of private organizations; and the rules gave private organizations more security.

In the Middle East, meanwhile, the lack of politically effective private organizations limited opportunities to challenge absolutist rulers; institutionalized checks on executive power did not emerge. 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 system was not necessarily stable – but because civil society was weak successful challengers would establish autocratic regimes of their own.

## **Waqfs and corruption**

The figures on comparative political development provided in Table 1 point to high corruption in the Middle East. The *waqf* contributed to this pattern, too.

Changes in relative prices, technologies, or other conditions created needs for reallocating resources by *waqfs* and among *waqfs*. When adaptations could not be made, economic inefficiencies occurred. So caretakers did sometimes find ways to reallocate resources. These reallocations often came about through corruption. Judges were bribed; ambiguities of wording in *waqf* deeds were exploited; and changes were made with authorities looking the other way.

Over many centuries, such acts fostered a culture of corruption. Breaking the law became common and acceptable. To a degree, of course, widely accepted law-breaking exists in every society. Even in advanced democracies many people violate traffic regulations by jaywalking, without enduring criticism. But in the pre-modern Middle East, circumvention of the law took place in many more contexts, and it involved far more resources. Remember that *waqfs* came to control a vast share of real estate.

This culture of corruption raised the cost of making and enforcing laws. 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 in other places remain toothless. Traffic regulations, rules against littering and tax laws are openly flaunted in the Middle East even today. This is partly because in a huge set of contexts circumventing the law has been tolerated, even accepted.

In the historical literature on the *waqf* system the evasion of *waqf* rules is often treated as a perfect substitute for formal and legitimate organizational flexibility. Yet the long-term effects differ. Though it eliminates short-term handicaps, evasion dampens pressures against law-breakers. In turn, the alleviation of these pressures makes 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 basic reason is that historically laws were violated routinely, and with impunity.

## **Lasting political effects**

In the mid-19th century it became possible for Middle Easterners to form corporations under new local laws. The functions of *waqfs* were assumed by self-governing municipalities, professional associations, cultural groups and charities. Subsequently, in the course of the 20th century, laws governing *waqfs* were modernized. Structurally a modern *waqf* is a charitable corporation; it has flexibilities that its pre-modern namesake lacked. Still, checks on executive powers remain limited. Civil society remains weak.

A proximate reason is that Middle Eastern states have tried hard to control private organizations and to undermine their activities. Indeed, the region's dictators spent decades emasculating the news media, suppressing intellectual inquiry, banning political parties and coopting regional, ethnic and religious organizations to silence dissenting voices. One reason for their success is that they faced weak civil societies to begin with. Forming politically effective private organizations takes time, and the Middle East has had barely a century to do so through autonomous organizations. By comparison, the West has had a millennium and a half.

In addition to providing checks and balances, civil society serves other functions that are critical to the development and maintenance of a democratic system. Civil society promotes a culture of bargaining and compromise. It endows citizens with skills to form coalitions and govern. It trains future leaders to articulate ideas and communicate them to diverse groups. And it helps to turn individual grievances and ideas into social ideologies.

By and large the recent Arab revolts have lacked strong leaders, and they have not generated new ideologies. Deeply rooted in history, these patterns reflect the weaknesses of civil society.

Meanwhile Arab states remain weak themselves, in that they are unable to enforce laws. There is massive tax evasion, which undermines governance. Another manifestation is that relationships between citizens and government agencies are commonly viewed as personal business deals. Still another is the prevalence of nepotism. In interactions with public organizations citizens tend to rely on personal relationships with employees or representatives. All of these patterns make it difficult for states to implement policies. Monitoring employees poses an immense challenge.

## **Traditional atomism of the private commercial sector**

A final historical reason why the Middle East remains largely undemocratic has to do with the commercial sector. Traditionally its profit-making enterprises were tiny and short-lived. In 17th-century Istanbul 80 per cent of all partnerships involved just two individuals, typically a passive investor and an active merchant or producer. Commercial enterprises with five or more members were rare, and none lived more than a few years (Kuran, 2011). In coeval Europe, overseas trading companies were being formed as perpetual organizations through capital raised from hundreds of investors.

Two Islamic institutions accounted for the Middle Eastern pattern and its persistence right up to the 20th century. Any member of an Islamic commercial partnership could pull out at any time and without advance notice. The partnership's premature dissolution by one partner imposed costs on the others. So for this reason alone merchants and investors had reason to keep their partnerships small and short-lived. The other institution that limited enterprise size and longevity is the Islamic inheritance system, which is egalitarian by pre-modern standards. A sudden death forced remaining partners to deal with the heirs of the deceased shareholder, who tended to be numerous. Hence, merchants and investors kept their partnerships small and ephemeral also to minimize dealings with impatient heirs.

Persistently small and short-lived enterprises do not face the sorts of coordination and communication problems that fuel institutional creativity. So a consequence for the Middle East was organizational stagnation. This stagnation became a major economic 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 large firms in western Europe did in the centuries leading to the Industrial Revolution. And their lack of permanence inhibited the formation of business associations. The growth of civil society was thus delayed also by the organizational stagnation in commerce.

## Islam and the persistence of authoritarian rule

Let me sum up. My question was whether Islam accounts for the commonness of authoritarian rule in the Middle East. I have said yes, though in a special sense. Islam has mattered historically, through its legal system. Islam's tax system opened the door to arbitrary taxation. Its alternative to the corporation, the *waqf*, kept civil society weak. And the commercial sector's persistently atomistic structure, a consequence of specific Islamic institutions, contributed to civil society's weaknesses.

This history is reflected in today's global political indices. The low scores of the Middle East stem from the perennial weakness of civil society and rule of law, and the pervasiveness of corruption, in the region's states. The differences within the Middle East are just as intriguing. Turkey scores better than the Arab world or Iran because since the 19th century it has been in the lead in adopting modern laws and discarding old institutions inimical to economic and political modernization. As a consequence, Turkey has advanced the farthest in transitioning to impersonal exchange. Notwithstanding periodic setbacks, it has also made the greatest strides in instituting a democratic system of government.

What are the connections, one might wonder, between modern Islamism and paucity of democratization? In saying that Islamic law, as implemented historically, is a factor in modern political patterns, have I implied anything about Islamism? Some Islamists, specifically those characterized as Salafis, want to deny people various social freedoms and religious freedoms that in mature democracies one takes for granted. But very few seriously want to go back to a world without corporations, and with only tiny companies.

They are quite comfortable with western-inspired commercial and financial reforms of the 19th and 20th centuries. So they are not delaying democratization through their economic agenda. Nevertheless, in countries where Islamists achieve power, democracy will not arrive immediately because the effects of the past weigh on Islamists much as they do on secular groups.

### Note

A draft of this article was presented at the Reset-Dialogues İstanbul Seminars 2012 ('The Promises of Democracy in Troubled Times'), which took place at Bilgi University on 19–24 May 2012. Under the title 'Religious Obstacles to Democratization in the Middle East: Past and Present', an expanded version for *The Wealth and Well-Being of Nations* is in the press.

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