Paweł Rybacki
A Historical Perspective on the Underdevelopment of the Middle East
October 30, 2019

A Historical Perspective on the Underdevelopment of the Middle East

Between the tenth and the thirteenth centuries, the Middle East was surpassed by Europe in terms of economic development. The emergent gap has persisted to this day. Why the Middle East has lost its initial prominence is a difficult question that remains a topic of debate in historical studies and development economics. Therefore, a suggested answer should be multifaceted. I argue that today's poor economic performance of the Middle Eastern countries relative to Western countries results from their adverse geography and, more importantly, the rigidity of their traditional Islamic institutions. I emphasize that it was not any particular type of institution that was decisive in hampering growth, but rather the lack of institutional transformation comparable to that of medieval Europe. To shed more light on this issue, I discuss how Islamic institutions prevented the development of law, science, and decentralized power structures.

Before reaching this conclusion, the paper navigates through several broad but crucial aspects of the problem of development. First, it clarifies that the economic decline of the Middle East occurred both in relation to its past prosperity and in relation to thriving Europe. Second, it describes what geographic obstacles put the Middle East in a disadvantageous position relative to Europe. It then discusses key differences in the economic institutions of these two regions and proceeds to explain what caused the dissimilarity in dynamics of institutional transformation. Finally, it posits that both Islam and its traditional interpretation lie beneath the rigidity of traditional Islamic institutions. Importantly, the paper relies on the assumption that the economic history of the region has a large explanatory power in relation to its present economic performance.

The economic stagnation of the Middle East after the thirteenth century may be considered both as a decline with respect to its past prosperity and as a lag behind western Europe's development. Two important events are consistent with the former interpretation: the eclipse of the Islamic Golden Age, and the discovery of a route from Europe to India and East Asia bypassing the Middle East.

The fall of the Abbasid Caliphate was a significant geopolitical event with long-lasting detrimental economic consequences. Under the Caliphate, "the ruling class spoke one language, the region was both culturally and religiously very homogeneous, connected through the efficient caravan network, and there existed few barriers to trade" (Bosker et al. 2013, p. 1431). Baghdad, its political capital, was a cultural, intellectual, and commercial center of the region.[1] However, the period of prosperity ended with the collapse of the empire, which resulted from a series of unfavorable events including the arrival of Seljuq Turks, crusades, and the Mongol invasions. In addition to decreasing the amount of capital, these military shocks likely upset the existing social structures and set the Middle East on an unfavorable trajectory for the subsequent centuries.

Another important determinant of the Middle East's decline was its lost relevance in international trade. A major factor contributing to the region's wealth was its beneficial location at the crossroads of Eurasia. After centuries of having this privilege, "[t]he European discovery of the direct route to India and China made the Arab middleman obsolete" (Bosker et al. 2013, p. 1420). Therefore, the Middle East lost its large source of revenue it had relied upon from ancient

---

[1] Woods, John E and Majid Khadduri, "Iraq: The Abbasid Caliphate," Encyclopaedia Britannica Inc, 2009. https://www.britannica.com/place/Iraq/The-Abbasid-Caliphate

times until the era of great discoveries, a cause that should not be overlooked when studying the area’s economic history.

However, these external circumstances by themselves fail to completely answer the question about the underdevelopment of the Middle East; a comparative perspective taking into account the specificity of its own geography and institutions is necessary. The literature on this topic focuses on the role of institutions and attaches secondary importance to the role of geography. However, according to the geography school of economic development, high transport costs and low agricultural productivity are among the most important causes of poverty and poor economic growth (Bloom et al. 1998). Therefore, I argue that a more limited water transport capacity and unequal agricultural conditions have played a role in widening the economic gap between Europe and the Middle East in the Middle Ages.

Bosker et al. (2013) posit transportation costs as a cause of the growing discrepancy between Europe and the Middle East in terms of urban expansion. In the Middle East, the camel was a dominant means of long-distance transportation; in Europe, the ship played such a role (Bosker et al. 2013). Because shipbuilding was perfected overtime, whereas little could be done to improve the camel use, Europe soon gained the advantage in connecting its cities, which translated to a higher trade capacity and other spillovers contributing to urbanization (Bosker et al. 2013). Urbanization in this context may serve well as a proxy for economic growth, thus further explaining the Middle East’s lag behind Europe.

Agricultural productivity is another geographical factor potentially explaining Europe’s advantage over the Middle East. The Middle East is very unequal in terms of the agricultural potential of its lands: “whereas agricultural potential in Europe is more homogenous and of average to good quality, in the Middle East and North Africa it is very heterogeneous: either very good or very bad" (Bosker et al. 2013, p. 11 of Appendix A). Bosker et al. do not find evidence for a relationship between agricultural potential and city development. However, this does not imply that agriculture did not matter for economic development; in fact, one of the reasons the region had comparative advantage in trade was its adverse conditions for agriculture relative to Europe (Sadr 2016). Conversely, Europe relied more on production and less on trade, what made its economy more self-sufficient. In addition, mere inequality in agricultural stability caused tensions in the Middle East (alleviation of which can be found in Islamic economic principles; Michalopoulos et al. 2016). This contrasts with the aforementioned equal distribution in Europe, where conflicts broke out for reasons other than access to fertile lands. Therefore, it seems that agricultural conditions of the Middle East have not been as conducive to economic growth as those in Europe.

In the light of the preceding discussion, the role of geography in explaining the economic gap between Europe and the Middle East should not be marginalized. Nonetheless, the literature on the topic focuses more on the differences in institutions. While I would suggest further research on the geographical constraints to the development of the Middle East, I agree that effective institutions help overcome geographic obstacles, as it is the case with countries such as Israel, for example. Therefore, historical institutions are overall more relevant in explaining the Middle East's status in the modern world.

Proponents of this approach include Kuran (2004), who, in his widely cited work, argues that that the Middle East is underdeveloped due to "institutional stagnation." He proposes "the Islamic law of inheritance, which inhibited capital accumulation; 2) the strict individualism of Islamic law and its lack of a concept of corporation, which hindered organizational development and contributed to keeping civil society weak; and 3) the waqf, Islam's distinct form of trust, which locked vast resources into organizations likely to become dysfunctional over time" as key factors slowing down the economic growth in Muslim countries (Kuran 2004, p. 71). Moreover, according to Facchini (2010), Islam "did not predispose Muslims to rediscover the virtues of political freedom, free democracy, secularization of law, disassociating the individual from the community of believers" but "prevented secularization of property rights and its evolution" (Facchini 2010, p. 119-120). Importantly, both authors take the relative-growth approach, stating that the while Europe managed to undergo an institutional transformation, the Middle East remained behind at a relatively steady level; it is worth analyzing where the difference comes from.

Crucial to the institutional framework of any civilization are its laws, yet more fundamental than laws themselves is the process of their crafting. Whereas increasingly sophisticated legal scholarship in medieval Europe allowed for economic growth, Muslim legal schools became stagnant and thus unfavorable to progress. According to Ozay (1990, p. 35), "at the height of Islamic civilization, [Muslim scholars and jurists] declared that the Gate of Ijtihad (independent analysis) was closed, i.e. that all possible questions had been answered and henceforth only learning by imitation would be permissible." Consequently, law could neither be systematically perfected nor adapted to changing circumstances. At the same time, the law in Europe was intensively studied and debated at universities, thus remaining "flexible enough to adapt to new developments and innovative enough to provide new legal forms" (Schäfer 2014, p. 300). In view of how important individual rights, and especially property rights, may be for economic development (Acemoglu et al., 2001), the rigidity of law seems to have been a serious hindrance to the entrepreneurial potential of the region.

Moreover, it was not only the study of law that became more restricted over time in the Muslim world, but also the study of science; while European universities remained a space for open discussion of matters beyond spirituality, the Middle Eastern academic activity reverted from science to theology. According to Chaney's (2016)'s study, "the data and the historical evidence all support the claim that religious were empowered during this period and that the actions of these religious leaders contributed to the observed decline in scientific output." It seems clear, therefore, why scientific progress, whose culmination was the scientific revolution, took place in Europe and not the Middle East. Less clear is the impact of each religion on this outcome; however, considering that universities emerged from schools for clergy to independent institutions under the approval of the Catholic Church, the Christian clergy of that time seemed more favorable to the development of free academic discourse than its Muslim counterpart.

The independence of universities turns our attention to another crucial aspect of institutional transformation absent in the Middle East yet present in Europe: a gradual decentralization of power. Discussing the balance of power between the capital and other cities within a state, Bosker et al. (2013, p. 1434) claim that "the findings in Europe regarding the importance of local participative government stand in sharp contrast to the absence of a process of bottom-up institution building in the Islamic world." The authors note that this was a reversal of the situation from the Golden Age of Islam, when urban areas were more interdependent in the Middle East than in Europe. Another potential source of decentralization in Europe was the invention of a standardized Latin script, which removed transaction constraints and thus flattened social structures; an analogous process did not occur in the Arabic world. As per Blum et al. (2003), standardized Latin facilitated the storage and retrieval of information, which increased the use of written contracts. The authors propose the following consequences: "the setup costs of joining the network were low, it encouraged the decentralisation of political power. … [t]he benefits from standardisation could not be captured by a monopolistic provider" (Blum et al. 2003, p. 230). Therefore, their empirical study reiterates the importance of decentralization in explaining the economic gap between Europe and the Middle East.

While decentralization by itself is not a clear predictor of growth, it is a factor enabling the cultivation of a civil society and limiting the omnipotence of the central government. As more entities compete both on political and economic grounds, there is more opportunity for improvement over time. However, the Middle East was traditionally ruled by despotic governments. As Kuran (2004, p. 87) believes, the lack of a strong civil society and of decentralized private initiatives laid ground for state-centrism and autocratic rule in modern Muslim countries. Therefore, the rigidity of political and economic structures in the Middle East helps explain the region's poor growth.

Finally, it is important to discuss the difference between religion in itself and the institutions that represent it. It seems that while traditional Islam has not been favorable to civil society and capitalism, the religion eventually proved adaptable to development, as its modern interpretations indicate. The study of Pryor (2007) shows little impact of the Islamic doctrine on the major economic institutions of Muslim countries in 2000. Therefore, if Muslim societies were unreceptive to new advancements in the distant past, it was likely because of the way they interpreted the religion rather than because of the religion's indissociable features. This is true not only when comparing modern Islam with traditional Islam, but also in the medieval context. Between the tenth and eleventh centuries the *Mu'tazilites* tradition, a more restrictive interpretation of Islam, replaced the *Ash'arites* tradition, a more freedom-oriented interpretation. As a result, the belief in individual free will decreased, and the state seized more authority

(Facchini 2010). This is consistent with the notion that authoritative Muslim institutions come from a particular tradition that emerged around the religion after the Golden Age of Islam.

On the other hand, perhaps certain inherent characteristics of Islam paved the way for its rigid institutions. Consider the theological differences between Islam and Christianity. Whereas both religions honored the divine law, Christianity allowed for the notion of secular law and for its autonomy, and Islam offered a strict set of rules strict rules and regulations enshrined in *shari'a*, the Islamic "positive and divine law" (Facchini 2010, p. 118). Consequently, Islam seems inherently inclined to promote institutions protecting the immutability of its laws. For instance, the state, as "the guarantor of God's law," was legitimized as the most influential entity shaping the life of a society. This entails the concentration of power mentioned before. These arguments explain why Islam may endorse the rigidity of institutions. Hillman (2007), in turn, presents a stronger claim attributing the negative impact on growth to traditional Islamic values: "the supreme values of radical Islam de-prioritize economic achievement and impose self-deprivation on own populations."[2] Other characteristics potentially discouraging a capitalist economy include communitarian and egalitarian aspects of Islam, although these are present in Christianity as well. Regardless of how deeply rooted in Islam the distrust to Western-style institutions is, the religion seems to have at least laid the groundwork for tightening the institutions of the Muslim world.

In conclusion, behind the underdevelopment of the Middle East lie many historical circumstances related to the unfavorable geographic conditions as well as to stagnant political and economic institutions. Since Europe owes its success to its ability to improve institutions, the Middle East was likely pulled back by its immobile institutions. Muslim elites became less open

[2] Hillman (2007, p. 270) links „radical Islam" with traditional Islam.

to innovations in law and science than their European counterparts. In addition, the state consolidated its authority due to the absence of decentralization forces. A partial explanation of these adverse phenomena is that the interpretation of Islam, and in particular the Islamic tradition that prevailed in latter half of the medieval period, put emphasis on the invariability of Islamic doctrine and the divine law. Inherent characteristics of Islam also played a role in that. Therefore, the history of the past millennium sheds light on the current economic situation of the Middle East and inspires the debate about the impact of Islam on economic growth.

Bibliography

Acemoglu, Daron, Simon Johnson, and James A Robinson. "The Colonial Origins of Comparative Development: An Empirical Investigation." American Economic Review 91, no. 5 (2001): 1369–1401. https://doi.org/10.1257/aer.91.5.1369.

Bloom, David E., Jeffrey D. Sachs, Paul Collier, and Christopher Udry. "Geography, Demography, and Economic Growth in Africa." *Brookings Papers on Economic Activity* 1998, no. 2 (1998): 207–95. https://doi.org/10.2307/2534695.

Bosker, Maarten, Eltjo Buringh, and Jan Luiten van Zanden. "From Baghdad to London: Unraveling Urban Development in Europe, the Middle East, and North Africa, 800вЂ"1800." Review of Economics and Statistics 95, no. 4 (2013): 1418–37. https://doi.org/10.1162/REST_a_00284.

Chaney, Eric. "Religion and the Rise and Fall of Islamic Science." (May 2016). Available at: https://scholar.harvard.edu/files/chaney/files/paper.pdf

Facchini, Francois. "Religion, Law and Development: Islam and Christianity--Why Is It in Occident and Not in the Orient That Man Invented the Institutions of Freedom?" *European Journal of Law and Economics* 29, no. 1 (February 2010): 103–29. https://doi.org/10.1007/s10657-009-9113-y.

Findlay, Ronald, and Kevin H. O'Rourke, Power and Plenty: Trade, War, and the World Economy in the Second Millennium (Princeton, NJ: Princeton University Press, 2007).

Hillman, Arye L. "Economic and Security Consequences of Supreme Values." *Public Choice* 131, no. 3–4 (June 2007): 259–80. https://doi.org/10.1007/s11127-007-9167-8.

Kuran, Timur. "Why the Middle East Is Economically Underdeveloped: Historical Mechanisms of Institutional Stagnation." Journal of Economic Perspectives 18, no. 3 (2004): 71–90. https://doi.org/10.1257/0895330042162421.

Mehmet, Ozay. *Islamic Identity and Development: Studies of the Islamic Periphery*. London: Routledge, 1990.

Michalopoulos, Stelios, Alireza Naghavi, and Giovanni Prarolo. "Islam, Inequality and Pre-Industrial Comparative Development." *Journal of Development Economics* 120 (May 2016): 86–98. https://doi.org/10.1016/j.jdeveco.2016.01.002.

———. "Trade and Geography in the Economic Origins and Spread of Islam: Theory and Evidence." *Institute for Advanced Study, School of Social Science, Economics Working Papers: 0096, 2009, 56 Pp.*, 2009, 56.

Platteau, Jean-Philippe. "Religion, Politics, and Development: Lessons from the Lands of Islam." *Journal of Economic Behavior and Organization* 68, no. 2 (November 2008): 329–51. https://doi.org/10.1016/j.jebo.2008.06.003.

Pryor, Frederic L. “The Economic Impact of Islam on Developing Countries.” *World Development* 35, no. 11 (November 2007): 1815–35. https://doi.org/10.1016/j.worlddev.2006.12.004.

Reda, Ayman. “Weber and Baqir As-Sadr: The Paradox of Economic Development in Islamic Societies.” *American Journal of Economics and Sociology* 73, no. 1 (January 2014): 151–77.

Sadr, Seyed Kazem. *The Economic System of the Early Islamic Period: Institutions and Policies*. New York: Palgrave Macmillan US, 2016. https://doi.org/10.1057/978-1-137-50733-4.

Schäfer, Hans-Bernd, and Alexander J. Wulf. “Jurists, Clerics, and Merchants: The Rise of Learned Law in Medieval E Urope and Its Impact on Economic Growth.” Journal of Empirical Legal Studies 11, no. 2 (2014): 266–300. https://doi.org/10.1111/jels.12041.