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Introduction

By almost any available metric, there is a wide gap between the economic and political fortunes of the Middle East and the West.[1] Even after accounting for oil wealth, which benefits only a small portion of Middle Easterners, Westerners are on average about six times wealthier. They can also expect to live, on average, eight additional years and have nearly twice the education (see Table 1.1). One cause – and consequence – of Middle Eastern economic retardation is poor governance and violence. The average Middle Easterner lives in a much more fragile and autocratic state and is subject to much more civil and ethnic violence than the average Westerner. This is undoubtedly the primary reason for the political tensions between the Middle East and much of the rest of the world, and it is at the root of the political and economic grievances espoused by Islamists.

This gap between the West and the Middle East – indeed, the West and the rest of the world – is a relatively recent phenomenon. In the preindustrial period, Western Europe was not obviously ahead of the rest of the world, and it was not so far ahead of the Middle East that the Ottoman Empire (the leading Middle Eastern state) felt economically or politically inferior. Over time, a vast economic, political, military, and technology gap emerged between the two. This divergence allowed Europeans to dominate the rest of the world economically and politically, a fact most clearly manifested in their colonization of a large portion of the world's inhabitable land. Meanwhile, by the nineteenth century, the Ottoman Empire was considered the "sick man of Europe" – a once mighty empire on its final legs. The leading Western European powers ultimately carved up the Middle East into states with artificial boundaries that suited European geopolitical needs.

It is undeniable that the fortunes of the Middle East diverged wildly from those of the West. But what caused this divergence? The difference in fortunes is more puzzling than it might seem from a twenty-first-century

Table 1.1 *Economic and Political Health, the "West" and Middle East/North Africa (MENA), 2012–2014 (weighted by population)*

	The "West"	MENA	Interpretation/Notes
Per Capita GDP	$48,269	$8,009	In 2013 US Dollars
Life Expectancy	80.4	72.6	2013 Life Expectancy at birth
Mean Years of Schooling	12.1	6.8	2012 data
State Fragility	1.42	11.11	0–25 (25 is most fragile)
Civil and Ethnic Violence/War	0.00	1.03	0–10 (10 is most violent)
Autocracy	0.00	3.58	0–10 (10 is most autocratic)

Sources: GDP – World Bank (2014); Schooling – UN Development Program (2014); State Fragility, Violence, Autocracy – Marshall and Cole (2014); Population – CIA World Factbook (2014); all data weighted by 2014 population; GDP and Fragility are in 2013; Violence and Autocracy are in 2014.

Western Europe includes Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Luxembourg, Netherlands, New Zealand, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

MENA includes Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, Turkey, UAE, West Bank & Gaza, and Yemen.

perspective. For most of the last millennium or two, Westerners had more contact with Middle Easterners than they did with the rest of the world. Cross-cultural learning between Western Europe and the Middle East occurred more frequently than it did between Western Europe and the rest of the world. The similarities between the two regions and their relative integration make the relative success of the West even more mysterious: What allowed Western economies to succeed where Middle Eastern ones stagnated?

This is the question addressed in this book. At its core, this book is about why some economies succeed and others stagnate. It is tempting to ask whether Islam is to blame for the relative poverty and poor governance of the Middle East. It is impossible to avoid this question, even if it may be offensive to some; it is simply bad science to reject a hypothesis because it is offensive. And there is reason not to dismiss this possibility offhand. The famed scholar of Islamic history Bernard Lewis seemed to suggest just this late in his career,[2] and there is a long Orientalist tradition ascribing bad consequences to Islamic doctrine and practice. This is also a common trope of the Western media, where simplistic associations between Islam and "bad" socio-political-economic events are all too common. Even if most stories in the media are easy to dismiss upon only slightly deeper inspection, it is not so easy to dismiss the more intelligently construed arguments of the Orientalists. Lewis and others knew a *lot* about the Middle East and Islamic history. And indeed, Islam harbors numerous rules relevant for trade and governance.

So, why isn't Islam to blame? The answer is simple: even if one accepts the idea that religious doctrine matters for economic performance, the facts simply do not line up. The histories of these regions in the millennium prior to industrialization do not align with the idea that Islam is antithetical to economic growth. The most important fact to account for in *any* theory of why the modern economy was born in Western Europe and not the Middle East is that the Middle East was ahead of Europe economically, technologically, and culturally for *centuries* following the spread of Islam. From the seventh through twelfth centuries, Islamic empires dominated Western Eurasia. For its first four or five centuries, Islam was associated with *positive* economic growth.

The worldwide distribution of wealth was much different eight to ten centuries ago than it is in the twenty-first century, both within and across economies. Western Europe was a relatively poor area – the rule of law existed only in small, settled regions, little interregional commerce existed, populations were small and scattered, and science and technology were far behind other regions. By almost any available economic measure, the Middle East was ahead of Europe. It had access to far more advanced science and technology, its trade flowed in higher volumes and over longer distances, and it employed more complicated financial instruments. There is plenty of evidence to support this assertion. Major advances in mathematics, medicine, philosophy, art, and architecture were hallmarks of the Islamic world through the thirteenth century. The data are of course sparser the earlier back in time one travels, but one indication of wealth in the premodern setting for which we do have data is urban population size. Urban population works as a metric of premodern economic performance because large urban populations meant there was enough food to feed people who were not producing for their own sustenance, and urbanites generally produced and consumed the luxuries of life. In short, greater urban populations generally meant greater wealth.[3]

Urban population data confirms the suspected trend, showing a slow but clear reversal of economic fortunes between Western Europe and the

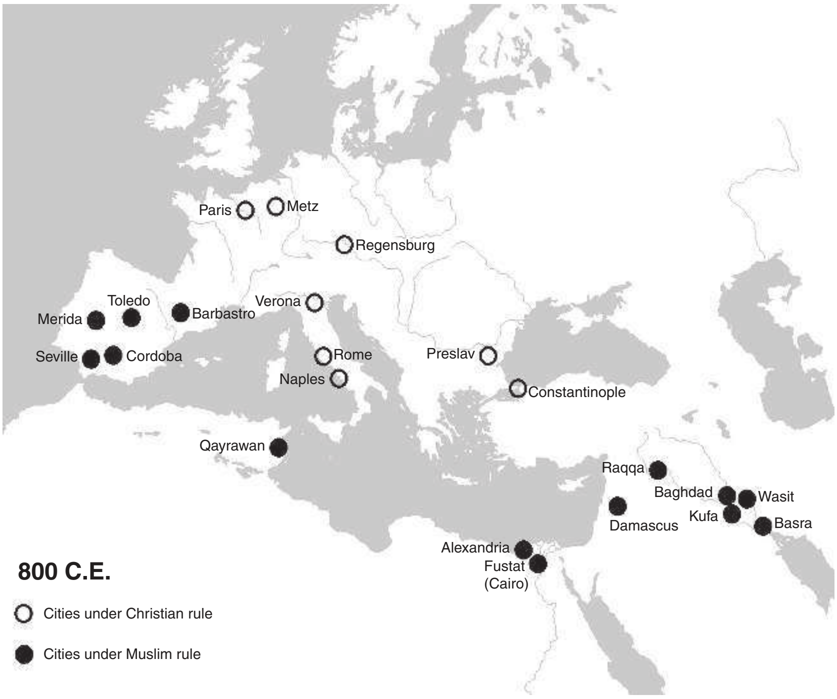

Figure 1.1 Twenty Most Populous Cities in Europe and the Middle East, 800 CE
Source: Bosker et al. (2013).

Middle East over the last 1,200 years. Figure 1.1 indicates that in 800, the urban share of the population of the Islamic world was much greater than in Christian Europe.[4] Fourteen of the twenty-two largest cities in Europe and the Middle East, including by far the largest city – the Abbasid capital Baghdad – were under Islamic rule. The Umayyad (Cordoba) Caliphate in modern-day Spain and the Abbasid Caliphate, centered in modern-day Iraq, ruled the most populous and wealthiest areas. Seven of the eight most populous cities were Muslim-ruled, with only the Byzantine capital Constantinople containing a large urban population of Christians. In fact, the *combined* population of the top thirteen cities of Christian Western and Central Europe (Naples, Rome, Verona, Regensburg, Metz, Paris, Speyer, Mainz, Reims, Tours, Cologne, Trier, and Lyon) was less than the population of Baghdad in 800.

Fast forward 500 years. The scene described in the preceding paragraphs certainly changed by 1300, but even so the Middle East was far from a laggard, in spite of the decimation of some urban populations by the Mongols.

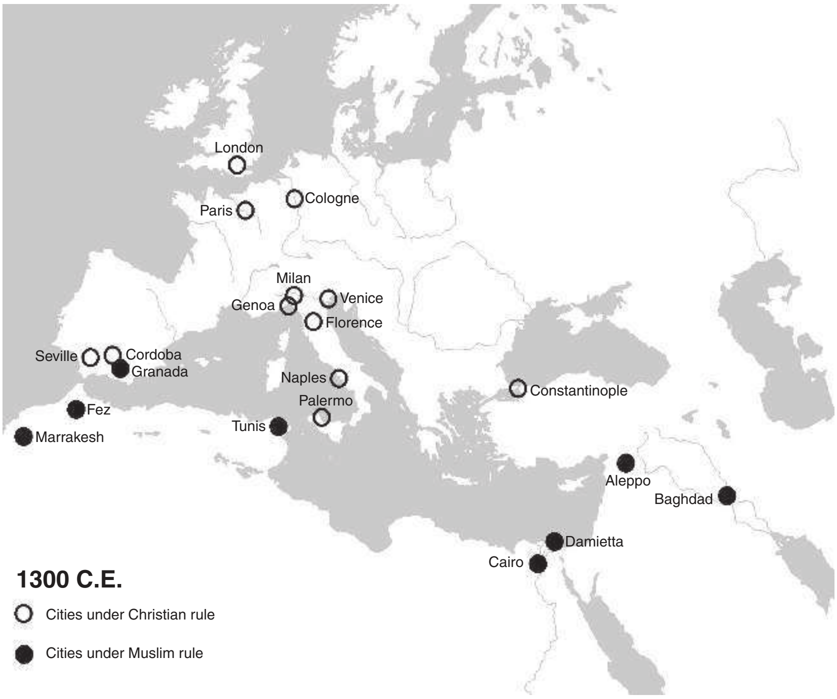

Figure 1.2 Twenty Most Populous Cities in Europe and the Middle East, 1300 CE
Source: Bosker et al. (2013).

By 1300, the economies of Western Europe were again thriving following the long post-Roman downturn, especially in Northern Italy, and many parts of Western Europe were well on their way to recovery. Figure 1.2 suggests that the balance of power between the Christian and Islamic worlds was more equal, with twelve of the top twenty cities ruled by Christians (including the most populous city, Paris). The center of European growth was located in Italy – six of the twelve Christian cities were Italian, with four of those located in the wealthy northern region. The city-states of Northern Italy, especially Venice, Genoa, and Florence, were among the wealthiest places in the world, birthing many aspects of modern banking, finance, accounting, and trade. Northwestern Europe was only slightly wealthier in per capita terms in the early fourteenth century than the wealthiest Muslim region (Egypt), while Italy was about twice as wealthy as any other part of Western Europe, let alone the Middle East.[5]

By 1800, the reversal of fortunes was complete. Seventeen of the twenty most populous cities in the region were not only Christian but located in

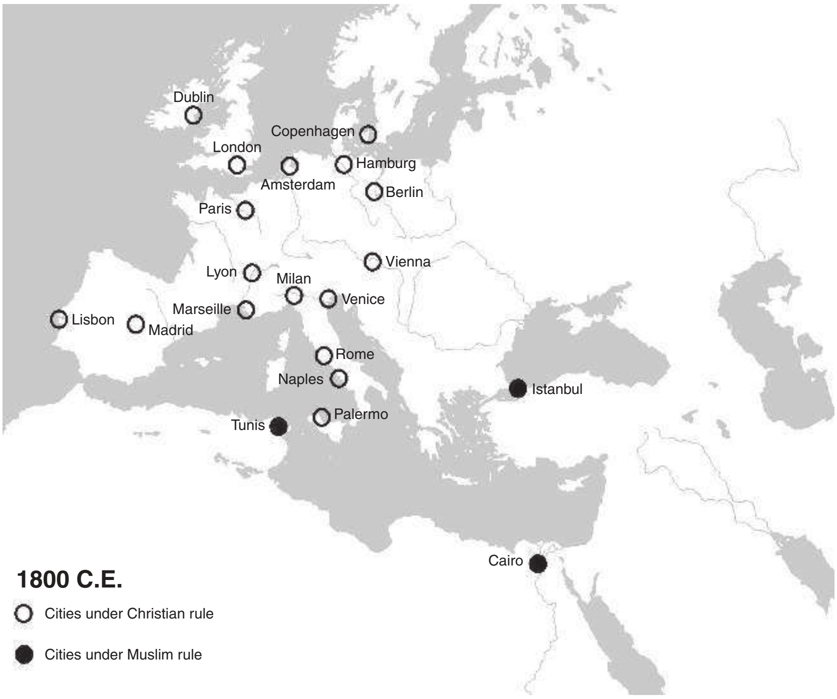

Figure 1.3 Twenty Most Populous Cities in Europe and the Middle East, 1800 CE
Source: Bosker et al. (2013).

either Western or Central Europe. The Industrial Revolution had commenced in Great Britain, and the European powers had colonized much of the rest of the world. Real wages were much higher in northwestern Europe than they were in the wealthiest parts of the Muslim world.[6] The divergence was not solely between northwestern Europe and the Middle East. By this time, real wages diverged dramatically between northwestern Europe and China, Japan, and India as well.[7]

Figure 1.4 summarizes this trend in economic fortunes. This figure presents the "urban center of gravity" of Western Eurasia for each century from 800 to 1800. This is a simple metric of the average longitude and latitude of the region weighted by where urbanites lived. More populous areas "pulled" the center of gravity closer to themselves. The path in this figure is clear. In 800, the urban center of Western Eurasia was just west of the Anatolian Peninsula. It was pulled strongly to the southeast by the Abbasid Caliphate, which was centered in Iraq, while it was pulled south by the bustling urban areas of Egypt. The primary reason

Figure 1.4 Urban Center of Gravity in Europe and the Middle East, 800–1800

Note: Maps in Figures 1.1–1.4 are for representational purposes only. Europe is on a slight tilt in this map relative to its conventional representation in order to accommodate the entire region.

Source: Bosker et al. (2013).

the center was so far west of the Abbasid capital was the presence of large Muslim urban populations in the Iberian Peninsula. Over time, the urban center shifted to the northwest; first toward Italy as the northern Italian city states expanded beginning in the late tenth century, and ultimately toward northwest Europe in the sixteenth–eighteenth centuries as urban populations in England and the Dutch Republic grew relative to the rest of the region. By 1800, the urban center of Western Eurasia was located in northwestern Italy, near Milan – about 2,000 miles away from the old Abbasid capital Baghdad, but only about 500–600 miles from the two great commercial cities of northwestern Europe: London and Amsterdam.

Ultimately, any satisfactory explanation of the reversal of fortunes must account for two historical features. First, it must account for both the rise of the great Muslim empires as well as their relative stagnation. Second, although it is not clear from Figures 1.1–1.4, the modern economy was very much a product of *northwestern* Europe – England and, before that, the Netherlands. An understanding of where modern wealth comes from must therefore account for long-run differences both between Western Europe and the Middle East *and* within Western Europe.

It is the purpose of this book to address these two issues within one consistent framework. The framework eschews simplistic notions that Islam is at the root of the divergence or, on the contrary, that Catholicism or Protestantism are causes of European success. It does argue, however, that how political authorities used religion to legitimize their rule did matter, and the exact mapping from religion to legitimacy to economic outcomes is dependent on historical processes.

Implications and Limitations of the Argument

The consequences of this "long divergence," as Timur Kuran has called it, are still with us in the twenty-first century. If it were not for the temporary shock of oil wealth, the Middle East would be one of the poorest places on earth, rivaled only by sub-Saharan Africa and parts of Southeast Asia. Historical curiosity should be enough to warrant an investigation into how this region – once the wealthiest and most cultured region in the world – fell so far behind.

But historical curiosity is not always enough. Historians and other intellectually minded individuals may appreciate the uncovering of historical connections as ends in themselves, but others consider historical research of this type worthwhile only if it sheds light on contemporary problems. This book should satisfy such a reader. It is first and foremost a book of *economics*. It uses economic theory to search for the general features of an economy that yield success under some conditions and stagnation under others. It uses Middle Eastern and Western European history as a testing ground for the theory. History provides one of the best testing grounds for economic hypotheses: what happened is behind us, and the long-run consequences are clear. This is certainly true of the long-run divergence between Western Europe and the Middle East. One set of economies was clearly much more successful than the other in the long run despite falling well behind early on.

This book addresses this issue with a general economic argument. When economists say that an insight is "general," they tend to mean that it applies to many situations, and the insight may predict different outcomes depending on the parameters involved. This book aims to provide such a general insight into how and why economic success and stagnation occur over very long periods. It should be obvious that this is not just an issue of concern for the Middle East and Western Europe: the arguments made in this book have implications for the difficult process of alleviating human suffering associated with economic underdevelopment around the world. After all, Western Europe was at one point an economic backwater, and the average wealth of medieval Europeans was lower than most of the poorest parts of the world today. Understanding the mechanisms through which Western Europe escaped such poverty – and the Middle East, for the most part, did not – clearly has implications for the possibilities and limits of economic growth in the twenty-first-century developing world.

The history of the long-run divergence between Western Europe and the rest of the world is therefore important to understand not just for the sake of historical interest, but because it has real implications for how we view the world and how we can change it. Using the economic framework outlined in Chapter 2, this book delves into the historical past to find out what worked in Western Europe and what did not work in the Middle East. Yet, it never implies that merely transplanting what worked in Western Europe into the Middle East will solve all its economic problems. Quite the opposite is true; the solutions that worked in Western Europe arose and evolved in a *specific context*. Understanding this context is essential for establishing the limits of how previous experience can inform the present.

Nor does this book imply that the Middle East is helpless to change its fortunes. In fact, one of the primary insights gathered from the book's framework is that there are many forks along the path of a society's economic, political, and institutional progression. Once a society takes one path along the fork, it becomes more difficult over time to revert to the other side. Yet, new forks arise all the time, often for unanticipated or unforeseeable reasons such as new technologies or natural disasters. How societies respond to these opportunities can have enduring consequences. But nothing predetermines how a society will respond or when an opportunity will arise. History is *not* deterministic; we are not slaves to our historical and institutional past.

This book also does not suggest that the type of economic success that Western Europe experienced could have only happened there. The twentieth-century successes of South Korea and Taiwan are prima facie evidence against such a claim. Instead, this book urges a more nuanced view of why long-run economic success occurs, while searching for general features linked time and again to economic success.

Thinking in Terms of Incentives

Economists like to think in terms of incentives. This book is no different. At every historical turn, it asks the question: Why did the relevant parties act in the manner they did? The answer given in this book always boils down to: "They were *incentivized* to act in that manner." Incentives come from a host of societal attributes: politics, religion, social norms, laws, and culture are just a few. The inquiry cannot stop there: simply noting the incentives that individuals face is the last step. It is critical to take a step back and ask: Why were those incentives there in the first place? Why do the incentives people face differ in different places and at different times, and why do they change over time? Why do they sometimes not change over time?

Thinking in terms of incentives means tossing simplistic ideas of long-run economic divergence out of the window. Take, for instance, the idea that the root of economic divergence between the Middle East and Western Europe lies in the "conservative nature" of Islam. This is no straw man argument. A long tradition of Eurocentric explanations for the divergence suggests that the "conservative" or "mystical" nature of Islam discouraged curiosity and prevented risk-taking, innovation, and mechanization.[8] In this view, Islam is inherently hostile to commerce and finance. Indeed, in varying times and places, Muslim religious authorities advocated laws that inhibited economic development, such as regulations on taking interest and printing, suppression of women, laws discouraging mass education, and adherence to antiquated inheritance and partnership laws. So, at a minimum, there is a *correlation* between the presence of Islam and laws antithetical to economic development.

But correlation is not causation. A simple economic example illustrates the problem with arguments relying on "inherent conservatism." Consider the fact that elderly individuals are less likely to use computing technologies than teenagers are. On the surface, it may seem like older people are inherently more conservative – they prefer sticking with writing letters over sending e-mails. This, however, is a too simplistic argument. Older people are less likely to use advanced computing, not because they prefer the old ways more than teenagers do, but because the costs and benefits of learning a new technology are different. It may in fact be less costly in terms of time for a seventy-year-old to become Internet proficient. Yet, a shorter life horizon for the elderly not only means that they will enjoy the fruits of learning to use the Internet for a shorter period of time, but the opportunity costs associated with the time taken to learn new technologies are much greater as well. Moreover, since their friends are much less likely to be on