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Islam, inequality and pre-industrial comparative development☆

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ABSTRACT

This study explores the interaction between trade and geography in shaping the Islamic economic doctrine in its first few centuries. We build a model where an unequal distribution of land quality in the presence of trade opportunities conferred differential gains from trade across regions, fostering predatory behavior by groups residing in the poorly endowed territories. We show that in such an environment it was mutually beneficial to institute an economic system of income redistribution featuring income transfers in return for safe passage to conduct trade. A commitment problem, however, rendered a merely static redistribution scheme unsustainable. Islam developed a set of dynamic redistributive rules that were self-enforcing, in regions where arid lands dominated the landscape. While such principles fostered the expansion of trade within the Muslim world, they limited the accumulation of wealth by the commercial elite, shaping the economic trajectory of Islamic lands in the pre-industrial era.

"*For the protection of the Quraysh.*
Their protection during their trading caravans in the winter and the summer.
So let them serve the Lord of this House.
Who feeds them against hunger and gives them security against fear."[1]
(*Qur'an, 106*: *1–4*; *MH Shakir's translation*)

1. Introduction

In the past two decades, the empirical growth literature has seen a renewed interest in the relationship between religion and politico-economic performance.[2] This voluminous body of work, which traces its intellectual roots to the pioneering study of Weber (1905 [1930]) stressing the independent role of Protestant ethics in fostering economic progress, treats religious beliefs and attitudes as fundamental drivers of economic outcomes.[3] Nevertheless, despite the prominence of religion as a focal research topic across disciplines, its economic origins are poorly understood. Identifying the forces behind the formation of religious principles will greatly enhance our understanding of the phenomenon and its implications for comparative economic performance. This study theoretically examines the economic origins of the Islamic doctrine and explores the consequences of its adoption for the process of development in the Muslim world.[4]

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[1] Quraysh was the clan dominating Meccan trade on the eve of Islam. Mohammad himself was member of the Quraysh.

[2] See for example, Barro and McCleary (2003, 2006a, 2006b), Campante and Yanagizawa-Drott (2015), Chaney (2012), Porta et al. (1997), Pryor (2007), and Martin et al. (2004).

[3] See Becker and Woessmann (2009) and Botticini and Eckstein (2005, 2007) for more work on the Protestant ethic and Judaism, respectively.

[4] It is important to note that the proposed theory is an attempt to rationalize the set of economic principles embedded in the Islamic doctrine, remaining agnostic as to its theological underpinnings.

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The starting point of our theory lies in the observation that Islam originated in the Arabian peninsula, a region featuring a distinctively unequal geography, at a historical time period when trade routes gained importance in this area. With this particular historical background in mind, we build a model where the interplay between inequality in regional natural productivity and the emergence of trade possibilities dictates the nature of the Islamic economic principles. The argument is as follows. In a stage of development when land determines productive capabilities, regional agricultural suitability plays a fundamental role in shaping the potential of a region to produce a surplus and thus engage in and profit from trade. Motivated by this observation, the theory illustrates how an unequal distribution of land quality across regions may induce -instead of productive and mutually advantageous activities- predation by groups residing in the less privileged territories (Olson, 2000). In particular, it suggests that inequality in agricultural productivity in the presence of trade opportunities conferred differential gains from trade across regions, fostering predatory behavior by those residing in the poorly endowed ones. The costly nature of predation created room for intervention and redistribution, leading to concessions towards the dwellers of arid regions in exchange for secure passage and access to the trade networks.

The link between the structure of production and institutional formation was early identified by Marx (1833 [1970]). According to Marx (1833 [1970]), religion, like any other social institution, is dependent upon the economic realities of a given society, i.e., it is an outcome of its productive forces. Similarly, this study argues that since Islam emerged when land capabilities dictated productive decisions, the Islamic institutional arrangement had to be compatible with the conflicting interests of groups living in regions characterized by an unequal distribution of agricultural endowments. Hence, Islamic principles were devised as a means of governing the divergent interests of geographically unequal regions in Arabia during the 7th century AD, at a critical juncture when overland trade routes through the peninsula became important. This is a prime example of how historical accidents, trade diversion in this case, may interact with geographical features to produce a particular institutional framework, that of Islam. We do not claim that Islamic economic principles are the only rules that may be adopted under unequal geographic conditions once trade opportunities arise. We do show, nevertheless, that these rules prescribed in the Islamic economic doctrine may provide a solution to the conflicting interests that emerge in such environments.

In the theory provided, we highlight that rules featuring only static intragenerational income transfers were prone to commitment problems and, hence, were not sustainable. As a result, the institutional complex of Islam evolved to include elements of intergenerational redistribution as well, where bequests no longer exclusively benefited the heirs of the rich. We show that such a dynamic scheme can be mutually beneficial for populations living in differentially endowed regions in the presence of trade opportunities and is more likely than static mechanisms to be viable in the long run. To render the intergenerational transfers individually optimal, the Islamic doctrine had to distort the relative returns to the factors of production against private wealth accumulation and in favor of investments that would diffuse wealth within the society over time. Throughout the history of Islam, such investments often took the form of religious endowments which frequently benefited, either directly or indirectly, the less privileged of the *ummah*.

It has been argued that Islam acted as a state-building force, unifying warring clans through a common identity under one god that transcended clan and class divisions (Stearns et al., 2010). In the context of the model, the Islamic economic principles offered the means for materializing this goal. This is in line with Levy and Razin (2012) who argue that religious organizations arise endogenously to foster social cooperation and social behavior by instilling beliefs in the connection between rewards and punishments. Moreover, offering a rationale for the distortion of the allocation of productive assets in the Muslim world, our study is complementary to the works of Iannaccone (1992) and Aimone et al. (2013), who view religion as a club good which features unproductive costs, but is nevertheless socially optimal because it overcomes the free-rider problems associated with collective action.

We conjecture that the adoption of Islam across geographically unequal regions spurred growth by facilitating trade over stateless territories that would otherwise remain under constant strife. However, by discouraging the concentration of wealth via its wealth-fragmenting principles, Islam reduced the investment capabilities necessary for keeping pace with the progressively capital-intensive modes of production and trade. Hence, while the Islamic economic principles allowed the Muslim world to escape from a state of constant feuding and to flourish in the pre-industrial era, the resulting anemic commercial elite limited the potential for growth on the eve of largescale shipping trade and industrialization (Chaudhuri, 1985).

The rest of the paper is organized as follows. Section 2 discusses the role of trade and geography in the formation of Islam as detailed in the historical account and presents the elements of the Muslim economic doctrine. Section 3 presents the theory and the results. Section 4 summarizes the key findings and concludes.

2. Historical background

The proposed theory emphasizes that the adoption of the Islamic economic doctrine traces back to two historical facts of 7th century Arabia: (i) valuable trade routes had recently been redirected through the region, and (ii) an unequal distribution of land quality resulted in these trade flows conferring differential gains across the region. In fact, in Michalopoulos et al. (2012), we show that proximity to trade routes and geographic inequality are not only important for understanding the origins of Islam, but are also key determinants of the spatial distribution of contemporary Muslim societies across as well as within countries.

We argue that the interaction of these two features led to the formation of a bundle of economic rules: (i) static income redistribution through arrangements known as *ilaf* prior to- and *zakat* upon the advent-of-Islam, and (ii) a dynamic redistribution system, which on the one hand, imposed explicit costs on wealth accumulation via the anti-*riba* laws, and on the other hand, encouraged public investments through donations to build religious and philanthropic endowments to serve the common good in perpetuity. The latter echoed the concept of *sadaqa* in the Qur'an and was later institutionalized in the legal entity of the *waqf*.[5]

2.1. The origins

Arabia has a distinct geography, primarily consisting of desert and semi-arid landscapes. Only some regions in today's Yemen, Bahrain, and Central Arabia, and several scattered oases in the interior were fertile enough to produce frankincense, myrrh, vine, dyes and dates on the eve of Islam (Ibrahim, 1990). While farming dominated these fertile pockets, herding was the main subsistence pattern in the expansive arid lands. It has been argued that this distinctive geography shielded the local populations from urbanization, allowing them to maintain their tribal culture and prevent the formation of a unifying social structure (Haber and Menaldo, 2010). At the same time, the limited number of urban commercial economies in the oases exacerbated social and economic inequities between clans (Berkey, 2003). Differences in climate and endowments led to local trade between farmers and nomadic

[5] Although a comparison between communism and Islamic economic principles is beyond the scope of the study, it is perhaps interesting to note that the common goal of narrowing income inequality was pursued via very different means. Notably, Islam encouraged a market economy tolerating individual property rights while limiting capital accumulation, whereas communism featured the opposite characteristics.