A Short Summary of Rulers, Religion, and Riches

<u>A (Not So) Short Summary of *Rulers, Religion, and Riches: Why the West Got Rich and the Middle East Did Not*</u>

In what follows, I summarize my recent book, *Rulers, Religion, and Riches: Why the West Got Rich and the Middle East Did Not*. I focus mainly on the book's themes and arguments, leaving most of the historical supporting examples for the interested reader (it is actually affordable for an academic book at less than $30!). The book addresses one of the big questions in economics and economic history: why did the modern economy emerge when and where it did? Specifically, why did the modern economy emerge in northwestern Europe at some point in the 17th or 18th century but not in the Middle East? The answer to this question is far from obvious – the Middle East was far ahead of Europe for centuries following the spread of Islam and was at least as advanced as Europe throughout the medieval period. What led to the reversal of fortunes? Did Islam play a role?

Before proceeding to my argument, I should make it clear that my book does not blame Islam for the ultimate retardation of Middle Eastern economies. In my view, there is nothing uniquely 'bad' about the tenets of Islam that make it any more or less conducive to long run economic success than Christianity, except for the fact that it is better at legitimizing political rule. What *was* important was that certain parts of Europe were able to get religion mostly out of politics. How this happened and why it was important is the story my book tells.

After introducing the problem in Chapter 1 and placing my thesis in the context of the many others out there, Chapter 2 provides the framework that guides the rest of the book. It verbally overviews a game theoretic model which considers what rulers do to stay in power and what this means for the types of laws and policies they pursue. Rulers have two (not mutually exclusive) levers to pull to stay in power: legitimacy and coercion. Legitimacy is the belief that the ruler has the right to rule, while coercion is the capacity to enforce one's rule via violence. Importantly, there are actors in a society that can provide legitimacy and coercion. Religious elites, tribal elders, economic elites, the intelligentsia, celebrities, and the like may provide legitimacy. For some reason or another these people have power over other people and can therefore affect how they act. Why these "elites" have power over others differs by society and is generally dependent on the society's history (note: I define the "elite" to be anyone who has the ability to influence the actions of others). Understanding the origin of these differences across societies, especially in the Middle East and Europe, is a key pursuit of the book. Meanwhile, military, police, and militias can provide coercion. Who the relevant actors are in terms of providing legitimacy and coercion, as well as how effective they are at providing legitimacy or coercion, differ over time and space and are largely a function of a society's history as manifested in its *institutions*.

The interactions between rulers and the elite who can legitimize them or provide them with coercion form the heart of the framework. It is best to think of this as a bargaining game: rulers want to stay in power, and they bargain with people in their society that can help them do so. The costs and benefits of bargaining with different elites differ by society – for instance, the 'benefit' of religious legitimacy is greater in a society in which religious doctrine permits religious legitimation of the ruler. The costs for the ruler are what it has to give up in order to secure legitimacy or coercion. Sometimes this is just money (e.g., tax exemptions for religious authorities), but much more often this is some say in laws and policies.

Laws and policies are the outcomes of interest, since they have a direct effect on a society's economic success (or lack thereof). The enacted laws and policies reflect the interests and the bargaining power of the relevant parties. *This* is the primary reason I argue that religious legitimacy is bad for economic growth in the long run. It is not that religion is uniquely bad for economic growth, it is simply that religious authorities – just like any other interest group – do not exactly push for policies that unleash economic growth. A more important implication of the framework is that giving the economic elite a seat at the bargaining table can be good for long run economic growth. This is not because the economic elite have the general welfare of society in mind when bargaining with the ruler, but because the types of things they *self-interestedly* tend to benefit most from – such as reasonably secure property rights, certain types of public goods, impartial jurisprudence – also benefit the economy as a whole. This does not entail that having some oligarchy of economic elites would be the ideal form of governance; the economic elite also like bad things (such as monopolies for their favored industries), and when they have too strong a say in government stagnation is likely to occur. It does indicate, however, that a society where the economic elite have *no seat at the bargaining table* (or a small one) is likely to stagnate in the long run.

Chapter 2 is largely theoretical, laying out the framework that guides the rest of the book. Chapter 3 begins the historical narrative. It makes the case that religious legitimacy was historically more effective in the Islamic Middle East than in Christian Western Europe, and these differences can be traced to the birth of the religions. If this is true, the framework laid out in Chapter 2 suggests that this connection could provide a reason for the reversal of economic fortunes between the regions. But why is Islam better at legitimating political rule than Christianity?

The circumstances surrounding the births of Islam and Christianity played an important role in determining the doctrine of the two religions regarding political rule. Islam arose in the western half of the Arabian Peninsula between the powerful Byzantine and Sasanid Empires. As Muhammad's influence spread beyond Medina, he oversaw the formation of a new religion, a new polity, and a new legal system – all of which were intimately connected. The new Islamic polity founded by Muhammad – which eventually became one of the largest the world had ever seen – evolved conterminously with Islam. This meant that when new questions of governance arose, rulers answered them in an

Islamic context. An important consequence of this history is that there is an abundance of Islamic doctrine commanding Muslims to follow the laws and policies of rulers who act in accordance with Islamic dictates and to not follow those who do not.

Christianity, on the other hand, was born in the Roman Empire, where well-functioning legal and political institutions already existed. Hence, there was not an opportunity for Christianity to spread in the manner that Islam did in its first century. Christianity therefore did not legitimize political rule in its first three centuries. Early Church leaders were not concerned with legitimizing political rule because, quite simply, the Church was not in a position to legitimize. The book points to numerous passages of early Christian thinkers suggesting that there are two realms – one secular and one religious – and the legitimacy of the former is not necessarily dependent on the latter. The most famous such passage is attributed to Jesus himself: "Render unto Caesar the things which are Caesar's, and unto God the things that are God's" (Matthew 22:21).

This chapter proceeds to spell out some of the implications of these differences between Islam and Christianity. First, it argues that the legitimizing capacity of Islam was economically *beneficial* in the first few Islamic centuries. Relative to the pre-Islam setting, where fractured polities dominated, the unifying ideology of Islam and the relative law and order it provided were much better for economic outcomes. However, the framework laid out in Chapter 2 also suggests that when religious legitimacy is highly effective or inexpensive, rulers propagate their rule with religion in the short run and the long run, even if economic circumstances change.

This prediction is supported by Middle Eastern history. After the Muslim religious establishment secured their base as a power player in the eighth and ninth centuries, Middle Eastern rulers (particularly the Abbasids) increasingly relied on clerics to justify their rule. Contemporarily, Sunni Islamic religious and legal doctrine consolidated into four schools named after their founders (Hanafi, Maliki, Shafi'i, and Hanbali), and all subsequent religious leaders were supposed to follow in their founder's direction. With this came a stagnation in both religious and political development. In this "conservative" equilibrium described in Chapter 2, all non-religious agents – including the economic elite – had a weak position vis-à-vis rulers in the bargain over new laws and policies. Even as commercial possibilities expanded, religious authorities discouraged innovations that reduced their power or were contrary to doctrine. In turn, neither religious nor secular laws were responsive to new exigencies, and rulers addressed new problems using the old legal and intellectual framework. Chapter 3 provides numerous examples of the manifestations of such an equilibrium (with many nods to the work of Timur Kuran).

Meanwhile, in Europe the medieval Church played an important role in legitimizing political rule. Most famously, Pope Leo III placed the imperial crown on Charlemagne on Christmas Day of 800 – about as public an act of legitimation as one could imagine. Following the fall of the western Roman Empire in the fifth century, many of the successor states eventually legitimated their rule via some combination of coercion provided by local (feudal) elites and religious legitimacy. However, the benefits of religious legitimation were weaker than they were in the Middle East, leaving the religious elite susceptible to replacement at the bargaining table once a more beneficial source of propagation emerged.

Chapter 3 argues that such a source of legitimation emerged when commerce re-flourished in Europe beginning in the late 10th century. The "Commercial Revolution," as it is known by economic historians, saw a massive revival in trade, commercial activity, and urbanization in northern Italy, the Low Countries, and parts of central Europe. The newly-wealthy urbanites provided an important source of revenue for rulers and in return received a place at the bargaining table. Parliaments popped up throughout Europe in the 12th-14th centuries, becoming the primary means through which rulers collected taxes and, importantly, legitimated and bargained over laws and policies. These parliaments generally consisted of three estates: the religious elite, the landed elite, and the urban (commercial) elite. Over time, the composition of parliaments and the degree to which rulers used them for legitimation changed in different parts of the continent, and this had an important effect on long-run economic outcomes.

How and why the bargaining power of parliaments changed over time is therefore an important part of the "why the West got rich" story, and it is at the heart of Chapters 6-8 of the book. These are the key historical chapters of the book, since they overview how the framework laid out in Chapter 2 (partially) explains *macro* changes in Western European and Middle Eastern economies and politics. Yet, the framework also explains more *micro* changes – those focused on how one set of laws or policies evolved or stagnated over time. Chapters 4 and 5 overview two such laws: those regarding taking interest on loans (Chapter 4) and the legality of printing (Chapter 5).

Chapter 4 overviews the diverging history of interest restrictions in Islam and Christianity, showing how the political-economy framework laid out in Chapter 2 helps explain the differences in the two. (If anyone is interested, this is the core of my Ph.D. dissertation, completed 10 years ago. So yes, this book has been a work in progress for a while!). Interest restrictions were important in their own right – the concluding section of the chapter shows some of their unintended and unforeseeable consequences with respect to the indigenous growth of banking in Europe but not the Middle East – but more importantly, for the sake of this book, they serve as an excellent test case of the framework laid out in Chapter 2. Both Islam and Christianity had doctrine regarding the evils of taking interest, and it was more or less banned in both religions for over a millennium. Yet, interest is still formally banned today in Islam, while it has been a dead letter in Christianity since at least the 15th century. Chapter 4 suggests that the degree to which religious authorities legitimated rulers – and the degree to which this changed over time in Western Europe and the Middle East – played a key role in the divergence in interest doctrine in the two religions.

In the Islamic Middle East, it was relatively easy to circumvent interest restrictions from a very early period (documents as early as c. 800 C.E. show how circumventions worked). The most famous type of circumvention is the "double sale," which was, as the name suggests, two sales used to cloak interest. It worked as follows. Abdul sells a rug to Ahmed for 100 dinars, and Abdul immediately buys it back for 110 dinars, payable in one year. This is tantamount to Ahmed giving Abdul a 100 dinar loan at 10% interest: Abdul goes home with 100 dinars and his rug, and owes 110 dinars in one year. But since the transaction was cloaked as two sales, both of which are legal in Islamic law, these transactions would be validated if something went wrong and Ahmed brought Abdul to court, so long as the rug could reasonably be valued at 100 dinars. Transactions such as this suggest that there would have been little impediment to two individuals lending at interest to each other, so long as the sum were small enough that one owned something of value that could be used in the transaction (such as a rug). But this also suggests a clear impediment to larger value loans, or perhaps, the emergence of bank-like institutions whose primary purpose was accepting deposits, paying interest on those deposits, and lending out the proceeds. The closest such institution that emerged in the Middle East prior to the arrival of Western banks were cash *waqf*s, which had important restrictions on them which made them unlikely to transform into anything remotely resembling modern banks (for more on this … see the book!).

Chapter 4 argues that the political economy equilibrium described in Chapter 2 helps explain the evolution – and ultimate stagnation – of interest restrictions in Islam. During the Golden Age of Islam – from approximately the 7th through 10th centuries – Middle Eastern commerce was booming and the demand for credit must have been great. This is why we see workarounds to interest restrictions in the historical record. Religious authorities must have also understood that it was in their interest to permit such workarounds, so long as those workarounds did not obviously fly in the face of the growing corpus of Islamic doctrine. The demand for credit was almost certainly large enough that many would have simply ignored the religious class if they forbade all workarounds. This would have undermined a key source of the religious elite's influence – what made them elite was precisely the fact that people largely followed their dictates – and some sort of compromise was optimal from their perspective.

But why didn't the economic elite simply go all the way and openly lend at interest? The political economy perspective is informative on this question. From the lender's perspective, they faced a 'double cost' of openly lending at interest: not only would they potentially have their contract invalidated, but they would face spiritual sanctions for violating Islamic law. And they could lend at interest via circumvention anyway. The associated transaction cost would have therefore been worth it. From the ruler's perspective, there certainly would have been an advantage to the (taxable!) economic growth facilitated by open access to credit. However, most potential lenders could still lend, while undermining the purview of religious authorities over religious law – thereby undermining one of their primary sources of legitimacy – could have been disastrous. The ultimate outcome was lenders continued to lend via ruse, rulers permitted this and nothing more, and religious authorities did not update doctrine.

In Europe, however, a different story unfolded. Beginning around the 12th century or so, a variety of financial instruments emerged that facilitated credit – even if they did not charge interest directly. These instruments emerged in the face of a rebirth of European commerce following the long lull after the fall of Rome. The reaction of the European political elite to these developments was quite different than their Middle Eastern counterparts. Despite the fact that the Church almost always failed to recognize the legality of the various instruments used to circumvent interest restrictions, rulers almost always *permitted* these instruments, so long as the rate charged was not sufficiently high. The logic of the framework makes it clear why this was the case. Churchmen were a weaker source of legitimacy that their Muslim counterparts, entailing that European rulers stood to lose less by forgoing their legitimation. Hence, even if the benefits of permitting lending at interest were the same in Europe and the Middle East, the benefit-cost ratio was greater in Europe. European merchants therefore only faced one cost of openly lending at interest, unlike the "double cost" faced by their Muslim counterparts: they were still going to hell, but at least their contracts would be considered valid. And that's all that matters, right? In the long run, this meant that merchants and lenders were more willing to "push the envelope" and lend more openly, knowing that their contracts would be upheld. Ultimately, open lending at interest became commonplace, and the Church had no choice but to find doctrinal interpretations that permitted it.

Chapter 5 similarly focuses on a "micro" case where the framework sheds light on how one set of laws diverged in Western Europe and the Middle East: restrictions on printing. Unlike interest restrictions however, the book later argues (in Chapter 6) that the unforeseeable consequences of the printing press were significant for the more macro divergence between the two regions. The history of printing restrictions are straight-forward enough: the Ottomans explicitly forbade the printing press in 1485 (printing in the Arabic script was punishable by death), and there is no record of this restriction being lifted until 1727. Meanwhile, printing spread rapidly in Europe after Gutenberg's 1450 invention made movable type printing possible. This chapter primarily focuses on why the reaction to printing was so sharply different in the two regions.

The silver bullet to understanding the reason for the differential reactions to the press is that the Ottomans *only* forbade printing in the Arabic script. The Ottoman Empire was a diverse area where many languages using various scripts were spoken (Greek, Cyrillic, Hebrew). The state never banned printing in these other scripts, and publishing houses printing in these scripts were established in the 16th and 17th centuries. So, why was the Ottoman state so worried about the spread of printing in the Arabic script – the script of both the language of Islam (Arabic) and Ottoman Turkish? The answer is straight-forward in the light of the framework. The religious establishment was "elite" in large part due to its monopoly over the interpretation of the great Islamic texts. Over centuries (dating prior to the Ottoman Empire), the religious elite set up increasingly large barriers to entry for anyone wishing to become a religious scholar – including memorization of important texts and extensive travel to important centers of learning. This position would have been threatened by the spread of printing, which would have given greater access to the works of Islam to a wider swath of the (admittedly small) literate population. Their very source of power – what made them "elite" in the first place – was threatened by anything that reduced those entry barriers; and the press was an obvious threat. And since the religious elite had an important place at the Ottoman bargaining table, the sultan must have been wary of permitting anything that would undermine one of his primary (and inexpensive) legitimizing agents.

In Europe, the press spread quickly after 1450. By 1500, most large cities had a printing press, as did most university towns and some monasteries. European printers were capitalists, and they went where demand for their works was highest. It is quite possible the Church would have disapproved of the press had they had the ability to prevent its spread, but they had no capacity to do so. Europe's fragmentation played a role here – a suppressed printer could simply cross the border and enrich the coffers of a rival prince – but it is also true that by the late 15th century the Church had lost much of its legitimizing power in many parts of Europe. This meant that it was highly unlikely that an enterprising ruler would suppress an obviously beneficial technology simply to appease the Church. As in the case of interest restrictions, the cost-benefit ratio was weighted differently for European and Middle Eastern rulers.

Chapter 6 spells out (in my opinion) the most important, albeit unintentional and unforeseeable, consequence of the spread of printing in Europe: its effect on the spread of the Protestant Reformation. This chapter is in large part a summary of my paper in *Review of Economics and Statistics*, which you can check out if you are interested in the data (which are publicly available) or the specifics of the instrumental variable econometric specification I used. The story of this chapter is well known to historians: the press facilitated the rapid spread of propaganda in a manner that was unavailable to previous "heretics" who questioned the increasing venality of the Church. Previous (attempted) reformers such as Hus, Gerson, and Wycliffe put forth similar arguments as Luther – the difference was simply that they did not have the press, and the Church could therefore silence them before their voices became too widespread. The chapter goes on to report the results from my paper: the most striking and important result is that, after controlling for everything we might imagine affected the adoption of the Reformation, towns with printing presses were 52.1 percentage points more likely to become Protestant by 1530 and 29.0 percentage points more likely to become Protestant by 1600. These are large – yet believable – numbers that suggest the press did indeed play an important role in the spread of the Reformation.

But why do we care about the spread of the Reformation for the purposes of this book, which is about "why the West got rich and the Middle East did not"? Much of the remainder of Chapter 6 suggests that the political economy framework laid out in Chapter 2 helps explain why the Reformation was arguably the most important event of the last millennium (in the West). In short, the Reformation dealt a permanent death blow to the power of the Church to legitimate political rule in those areas that adopted the Reformation. But rulers still needed to propagate their rule by some means. So who replaced the Church? This chapter argues that the *economic elite* in parliaments played an important role in filling this void. Parliaments were in the best position to step into the role vacated by the Church: they had an established role in raising funds, approving laws, and issuing justice, and for this reason they already had some bargaining power with rulers prior to the Reformation. The point this chapter makes is that their bargaining power increased immensely following the Reformation in those places that adopted Protestantism. Indeed, data suggest that Protestant parliaments met much more than Catholic parliaments after the 16th century, indicating that their capacity to bargain with – and hence constrain – rulers.

In the Middle East, however, such a series of events never came close to taking place. There was never a “reformation” of the Islamic clerical class, and the economic elite never really received a seat at the political bargaining table. Not that one had to lead to the other – there certainly could have been ways in which the Middle Eastern economic elite gained some political power, though it is hard to see how this could have happened without a weakened clerical class. Taking a step back, it is also hard to see how an anti-clerical movement could have succeeded without some information technology (like the printing press) to facilitate its rapid spread.

This chapter concludes by briefly overviewing the “Islamic Reformation” that did indeed occur – although it was not as nearly as successful as its Protestant counterpart – soon after the printing press spread throughout the Muslim world in the 19th century. Soon after the press spread, both in the Middle East and south Asia, so did anti-clerical writings. Most of these writings were concerned with a religious establishment that had either grown corrupt or was out of touch with the pressing issues of the Muslim world, which had clearly fallen behind. These grievances echoed the ones made by Luther and the Reformers centuries before, and Luther was frequently mentioned as a leader worth following. Even though these reform efforts failed to achieve wholesale changes in the practice and politics of Islam, it is telling – and not surprising – that they emerged soon after the spread of the printing press.

In short, Chapter 6 leaves off with certain parts of Europe (the northwestern Protestant corridor) having rulers who gained legitimacy and revenue in part from the economic elite in parliaments, while the remainder of (Catholic) Europe and much more so the Middle East had rulers who still depended heavily on religious authorities for legitimacy. The book concludes, in Chapters 7 and 8, by spelling out the economic consequences of these different legitimizing arrangements. Chapter 7 overviews the relevant political and economic histories of the two most important Protestant states: England and the Dutch Republic. These are the two nations where the “modern economy” emerged. This chapter argues that it is no coincidence that they also adopted the Reformation. To be clear, the connection between Protestantism and long-run economic success has nothing to do with any tenet of Protestantism (such as a Weberian “work ethic”). It is instead a result of the reduced role religion played in politics in the Protestant lands *and* the fact that economic elites in parliaments replaced religious authorities at the political bargaining table.

Henry VIII brought the Reformation to England in the 1530s, confiscating the wealth of the monasteries in the process. He did so with the support of Parliament, which passed various acts undermining Rome's influence. Although Henry VIII almost certainly wanted to rule like an autocrat, and he sometimes did, he also ceded to Parliament on issues that were important to them. One important example was the Statute of Wills, which overturned the existing feudal property rights regime and gave more flexibility to property holders, while also limiting the Crown's claim over property. This is precisely the type of law one would expect the economic elite to enact. They were concerned with their property and wealth above all else, and laws protecting property rights were very much in their interest.

Fortunately for England's long run economic development, the three monarchs following Henry VIII – Edward VI, Mary I, and Elizabeth I – all came to the throne with relatively weak legitimacy. Edward was a sickly child and Mary and Elizabeth were the first two female monarchs in English history. All three monarchs relied on Parliament to legitimate their rule. In return, hundreds of bills concerning industry, agriculture, poor relief, and the like were passed in this period. Parliament's influence at the political bargaining grew increasingly strong over time, to the point that they were willing to fight with the Crown to keep their place at the table. The English Civil Wars of the 1640s (fought between the Crown and Parliament) and the Glorious Revolution of 1688-89 (where Parliament invited William III to invade England and remove James II) can be seen in this light. The Stuarts, who came to power in 1603 upon the death of Elizabeth, had more traditional sources of legitimacy and attempted to reduce the role of Parliament at the political bargaining table. But by this point Parliament had solidified its position and had little desire to cede it. When the dust settled in 1689, Parliament were the big winners: their role at the political bargaining table was secure and stronger than ever. It is no coincidence that industrialization commenced soon thereafter (although, admittedly, this book does not delve into the causes of industrialization; that would require a different, and much thicker, book).

In the Dutch Republic, Protestantism was deeply intertwined with the Dutch Revolt (1568-1648), whereby the Dutch successfully revolted against Spanish rule. For decades prior to the Revolt, the Spanish Crown squeezed its wealthy provinces in the Low Countries for funds, while also persecuting suspected Protestants. Having eventually had enough, the Dutch provinces revolted, and Protestant propaganda was key in initially mobilizing support for the revolt. The Dutch Parliament (Estates General) was one of the driving forces behind the revolt, and the economic elite in the cities were the big winners of the revolt's success. Both the Church and the Dutch landed nobility aligned their fortunes with the Spanish; the former due to the Spanish Crown's position as "defender of the faith" (see Chapter 8), and the latter due to the rights granted them by the Spanish Habsburgs, which they hoped to preserve. The upshot of the revolt's success was that the Dutch parliament ended up in charge of establishing most Dutch laws and policies with little say from competing interests. The result was precisely what the framework would predict: numerous laws were enacted concerning public goods (i.e., land reclamation and inland transportation), subsidizing and chartering joint-stock companies, expanding poor relief, protecting market rights, and so forth. Real wages increased dramatically and urban populations exploded, while the Dutch led in trade and shipbuilding, becoming a power player in the European colonization game in the process. Although the Dutch lead did not last – with economic success came vested interests, who put forth policies that protected their own interests at the expense of broader economic growth. But this does little to alter the fact that the initial Dutch emergence is unimaginable in the absence of the economic elite holding significant political power.

Chapter 8 moves on to two cases of economic stagnation: one Catholic (Spain) and one Muslim (the Ottoman Empire). Both empires were among the wealthiest and powerful in Europe at the turn of the 16th century (the Ottoman Empire was very much a European empire, on top of being a Middle Eastern one). Yet, both ultimately suffered economic stagnation, and by the 18th century neither were key players in the changing world economy.

It is impossible to understand the legitimation of Spanish rule in the early modern period while ignoring the role of religion. Spain's religious history was unique in Europe – for centuries, it was ruled by the Muslim Umayyad Caliphate, with the "reconquering" of the peninsula beginning in earnest in the 10th and 11th centuries. The "reconquest" of the peninsula took on obvious religious overtones, and Spanish rulers tended to rely on their religious credentials to propagate their rule. This was especially true of Ferdinand and Isabella, who finalized the *Reconquista* with the surrender of Grenada in 1492. The pope granted them the title the "Catholic Monarchs," which their heirs Charles V (r. 1516-56) and Philip II (r. 1556-98) were more than happy to brandish. The second means through which Charles V and Philip II propagated their rule was via gold and silver flowing in from the New World. This specie was important because it meant that, unlike many of their European counterparts, the Spanish crown did not need to negotiate with their parliaments (*cortes*) for revenue.

The combination of religious legitimacy and an outside source of funds meant that the Spanish parliaments had a weak seat at the political bargaining table. This showed in the types of policies pursued by the Spanish Crown. The Habsburgs were mainly concerned with fighting wars – even those not directly in the interest of Spain (although very much in the interest of Habsburg possessions in central Europe). This drained Spanish coffers and left little for investment in more productive pursuits. The influx of specie led to major inflationary pressures, harming Spanish exports. More directly anti-economic policies were also enacted: a crippling tax burden on the small urban middle class, protections for favored industries, heavy taxes on exports, and persecution of religious minorities (Jews and Muslims) were just a few. Not surprisingly, Spain entered into a long period of stagnation following the 16th century. Real wages were lower in 1850 than they were in 1500, as were average consumption and GDP. The framework provided in this book suggests that the reason for these bad policies is simple: the Spanish Crown ruled most effectively, from its perspective, via religious legitimacy and outside funds. Without a powerful economic elite at the political bargaining table, the types of laws and policies enacted by the Crown were at best economically neutral and were at worst devastating.

Like the Spanish Crown, Ottoman sultans derived significant legitimacy from the religious elite, especially after their defeat of the Mamluk Empire in 1517 gave them purview over the holy cities of Mecca and Medina. Despite not having bloodlines to Muhammad or even being Arab, the temptation of Islamic religious legitimacy was too great for the Ottomans to forego, and they used it whenever they could. Meanwhile, they also propagated their rule through their military prowess. The system that worked for the Ottomans in their first two centuries, the *timar* system, was one in which military elite were given tracts of land upon which they were the residual claimants in return for their military service. This system worked well until about 1600 or so, while the Ottomans were expanding and the promise of newly conquered lands were more than enough to pay off their military.

This combination of military force and religious legitimacy also meant that the Ottomans did not need to negotiate with their economic elite at the political bargaining table. There certainly were economic elite in the Ottoman Empire – Istanbul was one of the most cosmopolitan and economically-important cities in Western Eurasia. But the economic elite never had any real political power in the Ottoman Empire, nor did any group of elites ever coordinate in an institution like a parliament to bargain with the sultan. As a result, sultans were hesitant to undermine the religious establishment – and, importantly, the religious establishment's purview over commercial law – despite changing economic conditions which called for an updated legal system. Over the long run, the results were disastrous for the Ottoman economy, as laid out in the many works of Timur Kuran (especially in his excellent book *The Long Divergence*). While partnership law was becoming increasingly complex in Europe, ultimately resulting in the corporation, Ottoman partnerships remained simple and short-lived. Property rights remained uncertain, even for local elites. Islamic inheritance law remained an impediment to consolidating assets over generations. Waqfs absorbed capital that could have been used in more flexible enterprises had the law permitted it. The courts favored certain groups over others, making it more difficult and costly to contract in the first place. And so on. In the long run, all of this entailed economic stagnation. By any conceivable metric, the Ottoman Empire was far behind the leading parts of Europe by the turn of the 19th century. Much like the case of Spain, this relative stagnation can be traced (in part) to the manner in which rulers legitimated their rule and who had a seat at the political bargaining table.

The final chapter concludes with a summary of the book and some speculation for how its insights apply to the Middle East in the 21st century. If you are interested in that discussion, feel free to buy the book! One section of the final chapter worth addressing here is the "possible misconceptions" one may have if they just skimmed the book (or, say, read a summary online). The first misconception is that increasing the political power of the economic elite is always good for economic development. An important point repeated throughout the book is that getting the economic elite to the political bargaining table is often a good thing for economic development, especially when the alternative is the religious elite. However, the argument really suggests that there is some "internal optima" for the amount of political power the economic elite have. The economic elite look after themselves, and it just so happens that what they want benefits long run economic success more than what other potential players want. But they also want bad things, such as monopolies for favored industries, which they are much more likely to get if they have too much power. The second misconception is that my argument cannot account for why the Middle East was at one point well ahead of Western Europe economically. This is a frustrating one, because I go through great pains to show that my argument does account for this. But I received this criticism enough while presenting the book to feel that I should reiterate it here. The third misconception is that religion is harmful. There are many benefits to religion that are well out of the scope of this book, and for the purposes of this book I really don't care whether religion is on balance good or bad for society. And indeed, it is not even my point that religion or religious legitimacy is uniquely bad for economic development; legitimacy by military, militia, bureaucracy, or celebrity is almost certainly as bad, if not worse. The final misconception is that the Middle East was destined to fall behind the West due to the role that Islam plays in politics. This would be the "deterministic" take on the book, and it is a misreading. One key point of the book is that we can use economic theory to understand why each step along the path was made (such as why the Ottomans blocked the printing press), and each step made the next step more likely to happen. But these are probabilistic statements. There are plenty of points where (completely rational) actions could have been taken by Middle Eastern or European rulers or elites that would have set the trajectories of the two regions on very different paths from the ones they ended up taking. There is nothing in the framework that precludes this possibility. That said, the framework does provide an understanding of what actually did happen. The West got rich and the Middle East did not. Understanding why this happened – and why, more generally, some parts of the world are rich and others are not – is one of the most important questions economists can study. I hope this book sheds some light on its answers.