Islam, Institutions, Development, and the mistakes of orientalist economics

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Abstract

1. Introduction

One implication of the Arab spring has been the rise of Islamist Parties in the Arab region, especially in Egypt and Tunisia. Now, as noted by Acemoglu and Robinson (2012) in their explanation of the failures of certain nations to converge towards the developed economies, a main factor in explaining the political movements in the Arab world was the low level of standard of livings in these countries and even the extreme poverty of certain part of the population. A major challenge faced by the new authorities has thus an economic dimension: how reducing poverty and inequalities? This question could not be challenged without the adoption of an economic development model or, at least of a development strategy. Furthermore, the place of Islam or, to put it in other words, of Islamic principles in an alternative new development strategy, has been at the centre of current debates (Cobham and Zouache, 2015).

According to Saif and Abu Rumman (2012), there are debates in "internal party circles" on the economic philosophy that the Islamist parties should adopt to conceive their economic programme. Thus, in a conference on the economic agendas of Islamic actors that occurred in Barcelona in the beginning of July 2012, the economic advisor of Ennahda, R. Chkoundali (2012) suggests a new development model for Tunisia derived from the Muslim and Arabic identities. In the same conference, Shehata Khattab (2012) notes that one key aspect of the Freedom and Justice Party (FJP) economic vision is that Islamic values and Islamic finance are key tools to promote economic development. Abdel Hafez El Sawy, economist for the Freedom and Justice political party has indeed announced in the media that the recourse to financial instruments that violate the teachings of Islam should be forbidden. Saif and Abu Rumman (2012) quotes several authors that guide the economic thought of the Islamist parties, notably Muhammad al-Ghazzali al-Saqa, Sayyid Qutb or Mustafa al-Siba'i. Youssef (2012) points out the influence of contemporary egyptian economists who are not aligned with the Islamic economic thought, like Gouda Abdel Khalek or Galal Amin.

One key element of this debate deals with the nature of the economic model that the Islamist parties should adopt; especially as regards the respective influence of socialist and capitalist principles. Shehata Khattab (2012) considers that the Islamist parties believe that the market economy is the right system to develop the countries. Saif and Abu Rumman (2012) also consider that the Islamic economic agenda "is in line with international mainstream thinking".

Chkoundali, (2012) moderates this analysis when he suggests a cooperative system alternative to both capitalism and socialism where Zakat and Waqf are identified as two Islamic institutions that could be utilized for reducing inequality and poverty. Furthermore, all analysts note that the Islamist parties, either in Egypt or in Tunisia, consider first that the state should play a great role in an Islamic economic development model and second, that Islamic finance would allow a recourse to additional funding without augmenting the national debt.

The aim of this paper is to contribute to this debate of the place of Islamic principles to promote economic development. What is the position of the academic literature on the impact of Islamic institutions on economic development? In particular, this paper will look at the response offered by the contemporary institutionnalist literature. This neo-institutionalist approach is associated with the works of the 1992 Nobel prize Douglass North whose view has been implemented to the Middle East and North Africa (MENA) by Timur Kuran (2006, 2011) and Avner Greif (2006). Timur Kuran is especially concerned with the involvement of Islam in explaining under-development in the MENA region. The sub-title of his last book- *how Islamic law held back the Middle East*- illustrates his opinion. This paper will provide a critical examination of the institutionalist view on the link between Islam, institutions and economic development. This view reduces the analysis of development failures to the following institutional question: why were institutions beneficial to economic development not invented in the Orient but in Occident? The answer provided by the neo-institutional frame is that Christianity predisposed the West to discover institutions of freedom when Islam did not. We will see that the neo-institutionalist tradition provides an orientalist economics of the explanation of the divergence between the East and the West. Orientalist not in the sense that the neo-institutionalist authors participate in a series of interests (Said, 1979, p. 12), including geo-politics, but in the sense that the authors, with, by and through the economic discourse they produce, perpetuate an intellectual tradition which produces a representation of the East by the West (Said, 1979, p. 21-22) that does not match the complexity of the historical situation and that does not respond to the economic policy challenges of the Orient, especially in the Arab region[1]. The second section will then reconstruct the neo-institutionalist treatment of the relationship between Islam and economic development. The neo-historical approach appeals to historical facts and concepts to give grounds to their appraisal of the role of Islamic institutions in the economic development of the Orient. Accordingly, in the third section, this paper will also make use of history to criticize the results of the neo-institutionalist approach. One result of this section is that orientalist economics and Islamic economics are intimately inter-connected. Another result is that, when we leave the domain of orientalist economics, other historical scenarios could be offered to explain the divergence and the reversal of fortune between the Orient and Occident. These scenarios, based on alternative historical evidences, to which the neo-institutionalist authors do not refer or do not consider seriously, do not exclude institutions but reposition their role in a framework avoiding reductionism and culturalism. The last section will conclude.

2. Orientalist economics and the role of Islam in economic development

Should authorities of the Muslim word adopt Islamist policies? The neo-institutionalist answer to this question is clear: Ennahda and the Freedom and Justice Party should not adopt

[1] In the historical field, the Occidentalists were the scholars working on Occident and the Orientalists the historians specialist of Orient, in particular of the so-called 'Muslim world' often representing the Arab region from the Gulf to Morocco, Spain then being identified as Occidental Islam. Even if this meaning persists, Said (1979)'s book has changed the meaning of the term 'Orientalist'.

Islamist policies since the Islamic economic philosophy not only does not promote economic development but even constitutes an obstacle to economic progress. This section will reveal that North considers that Christianity assured efficient property rights, which explains the success of Western Europe and the United States and the failure of other parts of the world, including Islam, in term of their respective economic development. In line with North's approach, Kuran and Greif focused particularly on the case of the Islamic world. Greif (2006) defends the idea that the Muslim world did not develop contractual and voluntary collective institutions necessary to the rise of capitalism so that Islam did not offer an appropriate framework for economic development. Kuran (2004) completes this neo-institutional representation of Islam. He considers that the behavioral features of the "Homo-Islamicus" contradict the principles of the "Homo-Oeconomicus". In this neo-institutionalist approach, the Islamic world had not elaborated institutions that could favor impersonal exchanges that are supposed to be conditions for economic development. What is worth noting is that this is Islam as a religion more than as a civilization that seems to be the target of this neo-institutionalist approach.

2.1. Neo-institutionalism and economic development

North combines History, the tools of standard neoclassical economics in an uncertain environment characterized by transaction costs in an evolutionary framework where change takes the form of a timely process. North's conception has evolved since his first writings (North, 1990, p. 7). In his first famous contribution, *The Rise of the Western World* (1973), North argues that only the most efficient institutions –that is the institutions with the lowest relative price- survive. In 1981, North insists on property rights. Institutions that come up with the less efficient property rights can survive, which explain why certain societies that do not produce economic growth do not disappear. In his 1990's book, *Institutions, Institutional Change*, *and Economic Performance*, North particularly examines the responsibility of institutions in the diminution of transaction costs related to moral hazard (adverse selection and cheat). In his most recent work, *Violence and Social Orders* (2009), North tries to fill the lacunae of his analytical framework, that is the role of politics in the process of institutional change. He proposes a conceptual frame whose aim is to explain how the political solutions to social violence lead to a particular structuration of economic institutions.

North proposes to take from the neoclassical economic theory competition, free market and the role of scarcity as an evaluation criterion. North departs from standard economic theory on several points. Firstly, individuals make choices from their mental schemes. These mental schemes differ between individuals since they are culturally derived but also because their construction depends on local learning understood as an interacted process of an individual with his local environment. Secondly, North considers seriously the role of power in the sense that institutions are partly created by the political power. Thirdly, North rejects the hypothesis of perfect information. Indeed, information is costly. Furthermore, information asymmetries cause transaction costs. Institutions are then created to reduce exchange uncertainty. If one considers that transaction costs are part of the production cost, institutions are necessary, especially property rights, to protect exchanges and then to promote economic growth. In this perspective, institutions are defined as incitation rules (North, 1990, p. 3).

Institutions define and bound individuals' choices. In economic terms, institutions are defined as constraints to the maximizing choices of the economic agent. Institutions can be formal or informal, spontaneous (the product of time) or artificial (of human creation). North insists on the need to make a difference between organizations that apply to the analysis of agents' strategies in a game and institutions that define the rules of the game and thus concern the analysis of the creation, the evolution and the consequences of these rules. Institutions model organizations which, via a feedback effect, have an impact on institutions.

The most developed countries are the ones that had built institutions which constrain the less individual economic decisions and which have lessened uncertainty in the exchanges. In particular, the construction of property rights is a crucial step in the emergence of an institutional framework that encourages innovations. When institutions such as property rights are not enough developed and sophisticated, discoveries and inventions cannot occur. The absence of an institutional framework of this kind in poor countries would be a main obstacle to economic development in these countries.

North offers then a picture of the evolution of societies. The evolution from primitive societies to societies with "souk" and then to urban societies with international division of economic transactions involves an increase in economic exchanges. According to North, the development of globalization has needed to make appeal to more complex institutional forms. In tribal societies, exchanges are characterized by low cooperation. Economic development supposes the construction of innovations that have diminished transaction costs: this means organizational innovations, specific techniques, contracts … These innovations have made possible the mobility of capital and have diminished the risks and the information costs. In the most recent framework, North et al. (2009) propose a new interpretation of this picture, making reference to an evolution from societies governed by a natural order to more open societies. Political systems in line with what North et al. (2009) call the natural order regulate competition between organizations by creating economic rents that allow to control violence. On the contrary, developed economies have adopted a system called "open societies" which utilize competition to regulate violence inherent in social competition. The challenge caused by the transition from under-development to economic development is a challenge of an evolution from a natural order where the rent regulates violence towards an open social order where economic competition regulated by economic institutions finds a solution to social violence.

Institutions thus constitute direct determinants of development and growth in a country. In other words, economic development is correlated with institutional change. Under-development would be a situation where a country is blocked at a low level of economic growth because of its bad institutions. Now, institutions do not evolve easily because of path-dependence, that is a dependence to initial conditions. When an economy is located in an inefficient path that produces economic stagnation, it can remain on it because of the dependence on the initial conditions. The main question for development economics is thus to know why so few countries have succeeded in creating rules and norms that promote economic growth and social progress (Shirley, 2005, p. 616).

2.2. Islam and economic development in the neo-institutionalist tradition

In *The Rise of the Western World* (1973), North and Thomas does not consider Islam in their framework of a "new economic history". The only moment when North and Thomas refers to Islam is when they offer a picture of the "Moslems" as marauders or pirats who were threatening Europe (North and Thomas, 1973, page 11, page 19 and page 29):

"The wooden or earth castle, the knight, and the relatively self-sufficient manor had emerged as the most viable response to the collapse of order and the recurrent invasion of

Norsemen, Moslems, and Magyars. While the terror of foreign marauders had declined by the middle of the tenth century, the land seethed with continual warfare and brigandage, as the power of local lords waxed and waned." (North and Thomas, 1973, p. 11)
Likewise:

"The ubiquitous piracy and brigandage, the less frequent but always possible incursion by Vikings, Huns or Moslems, made local defense a matter of prime concern." (North and Thomas, 1973, p. 29)

The reply to this remark could be that North and Thomas's book deals with the Western World, and not with the Middle East. But, then, one could at least expect few words on the link between Islam and development via the case of Spain that is examined by North and Thomas in different chapters. Nevertheless, whatever the period, the high Middle Ages in chapter 5, the thirteen century in chapter 6, the fourteenth and the fifteenth centuries in chapter 7, no references is made to the Muslim legacy in Spain. This is clearly a missing piece when one reminds that the Moslems governed Spain until the end of the fifteenth century, and given that Spain and Portugal when among the richest European countries in the High Middle Ages when Spain where under the "full" control of the Moslems.

In his most recent works, North et al. (2009) do not deal with Islam. Even the former references to the Moslem pirats have been deleted. One has to look at his 2005 book, "Understanding the Process of Economic Change" to find references to Islam other than to piracy or brigandage[2]. But, in North's view, refereeing to Islam does not involve enthousiastic references. Indeed, according to North:

"The failure of the Muslim world to continue its dynamic expansion after the twelfth century evidently reflected the rigidities that evolved in that culture in contrast to the dynamic changes in western Europe." (North et al., 2005, p. 44)

North goes even further and make a relation between these supposed rigidities and the traditional prejudices attached with the Muslim world:

"And in the modern world Muslim conformity in the context of an ever widening gap between the Muslim and Western world has at times hardened into fanaticism. No one needs to be reminded in the present world about the implications of religious fanaticism for conflict." (ibidem).

According to North (2005, p. 118), the "most careful, and suggestive, study" of the creation of political institutions that create and enforce the necessary legal system has been made by Avner Greif (1994), "who compares the evolving structure of political and economic institutions of Genoese traders, which ultimately provided the essential institutions for impersonal exchange, and the practices of Maghribi traders (Jewish merchants but in a Muslim culture), who fail to make the necessary institutional adjustments and lose out in the competitive trade of the Mediterranean." In North's interpretation of Greif's study, the difference between Maghribi traders evolving in a Muslim culture and Genoese traders is a cultural difference. In other words, in North's understanding, the difference in culture between the Muslim environment (in this case in Tunisia) and the Christian one explains different beliefs and thus different institutional systems and, ultimately, different organizational structures that would be good or not for economic efficiency (North, 2005, pp. 135-136).

[2] Even if North (2005, p. 129) still refers to the "assault" from Muslims on Europe.

The crucial question is then the following: how cultural beliefs have been formed? In other words, what finally explains the development of institutions good for growth in one case and the development of institutions bad for growth in the other case? The response seems to be clear in North's view: the cultural difference is ultimately a religious difference:

"The proper focus, however, should not be on specific norms but on the learning process by which a particular belief structure-in this case religion- evolves. To briefly recapitulate, the learning process is a function of the way in which a given belief structure filters the information derived from experiences and the different experiences that confront individuals in different societies at different times. Thus one can argue that the Christian religious framework of the Middle Ages provided a hospitable filter for learning that led to adaptations congenial to economic growth; or alternatively that the specific geographic/economic/institutional context of the medieval western world provided the unique experiences responsible for the resultant adaptations. In fact it was a combination of the two sets of experiences that produced the adaptations in the belief structure that were conducive to economic growth and political/civil/freedoms. The belief structure embodied in Christian dogma was, despite some notorious contrary illustrations, amenable to evolving in directions that made it hospitable to economic growth". (North, 2005, pp. 136-137).

Indeed, if he notes the differences between European countries relative to their path to development -the Netherlands and England being the first and most dynamic countries; Spain and Portugal meeting difficulties and France being between the two groups- North insists on the common point that unifies all these European countries, Christianity:

"The last point deserves special emphasis. It was the dynamic consequences of the competition among fragmented political bodies that resulted in an especially creative environment. Europe was politically fragmented; but it had both a common belief structure derived from Christendom and information and transportation cost connections that resulted in scientific, technological, and artistic developments in one part spreading rapidly throughout Europe." (North, 2005, p. 138).

When he refers to the Muslim world, North quotes the works by Kuran (North, 2005, p. 44) and Greif (North, 2005, p. 118). Timur Kuran is an economist whose critique of Islamic Economics is famous (Kuran, 2004a). Kuran has also published papers on the development of the Middle East. His main thesis is to relate the lack of development in the Middle East to inefficient institutions inherited from Islam. Kuran's main thesis is that the Middle East became underdeveloped because of certain Islamic Institutions that generates a mutually self-reinforcing set of institutional arrangements leading to economic inefficiency.

Thus, the Islamic law of inheritance inhibited capital accumulation because it limited the concentration of wealth and tended to fragment the estates of successful businesses. This effect had been amplified by polygeny which led to the dispersion of patrimonies among numerous claimants. On the contrary, the inheritance system adopted in most of western countries, primogeniture, permitted the creation of large commercial and financial entreprises.

Kuran especially denounces the Waqf institution which impeded the emergence of a state which would assume the development of public and semi-public goods, like universities. The waqf system failed to provide the supply of public services in the Middle East when the West succeeded to provide it at a large scale. The waqf system also kept resources locked into uses decided centuries earlier. In Kuran's interpretation, the waqf, as a self-organizing institutions, even prevented the emergence of a strong civil society.

Furthermore, Kuran considers that the Islamic law is too individualistic and thus impedes the emergence of large and impersonal corporations. "Islamic law recognized only flesh-and-blood individuals" (Kuran, 2004, p. 73). The Islamic prohibition of riba did not only retard the emergence of a banking system but also reinforced the personal character of trade in the Middle East.

Finally, by promoting legal pluralism, the Islamic law offered substantive advantages to non-muslim groups. In particular, the Islamic law supported the transfer of economic power to the minorities, Christians and Jews, since they were able to choose the most efficient law: the western law. This choice was not permitted to the Muslims who endured the allegedly inefficient Islamic law.

What is worth noting is that Kuran believes that these Islamist institutions remain an obstacle to economic development in the MENA region even if the Arab countries have tried to import western institutions. Indeed, in Kuran's view:

"Transplanting a legal code or institutions is not the same thing as appropriating the entire social system that produced it." (Kuran, 2004, p. 86).

For instance, the waqf institutions still cause problems in the Arab countries since it has supposedly led to a culture of corruption, to nepotism which impede an efficient import of western economic institutions. Likewise, one legacy of Islamic inheritance practices is a weak private sector and state-centrism; two features that do not favor the adoption of a market-oriented economy. The main policy consequence of this position is that the new elected Islamist parties not only should not refer to Islam but should also combat certain Islamic institutions if their aim is to develop their countries. Kuran goes even further since he regards Islamism as a political system that would harm economic development "mainly in two ways. In breeding political uncertaintly, it lowers investment. It also induces policymakers and business leaders, including secularists, to eschew plans that might subject them to charges of impiety, thus reducing experimentation and discouraging creativity." (Kuran, 2004, p. 88).

To what extent this neo-institutionalist conception of the relation between Islam and economic development belong to the orientalist tradition? The response is instantaneous after the reading of a 1964 paper by Bernard Lewis, the leader of the orientalist tradition, entitled 'Islam and Development: Revaluation of Values".

In the neo-institutionalist' view, economic development, to be reached, supposes the adoption of western values. This thesis is clearly stated in the orientalism movement. For instance, in the words of Bernard Lewis:

"The acceptance of modern civilization by a developing country may involve the installation of a modern-style political and administrative structure, the adoption of modern social and cultural patterns and institutions, the acquisition of modern economic and technical methods and skills. But in addition to these and other borrowings and as an essential concomitant to their successful assimilation, it must involve the acceptance, implicitly or explicitly, of the modern values and standards that underlie and accompany the growth and functioning of these things." (Bernard Lewis, 1964, p. 27)

According to Lewis, this is not an obvious transition since there is an inertia process that tends to leads to the reproduction of old [inefficient] values:

"Such a conflict between the traditional values assumed in the family, the community, the home, and social surrounding and the new values proclaimed in the public life of the school, college, university, and government –may set up dangerous tensions in the individual and in society. Officially, the old values are abandoned, even discredited and derided, and are replaced by the values and standards of the modern West; in fact they survive, with sufficient power and vitality to exact submission, even from the most modernized citizens. (…) The citizen, while obeying his instincts and traditions, will nevertheless feel guilt at flouting the new values on which the new order rests, and thus imperilling its success; he will also feel shame vis-à-vis the outside world, which he feels will despise him for failing to live up to its- now also his-standards." (ibid., p. 28).

Lewis continues his weberian analysis: what counts is the values and the culture and not the religion:

"There is nothing in Islamic doctrine to oppose economic progress, though there is much in the social and legal practices of Muslims that needs careful reconsideration from this point of view." (ibid., p. 28).

If Islamic doctrine is not a problem *per se*, Lewis identifies a series of values, principles, conceptions, habits, that impedes the implantation of western efficient values in the Islamic world. The trouble with Lewis' presentation is that the values he quotes seems at first sight historically situated but finally appears as being a-historical causes explaining the lack of development of the Islamic world. In other words, narrated in a historical context, Lewis transforms historical situations into permanent values derived from a system of beliefs yet firstly presented as having no role in the lack of development. Which principles and values are provided by Lewis?

Firstly, Lewis depicts the Islamic society as traditional; which is incompatible with the adoption of western modern values:

"Development and progress are the basic needs of the developing countries- the needs in relation to which they are so defined and classified; yet development requires certain qualities- of enterprise, experiment, and originality-which are condemned as vices and defects in the old scale of values. In traditional societies the very concepts of development and progress are lacking. (…) The modern idea of development- of a process of growth and maturing, whereby the innate qualities and aptitude of an individual or a society are fostered and cultivated and brought to a higher level- is usually absent." (p. 30).

In traditional societies, there is no place for change. People promotes imitation and rejects change from a perfect traditional ideal:

"The ideal model is usually situated in the past, in terms of a mythology, a revelation, or master-philosophy, or a semi-historical golden age. Given this original perfection, all change is deterioration- a falling away from the sanctified past." (ibid., p. 31).

In Lewis' words, the most important single obstacle to progress in the Muslim world is the deep-rooted feeling that 'what is old is good'.

Secondly, the Arab culture is incompatible with the western concept of democracy:

"The Arabs among whom Islam was born were a people just emerging from nomadism and retained much of the anarchic freedom of the nomad. This freedom, it may be noted in passing, has nothing to do with democracy- a term relating to the manner in which there is neither authority nor state.

Thirdly, there is a tendency in the Islamic culture, both Arab and Turks, for authoritarianism, the adoption and promotion of "military virtues". This tendency is historically anchored and independent on the kind of system, liberalism or socialism:

"As the bourgeois liberal revolution was introduced in the nineteenth century, without a bourgeoisie and without liberalism, by decision and action of the governing elite, so the socialist revolution was to be introduced in the twentieth century, without a proletariat or a working class movement, by the military and political elite of the nation. It has not been more successful." (p. 31)

Fourthly, education is imprisoned in the traditional values: "the literary and authoritarian character of traditional pedagogy" (p. 32) is reluctant to pedagogical innovation:

"The once-great Muslim tradition of scientific research and experiment had long since withered and died, leaving a society strongly resistant to the scientific spirit" (p. 32).

Furthermore, education suffers from the lack of adoption of a formal unified language; in the Arab world especially, the gap between written and spoken Arabic is too large and constitute a barrier for education (p. 32).

Fifthly, a list of values (given in the beginning of the article) inhibits growth in the Islamic culture: 1) the misinterpretation and survival of the principle of loyalty in the Arab culture: "the vague but potent loyalties of kinship lead to the fragmentation of capital and the limitation and diffusion of effort and thus inhibit economic growth." (p. 28); 2) the importance attached to the value of charity, 3) the confusion of thrift with avarice, 4) the stigma of inferiority attached with trade and finance, 5) economic and technical progress is held back by the survival of traditional evaluation of attainment and achievement (honour, prestige, and dignity).

It is then interesting to note that the arguments presented by Lewis are not new. They have been provided in colonial writings, notably in colonial economics (Zouache, 2016). There is no need to go into details. It is sufficient, for our argumentation, to examine an article published in 1959 in the *Revue Economique*, one leading French academic economic journal, dealing with the resistance of the socio- cultural factors in economic development in colonial Algeria. Despite that Algeria was then a French department ruling by the French legal system and institutions, Gendarme insists on the cultural factors derived from Islam as explaining the lack of development of the French region:

"Three human behaviours are fundamentally different in the Muslim underdeveloped countries and in industrialized countries: the sense of saving, the entrepreneurship spirit, the willingness to work. The habit of setting aside capital, to accumulate savings, is meaningless, why worring about the future since God will do it. The spirit of entrepreneurship resulting in a commercially aggressive mentality, gives way to a disarming passivity, the key is to satisfy the vital needs of the family. Finally, the contemplation of God, the prayer, is of more value than the material work, the ideal being not the earthly city but the heavenly city." (Gendarme, 1959, p. 220-221).

One economic consequence of this supposedly Islamic behaviour is that Islam would have favoured economic control by non-Muslims ; a conclusion that resembles to Kuran's thesis, even if the behaviour in question is different: as seen above, Kuran rather quotes the role of the inheritance system.

It is crucial to point that, in orientalist economics, what matters is not so much Islam that its transcription in cultural and civilizational values. Gendarme's approach is similar, almost identical to Kuran's: the method of attack is not direct – Islam is a cause of underdevelopment- but indirect : the troubles lies in the cultural values and attitudes conveyed by that religion :

"The important thing for us is less to find the cause of economic development in religion, that to realize a certain link between economic development and religion." (Gendarme, 1959, p. 222).

It is easy to understand the difficulty to assume a direct critique of religion, not only for ideological, theological or political reasons, but mainly because of the political economy implications it has for the economists, excellently resumed by Destanne de Bernis, former economic advisor of different Arab governments (Algeria, Tunisia):

"If Islam is at the origin of under-development, economists should assume their responsibilities and present the dilemma to the Muslim authorities: either you abandon your religion or you stay in your misery. This attitud is absurd if it departs from a false analysis. The effort for development is then elsewhere, in other refusals and it has a chance of success." (Destanne de Bernis, 1960, p. 108-109).

3. How to escape from culturalism in economics: the role of History

The thesis of orientalist economics is related to the role of history in the analysis of economic change and development. History is incorporated at two levels : history of thought and economic philosophy, and the level of economic history. It is interesting to observe that these two levels make appeal to specific sources that converge towards one conclusion: Islam, seen towards the prism of Islamic beliefs, is a problem for economic development. This section will examine these two levels of analysis, suggesting alternative sources converging toward alternative implications. It is important to note that this section will examine western and thus available historical sources for the standard economist who do not read Arabic, Farsi, or Ottoman Arabic, and that had been nevertheless neglected by the neo-institutionalists.

3.1. Orientalist economics and the selection of ideas

North's explanation of economic change is based upon the following scheme:
Culture -> Perceived Reality -> Beliefs -> Institutions -> Policies
Section 2 reveals that North and his disciples consider that this developmental scheme has not been implemented in the Muslim world, mainly because of the cultural beliefs conveyed in Islam. If the religion is not directly in question in orientalist economics, one main challenge is then to find sources which inspires the introduction of Islamic beliefs in economics: this is the function attributed to Islamic economics, as a current of thought that makes the link between Islam and the economic principles. North is not a specialist of Islamic Economics, contrary to Kuran. He vehemently condemns Islamic economics as a barrier that blocks economic development in the Middle East:

"There exists a voluminous modern literature that purports to identify Islam's economic wisdom and to derive implications relevant to the present. Grounded in medieval Islamic thought, it is known as "Islamic economics". Notwithstanding the claims of its promoters, the significance of this literature does not lie in its substance. It does not describe the advantages of Islamic economic principles in a manner that would make sense to a well-trained economist. Nor has it produced solutions that more than a small minority of Muslims takes seriously. The significance of this literature lies chiefly in the support it gives to the quest for a distinctly Islamic social order. Islamic economic has fueled the illusion that Muslims can solve a wide range of social problems simply by embracing Islam and resisting Mammon- the evils associated with immoral forms of economic gain. It has promoted the spread of antimodern, and in some respects deliberately anti-Western, currents of thought all across the Islamic world. It has also fostered an environment conducive to Islamist militancy." (Timur Kuran, 2004, p. IX).

In the opinion of Kuran, Islamic economics is mostly anti-western and does not have any economic content:

"the main purpose of Islamic economics is not to improve economic performance. Notwithstanding the claim that Islamic economics provides a superior alternative to the secular economic doctrines of our time, its real purpose is to help prevent Muslims from assimilating into the emerging global culture whose core elements have a Western pedigree." (Kuran, 1996, p. 438)

A reading of these quotations highlights to what extent the neo-institutionalist author display a radical viewpoint on Islamic economics. Given that the aim of this paper is not to discuss the reception of Islamic economics by western economists but to discuss the relation between Islam, institutions and economic development in economics, which involves considering seriously the neo-institutionalist approach, the question that appears legitimate for a historian of economic thought is the choice of sources. Now, it is worth noting that Kuran, in his diverse works either on Islamic economics or on the lack of development in the Middle East, often quotes the famous publication by Rodinson, *Islam and Capitalism*, published in French in 1966 and translated in English in 1973. What is also worth noting is that Rodinson did not propose in his book the interpretation on the relation between Islam and economic development that North has adopted, apparently influenced by the interpretation from Timur Kuran.

Rodinson questions the relationship between economic activities, politics, religion and cultural traditions (Rodinson, 1966, p. 20). In this sense, Rodinson's approach is clearly in line with North's ones (cf. section 2), except that Rodinson centers his study on Islam whereas North and the neo-institutionalists have a preference for Christianity. Rodinson especially examines if the perceptions derived from the Islamic religion gratify or interfere with the practices at the basis of capitalism. He looks both at the Islamic principles derived from his interpretation of the *Kuran* and at the *Sunna*. Rodinson concludes that neither the *Kuran* nor the *Sunna* condemn private property and the quest for profit. Furthermore, Rodinson defends a rationalist interpretation of the Kuran: "the Kuran is a Holy text where rationality has a great place" (Rodinson, 1966, p. 93)[3]. In other words, the Islamic culture is a rationalist culture that furthermore stimulates economic action rather than ascetic attitudes or fatalism. Accordingly, if one reminds North's framework presented in section 2, the Islamic culture offers beliefs and economic values that could constitute the basis of institutions appropriate for economic growth.

Again, it is important to remember that this discussion of the economic principles of Islam is not new. Without returning to colonial economics (Zouache, 2009), the issue of Islam and development arose in the aftermath of decolonization. The text of De Bernis (1960) was also part of the debate on the compatibility of Islam with capitalism. The challenge involved the identification of the appropriate economic system for the Arab world. Thus, De Bernis (1960) argues that Islam pushes the State to intervene in the economic and social areas; that the Islamic legal system is rather collectivist, that property is rather collective, that mentalities are

[3] The translation of the following quotations from Rodinson (1966) is mine.

favourable to cooperatives, which means, accordingly, that the Arab independent states should choose socialism rather than capitalism. Much newly independent Arab states – Algeria, Syria, Nasserian Egypt, Irak, Yemen - chose this path, combining socialism, Islam, and authoritarianism, to both develop their countries and to make them independent from the former colonial power[4].

Other participants to the debate thought that, indeed, Islam was a solution. For instance, in the same issue in which De Bernis published his text on Islam and economic development, Austruy (1960) argues that Muslim countries should draw their inspiration in Islam to develop: the title of his article is "the economic vocation of Islam". Quoting reformist authors of the Muslim doctrine - Djamel El Afghani, Mohamed Abdou, Rachid Rida, Malik Bennabi - but also the leading figure of the Muslim brotherhood, El Bana, Austruy appeals for a reform of Islam that could create institutions more in line with economic development. He suggests several insights: the reconciliation of interest and capital, the promotion of social property, the resurgence of medieval institutions like the "mukhatara", the "bay-el-wafa". According to Austruy (1960, p. 192):

"The economic development of Islam can only be achieved if it channels in the progressive sense that vital force that is the Koran".

One might think that Austruy's article is anti- orientalist. This is not the case. Indeed, the starting point of Austruy's argumentation is that Islam is incompatible with capitalism and the Western-style of economic development. Indeed, we find in this article the standard orientalist arguments: the submission to God blocks individual initiative, the Islamic institutions leads to a risk-adverse behaviour which explains why industry is in the hands of foreigners (Austruy, 1960, p. 158), Arabs are merchants but small ones, the collectivist character of certain Islamic institutions (wakf, habous, zakat) limitates private property, the Islamic mentality is hostile to entrepreneurship and to the fighting spirit of capitalists. Accordingly, the Islamic reform appealed by Austruy, and inspired from the Muslim brotherhood movement, is totally in line with the Orientalist tradition. Through Austruy's article, it appears that Islamic economics and orientalist economics, that vehemently rejets it, are the two faces of the same coin composed of religion, beliefs, values and mentalities. In other words, orientalism and "reverse orientalism" (Achcar, 2008) are intimately linked when comes the issue of institutions, development and Islam. In this sense, Islamic economics does not seem to be the alternative route to escape from orientalist economics.

3.2. Orientalist economics and the selective role of economic history

One main issue in orientalist economics is that it omits the richness of historical debates. Selecting sources is usual and standard but putting them in their intellectual context is as much important. Furthermore, selecting and choosing sources do not involve the absence of justification. For instance, one historian quoted by North is Henri Pirenne (quoted in North, 2005, p. 139). Henri Pirenne (1970) suggests a specific view of the role of Islam in the development of civilization that has been discussed and even rejected. The main thesis of Henri Pirenne (1970) is that the emergence of Islam has led to a fracture in the history of Europe:

"The Western Mediterranean, which became a Muslim lake, stopped to be the road of exchange and ideas that it had never ceased to be until then" (Pirenne, 1970, p. 215)[5].

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[4] See Zouache (2012) for a study on the case of Algeria.

[5] Translation is mine.

Pirenne (1970, chapter 1) then portrays the expansion of Islam in the Mediterranean as an invasion of tribes who, at the difference of the Germans who destroyed the Roman Empire, cannot be assimilated because of Islam. This picture evokes North's vision of the "Moslems pirates" who were a danger in Western Europe (see section 2). Other pictures are possible, inspired by other historical works, published by Western academics. Without being exhaustive and with the desire to avoid the pretention of knowing all the academic works related to the Muslim or Arab worlds, we will select historical works (Lombard, 1947, Cahen, 1977a,b, Braudel, 1979a,b, Bianquis, 2005, Sheizmiller, 2013) that leads to a rational reconstruction of the link between Islam, institutions and development, completely different from the one offered by orientalist economics.

These sources do not underestimate the impact of institutions in development. The starting point is similar with the neo-institutionalist writings: the observation of an increased divergence between the East and the West in the period from 11th century to 13th century (Bianquis, 2005, p. 1). Some institutionalist insights are also present: a legalism increasingly present in the West against the arbitrariness of feudal lords and, in contrast, in the East, an increased tendency to authoritarianism and militarization compared to the beginning of Islam (Bianquis, 2005, ibid., p. 1-2). The problematic is even the same as that of Lewis (1964): trying to explain the origin of this divergence, this reversal of fortune in the words used by Acemoglu and Robinson (2012). Finally, these sources also provide institutionalist arguments to explain this discrepancy: the role of the family power structure, different conceptions of state, the need for religious legitimacy when producing legislation by central government (Bianquis, 2005, p.8), the vision of a disharmonious East and of a rational order in the West (Bianquis, 2005, ibid., p. 7). Therefore, what seems at stake is not the interest of an institutionalist explanation of the divergence between Occident and Orient but rather a reduction of institutionalism to a culturalist explanation and the eviction of other explanatory factors either as much important or even essential for the explanation of the reversal of fortune of the 'Muslim' societies. The starting hypothesis is that the decline of the Islamic world often dated after the 15th century began long before, between the 10th and the 12th century, and that: « Neither religion, nor the Islamic law, are to blame. » (Cahen, 1977a, p. 2).

It is crucial to note that the historians to whom our article refers did not converge towards a unique, homogenous, explanation. There are disagreements, diversity of analysis, sources and interpretations. What is remarkable for the economist is that the authors proposes a series of research avenues to pursue and raise, notably, the role of the ecological and monetary factors and their consequences both for the economic development and the reversal of fortune of the Muslim world in the Middle Ages.

First, *the issue of* ***natural resources***. Bianquis (2005) emphasizes that the Muslim world, despite its vastness, covered only a limited variety of climates. Therefore, forests covered small areas and were scattered: wood and charcoal were rare and expensive until the invasion of the Balkans by the Ottomans and, often imported from the West as recalled Cahen (1977b). As for the economic consequences, Bianquis raises that development was constrained by the scarcity of local natural resources; involving the persistence of a craft [local] production system instead of the development of a industrial global economy. Capitalism was thus commercial, artisanal; given that commerce was providing high incomes and industrial production was constrained by the limited availability of natural resources (Bianquis, 2005, p. 4). Cahen (1977b) also returned to the question of the availability of raw materials. Citing the works of Lombard (1947), he recalled that the ship building wood was not available in the

Muslim world. Thus it happens to Muslims often bought ships to Christians in Italy or, more commonly, they used to import wood from Europe. Likewise for iron. Access to European wood was therefore a prime economic issue.

Second, *the* ***agricultural factors***. The food system in the Arab world could olny survive with a moderate increase in urbanization; the absence of prolonged drought, the absence of conflict and wars, the maintenance of an irrigation system, the coexistence of very different human groups (peasants, urban landowners, nomads, political authorities). According to Bianquis, the agricultural production system worked well until the middle of the tenth century and then ceased to be efficient. Accentuated by climatic aleas, this led to a rise in prices of essential goods in the mid-tenth century and was a cause of political troubles, particularly in Syria and Egypt. Furthermore, these constraints also played a role in the ability of the Muslim world to respond to economic, political or climatic crises: Bianquis (2005, p. 5-6) assumes a lower reactivity of the economies of the Islamic world because of these agricultural and land constraints. What is also very interesting, compared to the orientalist tendency to insist on cultural values from religion, is that Bianquis points that these agricultural and economic instability impedes the establishmenf of rationalization in the administration and the economic spheres. Rationalization, calculation, the culture of making long-term plans, was easier to settle in the West because of the climatic, agricultural and spatial constraints in the Muslim world that constituted instead a favourable atmosphere for short-term planning. In my opinion, what counts is less the adoption of this thesis- we will see below that there are counter-arguments- but that the standard institutionalist values (order, rationality, stability, autonomy of the economic sphere from the political authorities) are not derived from a religion, Islam, but from a historical and geographical context. We then leave the realm of orientalist economics to adopt alternative research paths.

Cahen (1977a) recalls the causes highlighted by Bianquis: the relative poverty of natural resources, the plague and other epidemics, the invasions that have more or less ruined agriculture and some cities. But, instead at looking at these factors, he chooses to insist on two arguments that were at the heart of the Muslim market economy. Firstly, the transport economy: according to Cahen, the Orientals have left, or delegate, the Mediterranean transport to the Italians. Secondly, and it is the most important factor in Cohen's mind: the market economy of the Muslim word at the end of the Middle Ages was primarily a commercial and speculative economy. Another interesting insight that we learn after reading Cahen (1977b) is the lack of extensive exchange between the West and the East, a situation that complicated the import of western institutions by the Muslim worlds whereas the reverse was not true at the golden age of the Muslim world (Lombard, 1947). Cahen highlights the impossibility of Muslim merchants to trade within the European lands. This could be explained by a form of European protectionism, or because the Muslim merchants had more interest in trading with Africa and Asia. Like Greif (), Cahen (1977b, p. 14) notes the role of Jewish traders but Cahen sees their role differently asking if they had privileges to trade within Europe as well as in Asia. Concerning the reverseal of fortunes between Occident and the Muslim world, Cahen (1977b) argues that the western Europeans, given their monetary disadvantages, were pushed to adopt the model of a production economy. There always have been debates on that argument according to which the Muslim world has never adopted a pre-capitalist system.

Indeed, Rodinson then reviews the establishment of capitalism in the Muslim world. In particular, according to Rodinson, the expansion of Islam by the Arabs is characterized by the adoption of capitalist activities in the sense of Weber, which confirms the interpretation made by Braudel of a Muslim economy. Rodinson even discerns an international division of labour in the Islamic world that prefigured the globalization that would occur later in the Western world. In the same vein, Rodinson reminds that the wage-system had existed in the Islamic world since the Middle Ages such that the production system did not come from handicraft techniques but rather from industrial methods (Rodinson, 1966, pp. 67-68). Rodinson (1966, pp. 69-70) concludes that a specific capitalist sector existed in the Muslim world.

Braudel goes further and gives an importance to Islam in the process of cultural diffusion in the Western world. Contrary to the approach of the neo-institutionalists, European economic history is conceived in strong connection with economic history in the Muslim world. Thus, Braudel does not exclude Islam from the history of capitalism. The role of Islam in economic history intervenes at least at two moments.

In the first moment, Braudel conceives the expansion of Islam as the development of a Muslim economy:

"By Muslim economy, we mean the implementation of an inherited system, a race between merchants from Spain, the Maghrib, Egypt, Syria, Mesopotamia, Iran, Abyssinia, the Goudjerate, the Malabar coast, China, the West Indies … The Muslim life finds in itself its gravity centres, its successive poles: Mecca, Damascus, Bagdad, Cairo – the choice between Bagdad and Cairo being made if the route towards the far Orient utilizes the Persian Gulf from Basra and Saraf, or the Red sea, from Suez and Djedda, Mecca's port." (Braudel, 1979a, p. 497)[6].

A reading of Braudel's work gives a picture of the Muslim economy, notably characterized by the following features.

The first feature is related to the existence of a specific monetary system based on bimetallism: the dinar whose value was calculated in reference to gold and the dirham whose value was defined in relation to silver. This point is derived from the famous works of Lombard. The central thesis of Lombard (1947) is to highlight the role of the monetary system in the process of economic growth in the Muslim world from the 7th to the 11th century; ***monetary factors*** put forward that can play in reverse to explain the reversal of fortune in favor of the Western world from the 11th century. This thesis is well summarized in another text where Lombard (2001) also adds the other factor: the natural resources.

Regarding the monetary factor, Lombard proposes the following scenario.

Until the late 7th century, Europe saw its gold resources dry up due to an unequal trade with the East: Byzantium sells transformed products to Europe that has nothing to offer except gold. The Byzantine gold was either sent to Egypt and Syria to purchase manufactured goods, and to Iran (Sassanid Empire). In these countries, gold was hoarded, for different reasons: the Egyptian and Syrian Churches hoarded while Iran did not need gold to trade due to its silver monometallism (Lombard, 1947, p. 145-6). In the early seventh century, large quantities of precious metals were available in the Byzantine provinces of Syria and Egypt, and Iran; that is in future Muslim conquest spaces.

In Lombard's view, the Muslim world had unified the Byzantine and Sassanid monetary systems; establishing a bimetallic system around gold, the *dinars* – the former *denarion* of the Constantinian reform, used as a reserve currency, a unit of account, and a money of exchange

[6] The translation of the following quotations from Braudel (1979a, 1979b) is mine.

and, the dirham, which replace the *drachma*, or *direm* in Persian, most often used as currency (Lombard, 1947, p. 145-147). In a second step, the Muslim conquest had boosted mining:

"Recirculation of hoarded gold and exploitation of all the old gold fields known in the Muslim East, arrival of the Sudanese gold in the Muslim West: the Muslims are the masters of gold." (Lombard, 1947, p. 151)[7].

According to Lombard (1947, p. 154-7), these monetary shocks will have economic consequences: the development of Arab sailing in the South Seas, the development of land transport networks, the development of trade between East and Asia and between Eastern and Northern Europe, between the Italian cities and the Arab world. In particular, Eastern and Northern Europe, suppliers of slaves, wood and textile (Flanders), had benefited from these gold inflows: it is worth noting, following Lombard, that archeology has found more Arab coins in the countries of Northern Europe and the Baltic than in Southern Europe (for data, see Shatzmiller, 2013, p. 285-286):

"This Muslim gold, which is deposited in neighbouring areas, plays an active, a creative role. This is a plot of economic strength, strength that gives gold, engine of large trade, which is gained by these countries: Awakening of northern Europe, revival of the West, development of Byzantium, trade development in the Indian Ocean and Central Asia." (Lombard, 1947, p 159)

Here may lies the reversal of fortune: the Muslim economy had suffered from the loss of precious metals when it will lost control of the gold mines and of the transport networks (ibid., p. 159).

This hypothesis is resumed in Lombard (2001). The Muslim world owed its growth to the import of mineral resources. The Caucasus and Armenia provided gold, silver, iron, copper especially vital to the Egyptian metallurgical industry. The Muslim world drew gold, silver, iron and copper in Central Asia. Iran was rich in iron, copper, tin, lead, gold and silver. Spain was the most important mining region of Europe. Finally, North Africa benefited from mineral resources, iron and copper, to which must be added the gold of Sudan. Except the copper produced in sufficient quantity, the Muslim world depended on the importation of two key metals: iron and gold. Furthermore, the Muslim world was lacking wood and water (needed for hydropower). The economy of the natural resources of the Muslim world depended on the establishment of a vast transport network (on land and see). The reversal of fortune in the Muslim world laid not on cultural and religious beliefs; it was directly related to these structures of the Muslim economy between the 7th and the 11th century (Lombard, 2001, p. 4): from the eleventh century, when its road network discards, the arrival of metals dries up and its economic strength weakens. Now, the demand for minerals by the Muslim world had revived the European metal industry which, moreover, has wood and water in abundance, providing initial conditions for the economic development of the Occident.

Shatzmiller (2013) confirms Lombard's hypothesis while specifying the role of economic transmission mechanisms. She also gives more informations on the sources (archaeological works, literature, data), Cohen (1977b) claiming for the lack of transparency in the sources of Lombard (1947). Shatzmiller (2013) argues that the Islamic Caliphate (650-1000) experimented a process of economic growth. Monetary factors played a key role during this process, not only because of the quantitative factors raised by Lombard (positive money supply shocks) but also in terms of the institutional innovations (credit and banking institutions) that occurred after the rise of the money stock in the Muslim world (Shatzmiller,

[7] Translations from Lombard (1947, 2011) are mine.

2013, p. 274). In other words, institutions played a role but “it was the monetary system which provided the impetus and wherewithal to start the process.” (Shatzmiller, 2013, p. 274). According to the author, the monetary system can have an effect on economic growth only if the structures and institutions are adequate (ibid., p. 286). What is worth noting in her paper is that she pinpoints that the role of the monetary factor was the result of a deliberate policy, in modern words, of a monetary policy, especially during the Ummayyads (Shaztmiller, 2013, p. 277). This monetary policy, as showed in Lombard (1947), constituted in the establishment of a bi-metallic monetary system, but also, as stated in Shatzmiller (2013), coining reforms, anchoring new monetary mentalities, stabilizing the exchange rate between the different money[8].

The monetary factors had an impact on the process of economic growth through several transmission mechanisms. Firstly, this monetary policy was based on a mine production economy creating an economic dynamics: a positive demographic shock that led to an increased demand for labour; only sustained by the financial capacity to buy slaves (Shatzmiller, p. 286-291), increased demand for consumer goods, increased demand for agricultural goods (Shatzmiller, 2013, p.282). Secondy, this economic dynamics impulsed an extensive division of labour in the manufacturing and service sectors, which led to an increase in productivity, especially in the textile industry (ibid., p. 297-299). As master of gold (Lombard, 1947), the Muslims invested and accumulated capital in industries (Shatzmiller, 2013, p. 299). Capital accumulation and investment in industries and commerce caused urban dynamics, three economic elements at the heart of an international trade around clusters of cities (Shatzmiller, 2013, p. 302-04).

This process of economic growth could not occur without adequate and effective institutions. First, the economic system of the Muslim world - the author gives the example of abbasside bureaucracy - led to the rationalization of the administration due to the need to raise and collect taxes (Shatzmiller, 2013, p. 291-294). Another example is the financial and banking institutions. One impact of the increase in the money supply in the Arab world is the emergence of financial innovations: credit instruments such as the *suftaja*, precursor of the check, used for the purposes of the administration or the international trade (ibid., p. 296-297).

Braudel had long before argued that monetary practices involved the prevalence of economic institutions in the Muslim world as regards the European countries. Braudel quotes the letter of exchange and insists on the precursory dimension of economic practices in the Muslim world. In Braudel’s view, the letter of exchange has not been invented by the Italians:

“The letter of exchange, also, has been imposed from place to place, by diffusion. But, does not it come from a farthest place? According to E. Ashtor, the Islamic *sutfaya* has not link with the western letter of exchange. It deeply differs in its legal content. Maybe. But it exists without any doubt before the European letter of exchange. How can one suppose that Italian merchants, who have promptly attended Islam’s ports and markets, had been inattentive to this way of assuring, by a simple script, the transfer to a far location of a given amount of money?” (Braudel, 1979a, p. 495).

Braudel also quotes the commercial association, the *commenda*, seen as a traditional Islamic institutional arrangement that has been borrowed by the Italian merchants and then diffused in

[8] Cahen (1977b) remains cautious on monetary factors, noting some difficulty in establishing a stable exchange rate of the gold dinar and silver dirham before the ninth century.

the rest of Europe. Braudel then considers that it is clear that many economic practices developed in the Muslim world had been transferred by the medieval merchants to Europe. Another institutional feature considered by Braudel is the respect attributed by the Muslim countries to merchants and even a competition between cities and countries to attract the most efficient merchants. Braudel (1979a, p. 498) cites a decree published by the Mamlouk authorities in 1288 which offer an environment hospitable in Syria and Egypt to the merchants coming from India, Yemen, China who would install in these provinces.

Braudel then concludes his view on the Muslim economy that the economic practices and the institutional environment in the Islamic worlds involved a specific “economic logic” (Braudel, 1979a, p. 498):

“Everywhere in Islam, corporations are in place and the adjustments they experience (rise of masters, work at home, work outside cities) remind much of the situations that Europe would encounter so that one cannot see an economic logic as its cause.” (Braudel, 1979a, p. 498).

According to Braudel, this economic rationality created a capitalist system so that, “what, in the Western capitalism, can be seen as an import good, comes without any doubt from Islam” (Braudel, 1979a, p. 499).

In the second moment, Braudel considers that this Muslim economy has been then prolonged by the Ottoman Empire. Indeed, when North sees the Muslim expansion as an invasion from pirates and marauders, Braudel visualizes the Turkish Empire as a world economy that benefited from the leg of Islam and Byzance (Braudel, 1979b, p. 402). This world economy had instigated an economic system that would prevail until the beginning of the nineteenth century: this is the industrial revolution that would mark the decadence of the Ottoman Empire from an economic perspective (Braudel, 1979b, pp. 415-416). Accordingly, one can wonder why the neo-institutionalists, defending the role of history in economics, did not consider this aspect.

Conclusion

When the economist considers the role of institutions in development, she/he takes the risk to be accused of having an ethnocentric posture (Sachs, 2003) because she/he:

“attributes high income levels in the United States, Europe, and Japan to allegedly superior social institutions; it even asserts that when incomes rise in other regions, they do so mainly because of the Western messages of freedom, property rights, and markets carried there by intrepid missionaries intent on economic development.” (Sachs, 2003, p. 38).

We believe that this position is a bit radical, especially when the works of Acemoglu et al. (2001, 2005, 2012), are targeted, but especially to the extent that, what matters is how the institutions are included in the analysis. However, the results of this paper confirm the ethnocentric bias of the neo-institutionalist approach when it deals with the relationship between Islam and economic development. Indeed, North’s approach leads to the conclusion that the development of growth in Muslim countries has been impeded because of the Islamic culture. The argument is that the countries that have embraced Islam have not created complex institutional arrangements to deal with the increase of exchanges that came with the Industrial Revolution. Kuran goes even further and assumes an extremist position against Islam, judging this religion as the main cause of under-development in the Muslim countries and as a cultural barrier against the import of Western economic values. This paper also gives arguments that show to what extent the neo-institutionalist view of Islam is not only biased from an ethnocentric point of view but also inconsistent. Indeed, the neo-institutionalist authors have omitted to quote different major contributions in the Western literature, either in Islamic studies with Maxime Rodinson or in History with Fernard Braudel, which is astonishing for an economic historian receipt of the Nobel prize in economics like Douglass North or for an historian of economic thought like Timur Kuran. Our posture is in line with Braudel who rejected the view of the "traditional historians" who attributed scientific and technical rationalities to the West (Braudel, 1979a, p. 497); this same view that has been adopted, as seen in this article, by the neo-institutionalists who, by this way, both reduces History to a western view and dramatically ignore the debates in economic History.

Finally, one interesting result of this paper is that it reveals that, if the neo-institutionalist failed to prove that Islamic institutions are the cause of under-development in the Arab world, they succeeded in shaping the attention of policy makers towards the role of Islamic institutions on economic development. In this sense, when the Islamist Parties concern mainly, and sometimes exclusively, on the role of Islam in economic development, they participate to orientalist economics which, on the contrary, highlight the role of Islam in blocking economic development.

One main policy implication of our paper is that economists should draw more attention to the structures, the economic mechanisms from which and inside which institutions are invented and modified. Economic history plays a crucial role since it helps to reveal the importance of these economic factors. This article proposes several factors - the role of natural resources, agriculture, money, transport- that may explain both the economic growth of the Arab world, his decline, and, maybe, his resurgence.

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