

## **A The Impact of Sharia Law on Economic Development in Islamic Countries – 800-1600 A.D.**

Paper by Prof. Dr. Hans-Bernd Schäfer (Bucerius Law School) and Prof. Dr. Rok Spruk (University of Ljubljana) presented by Prof. Dr. Roee Sarel (Universität Hamburg)

**This is a paper by Prof. Dr. Hans-Bernd Schäfer and Prof. Dr. Rok Spruk, but will be presented by Prof. Dr. Roee Sarel. The abstract of the paper is as follows:**

We examine the impact of Islamic legal institutions to the comparative economic decline of the Middle East behind Western (Latin) Europe, which can be observed since the late Middle Ages. To this end, we explore whether the sacralization of Islamic law and its focus on the Sharia as supreme, sacred and unchangeable legal text, which reached its culmination in the 13th century and the fundamental legal reforms in Latin Europe in the same century had an impact on economic development. We use the population size of 145 cities in Islamic countries and 648 European cities for the period 800-1800 as proxies for the level of economic development, and construct novel estimates of the number of law schools (i.e. madāris) and estimate their contribution to the long-term pre-industrial economic development. The number of law school is a proxy for the number of legal scholars, practitioners, including judges and their influence on law. By relying on pre-industrial population size as a rough but best possible proxy of economic development, our triple-differences estimates show that a higher density of madrasas before the culmination point of sacralization of Islamic law predicts a more vibrant urban economy characterized by higher urban growth, *ceteris paribus*. After the consolidation of the sharia sacralization of law in the 13th century, greater density of law schools is associated with stagnating population size and subsequent urban decline. We show that the economic decline of the Middle East can be partly explained by the absence of legal innovations or substitutes of them, which paved the way for the economic rise of Latin Europe, where ground-breaking legal reforms introduced the freedom of contract and as a corollary the introduction of the insurance contract as well as the use of the legal person in corporate charters and other legal innovations conducive for economic growth. These were combined with a flexible scientific treatment of the law that was introduced in Europe during the legal revolution (Berman 1985) in the 12th and 13th century. We find that the number of learned lawyers trained in universities with law schools, approximated by the number of universities with law departments is highly and positively correlated with the western European city population. We also show with counterfactual estimates that almost all Islamic cities under consideration would have had much bigger cities by the year 1700 if legal innovations comparable to those in western Europe had been introduced. By making use of a series of synthetic control and difference-in-differences estimators our findings are robust against a large number of model specification checks.