

This book grew out of an attempt to gain a better understanding of the causal factors underpinning economic and political outcomes during the late medieval period (circa 1050 to 1350). It was during this period that the Muslim (Mediterranean) World reached what many scholars consider to be the zenith of its commercial integration, whereas expansion of markets in Europe was so pronounced that prominent historians dubbed this phenomenon as ‘the Late Medieval Commercial Revolution.’ Gaining a better understanding of this period therefore has the promise of advancing our knowledge regarding why and how effective markets and economically beneficial polities prevailed in some historical episodes but not in others. Whereas economists have long emphasized the welfare enhancing implications of market expansion, we know surprisingly little about the source for historical trajectories of market development.

This period is also of interest because it was a point of bifurcation in the histories of the Muslim and European worlds. The Muslim world was probably more advanced economically, technologically, and scientifically than Europe during the late medieval period. Indeed, the Europeans learned a great deal from the Muslim world at the time. (E.g., Watt 1987.) In subsequent centuries, however, the Muslims developed economically and politically along a different path from the Europeans, and became economically worse off in the long run.

In attempting to understand this period and its implications on subsequent development, I benefitted from the training in historical analysis that I received when pursuing an advanced degree at Tel Aviv University. I was particularly fortunate to study under the supervision of Professor Moshe Gil, a specialist in the Muslim medieval world. My training in historical analysis was complemented by further graduate training in

economics and economic history at Northwestern University where I had the privilege to work under the supervision of Professors Joel Mokyr, John C. Panzar, and William P. Rogerson.

My training in these two disciplines is reflected in this book, which combines historical and social scientific modes of analysis. On the one hand, the book aspires to do justice to historical particularities and processes. Indeed, it argues that they are the keys to understanding distinct outcomes and developments in seemingly identical situations. On the other hand, it also recognizes that a purely historical narrative risks being ad hoc and devoid of general insights.

The analysis conducted here, therefore, also follows the social scientific tradition of relying on explicit theory, using analytical models, and putting conjectures at the risk of being empirically refuted. At the same time, it recognizes the limitations of the social scientific approach: general theory often fails to account for historical particularities; the use of models is restricted by underlying mathematical techniques; and historically specific conjectures often cannot be evaluated using statistical methods.

Historical and social scientific analyses are therefore complementary to each other rather than substitutes as often assumed. My hope is that the studies presented here will demonstrate the necessity, feasibility, and benefit that is derived from integrating these two scientific modes of analysis.

In the course of studying the late medieval period, I realized the need to go beyond invoking different technologies, endowments, or preferences, as classical economic theory directs. To understand the outcomes and processes of interest, I had to incorporate in the analysis the impact of *institutions*. In economics, institutionalists

usually identify institutions with either politically-determined rules regulating economic activities or contractual and organizational forms chosen by agents interacting within markets. These approaches were too narrow for my purpose because I couldn't take either the political or market orders as exogenous to the analysis. My aim was to examine the endogenous emergence and dynamics of different polities and economies and not merely behavior in them.

To understand the endogenous emergence, operation, and implications of different polities and markets, therefore, I had to go beyond viewing institutions as politically determined rules or as the optimal responses of economic agents interacting within markets. Instead of taking markets and polities as exogenous, I had to consider them as endogenous and study their institutional foundations. To take the analysis to this deeper level, I sought to understand the causal factors influencing behavior in economic and political transactions. Such understanding necessitated going beyond studying rules to consider how systems of rules, beliefs, norms, and organizations (social structures) guide, enable, and motivate behavior in various transactions.

Studying institutions as interrelated systems as rules, beliefs, norms, and organizations turned out to be both challenging and rewarding. By *ad hoc* invoking unobservable beliefs and norms, for example, any outcome can be explained, implying that we have explained nothing of consequence. It is therefore imperative to have a way to restrict the set of admissible institutions. In restricting this set, I found it conceptually sound and empirically rewarding to combine historical and micro-analytical – particularly game-theoretic – analyses. Combining historical and game theoretic analyses enabled me to do justice to the diversity of the possible systems of rules, beliefs, norms, and

organizations on the one hand, while analytically restricting and empirically evaluating the set of admissible institutions and outcomes.

Moreover, this approach revealed new ways to advance the study of the thorny issue of institutional dynamics. In what ways do institutions influence trajectories of subsequent institutional and therefore historical development? Economists usually assert that institutional dynamics reflect optimal responses of decision-makers to current and expected conditions. Social scientists working in other disciplines and historians, however, assert that institutional dynamics reflect the shackles of history. Each side of this debate captures a potentially important aspect of reality, but neither is satisfactory by itself. Considering institutions from the broader perspective advanced here and combining the historical and the micro-analytical frameworks, bridge these two approaches. It is possible to better understand when and why an institution persists in a changing environment, how it unleashes processes that lead to its demise, and how past institutions—perhaps even those that are no longer effective in influencing behavior— influence subsequent ones.

The formation and implications of distinct beliefs, norms, and organizations (social structures) has been extensively studied in disciplines other than economics, such as sociology, political science and cognitive science. Hence, this book builds on analytical and conceptual frameworks developed in disciplines outside economics. It particularly highlights the benefits of merging the study of institutions, as conducted in mainstream economics, with the study of cultural and social factors, as conducted in sociology. By focusing on beliefs, norms, and organizations, which has traditionally been the domain of sociological analysis, this work became a part of the ‘sociological turn’ of

institutional analysis in economics. Sociological variables are invoked to account for the diversity found in institutional forms and development.

My attempt to gain a better understanding of a particular historical episode necessitated attempting to advance institutional analysis. Many social scientists maintain that institutions matter and that institutional dynamics is a historical process. The ability to study institutions and their dynamics is therefore crucial to understanding the reasons for the uneven distribution of welfare among and within different societies and what can be done to improve this situation. The framework outlined in this book attempts to advance our ability to conduct a comparative analysis of the institutional foundations of past and contemporary markets and polities and their dynamics.

Because this book contains an analysis of a particular historical episode and a general framework for studying institutions, it is made up of several overlapping components. The first is a detailed study of institutions that provided the foundations for markets and polities during the late medieval period; the second is a comparative analysis of institutions in the European and Muslim worlds during that period; the third is a conceptual, analytical (specifically game-theoretical) and empirical framework for studying institutions and their endogenous dynamics. Indeed, the analyses of specific institutions are presented in this book as illustrations of the main aspects of this framework.

This book is therefore multi-faceted and hence there are many ways to read it. Some readers will read it as presenting a theory of economic and political institutions in which historical case studies illustrate particular theoretical assertions. Some will read it as a statement of why and how we should introduce endogenous dynamics into

institutional analysis, or why a context-specific, theoretically-informed, case-study analysis is useful. Some will read this book as a comparative study of the institutional foundations of late medieval markets and states in the European and Muslim worlds that fostered our understanding of these particular historical episodes and their dynamics. Others will read it as a study of the interrelations between institutional development and cultural and social evolution, or as a call for expanding institutional analysis in economics by incorporating cultural and social factors. For some it will be read as a confirmation of the applicability of game theory to empirical institutional analysis, while others will read it as social science history. As for myself, the book reflects an attempt to gain a better understanding of a particular historical episode on the one hand, as well as an attempt to learn about institutions in general from this period on the other.

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