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Religion and corruption

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Abstract

Religious heritage is one of the most commonly cited explanations for cross-country differences in corruption and institutional quality. Protestantism and the cultural values that follow from this religious doctrine have been identified as beneficial for the quality of public institutions. Nevertheless, micro-level experimental studies provide little evidence for religion as such producing the type of norms and values conducive to high quality institutions, like accountability, social trust, and cooperation. We propose an alternate explanation for the observed macro-level positive effect of Protestant legacy and institutional quality, namely the systems for the local financing of religion. By “following the money”, we contrast the medieval parish system in Northwestern Europe, where parish members collectively paid for and administrated religious services as public goods, with the Ottoman Empire, where such goods were normally provided through private endowments from above, and where also tax collection was privatized. Thus, we argue that an early legacy of collective financing and norms of accountability created a path dependent virtuous circle of state capacity and low corruption, which reverberates to this day. The historical record does not however need to determine a country’s quality of government. Our findings indicate the importance of designing institutions for self-government of public goods at the local level for improving the quality of government and reducing corruption.

Key words: PARISHES, WAQF, RELIGION, CORRUPTION, LUTHERANISM, ISLAM

Introduction

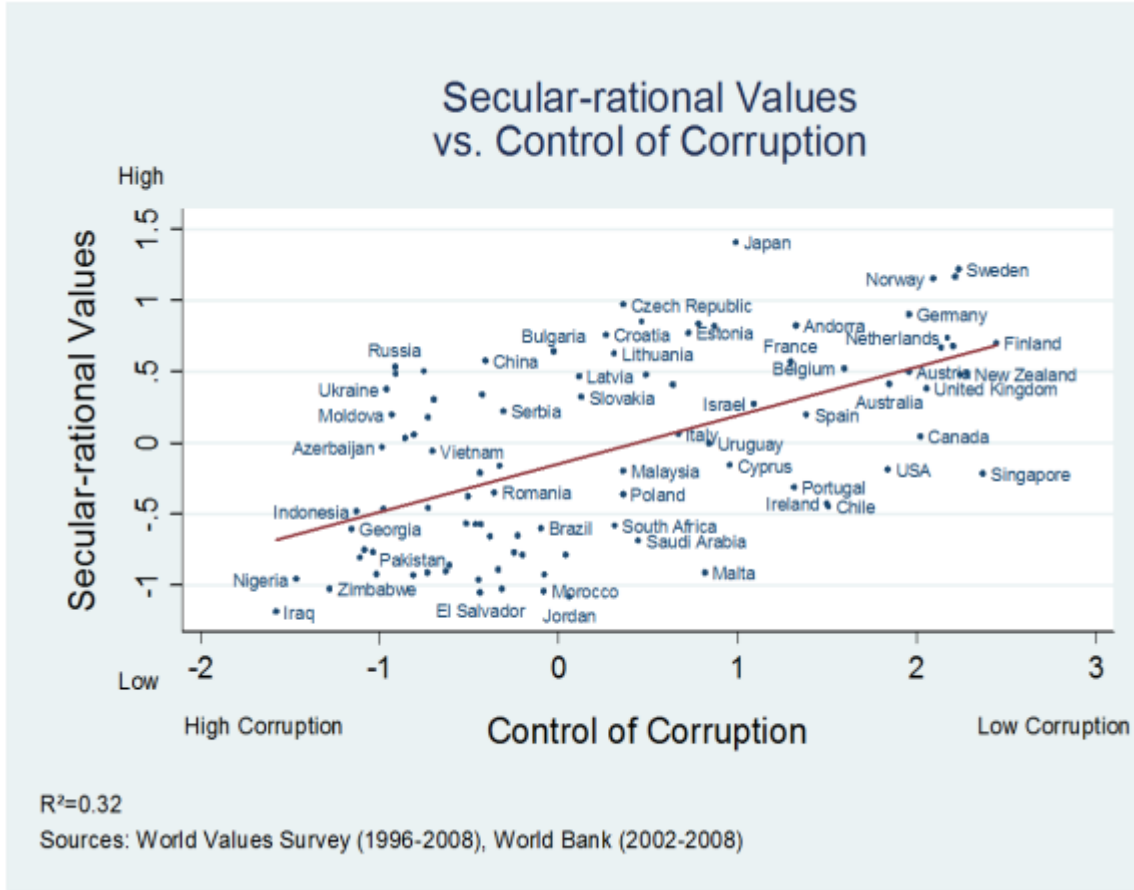
Although the quality of government institutions is routinely hailed as one of the most essential preconditions for human well-being (Acemoglu et. al. 2014; Ahlerup et. al. 2016; Menaldo 2016; Helliwell and Huang 2008; Helliwell et. al. 2017; Rothstein 2011), the puzzle of how good public institutions are created remains largely elusive, even after more than two decades of extensive research. One of the most commonly cited factors is an historical legacy of Protestantism (Treisman 2000, 2007). This relationship has largely been explained by factors based on the content of the religious doctrine and the specific culture of the religion. A classic example is Max Weber's theory of the importance of a specific Protestant work ethic for the development of market capitalism and thereby (at least indirectly) its wealth-enhancing effects. In addition, others have pointed at the Protestant religion's encouragement of individualism over familism and related norm-adhering behavior (Lipset and Lenz 2000).

Recent history has, however, taught us the risks of assigning religious doctrine an outsized role in explaining social and political phenomena. For example, Karatnycky (2002, p. 107) notes that long into the post-WWII period, one could make an empirically plausible argument that both the Orthodox Church and Catholicism were inherently incompatible with democracy. Since the narrative of Protestantism being conducive to democracy largely uses the same arguments as for institutional quality, Stepan's (2000, p. 44) warning is that "we should beware of assuming that any religion's doctrine is univocally prodemocratic or antidemocratic," should also be seriously considered here as well. Teorell (2010) argues that blaming specific religions for hindering democratization has proven to be a false road. As he points out, in the 1970s, Catholicism was thought to hinder democratization but since then southern Europe and large parts of Latin America have democratized. In the same manner, Confucianism was thought to be anathema to democracy but this has been disapproved by the democratization of South Korean and Taiwan. In addition, Haklai (2009, p. 35) notes that the existing body of political culture research shows that

...there is no single Muslim mindset regarding democracy. Political culture studies have been finding that there is no relationship between the level of piety and religiosity, on the one hand, and attitudes and values related to democracy, on the other hand.

Direct evidence against any direct and doctrinally founded link between the Protestant faith and institutional quality can be found also in the experimental literature. A recent meta-study finds little or no evidence for Protestantism, or religion in general, having any decisive impact on the type of behavior that has been found to matter for, or reflect, good institutions, such as trust, cooperation, or altruism (Hoffmann 2013). Apart from offering a substantive blow to the doctrinal argument for Protestantism as beneficial for institutions, this macro-micro divide supports a similar argument that any observed link between the two is likely to be a result of history rather than present aspects of religion (Gokcekus 2008). Overall, as shown in Figure 1 below, the correlation between secularism and control of corruption is positive, that is the more secular the population the lower is the level of corruption. This of course says nothing about any eventual causality between the variables.

Figure 1



Protestantism and Institutional Quality

While we do not question the basic empirical presence of a positive relation between Protestantism and good institutions on the macro level (see Table 1), the aim of this study is instead to imbue it with a more historically and institutionally grounded account than previously offered. Our research strategy has been “to follow the money” by employing a political economy framework of how specific institutional arrangements for financing religion have been developed. Our main argument is that the differences in institutional quality that according to standard measures exist at the macro level should not be explained by the doctrinal content of Protestantism or Islam, but instead on how there institutional arrangements for financing religious practices have been formed. In so doing, we question the causal claim that it was the doctrinal content Protestantism itself that laid the groundwork for subsequent institutional successes, but rather argue that the same features that created positive institutional equilibria made certain places susceptible to Protestantism. It should be added that for the most part, “organized religion” has been an expensive operation. Churches and Mosques have to be built and maintained, religious leaders and “officers” have to be educated and employed, schools for teaching religion have to be created, and so on.

Our aim here is to specify two complementary mechanisms inherent to – and at least partially predating – the Protestant Reformation, which are conducive to high quality institutions: A legacy of transparency and accountability at the local (parish) level, derived from a long-standing tradition of auditing, as well as

a tradition of fiscal capacity. Both auditing and fiscal capacity have been found to matter for institutional quality (Broms 2016; Gustavson and Sundström 2016), and both have a long-standing role in the organization of the Protestant church, since its genesis in the 16th century.

Returning to the parallel with democracy above, this overarching framework has already been employed to explain the gap in democracy between Northwestern Europe, and the states that used to belong to the Ottoman Empire (Rothstein and Broms 2013), and, as we will demonstrate below, the same basic mechanisms apply to an equal extent for institutional quality such for examples as levels of corruption.

Before going through the historical evidence, we begin with a snapshot glance at the cross-country relationship between the focal variables of the study – Protestantism and institutional quality – to investigate how they relate to our proposed mechanisms – auditing quality and fiscal capacity, as well as the cultural and Weberian-economic explanations – on a global level.

First, the sample, which due to data limitations only consists of about half of the world’s states (but, importantly, houses six of its roughly seven billion inhabitants), contains a strong link between countries’ share of Protestants (and Anglicans) and both auditing quality¹ and taxation.² Although the cultural dimension, here defined as generalized trust – among the most cited consequences of non-familism – seems to be supported, the Weberian argument, captured as GDP per capita, fails to reach significance.

Table 1. Protestantism and Institutional Quality

| | (1) | (2) | (3) | (4) |
|------------------------------------------------|---------------------|--------------------|------------|----------------------|
| | Auditing quality | Fiscal capacity | GDP:capita | Generalized trust |
| Protestants & Anglicans, % of population | 0.0142*** | 0.156*** | 0.00754 | 0.00280*** |
| Constant | (0.00374) | (0.0433) | (0.00460) | (0.000842) |
| | 4.537*** | 16.12*** | 9.502*** | 0.227*** |
| | (0.0883) | (0.900) | (0.112) | (0.0148) |
| Observations | 95 | 95 | 95 | 95 |
| R-squared | 0.137 | 0.155 | 0.022 | 0.146 |

*Note. Dependent variable: Transparency Corruption Perception Index 2015.. Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1*

When moving to the second part of the argument (see Table 2), the impact of Protestantism on institutional quality,³ we find strong bivariate links in the expected direction for both Protestantism and its suggested channels of transmissions (with GDP:capita dropped, due to its insignificant link to Protestantism). Interestingly, when the Protestantism - institutions relationship is tested under control for the three remaining mechanisms, its strength, while still significant, is consistently weakened to around half of its bivariate coefficient across all three models. At the same time, the strength of the

¹ Operationalized using an index of auditing and reporting standards issued by the World Economic Forum

² Defined as non-resource taxes per GDP (Prichard, Cobham, and Goodall 2014).

³ For this, we use Transparency International’s Corruption Perceptions Index from 2015

mechanisms only marginally diminishes. In the final estimation, which controls for all three mechanism concurrently, the coefficient for Protestantism approaches zero, and is only weakly significant ($p < 0.1$). Furthermore, both the coefficient and significance for generalized trust diminishes more than both auditing and fiscal capacity (to a third of its size bivariate in the bivariate model, versus over half for the latter; $p < 0.05$).⁴

Table 2. Protestantism, Institutional Quality and Corruption

| | (1) | (2) | (3) | (4) | (6) | (5) | (7) | (8) |
|------------------------------------------|----------------------|---------------------|---------------------|---------------------|----------------------|----------------------|----------------------|---------------------|
| Protestants & Anglicans, % of population | 0.468*** (0.0708) | | | | 0.226*** (0.0729) | 0.244*** (0.0620) | 0.299*** (0.0715) | 0.0930* (0.0514) |
| Auditing quality | | 19.22*** (2.170) | | | 17.04*** (2.296) | | | 11.88*** (2.499) |
| Fiscal capacity | | | 1.674*** (0.191) | | | 1.433*** (0.207) | | 0.867*** (0.135) |
| Generalized trust | | | | 75.73*** (12.11) | | | 60.12*** (12.57) | 25.31** (10.19) |
| Constant | 42.88*** (1.973) | 41.65*** (9.823) | 18.70*** (3.775) | 29.19*** (2.946) | 34.42*** (10.10) | 19.79*** (3.864) | 29.25*** (2.821) | 30.72*** (9.264) |
| Observations | 95 | 95 | 95 | 95 | 95 | 95 | 95 | 95 |
| R-squared | 0.219 | 0.544 | 0.442 | 0.308 | 0.588 | 0.492 | 0.385 | 0.711 |

*Note. Dependent variable: Transparency Corruption Perception Index 2015. Robust standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$*

What to make of these findings? It should be repeated that these regressions make for a somewhat naïve set of analyses that do not take into account the problems of likelihood of omitted variables and endogeneity. However, the findings do suggest that, although the culturally oriented familism-argument may carry some merit, the most powerful channels of transmission for the Protestantism-institutions-nexus appear to lie within the way in which religion were organizationally structured.

The remainder of this study will go deeper into uncovering these mechanisms by looking at historical religious financing in the (eventually) Protestant parts of Northwestern Europe, and showing that this practice already existed during medieval times characterized by accountability, transparency, and effectiveness. Furthermore, for an illuminating contrasting case, we show that these institutional arrangements historically have been organized in a very different manner in the Muslim Ottoman Empire.

Long-term Institutional Legacies

Our main argument is inspired by recent research showing that in some cases, institutional legacies seem to have a very long-term effect. Simply put, how things were organized several hundred years ago seem to have an influence over current practices and behavior. Our argument is that historical institutional

⁴ Multicollinearity, which could make clear distinctions between the separate coefficients difficult, does not present a problem, as the highest VIF-value for the fully controlled model (column 8) is 1.5.

legacies have long-term effects that can help us explain important variation in current measures of, for example, corruption and quality of government. The number of articles pointing at the long term effects of institutional quality or specific policies have been increasing (Nunn 2009, Uslaner and Rothstein 2016). An important starting point for this type of study was an article by Acemoglu et al. (2001) showing that a country's current economic prosperity could be traced back to the existence (or not) of legal institutions for the protection of property rights and the existence of political constraints on personalistic forms of royal power that had been established several centuries back in time (Acemoglu, Johnson and Robinson 2001). Following North (1990) they argued that institutions such as these had an enduring effect as the principles they were built on became somehow ingrained into a country's political-economic system. There are two recently published articles in this line of research that are of particular interest for our argument. The first is by Becker et. al. (2016) and titled "The Empire Is Dead, Long Live the Empire! Long-Run Persistence of Trust and Corruption in the Bureaucracy". It deals with the long-term effects for local communities in Central and Eastern Europe of having been part of the Habsburg Empire that existed from 1521 until 1918. While this empire was a multi-ethnic entity, it was also known for its comparatively well-organized and professional bureaucracy. The Habsburg civil servants were known to be "fairly honest, quite hard-working, and generally high-minded" (p. 47.). Using historical accounts, Becker et. al. add that "the bureaucracy throughout the empire was well respected by the population because of its reliability" (p. 47). In comparison with neighboring states such as the Russian and the Ottoman empires, the Habsburg bureaucracy seems to have achieved a quite a high level of legitimacy among the various populations. The combination of local legitimacy and central control was, according to Becker et. al., established in the following way: "when a new territory fell under Habsburg rule, the Emperor quickly installed a governor who established a rich local bureaucracy that over time was filled with local people who had been sent for administrative training to Vienna" (p. 48).

Since the former Habsburg border cuts right through five different contemporary countries (Montenegro, Poland, Romania, Serbia and Ukraine), Becker et. al. uses this as a "natural experiment" to test the long-term effects of the empire's institutional quality. For appreciating the effects, it should be underlined that the local communities on the two sides of the former border have been sharing a common statehood for several generations, including lengthy periods of Soviet-style communist rule. Their finding is that citizens in these five countries that are now living in local communities that used to belong to the Habsburg Empire have markedly higher trust in their legal institutions (the policy and the courts) and that they are less inclined to be part of corrupt exchanges with public officials. Thus, geographically very close local communities located in the same country but that happen to be on different sides of the long gone Habsburg Empire border, differ markedly in institutional quality and legitimacy even almost a hundred years after the Empire (and its bureaucracy) was dissolved.

Another recent study showing similar long-term effects of institutional variation is by Guiso et. al. (2016) and titled just "Long-term Effects". They find that cities in what is now Italy that managed to achieve self-government back in the Middle Ages have a stronger "civic capital" today than nearby cities that failed to become independent. One measure they use is the number of voluntary associations which is 25% higher in cities that had substantial periods of independence compared to those that did not. They can also use history as a "natural experiment" because while most such cities were located in the Central and Northern parts of the country, not all cities there managed to become independent over longer periods. Their argument is that the "self-efficacy" that was generated by having to establish and manage their own affairs independently of feudal lords has created social trust and forms of behavior that they define as "civil capital".

Our argument follows in the same direction as the research discussed above. In brief, we argue that it is not the specific content or message in Protestantism and Islam that explains the variation in institutional quality that we have pointed at. Instead, it is how the local systems for financing and administrating religious affairs have been institutionalized.

North-Western Europe: The Importance of Local Communalism

Much of the historical analysis of the development in Northwestern Europe from the middle-ages and until industrialization has been focused on conflicts between states. One of the most famous theses put forward is Charles Tilly's theory formulated as "war made the state and the state made war" (Tilly 1992). The central idea is that war and preparation for war involved rulers in extracting the means of war from others who held the essential resources — men, arms, supplies, or money to buy them — and who were reluctant to surrender them without strong pressure or compensation. Within limits set by the demands and rewards of other states, extraction and struggle over the means of war created the central organizational structure of states. Following this, Levi (1988) has shown that states that could produce legitimate forms of taxation, what she calls "quasi-voluntary compliance" had a greater chance to survive. This should be seen in the context that around 1600, there were some 300+ political entities in Europe of which only around 40 remains. Being able to extract resources for war was thus essential. One factor that according to Levi could increase citizens compliance to pay taxes was if the system of taxation was constructed so that it created a sense among the population that the bargain between the citizen and state was fair — that the citizens had reason to believe that the state was providing sufficient public goods (such a physical security and protection of property) in return for his payments, and that the burden for the state's activities fell on the citizenry in a somewhat equitable way. Systemic corruption in the state organization and especially in the tax administration would of course undermine this capability to create legitimacy.

Our aim here is not to contest these theories, but to shed light on another dimension of institution building that has so far, to our knowledge, been completely neglected among political scientists and economists venturing into this research area. We base this on the work by the Swiss historian Peter Blicke and his theory about the importance of communalism for understanding the political and social development in Europe during this period. Blicke and his followers in this historical school have investigated the role of local pre-democratic structures for financing and handling public goods in Western Europe from the 15th to the 17th centuries (Aronsson 1992a, Aronsson 1992b, Blicke and Müller-Luckner 1996, Blicke 1997, Blicke, Ellis and Österberg 1997, Blicke 2000). Largely, communalism is defined as the capacity of a town or village to take charge of and promote its common interests against the feudal hierarchy. This capacity was based on the commune's power to manage its economic, religious and social affairs by establishing local institutions and rules, including forms for handling transgressions of such rules. Moreover, the enactment of this local regulatory authority did not, according to Blicke, depend on any lordly consent, which would have been antithetical to the commune's claim to assert its own interests and demand for autonomy. Communalism thus stands as an alternative to feudalism and absolutism that has dominated much historical research of politics and power in Europe during this period.

The most important political structure of these communal arrangements, which according to Blicke had the same basic form in towns and country villages, was the communal or parish assembly, usually an annual meeting with all the householders. This was a proto-democratic structure in which participants had to deliberate and decide upon issues that affected the entire commune and, important for this analysis, decide about local fees and taxes. Five features of this type of local governance are emphasized by Blicke. One is the idea of egalitarianism in the assembly represented by the practice of one vote per

household irrespectively of the economic standing. The second is the notion of the existence of “a common good” in these communities. The third is the idea to elect representatives for managing this often fairly large sets of “common goods”, and the fourth is that these representatives should be held accountable for how they handled economic resources and implemented the locally decided rules and regulations. For this, a fifth principle was that for accountability to be possible, transparency in these local “public affairs” was needed.

According to this research approach, after the reformation, in non-Catholic areas it became very common that these local communal institutions managed to conquer considerable political power and not least power over the clergy. As Kümin (1996, p. 11) states regarding the situation in the 16th century: "Having achieved a strong political and legal position, many rural and urban communities in Central Europe began to supervise the moral life of their clergy, to administer parish funds, ... political and religious power was anything but a monopoly of traditional feudal elites." In his monumental study about the history of the English parishes, Pound (2000, p. 181) states that “the priest had the cure of souls, but the care of material things rested with elected members of the community”. He adds that in England the parishioners and their elected church wardens “were in secular matters responsible only to the justices for any infringement of common or statute law”. Pound adds that while the parishes were not democratic in a modern sense, they were real instances of local self-government. A detailed study of three local parishes in Sweden during the 16th and 17th centuries reveals that the commoners could exercise a considerable amount of self-governing, not only in ecclesiastical affairs but in many other non-religious areas as well. This study points at the connection between control of the economic resources “from below” and power over the church practices:

The material responsibility for the church, the vicarage, and the parish treasury, gave the peasants a material advantage which could be transformed in part into an ideological resource... the popular view of what constituted good cultic practice and good divine services could be formulated with a greater degree of legitimacy (Aronsson, 1992a, p. 347)

It should be added that in general the parishes were not used as local organization for implementing policies or for the collection of taxes as an agent for the aristocracy or the central state. Tax collection for the central state was in general carried out by separate administrative entities (Cederholm 2007, p. 346). Moreover, the elected churchwardens in England could be sworn in when the Bishops made their visitations, but “ecclesiastical officials had no authority to refuse or dismiss them. Their principal loyalty was to their community, not the Church” (Kümin, 1996, p. 29)

What seems to have characterized the forms of decisions at the parish assembly meetings was a strong emphasis on reaching consensus and to view the goods that the parish had responsibility for as “common goods”. Both in the English and the Swedish case as well as in the areas in Continental Europe covered by Blickle’s studies, there seem to have been very little of “politics as interest struggle” within the parishes and other communal local assemblies (Aronsson, 1992a; cf. Cederholm, 2007, p. 546; Kümin 1996). Instead, it seems as if the type of politics resemble what is described by Elinor Ostrom (1990) in her analyses of modern day local communities trying to “govern the commons”. However, this local consensus for the common good type of politics did in many instances give rise to a vertical type of conflict between the local communal bodies vis-à-vis the central church as well as the feudal lords (Cederholm, 2007; Blickle, 2000).

Aronsson (1992a) also underlines that during the 18th century, the area of responsibility for the local parishes in Sweden started to grow. A number of secular responsibilities came under the jurisdiction of

local communal board such as care for the destitute, the establishment of public schools, local systems for credit and insurance and infrastructure. The same is true for the English parishes, although it seems to have come about earlier, namely that the parishes extended their responsibilities to things like the “maintenance of roads and bridges, the relief of the poor and the preservation of public order” (French, Gibbs and Kümin 1997, cf. French 2001, Pounds 2000, p. 201). From the beginning of the 17th century, managing poor relief became a heavy responsibility for the locally elected officeholders in the parishes who had to collect special taxes for this purpose and, not least, distribute the relief and by this deciding who was eligible and if deemed eligible, how much they should be given according to (their interpretation of) the rules (Pounds 2000, French 2001, Hindle 2004, pp. 296-298)

Regarding the positions of church warden and members of the parish council, in Sweden these positions circulated so that over a decade, almost every landholding peasant had been an elected representative (Aronsson, 1992a, p. 309). In a similar manner, studies of the structure of the English parishes show that the central position of church warden in practice circulated among “ordinary people” and that it was customary that no one could have the position for more than two years. Although the position could carry quite large economic and administrative responsibilities, churchwardens in England represented a surprisingly wide spectrum of the social strata such as bakers, blacksmiths, butchers, shop-keepers, tailors and carpenters (Kümin, 1996, p. 30). People from the gentry rarely appeared but it should be noted that on some rare occasions women could be elected a warden (Pounds, 2000, p. 234). What is most interesting from the perspective of institutional quality is that this system came with three “devices” that all are central to the idea of “clean government”. One was the principle of *separation* between “public money” and “private money”. Although they could probably not read and write, the churchwardens managed to carry out rudimentary book-keeping to make clear how they had handled the resources entrusted to them. Secondly, *transparency* was established by the combination of book-keeping and making the books public for the members of the parish. “Accounts were presented annually to the gathered parishioners” writes Pounds (2000, p. 181). Thirdly, *auditing* was established by inspection both from below by the members of the parish and from above by the bishops or archdeacons.

For reason of space, we will concentrate our empirical case to the situation in the English parishes. The first thing to note is that the elected church wardens came to control substantial amounts of money and other resources. As Kümin tells it:

the wardens administered, bought, and sold property, organized collections of certain feasts, lent out money and various church goods, received testamentary bequests and contributions by local guilds, staged entertainments, and demanded fees for bell ringing or burial, while spending money on church maintenance, ornaments, salaries, subsidies, bridge-building, legal matters, priests and ceremonies (Kümin, 1996, p. 29).

There is thus no doubt that the economic resources that could be entrusted to a church warden were substantial. Moreover, as a rule church wardens kept a strict separation between their private money and the communal resources they were elected to administer. The idea that there should be a separation between “private” and “public” goods was thus institutionalized through this communal system for financing religion. Several historians have pointed out how remarkably detailed and to the minute the accounts were kept, not least considering that this was before literacy was common among the English commoners (Pounds, 2000, p. 229; Kümin, 1996, p. 221, see also French, 2001). These institutional practices stand in a stark contrast to the ‘accounting of conscience’ in the Waqf-system in the Ottoman Empire that we will present below. Moreover, in the parishes audit regulations were strict

making the church wardens accountable to those who had elected them. At the yearly parish assembly, all accounts and receipts were scrutinized, the “audit day was an opportunity for the parish assembly to exercise its sovereignty” (Kümin, 1996, p. 30). To this, one should add the visitations by the Bishops and Archdeacons. The original Greek word for Bishop *episkopoi*, literally means “overseer”.

The Ottoman Empire: The Privatization of Religious Institutions

In the Ottoman Empire, local public goods provision and the bulk of its financing was also for long a matter in which the state played a marginal role. Here, however, end the similarities with Northwestern Europe. The Ottoman system of public goods provision and taxation was during the lion’s share of its existence dominated by two institutions: Through the Waqf-system, wealthy individuals funded education, infrastructure, and poverty relief by setting up *private* foundations, Waqfs (in Turkish, *Vakif*), while tax-raising was usually outsourced by so called tax-farming. Although both charitable foundations and tax farming clearly have not been unique to the Ottomans, their extent vastly overshadows the areas in North-Western Europe that came to adopt Protestantism. So, we argue, do the long-term consequences for institutional quality.

We begin with the system of the Waqf, which was, and still is, an ostensibly private charitable foundation, popular throughout the Middle East. It could either explicitly function to benefit a single family or the local community at large. Its origins are unclear, but, analogous to the North-Western-style of local communalism, predates Islam as a religion; the practice has been found in the Byzantine Empire, and already the Prophet Mohammed recommended it. Many sources have noted its economic and social importance to Ottoman society, to the point that one could easily label it a veritable “Waqf-fare state” (Rothstein & Broms 2013). As Yediyıldız (in Kuran 2001, p. 851) describes:

thanks to the prodigious development of the waqf institution, a person could be born in a house belonging to a waqf, sleep in a cradle of that waqf and fill up on its food, receive instruction through waqf-owned books, become a teacher in a waqf school, draw a waqf financed salary, and, at his death, be placed in a waqf- provided coffin for burial in a waqf cemetery. In short, it was possible to meet all one's needs through goods and services immobilized as waqf.

A full account of this long-lived institution would be too expansive for the confines of this study. Still, when studying its foundational principles, a few central features stand out: First, as mentioned, the system was decidedly non-official in nature, but, importantly, private, rather than communal. Patrons, whose incentives ranged from charitable, wealth-protecting, or political, tended to be wealthy individuals with local or Empire-wide influence. Notably, while founders could, and often did, hold official positions within the Empire, such as Caliph and Sultan, they founded Waqfs as private individuals (Makdisi 1981).

Second, Waqfs were at once flexible and rigid. Founders had considerable power to initially stipulate what the foundations should do, how they should be run, and, in the example of educational institutions, what should be taught (Makdisi 1981). In combination with the private nature of the donations, this discretion allowed patrons to extend their power “far beyond what they could achieve through the formal frameworks of power that were under their hand” (Peri 1992, p. 174). They also had the power to appoint a *Mutawalli*, or caretaker, tasked with upholding the founding principles of the foundation and its upkeep. This position often went to a member of the founder’s own family and often subsequently inherited to a relative, bolstering a dynastic power dynamic. Once the rules governing the Waqf were set, they were very hard to change, illustrated by its loose translation as “forbidding movement,

transport or exchange of something" (Raissouni 2001). Nevertheless, since the initial rules were often ambiguous, the Mutawalli would have considerable leeway in their interpretation.

Third, as a natural consequence of the private nature, and the extensive power left to the caretaker, the institution was characterized by low accountability and transparency, both downward to its beneficiaries and upward to the state. As Baer (1997, p. 270) notes,

A charitable or religious institution, or "the poor" for that matter, had little power over the family administrator, and recurrent government attempts to impose such control failed completely until the middle of the twentieth century, not least of all because the provisions established in waqfiyyat [*founding deeds*] were often ambiguous. Administrators also were able to provide members of their family with material advantages deriving from the waqf, such as the perpetual lease of waqf property.

What resulted from this privatized, opaque, and formally rigid but, in reality, flexible system of governance was an institution ripe with direct opportunities for graft and corruption. Furthermore, we argue that the indirect effects may have been even more detrimental for long-term institutional quality. First, for the state itself, the system can probably best be described as characterized by rentierism, as it both unburdened the state with providing public services, which would have required an extensive bureaucratic apparatus and the development of state capacity in general, and allowed for private actors to gain considerable influence over what we today would consider public affairs. Second, it clearly lacked the civically enhancing features of the communal system, a legacy that the Ottoman system grappled with until its demise (Kuran 2001, p. 842; Mardin 1969, p. 265). In the end, as Bernard Lewis (1998, p. 96) notes,

The introduction of the European practice of conscription in the early nineteenth century brought both peasants and townsfolk, for the first time, into close and continued relationship with the state, for the first time and with those who exercised state authority. Previously, their direct experience of the state authority had been limited to the collection of taxes and the enforcement of law. Both of these demanded obedience. Neither of them required or inspired any sentiment of loyalty.

Besides further illustrating the state's absence in the lives of ordinary Ottomans during the better part of the Empire's existence, this quote brings us to other side of the public finance coin: Taxation. Despite Lewis's claims that this was one of the few areas where the Ottoman state took an active role, historical evidence clearly shows that this was not the case. Rather, mirroring the way it handled public goods provision, the Empire made extensive use of outsourcing tax collection through the practice of tax farming. Although the practice is known to have existed throughout the world – including in Northwestern Europe – the Ottoman system of tax farming was unusually widespread, including being used for direct taxes on individuals, such as tithes and land taxes, and lasted much longer (Barkey 2008; Findley 1980, p. 310). Just like the Waqf-fare state was a natural part of peoples' lives in the Empire, "tax-farming dominated the life of the Muslims for more than one thousand years in a geographical dimension stretching from the Atlantic to the Indian Ocean" (Çizakça 1989, p.76). Accordingly, its institutional effects are most reminiscent of those we saw stemming from the Waqf system:

First, tax farming is by its very nature a private enterprise, and the type of people engaging in tax farming are very similar to Waqf founders. Just like the latter removed the state from the public goods game, the former would stand in the way of the type of bargaining (Levi 1988) and construction of a fiscal contract

(Timmons 2005) between ruler and ruled. For example, Kasaba (1988, p. 66) describes the collection of agricultural taxes in the Empire as “a relationship between the tax farmer and the cultivator in which the government intervened only ineffectually and sporadically.”

Second, this relinquishing of state control of tax collection led to a system where individual tax farmers, who throughout world history have been famously unpopular among citizens (Kiser 2008), wielded much discretion and in time gained political and social prominence. As Lewis (1961, p. 440) himself writes, decades before the quote above:

The economic and social power derived from the permanent local control of tax-farms and leases produced a new propertied, influential class in the provinces, which soon began to play a prominent part in local affairs. This class interposed itself between the government and the peasantry, and intercepted much of the revenue. In theory they only held possession as lessees or tax-farmers, but as the government, through growing weakness, lost control of the provinces, these new landowners were able to increase both the extent of their holdings and the security of their tenure. In the seventeenth and eighteenth centuries they even began to usurp some of the functions of government.

Not only did tax farmers hold influence on citizens, but with their wealth, they often also functioned as creditors to the state (Çizakça 1989; Ma 2003), further increasing their standing.

Third, the outsourcing of tax collection further unburdened the state from developing a strong tax administration (Fleet 2003), a situation which, again, is most reminiscent of a rentier state that can avoid the laborious work of surveying and administering revenues from its territory, and still fill its coffers.

In sum, we posit that a plethora of historical research provides ample evidence that the Ottoman dual system of private actors taking care of both public output (Waqf) and input (tax farming) both stifled the development of a local publicly oriented civic community, and also state capacity. Attesting to the former consequence, the non-clerical municipality as an organizational form was only set up during the waning days of the Ottoman Empire, and only in certain areas (Kuran 2001, p. 842). To illustrate the latter, between 1500 and 1800 – a period when the Empire variably belonged to the world’s most dominant polities, the income-adjusted tax burden on Ottomans (Karaman and Pamuk 2013) was leagues behind that of its European contemporaries, but rather comparable to the levels of the least-taxed British colonies in the early 20th century, such as the similarly indirectly governed Nigeria or Sierra Leone (Frankema 2010). As a long-term result, this system effectively hindered the development of the most central features of institutional quality, from transparency, through corruption, to government effectiveness.

Conclusions

Our main result is that the differences in institutional quality between countries dominated by Protestantism and those dominated by other religions that we today can observe may not be caused by the variation in the religious doctrines or their implications for the culture of these societies. Instead, we point at the historical legacies of local institutional arrangements for how religious practices have been funded. Here, we can show distinctive differences between our two cases, the local parish system in Protestantism in Northwestern Europe and the Waqf-system in the Ottoman Empire. For reasons of space we have not included the Catholic Church, but our impression is that it fits very well with our analysis. Firstly, while the Catholic Church does have some laymen influence at the local level, this is much weaker than in the various Protestant and Anglican churches (Coriden 1997). Secondly, regions in the world dominated by the Catholic church have according to available measures lower quality of

government. Thus, on both accounts, our impression is that Catholicism is an “in between case” that fits our argument.

Compared to the two other approaches about the effect of long-term institutional legacies that we presented (the effect of having belonged to the Habsburg Empire and the effect of having been a self-government city in Italy), we argue that our analysis gives a somewhat more precise account of which features of the institutions that historically have been important for the creation of institutional quality. The requirements for accountability, transparency and separation of private and public money that the church wardens had to fulfill are in principle not different from what nowadays is seen as “good governance” by, for example, institutions such as the World Bank.

Lastly, we do not think of our analysis as an argument for historically determined path-dependence. While the historical record is important for understanding the present situation, our analysis does not necessarily point in the direction that the quality of a country’s government institutions is historically determined. From a policy perspective, and following Nobel Laureate Elinor Ostrom’s work (1990) we think that our argument can also be used for strengthening the importance of designing institutions for self-government of public goods at the local level.

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