
Islam and the Institutions of a Free Society

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It has often been claimed that Islam threatens the values and institutions of free societies. The brutal destruction of the World Trade Center and part of the Pentagon—two foremost symbols of the West—on September 11, 2001, seemed to vindicate Samuel Huntington’s (1997) prediction of a “clash of civilizations”: terrorists who claim to act in the name of Allah are now fighting a war against the West. Islamist extremists who disdain Western freedoms have succeeded in constraining civil rights in many countries, including the United States. The findings of a May 2003 opinion poll carried out by the Pew Research Center for the People and the Press (2003) seem to provide further evidence in favor of Huntington’s thesis. When Muslims in the area under the control of the Palestinian Authority were asked whether they have “a lot” or “some” confidence in certain leaders’ ability to do the right thing regarding world affairs, 71 percent declared their confidence in Osama bin Laden. Indonesians ranked bin Laden third (58 percent) and ranked Arafat (68 percent) and Abdallah (the Jordanian king, 66 percent) first and second, respectively. Bin Laden also got very high confidence ratings in Jordan (55 percent), Morocco (49 percent), and Pakistan (45 percent).

Whether Islamic values are compatible with the institutions of free societies is relevant most importantly for the future of Muslim countries. Yet it is also of immense practical relevance for the West, which has received substantial numbers of immigrants from Muslim countries. How should the West deal with them? How can Westerners be liberal in their immigration policies but protective of their values at the same time? Turkey’s accession to the European Union (EU) raises related questions. Is the EU

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united by a common core of values that preclude Turkey's inclusion? The United States and the United Kingdom are currently attempting to establish democracy in Iraq subsequent to military intervention. If the values of Islam are incompatible with democracy, are their efforts likely to fail?

I cannot deal thoroughly with all these questions here. In this article, I concentrate on whether the institutions of a free society are compatible with the values of Islam. First, I take up the relationship between values and institutions, identifying the institutions at the base of a free society and the values that might have fostered the emergence of those institutions. Next, I probe Muslim values, specifically "economic ethics," for their compatibility with the basic institutions of a free society. I then focus on another indicator—namely, opinion polls containing questions that reveal prevalent Muslim values. Finally, I consider the prospects of successfully establishing democracy in Muslim countries such as Afghanistan and Iraq.

The Values and Institutions of a Free Society

What do we mean by *values* and *institutions*? *Values* are "conceptions of the desirable, influencing selective behavior" ("Values," *International Encyclopedia of the Social Sciences*). A cluster of values constitutes a value system. Shared values imply shared conceptions of the desirable. In order to share conceptions of the desirable, of what ought to be, the group that shares those conceptions must also have achieved some shared perception of what is.¹ *Institutions* I define here as commonly known rules used to structure recurring interactions and coupled with a sanctioning mechanism whose use will be threatened in case of noncompliance. We may distinguish various kinds of institutions according to their relevant sanctioning mechanisms: some rules are enforced by representatives of the state and are called *external institutions* here. Other rules are enforced by mechanisms that work without resort to the state—such as, for example, through their effect on reputation—and are called *internal institutions* here.²

I presume that the values shared by most members of a society will be reflected in the society's institutions, which in turn will determine its prospects for economic growth and its political expression.³ The hypothesis that "institutions matter" has received widespread attention in recent years. Empirical studies show no clear-cut cor-

1. Because values influence a person's selective behavior, it follows that in a certain situation a person who has internalized a value will consider only so many different possible ways to act and will exclude other possible ways from the outset. If a second person who shares the same value acts in one of the ways excluded by the first person, then he must have perceived a different situation. I therefore assume that shared values imply not only shared normative conceptions, but also shared cognitive perceptions.

2. For a more precise taxonomy of institutions, see Voigt and Kiwit 1998.

3. This does not exclude the possibility that institutions can have an influence on the values and norms held by the members of a society. It is conjectured here, however, that whereas formal institutions can be changed overnight (for example, by colonizers), values and norms are much "stickier" and thus subject only to slow change. Moreover, values and internal institutions are not the only determinant of external institutions, and those institutions, in turn, are not the only determinants of economic development.

relation between democracy and growth (Przeworski and Limongi 1993), but they do show that basic civil and economic rights foster economic growth (see Berggren 2003 and Roll and Talbott 2001 for recent overviews). If my hypothesis is correct, it is necessary to identify the values and norms shared by most members of a society in order to understand its economic performance, which will be mediated by the prevailing internal and external institutions.

The values held by the members of a society should have a decisive influence on its internal institutions because those values contain information on what is right and what is wrong in that society. If someone does not act in accordance with the values, he might be punished. Punishment by other members of society (not by the state) after a rule is broken is evidence of the existence of internal institutions. The connection between values and internal institutions is thus straightforward.

Do the values held by the members of a society also determine its external institutions? The claim that any legislator is restricted by his constituents' values received its classic statement from David Hume: "It is therefore, on opinion only that government is founded; and this maxim extends to the most despotic and most military governments, as well as to the most free and most popular" ([1777] 1985, 32). If any legislator—democratic or otherwise—deviates too much from the value system of the governed society, opposition will organize and increase the odds of the legislator's violent overthrow. To ensure that violations of newly enacted legislation will be prosecuted, the government has to assure itself of the loyalty of the police and the military. If newly enacted legislation clashes with the shared value system, however, violations will increase, making their prosecution more costly or even impossible, and police forces, thus overwhelmed, may lose their desire to pursue the violators.⁴

What is the connection between internal and external institutions? It has been argued (for example, in Voigt and Kiwit 1998) that many internal institutions are stable and not subject to deliberate change. Because incompatibilities between internal and external institutions greatly increase the cost of governing, the formal (external) institutions that can be set and modified by political will should not be completely at odds with the prevalent informal (internal) institutions.⁵ This last argument deals more with the

4. Hayek makes a similar argument, maintaining that "a group of men can form a society capable of making laws because they already share common beliefs which make discussion and persuasion possible and to which the articulated rules must conform in order to be accepted as legitimate" (1960, 181). In order to agree on some set of formal institutions, the people who are to be governed by them need to share some values and beliefs.

5. Tyler (1990; Tyler and Huo 2002) has argued repeatedly that two cases through which law can become especially effective should be distinguished: (1) if the law is in alignment with preexisting morality—this is the case I have just described as the congruence between internal and external institutions; and (2) if some citizens regard lawmakers as moral authorities, or if citizens believe that the law as such deserves respect. Here, the relationship between internal and external institutions would be turned on its head: citizens modify at least part of their moral convictions because the law is changed or because the lawmakers are seen as representing some higher form of moral authority. The empirical relevance of this second case seems doubtful. Were it to exist on a broad scale, it would provide incentives for lawmakers to misuse the trust that many citizens have in them. Democracy does seem sustainable, however, if a major part of the citizenry believes that the law deserves respect *and that laws in general are passed using procedures deemed to be fair or just*.

“ought” than with the “is,” yet it also shows that incompatibilities between shared values and formal institutions make governing very costly—at the margin, prohibitively so.

Consider now the core institutions at the base of free societies—namely, (1) the rule of law, (2) constitutional democracy, and (3) a market economy.⁶ These institutions can function successfully only if a society’s underlying values are for the most part compatible with them.

The Rule of Law

The most important trait of the rule of law is that the law applies equally to all persons (*isonomia*), government leaders included—hence, so-called government under the law. No power used by government is arbitrary; all power is limited. As urged by Immanuel Kant ([1797] 1995), laws should fulfill the criterion of universalizability, which has been interpreted to mean that the law should be: *general* (applicable to an unforeseeable number of persons and circumstances); *abstract* (not prescribing a certain behavior, but simply proscribing a finite number of actions); *certain* (so that anyone interested in discovering whether a specific behavior will be legal can do so with a fairly high chance of being correct and furthermore can expect that today’s rules will remain in effect tomorrow); and *justifiable* in rational discourse between any persons.

A number of institutional provisions typically support the rule of law. Among the most important are the separation of powers; the prohibition of retroactive legislation; the prohibition of expropriation without just compensation; habeas corpus; and other procedural devices, such as protection of confidence, the principle of the least disruptive intervention, the principle of proportionality, and the like.⁷

By necessity, the rule of law implies a market economy (secure private-property rights and the freedom of contract) because decisions by the government about who is to produce what in what quantities and so forth cannot be subsumed under general rules, but imply the arbitrary discrimination between persons (Hayek 1960, 227). Individual liberty is exempt from arbitrary interference by government—or by other powerful groups—only if it is secured by an effectively enforced rule of law. Logically, a rule-of-law constitution does not imply that the political system must be democratic. Hence, we deal separately with constitutional democracy.

6. Each of these three concepts is composed of dozens of institutions as just defined. For brevity, I simply call these concepts together *institutions*.

7. A “perfect” or “complete” rule of law has probably never been realized empirically. The rule of law should be understood as an ideal in the sense proposed by Max Weber ([1922] 1947). That is, it should be understood as an *ideal* type that abstracts from many characteristics found in reality. In order to make realized types (those found in reality) comparable, ideal types provide criteria for comparison.

Constitutional Democracy

Closely related to the rule of law is the concept of constitutionalism, which was developed primarily by colonists in the British North American colonies. It links the rule of law with the notion of a written constitution in which the basic procedures that government is to use are laid down. Constitutionalism is thus a normative concept not to be confused with the de facto constitution used by any society that has achieved a minimum amount of order to produce and finance public goods.

A constitution can be defined as the rules that establish how a society makes decisions about the provision and financing of public goods. Democracies are called constitutional if the domains to which majoritarian procedures may be applied are limited. A democratic constitution contains specific procedures for the selection (and the replacement) of those who are to make decisions about the provision of public goods and who are to wield the power to tax—decisions applying even to those who do not favor the specific bundle of public goods to be provided.

Market Economy

Market economies are based on a specific idea about the role of the individual: the individual is the only “unit” that can think and act responsibly and that is capable of pursuing goals responsibly. This idea is often subsumed under the heading of “methodological individualism.” Market economies also rest on the presumption of (individual) freedom in the sense of “a condition ... in which all are allowed to use their knowledge for their purposes, restrained only by rules of just conduct of universal application” (Hayek 1973, 55). These concepts form the basis for guaranteeing private autonomy, which in the economic sphere translates into the freedom to contract. The freedom to contract makes sense only if private property is secure and widely respected. Furthermore, the freedom to contract can enhance overall welfare only if contracts voluntarily entered into are adhered to subsequently. Thus, we have arrived at Hume’s three fundamental laws of culture: “the stability of possession, of its transference by consent, and the performance of promises” ([1740] 1978, 526). The provisions mentioned previously can be said to solve the problem of who has the *competence* to decide the use of factors and goods in a market economy.

The *coordination* of individual plans that most likely will not be compatible with each other ex ante is brought about by competition and the price system. If the questions concerning competence are answered as just outlined, competition cannot be used as an instrument to achieve specific goals defined by a central authority, but must be modeled as an open process whose specific results are systematically unpredictable. This trait is best captured by the title of Hayek’s 1978 essay “Competition as a Discovery Procedure.” This understanding of competition also indicates that competition helps market actors to discover new knowledge—for example, in the form of technical progress. If innovations are successful, they most likely will draw some demand away

from competing suppliers, which may lead to a certain devaluation of their property rights. The existence—and acceptance—of such pecuniary externalities is a necessary condition for sustained economic growth.

The functions of competition, however, do not stop here. If a similar product is offered by more than one supplier or if there is even the possibility of new entrants into the market, the probability of substitution gives buyers more power over suppliers. The permanent threat that suppliers will be negatively sanctioned by consumers, including the threat of being forced out of the market entirely, produces positive incentives for suppliers. When property rights enable entrepreneurs to appropriate the profits from their economic activities, entrepreneurs have every reason to behave innovatively.

Islam and the Values and Institutions of a Free Society

The Core Institutions in the Islamic World

Let us now consider whether Islamic values are compatible with the institutions of a free society. Because the argument is that values determine the nature of institutions, which in turn determine economic outcomes, I begin with a quick look at economic outcomes, working back to examine the three core institutions of free societies as they are currently realized in the Islamic world. Only if their realization there differs significantly from their realization in other parts of the world *and* the differences can be explained by the prevalence of Islamic values does it make sense to ask the more fundamental question of how Islamic values produce this result.

The United Nations Development Program (UNDP) *Arab Human Development Report 2002* covers twenty-two Muslim countries in the Middle East and North Africa, the core of the Arab world.⁸ Its authors observe that the “sensitivity to oil markets, the low efficiency of physical capital, and poor labor productivity resulted in fluctuating performance and, during the 1980s, a period of quasi-stagnation” (2002, 85). The combined gross domestic product (GDP) of all these Arab countries in 1999 amounted to \$531.2 billion, or less than that of Spain alone (\$595.5 billion).

To describe our three core institutions in the Islamic world, we first must delineate the Islamic world. All countries in which adherents of Islam form a relative majority in comparison with the followers of other religions are coded as Islamic, which gives us forty-seven Muslim countries with a population in excess of 1.1 billion. To proxy for the rule of law, we draw on the respective variable in Gwartney, Lawson, and Samida (2002), which is coded from 0 to 10, with higher scores indicating greater

8. Arabs were originally people from the Arabian Peninsula. Today, the term is used for those who speak the Arabic language. In line with this delineation, the report includes neither Turkey nor Iran. Other Muslim countries not covered by the report include former Soviet republics and the Asian Muslim countries (Afghanistan, Pakistan, Brunei, Malaysia, Indonesia). These countries are, however, included in my own calculations given later.

degrees of presence of an institution. The variable asks (1) whether legal institutions support the principles of the rule of law and (2) whether access to a nondiscriminatory judiciary is safeguarded. The mean value for the Islamic countries is 4.88; the mean value for the entire sample (that is, for all sampled countries together, including the Islamic countries) is 5.79.

Constitutional democracy has often been proxied by the “political rights” and the “civil rights” variables reported by Freedom House (2001). In this scheme, political rights pertain primarily to the right of all adults to vote and to compete for public office, whereas civil liberties have to do with the right to express oneself freely, to organize, and to demonstrate. Countries are coded as realizing those rights from 1 (best score) to 7 (worst). The mean for Muslim countries for political rights is 5.24, that for civil rights 4.79. Again, the mean values for the entire sample are significantly better than for Muslim countries (3.28 and 3.49, respectively).⁹

Finally, the degree of market economy is measured here by the composite index of Gwartney, Lawson, and Samida (2002), again coded from 0 (worst) to 10 (best), which covers twenty-one criteria in areas such as freedom to trade internationally; regulation of credit, labor, and business; and access to sound money. The mean of the Islamic countries (5.70) is, again, worse than the mean for the entire sample (6.32). This exercise might be extended to more specific issues such as press freedom or corruption, but the results are always similar, so I refrain from reporting them. That Muslim countries score on average worse than the world as a whole is not really surprising, but it does not prove that Islam causes these differences. Therefore, we must now consider whether the presence of Islam as an independent variable drives these outcomes.

Robert Barro (1999) has analyzed the determinants of democracy using the Freedom House measures just presented. It turns out that higher income makes democracy more likely, as do more years of primary schooling, a low gap between the amount of primary schooling for males and females, and not being an important oil exporter. The last two variables have special relevance in our context: it might be argued that Islamic values do not induce the low democracy scores, but rather the vast oil reserves of the Arabic countries or the substantial gaps between the extent of primary schooling for males and females. Yet even if these two variables are controlled for, the Islam variable remains highly significant as a variable that deters a country from becoming democratic. Michael Ross (2001) presents similar results after controlling for even more other variables. We can be fairly certain, therefore, that Islam has a significantly negative impact on the level of democracy to be found in a country. Unfortunately, studies of Islam’s effect on the rule of law and market economies comparable to the two studies just cited are not available, but because democracy’s correlation with the rule of law or constitutional democracy is high, it appears safe to expect similar results in such studies.

9. Readers who are skeptical of numbers may prefer the evaluation by Brown: “The Arab world has grown rich in constitutions but poorer in constitutionalism over the past century” (2003, 41).

The Rule of Law and Islamic Values

Many Islam experts have claimed that Islamic values are not the root cause of Muslim countries' unsatisfactory political and economic performance. Some have claimed that the economic ethics of the Qur'an are compatible with a social market economy (Ghaussy 1986; Nienhaus 2003). Bernard Lewis (2002) has observed that government elites in the Muslim world have emerged in spite of Islam and not as part of it, and Rodinson (1971) has even claimed that colonization caused the lack of capitalism in the Muslim world.¹⁰ Contrary to those evaluations, I argue here that compelling reasons exist to suppose that Islamic values are a central cause of the poor economic performance of Muslim countries.

In this section, I analyze the "economic ethics" of Islam and Islam's effects on the three central institutions identified earlier. Max Weber delineates *economic ethics* as "not the ethical theory of theological compendia ... but the practical impulses for action that are based on the psychological and pragmatic connections of the religion" ([1921] 1980, 238). I use Weber's delineation here.

As noted previously, one key trait of the rule of law is that all persons are treated equally (*isonomia*). If the values that a religion promotes dictate otherwise, the concept of the rule of law may become or remain alien to those who hold such values. Since Islam's inception, three social inequalities have been not only sanctioned, but "sanctified by holy writ" (Lewis 2002, 83): the relationship between master and slave, the relationship between man and woman, and the relationship between believer and unbeliever (the latter is referred to as *dhimmi*; on its history, see Berkey 2003, especially chap. 10). It is not difficult to find these sanctified inequalities manifested in the institutions of many Muslim states to this very day. Although slavery was officially abolished in Yemen and Saudi Arabia in 1962, it has been restored in some Muslim countries.¹¹ The differential treatment of men and women is not constrained to internal institutions, but includes legal sanctions in many states: many of women's legal entitlements, often including voting rights, differ from men's. The third sanctified inequality plays a role in these countries, too: the Shari'ah, or Muslim law, does not apply to nonbelievers.¹²

The rule of law and constitutional democracy mean restricted government. Restrictions on government are achievable only if many members of society share individualistic notions—that is, if they view individuals as autonomous in setting their

10. Because not all Muslim countries were colonies, those that were not should be better off according to this line of argument, but they are not. Inversely, not all countries that used to be colonies are as bad off as former colonies in the Arab world, which suggests that Islam and its behavioral consequences may be a relevant determinant. Barro (1999) checked whether having been a colony changed the likelihood of being democratic today. None of the dummy variables turned out to be statistically significant.

11. Estimates of the number of slaves currently held in North Africa range from ninety thousand to three hundred thousand (Villanueva 2001).

12. This distinction concerning individual inhabitants of a country also gives rise to a fundamental distinction between "good" and "bad" countries—namely, between countries that belong to the Islamic world (*dar al-Islam*) and those that do not (*dar al-harb*). In Muslim fundamentalists' view, jihad must be fought against *dar al-harb* until a single world, that of Islam, has emerged.

own goals and not as merely instrumental for the attainment of collective goals. If such individualistic notions are not shared, however, there is no longer an imperative to endow the individual with negative rights vis-à-vis the state, which makes such endowment less likely. Evidence indicates that individualism does not play a prominent role in the Muslim world.

If key members or a majority of the population adhere to the view that the state's purpose goes beyond the provision of public goods for individual members of society, then the establishment of a rule of law that binds the representatives of the state to the same rules by which other members of society are bound is most unlikely because state officials are seen as engaged in pursuing "higher" ends. If large parts of the population think of the state as an organization responsible for promoting certain truths, then it is by no means certain, at least *ex ante*, that every individual will be treated equally. Islam purports to be relevant in all walks of life, not just in the spiritual realm. Mohammed and his successors are considered to be both religious leaders and worldly rulers. Islam promotes theocracy. Some Muslim states are caesaropapal: they do not distinguish practically between worldly and religious governments. The separation of church and state is a characteristic of the West and has been identified as one of the reasons for its advanced economic development (Berman 1983). Lack of such a separation, in turn, can explain the bad scores of many Muslim states with regard to the rule of law. Some governments in the Muslim world are secular governments that try to contain Islamic fundamentalists' influence as much as possible. Cases in which they have failed to do so (for example, Iran), however, have not led to radical improvements in the governance scores of those countries.

A possible counterargument against this line of reasoning might be that the domination of utility-maximizing autocrats, not Islam, prevents the emergence of the rule of law in most of the Muslim world, and Islam simply favors such domination. This argument is convincing, however, only if it can explain why interest groups in other parts of the world have been more successful in systematically constraining their governments. Why were the Muslims not the first to have a Magna Carta, given their advanced economic development in the twelfth and thirteenth centuries? The autocrats of the Muslim world are not the only group profiting from the current state of affairs; the *ulema* (Muslim clerics) also do. Why have they succeeded in suppressing all attempts to create a modernized interpretation of the Qur'an? That is, why hasn't an Islamic Reformation been instigated? Why has the bourgeoisie not become a sufficiently important force to stop clientelism and corruption?

A partial answer is that Islam has always been a worldly movement and that appropriating rents often seemed more important than trying hard to live a good life. Still, substantial reform would make many people better off. Why do we not see more demands for such change? Voicing such demands would amount to the production of opposition, which is costly to the government and furthermore a public good. Therefore, people must be convinced that it can be rational to participate voluntarily in the provision of the public good "opposition." One might argue that government will give in to opposition demands only if it is confronted with a credible threat from a sufficiently large num-

ber of citizens who can reduce its expected utility from governing. More precisely, it will give in only if the expected utility from giving in is higher than the expected utility from not giving in. It seems plausible to assume that it is easier for organized groups than for unorganized individuals to oppose government because organized groups already have been able to solve the problem of collective action (Olson 1965). Therefore, an active civil society would be more likely to obtain and maintain a stable rule of law.

Prima facie, the economic ethics of Islam seem to favor civil associations. The UNDP report describes the ancient civil tradition of *waqf* (2002, 109). Since the end of the nineteenth century, it would have taken the form of cultural associations and charities whose main activities were education and the provision of health care. The report then goes on to describe bureaucratic impediments that prevented such charities from performing effectively. Lewis is somewhat more critical: he speaks of the *waqf* in the past tense and points out that many modernizing autocrats have brought these charities under state control (2002, 111). Robert Putnam (1993) has demonstrated that the existence of different levels of civil society helps to explain differences in the quality of local infrastructure goods among the various regions of Italy. He emphasizes the importance of voluntarily founded and horizontally structured associations. These two criteria lead him to exclude associations connected with the Catholic Church. La Porta and colleagues (1997) have taken up this distinction between horizontally and vertically structured civil associations and have asked whether Putnam's findings hold beyond Italy. They view Islam as a hierarchical religion (the Orthodox Church is also placed in this category) and offer evidence in support of the hypothesis.

A similar concern is echoed in Lewis's idea that in the Islamic context it might be appropriate to measure the independence of civil society not in relation to the state, but in relation to religion (2002, 112). "Secularized" civil society seems to be rather weak in Muslim countries. What values prevent the formation of voluntary associations? Obviously, relevant parts of the population need to be convinced that to a considerable degree their individual actions, not fate, determine their lot. If fatalism cannot be overcome, the formation of civil associations will be pointless, and no relevant opposition can be expected. When autocrats seize power and rule arbitrarily rather than under general rules, their rule is likely to be interpreted as fate and the mounting of opposition as pointless. Many observers have stressed the Muslims' fatalism.

Timur Kuran (1995) has advanced the notion of preference falsification, which might also have some explanatory power here. According to this notion, individuals have incentives not to declare their true private preferences publicly if such a declaration may elicit some sort of punishment. In the long run, in fact, individuals may even modify their private preferences out of a desire to reduce their cognitive dissonances. Kuran (1997) also points out that given sufficiently stable environmental conditions, people may begin to perceive a complete absence of potential for improvement. If so, political demands for improvement probably will be minimal.

A rule-of-law regime is thus unlikely if most members of a society do not believe that people should be dealt with equally. It will be even more unlikely if their religion

supports this view, as Islam appears to. It is not surprising, therefore, that institutions making up the rule of law are underdeveloped in the Muslim world.

Constitutional Democracy and Islamic Values

Muslim values that seem to prevent the establishment and implementation of a rule-of-law regime, as just discussed, overlap with the values that relate to constitutional democracy. Because in the present discussion I am interested only in constitutional—that is, constrained—democracies, all the aspects of values dealt with in the preceding section have relevance here, too. Democracy itself, however, is not a necessary complement to or outgrowth of the rule of law. Therefore, I focus on values that seem to be requisites for sustainable democracy.

Ernest Gellner observes that long before the concept of separation of church and state was formulated and implemented in the West, Islam had made its own unique distinctions between these powers. He writes that “legislation was distinct from the executive because it had been pre-empted by the deity, and religion itself was above all the Constitutional Law of society” (1994, 17). He goes on to argue, however, that Islam does not offer a blueprint for the *organization* of power: “This vacuum is filled without protest by clientelist politics” (26).

Democracy incorporates specific forms of appointment for members of the legislature and the executive. Legislators have inter alia the function of passing formal legislation that facilitates decentralized cooperation, which is believed to be welfare enhancing. Because interaction situations can change over time—owing to technical progress, for example—institutions also must change in order to remain adequate. It is necessary, therefore, to endow legislators with the competence to pass fresh legislation. Islam has had extraordinary difficulties, however, with this notion of legislation. According to Lewis, “In the Muslim perception, there is no human legislative power, and there is only one law for the believers—the Holy Law of God” (2002, 101).

Suppose a society has given itself a constitution that mandates periodic elections of the persons who are to determine the exact composition of the public-goods bundle to be provided. Under what conditions will such a constitution become effective? Suppose that the governing party has just lost the elections. Why should its members leave office and hand the government over to the winning party instead of simply holding on to it? In a strictly economic framework, one would expect the losing party to leave office only if the expected utility of that action is greater than the expected utility of not leaving office. If the losing party expects that the representatives of the (now) winning party will never leave their offices after a (future) defeat, the representatives of the (now) losing party will not have a good reason to leave.¹³ Trust that the

13. Inglehart advances a similar argument: a government losing elections must trust the former opposition not to imprison or execute members of the losing government once the former opposition takes office (1997, 172).

opposing party will play according to the rules in the future is therefore a prerequisite for a functioning democracy.¹⁴ Expressed differently, if some of the crucial actors are bound to the functioning of democracy per se and attribute some utility to its preservation, even if they themselves do not hold office at that time, the likelihood that democracy will be sustainable is greater (Przeworski 1991).

The World Values Survey, carried out in four waves in as many as seventy countries since the early 1980s, includes some Muslim countries. In these surveys, the percentage of respondents who express the belief that most people can be trusted is significantly lower in Muslim countries than in other countries; Indonesia and Iran are two noteworthy outliers within the Muslim world (see table 1).¹⁵

Market Economy and Islamic Values

One of the most important functions of legislation in market economies is to encourage positive-sum games (by making them less expensive) and to discourage zero-sum or negative-sum games (by making them more expensive). I have shown already that lawmakers in Muslim countries have always been seriously constrained in that endeavor by fundamental religious beliefs. Weber points out that the economic ethics of Islam are “purely feudal” ([1921] 1980, 375). The most pious of first-generation Muslims were already the richest because of looting—that is, as a result of a negative-sum game. Weber believes that the evaluation of the looting and of rent-seeking in Islam stands in exact opposition to the Puritan evaluation of these types of material acquisition.¹⁶

An institutional prerequisite of a thriving market economy is the existence of respected *private-property rights*. Islam constrains the degree to which private-property rights can be introduced. Nonrenewable resources such as mineral resources or water are exempt from private ownership. This exclusion may help to explain the relatively high degree of government ownership in many Muslim states. It might also have eased the government’s operation of many other firms as state-owned enterprises. Of course, state ownership was perceived as progressive until recently in many parts of the world, and Islamic values were not prerequisite to promote it. Neverthe-

14. An example of insufficient trust to uphold democracy is the Algerian elections of 1991. The (secular) government expected the Islamic Salvation Front to win and said that the Front, once in power, could not be trusted to give up their power again, so the elections were cancelled.

15. Of course, a difficult causality issue is involved here: Are trust levels fixed exogenously and thus constrain the possibility of implementing a constitutional democracy, or do functioning democracies cause trust to increase?

16. For a long time, Islam experts have either ignored Weber or argued that his critical evaluation of Islamic economic ethics was seriously flawed. The volume edited by Huff and Schluchter (1999) is the result of a conference in which both Islam and Weber experts participated and that has led to a renewed interest in Weber’s views. With regard to Weber’s argument concerning Protestants and Catholics, Arruñada (2003) has shown that it can be reinterpreted as follows: Catholics were favorable to personal exchange and Protestants to impersonal exchange. Either form of exchange can be adequate, depending on the specific conditions of the environment (technologies and so forth.). This argument may also apply to Islam and may be a way to explain why Arab countries were leaders in technology and innovation for some time but have been in decline in these areas for many centuries.

Table 1
“Generally Speaking, Would You Say That Most People Can Be Trusted or That You Can’t Be Too Careful in Dealing with People?”

	Most Can Be Trusted (%)		Most Can Be Trusted (%)
Albania	24.4	Nigeria	25.6
Algeria	11.2	Pakistan	30.8
Azerbaijan	20.5	Turkey	16.0
Bangladesh	23.5	Uganda	7.8
Bosnia	15.8	Denmark	66.5
Indonesia	51.6	Netherlands	60.1
Iran	65.3	Norway	65.3
Jordan	27.7	Sweden	66.3
Morocco	22.8		

Source: World Values Survey data taken from fourth wave (1999–2001).
Note: The choice of the countries for which trust levels are reported here is constrained by the inclusion of certain countries in the survey.

less, Islamic values can help the state to hold onto state ownership even after its inefficiency has been recognized the world over.

Lewis points out that Islamic law does not recognize corporate legal persons (2002, 111). Many transactions, however, can be carried out at lower cost within a hierarchical structure, such as a firm, than through market exchanges. If formal law precludes the establishment of hierarchies, then suboptimal firm size and inefficient organizational structure may result.¹⁷

Still another prerequisite for a well-functioning market economy is that individuals *accept* that some will make a fortune from *seemingly unproductive activities*, such as trading or “unproductive” services, especially financial services. Traditionally, traders, including those who serve them, such as money changers, have enjoyed a high reputation in Muslim countries. Yet the prohibition of accepting *riba* (interest) is probably the single best-known rule of Islamic economic ethics. Many studies have analyzed the various ways in which this rule is circumvented. Its circumvention, however, increases transaction costs and thus diminishes the economy’s efficiency.

One more prerequisite for dynamic market economies is that at least some individuals enjoy *innovative behavior*. Innovators may work on the production side, of course,

17. See also Greif 1994, which describes how the Maghribi traders slowly lost ground to their competitors from Genoa. The Maghribi traders were Jews who had adopted Muslim values and could not expand as fast as the Genoese because they relied only on family members whom they were certain they could trust, whereas the Genoese invented institutions that could function in place of personal ties.

but “consumption pioneers” also play a valuable role. The number of innovations originating in Muslim countries has been small for hundreds of years. The Muslim term closest to the Christian concept of heresy (*bid'a*) also means “innovation.” Lewis cites a view attributed to the Prophet: “The worst things are those that are novelties. Every novelty is an innovation, every innovation is an error, and every error leads to Hellfire” (2003, 227). Such views clearly do not support a dynamic market economy.

With regard to the values conducive to a market economy, Islamic values and historical experience lead us to be somewhat less pessimistic than with regard to the rule of law and constitutional democracy. Then again, a market economy will flourish only if the actors can trust in the adequacy and stability of the legal framework—in other words, if the rule of law is implemented in a reliable fashion. In most Muslim countries, it is not so implemented.

Putting It All Together

There are significant overlaps between the preconditions for the rule of law, constitutional government, and a market economy. Trust, for example, not only enhances the likelihood of sustained democracy, but also decreases transaction costs and leads to a greater number of welfare-enhancing transactions. These central institutions of free societies, however, cannot be combined at will like pieces of a quilt. A functioning market economy presupposes the implementation of some form of rule of law. Therefore, values conducive to a market economy but in conflict with the rule of law will most likely not be sufficient for maintaining a successful market economy for long.¹⁸

In this section, I have presented an overview of the economic and political situation in the Muslim countries and asked whether Islamic values are compatible by and large with the core institutions of free societies—namely, the rule of law, constitutional democracy, and a market economy. Drawing on economic ethics as delineated by Max Weber, I found that a number of severe impediments make the establishment of these core institutions less likely in the Muslim world. It might (rightly) be argued that many of the values proclaimed in the Bible are also incompatible with the core institutions, which developed in the West nevertheless. In considering this issue, we need to keep in mind Weber’s definition of economic ethics, which focuses on impulses for action based on religion, but not on theological compendia. In the West, the values have undergone subtle but important changes for centuries. Compare the Reformation in the West with the prohibition of any reinterpretation because all law stems from the Qur’an and the hadith, the traditions of Mohammed and his earlier followers. Whereas the Protestant Reformation led to far-reaching changes in the West, a similar reformation in the Muslim world has yet to occur.

18. Kasper and Streit (1998) argue, for example, that the political and economic orders of contemporary China are incompatible.

Islamic Values as Reflected in Opinion Polls

We turn now to an alternative source—namely, opinion polls—for ascertaining some of the values and attitudes that many citizens of the Muslim countries share in order to find out whether these data point in the same direction. In April and May 2003, the Pew Research Center for the People and the Press (2003) surveyed Muslims in fourteen countries about their opinions on government and social issues.¹⁹ The recent U.S. invasion and occupation of Iraq might have had an impact on some of the responses, especially the evaluation of the West and of the United States in particular, but opinions on fundamental issues of government should not have been influenced unduly. Opinion polls, of course, are problematic as a source of information: many of the states in which the survey was conducted are authoritarian, and some governments prohibited the pollsters from asking certain questions. Kuran's (1995) notion of preference falsification may also play a role: if "truths" are uttered only privately, whereas statements perceived as "politically correct" are pronounced publicly, opinion polls may provide little information on the attitudes citizens really hold. Notice that this effect can also skew the results in favor of attitudes compatible with free institutions if such attitudes are the publicly declared ones.

Although Osama bin Laden receives strong support in many of these countries, Western values appear to be prominent. The Pew Research Center reports that "people in Muslim countries place a high value on freedom of expression, freedom of the press, multi-party systems and equal treatment under the law" (2003, 6). These are important components of the rule of law and of constitutional democracy. Let us now take a closer look at the results of this survey.

The Rule of Law

We have seen that the values of Islam appear to be incompatible with the rule of law and constitutional democracy in important respects. To find out whether these core institutions of a free society might have some support among Muslim populations, we must ask Muslim people about the role that Islam currently plays in the political life of their respective countries and the role that they think Islam should play. The results of such a survey are shown in table 2.

Apart from Tanzania (not included in my survey because indigenous beliefs are as strong as Islam on the mainland), the populations that seem most willing to assign Islam a less important role in politics are those of Turkey, Uzbekistan, Lebanon, and Senegal. In most other countries, overwhelming majorities want Islam to

19. All statistics given subsequently in this essay come from Pew Research Center for the People and the Press 2003 unless otherwise noted. A similar survey was conducted in 2002. Countries that were covered by at least one of those surveys and that have a substantial Muslim population include Turkey, Jordan, Lebanon, Palestinian Authority, Morocco, Egypt, Mali, Senegal, Ghana, Ivory Coast, Nigeria, Tanzania, Uganda, Uzbekistan, Kuwait, Pakistan, Bangladesh, and Indonesia. Unfortunately, none of these states is on the Arabian Peninsula.

Table 2
Role of Islam in Political Life

	Plays a Large Role (%)	Should Play a Large Role (%)	Difference (%)
Pakistan	56	86	+30
Uganda	38	66	+28
Jordan	50	73	+23
Bangladesh	56	74	+18
Ivory Coast	44	54	+10
Ghana	42	52	+10
Mali	61	70	+9
Nigeria	62	61	-1
Indonesia	86	82	-4
Turkey	46	41	-5
Tanzania	28	17	-11
Uzbekistan	55	41	-14
Lebanon	71	49	-22
Senegal	65	42	-23

Source: Pew Research Center for the People and the Press 2003, 34.

play a major role in political life. The same question was asked as part of a study conducted by the Office of Research of the U.S. Department of State in 1999. It is noteworthy that the shares of those who believe that Islam should play a large role diminished substantially in the three years that followed.²⁰ Nevertheless, if the argument is accepted that Islam and the rule of law are at least partially in conflict, then these data provide little basis for hope that the rule of law will be established firmly in these countries.

A closely related issue pertains to the role that religious leaders should play in politics. As many as 91 percent of the Muslims in one country included in the survey (table 3) said that religious leaders should play a larger role in politics. The populations of Turkey, Uzbekistan, Tanzania, and Senegal were the least convinced on this score.

Comparing the answers to the two questions—the first being more issue oriented, the second more person oriented—is revealing. In Lebanon, for example, where only 49 percent of the Muslims favor a larger role for Islam (table 2), 72 percent (table 3) support a more active role of their religious leaders in politics. *Prima facie*, the answers

20. The decline was from 87 to 41 percent in Turkey, from 81 to 41 percent in Uzbekistan, from 84 to 61 percent in Nigeria, and from 93 to 82 percent in Indonesia. The only country in which the question was asked in both 1999 and 2002 and agreement rates did not decline is Pakistan.

Table 3
Religious Leaders Should Play a Larger Role in Politics

	Agree (%)	Disagree (%)
Nigeria	91	8
Jordan	77	23
Bangladesh	76	14
Lebanon	72	23
Mali	64	33
Pakistan	63	17
Ghana	60	36
Ivory Coast	59	40
Indonesia	51	48
Uganda	49	41
Turkey	40	50
Uzbekistan	40	52
Tanzania	36	53
Senegal	36	64

Source: Pew Research Center for the People and the Press 2003, 35.

to the second question seem to point in the same direction as the answers to the first, yet we can also interpret them as a critique of the quality of the current politicians: the worse they appear to be, the more readily citizens may accept some other leader.

Yet another closely related question has to do with the relationship between religion and government. I have argued already that we can interpret Islam as a caesaropapal religion and that this attribute may contribute to the relatively slow economic development of Muslim countries. It is fascinating that although in many Muslim states majorities favor a more active role for religious leaders in politics, substantial fractions of those populations also believe that religion is a personal matter and should be kept separate from the government. Among the Muslim countries, absolute majorities agreed completely with the statement “Religion is a matter of personal faith and should be kept separate from government policy”: Ivory Coast (84 percent), Turkey (73 percent), Mali (71 percent), Senegal (68 percent), Uganda (62 percent), Nigeria (61 percent), Lebanon (56 percent), and Uzbekistan (55 percent). Majorities did not express complete agreement with that statement in Jordan (24 percent), Pakistan (33 percent), and Indonesia (42 percent). Thus, at least some populations favor a separation of religious and political issues.

Today, *isonomia* includes the equality of men and women, yet women still do not enjoy the same legal status as men in many Muslim countries. It is interesting, therefore, to compare this observation with the results of the survey question that

asked whether “women should be able to work outside the home.” The percentages of the population that agreed completely are as follows: Uzbekistan (70 percent), Ivory Coast (70 percent), Turkey (66 percent), Lebanon (66 percent), Senegal (64 percent), Mali (54 percent), Bangladesh (48 percent), Tanzania (47 percent), Uganda (36 percent), Nigeria (35 percent), Ghana (35 percent), Pakistan (33 percent), Indonesia (22 percent), and Jordan (14 percent). Thus, in more than half of the countries surveyed, only a minority of the population believed that women should be able to work outside the home.

All in all, the survey results complement the insight that values based on Islam do not mesh readily with the rule of law.

Constitutional Democracy

When asked whether democracy could work well in their country, large absolute majorities in most Muslim countries agreed that it could. The only exceptions were Indonesia and Turkey, in which only 41 percent and 50 percent of the population, respectively, agreed that democracy could work well.

Elections are a crucial ingredient of constitutional democracy. Asked whether it was very important, somewhat important, not too important, or not important at all that honest elections are held regularly with a choice of at least two political parties, absolute majorities claimed that this condition was “very important” in all the Muslim states considered except in Jordan (28 percent), Indonesia (40 percent), Uzbekistan (42 percent), and Pakistan (46 percent).

A precondition for honest elections is that people can discuss alternatives freely, say what they think, and criticize the government freely. Asked whether these freedoms were important to them or not, majorities in all countries said they were important. Nevertheless, margins differ, and the slightest margin in favor of free speech was encountered in Jordan (53:46).

Another precondition for honest elections is that the media can report the news without government censorship. Again, overwhelming majorities claimed this condition to be important in many states, with the narrowest margin encountered again in Jordan (63:36). Taken together, these opinions seem to indicate that majorities in almost all countries surveyed favor some of the crucial prerequisites of a functioning democracy.

Market Economy

What are the prospects for the struggling market economies in Muslim countries? A straightforward way to find out is to put that question to Muslims directly. In one survey, Muslims were asked whether they agreed with the statement that “Most people are better off in a free-market society, even though some people are rich and some are poor.” In all Muslim countries except one (Jordan), those who completely

or mostly agreed outnumbered those who mostly or completely disagreed. The (positive) differences between the percentages of those who agreed and the percentages of those who disagreed are: Ivory Coast 59, Mali 42, Nigeria 65, Senegal 16, Bangladesh 15, Indonesia 15, Egypt 32, Lebanon 61, Pakistan 28, Turkey 30, and Uzbekistan 25. In Jordan, 53 percent of the respondents disagreed, and 47 percent agreed. For comparison, the positive difference was 51 in the United States and 40 in Germany. Thus, many people in the Muslim world seem to favor a market economy in very general terms.²¹

If the individual is perceived as responsible for making decisions and reaching goals for the most part, then the prospects for the establishment of a functioning market economy tend to be positive. If, on the contrary, human life is perceived as determined by destiny for the most part, people will do little to improve their lot. Many Muslims agreed with the statement “Success in life is pretty much determined by forces outside of our control.” In Turkey, 76 percent agreed, and only 17 percent rejected the statement. Agree-disagree percentages for other Muslim countries are: Ivory Coast 52:48, Mali 71:24, Nigeria 64:32, Senegal 59:39, Bangladesh 60:9, Indonesia 52:46, Egypt 48:42, Jordan 61:39, Lebanon 54:42, Pakistan 59:16, and Uzbekistan 54:36. But before conclusions are drawn from these figures, inspection of some Western figures may be helpful. In Germany, 68 percent agreed with the statement. In the United States, 32 percent agreed, and 65 percent disagreed.

Individual freedom and redistributive justice are conflicting values. An ideal-type market system has no room for redistributive justice. If the (transitory) distribution that the market brings about is seen as “unfair” or “unjust” and is therefore held to require correction, a purpose is introduced that conflicts with the market actors’ individual purposes. Therefore, a trade-off exists between freedom and redistribution, between freedom and equality. Answers to the question “Is it more important that people are free or that the state guarantee no one is in need?” are surprising. The Bangladeshi clearly favored the needy (63:32), followed by the Jordanians (63:35), the Indonesians (61:38), the Senegalese (59:41), and the Malis (57:42). In favor of freedom were the Pakistanis (61:24), the Nigerians (61:36), the Turks (52:39), the Lebanese (52:47), and the respondents from Ivory Coast (51:49). Uzbekis were divided equally (49:49). Answers given by Westerners differ widely: Italians, for example, favored the needy by a 47-point margin (71:24), whereas Americans favored freedom by a 24-point margin (58:34).

Are citizens willing to accept a substantial reallocation of resources if it enhances efficiency? One survey question frames this issue well, asking whether a large, inefficient factory should be closed because its closure is necessary for economic improvement or whether it should remain open because closure would cause excessive hardship for the people associated with its operation. In none of the Muslim states did a

21. In the survey, support for free markets is least in the central and east European transition countries. In Bulgaria, Poland, and Russia, only a minority agreed with the statement.

Table 4
**Rank Orders Based on Various Values Supporting Rule of Law,
 Constitutional Democracy, and a Market Economy**

	1. Rule of Law	2. Constitutional Democracy	3. Market Economy	4. Ranking Based on Average of 1–3
Ivory Coast	4	2	1	1
Senegal	1	3	7	2
Lebanon	5	6	2	3
Mali	6	1	9	4
Uzbekistan	2	8	6	4
Nigeria	8	5	4	6
Turkey	3	7	10	7
Indonesia	7	9	8	8
Bangladesh	9	5	11	9
Pakistan	10	10	5	9
Jordan	11	11	12	11
Egypt	–	–	3	–

Source: Author's calculations, based on Pew Research Center for the People and the Press 2003, various questions.

(relative) majority favor closing the factory. Those states with the smallest difference between the percentage favoring closure and the percentage not favoring closure were the Ivory Coast (10), Lebanon (11), Bangladesh (13), and Uzbekistan (15). Those states with the largest majorities in favor of keeping the inefficient factory going were Turkey (48), Jordan (45), and Mali (39).²²

Putting It All Together

In order to make the attitudes of the polled populations comparable, I have used the answers to twelve questions—four each to capture attitudes toward the rule of law, constitutional democracy, and market economy. For each question, I have taken the percentage of attitudes favorable to the respective core institution and subtracted the

22. Unfortunately, this question was asked neither in the United States nor in western Europe. Some answers from central and eastern Europe are available, however. The Czechs (63:33) and the Slovaks (50:48) opted in favor of closing the inefficient factory. By far the largest opposition against closing the factory came from the Russians (64:27), who said that closing it constituted too much of a hardship. Voigt [1993] 2002 is an attempt to ascertain the compatibility of values and attitudes in central and eastern Europe with the necessities of a market economy. A prediction of economic growth rates based solely on opinion polls very similar to the one cited here turned out to be amazingly accurate.

percentage of unfavorable answers from it. I then used the difference to rank countries from 1 to 12 in their support of these core institutions of free societies (table 4).²³ For the rule of law, for example, Senegal is first, which means that the attitudes of its population seem to be more favorable to the rule of law than the attitudes of the populations in the other countries considered. The fourth column is simply the rank order that emerges if the three rank orders are averaged. The variance among the three categories is confusing, yet some patterns seem to exist. Based on the attitudes expressed by its population, Jordan clearly has the least chance to establish the institutions that are preconditions for a free society; Pakistan and Bangladesh also seem highly problematic. As a region, Africa seems to have a better chance than the Asian countries polled.

The results of these polls should certainly not be overemphasized. It is possible that people are asked to give their opinions about conditions that they themselves have never experienced and whose consequences they thus may not grasp fully. Moreover, attitudes expressed to pollsters will not bring about the respective institutions. Yet favorable attitudes toward these institutions will make them more sustainable once they have been introduced formally. That the governments of a number of Muslim countries fear such an outcome is attested by their unwillingness to have the poll carried out fully or at all in a number of Muslim countries. With regard to the rule of law, a necessary precondition for both constitutional democracy and market economy, the attitudes that the polls reveal corroborate the insights gained earlier in this article on the basis of other evidence.

Conclusion

Most Muslim countries do not fare well with regard to a number of indicators that serve as proxies for the three institutions at the core of free societies: the rule of law, constitutional democracy, and a market economy. Islamic values by and large are not conducive to the establishment and maintenance of any of these institutions. However, some of the attitudes of Muslim populations are surprisingly in line with at least some of the central preconditions for these core institutions.

What do these findings imply for the prospects of establishing the three core institutions in Muslim societies? Given the correctness of our central hypothesis that a population's values must be at least broadly in tune with external institutions, the prospects of implementing the core institutions in the Muslim countries any time soon seem slight. Western attempts to establish the core institutions in countries such as Afghanistan or Iraq face an additional difficulty: these attempts not only seek to make institutional changes "from above," but also involve infidels who are greeted with suspicion. The sustainable establishment of the three core institutions would

23. The numerical results for all twelve questions can be found in an appendix available from the author on request.

have to be preceded by a reformation of Muslim values—that is, by changes in the internal institutions of Muslim societies. Such changes will require decades or even centuries to be made and cannot be dictated from above.

One hundred years ago many Western countries did not embrace the core institutions of free societies. Many were not democratic, or, if they were, they restricted the suffrage to a relatively small electorate. A study done one hundred years ago might have argued that this situation reflected values upheld in the Bible. Here, however, I have relied on Weber's concept of economic ethics, which takes into account values as they are reflected in social life. Hence, even one hundred years ago, we might have noted that competition between state and church had been going on for centuries, that the Reformation had fundamentally changed many believers' perspectives, that various revolutions favoring the core institutions had taken place, and therefore that implementation of the three core institutions was not unlikely. In this light, we might seek to identify reform movements in the Muslim world with the potential to produce wide-ranging effects. We might argue, for example, that the Shi'a branch of Islam will find reformation easier because it never agreed that all possibilities of human reasoning and individual opinion (*ijtihad*) in interpreting the Qur'an had been closed. The Shi'a clergy, however, has not been notably innovative. Another possibility is that the Asian Muslim countries that are subject to other influences and that guard against domination by interpretations of Islam that originate in the Arab heartlands will embrace reforms more readily.

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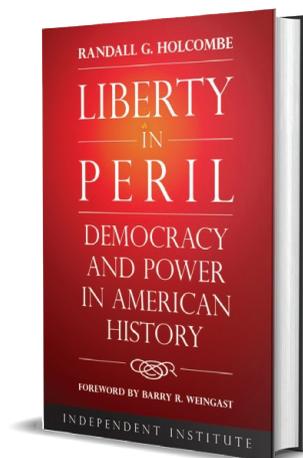
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