

## Economic and security consequences of supreme values

Arye L. Hillman

Published online: 27 April 2007  
© Springer Science+Business Media, BV 2007

**Abstract** Islamic societies have in contemporary times lagged Western societies in income, growth, and human-development indicators. The supreme values of radical Islam further de-prioritize economic achievement and impose self-deprivation on own populations. This paper investigates the reasons for economic outcomes under Islam. Contemporary illustrations are also provided of the self-deprivation predicted from pursuit of the supreme-value objectives of radical Islam. The self-deprivation is placed in a rent-seeking context.

---

An earlier version of this paper was prepared for the conference on *Radical Islam: Challenge and Response*, organized by the Begin-Sadat Center for Strategic Studies (BESA) at Bar-Ilan University, May 24–25 2006. I thank Efraim Inbar for proposing the topic of the paper and for subsequent comments. Martin Paldam graciously provided data on economic growth. Timur Kuran provided helpful comments on a preliminary draft. My colleagues Daniel Levy, Adi Schnytzer, Warren Young, and Adrian Ziderman made helpful observations, as did Liu Qijun, who in the course of spending a year at Bar-Ilan away from his home department at the Central China University of Science and Technology, read a number of drafts of the paper, made helpful comments, and pointed out relevant literature. Toke Aidt, Peter Bernholz, Tim Besley, Roger Congleton, William Easterly, Jonathan Fox, Carsten Hefeker, Pierre-Guillaume Méon, and Peter Nannestad also provided helpful comments. Bassam Tibi is thanked for his affirmations of the validity of the conclusions. Participants at the 2006 Silaplana Workshop on Political Economy are thanked for useful reactions.

---

A.L. Hillman (✉)

Department of Economics, Bar-Ilan University, Ramat Gan 52900, Israel  
e-mail: hillman@mail.biu.ac.il

A.L. Hillman  
BESA Center for Strategic Studies, Bar-Ilan University, Ramat Gan 52900, Israel

A.L. Hillman  
Centre for Economic Policy Studies, London, UK

A.L. Hillman  
CESifo, Munich, Germany

**Keywords** Radical Islam · Institutions · Economic growth · Supreme values · Rent seeking · Rent protection · Oil wealth · Gender relations · Demographic contestability · Cultural relativism · Personal security

**JEL Classification** O1 · Z12 · N35

## 1 Introduction

The economic effects of radical Islam have been extensively studied through the consequences of terror inflicted on others. A substantial literature on terror includes the edited volume by Brück and Wickström (2004); in particular, Chen and Siems (2004) and Eldor and Melnik (2004) have studied how Islamic terror has affected capital markets. In another branch of investigation, Yetman (2004) and Franck et al. (2005) have addressed the problems and moral dilemmas of defense against terror when terrorists in a population cannot be identified with certainty. Kruger and Maleckova (2003) have investigated the relation between income and perpetration of terror (and conclude that low-incomes are not catalysts for terror). Cowen (2004) and Plaut (2004) have proposed perspectives on the appropriate response to terror. Also Berrebi and Klor (2006) have studied how terror inflicted on a population affects election outcomes.

A quite separate question, which is the focus of this paper, concerns the economic consequences of radical Islam for *own* populations. Although the focus will be on own populations, the external orientation and objectives of radical Islam introduce consequences for populations in other societies.

Effects of *radical* Islam are superimposed on economic outcomes under *moderate* Islam. Addressing the economic consequences of radical Islam will therefore oblige a preliminary consideration of outcomes under moderate Islam.

There is broad agreement that economic outcomes reflect attributes of societal institutions.<sup>1</sup> The institutions of the rule of law are in particular a prerequisite for a civil society. Coçgel et al. (2007), in a study that is part of a wider program of research on the economic history of the Ottoman Empire, describe how Ottoman rulers were restrained by the rule of law, although the legal system was often subjugated to the wishes of the ruler, who also controlled public finance. As in the West, under Islam hereditary rule in general provided political stability. Indeed, historically, Islam dominated the West in intellectual and scientific pursuits. Then societies under Islam underwent economic decline and were in due course overtaken by the West in economic achievement.

The question as to why Islam declined has been extensively studied, in particular by Timur Kuran, who is Professor of Economics and Law and King Faisal Professor of Islamic Thought and Culture at the University of Southern California, and to whose writings we shall return. Historically based explanations for the economic decline of Islamic societies point to influences through Islamic legal principles and other aspects of traditional Islamic society, and provide links to contemporary outcomes through persistence of institutions. Yet relatively little attention has been directed at understanding the contemporary relationship between Islam and economic development. By comparison, for example, numerous studies

---

<sup>1</sup> Nobel laureate Douglass North (1981) and subsequently many others have pointed out that incentives associated with institutions are the primary determinants as to whether economic progress takes place.

have sought explanations for failures of economic development in sub-Saharan Africa.<sup>2</sup> As observed by Paldam (2003) and others, the most prominent development successes in recent decades have been in East Asia. The East Asian experiences, and more recently economic growth in China and India, motivate the question as to why other contemporary societies have not been able to emulate the development successes. The East Asian successes, moreover, have taken place without natural resource wealth.

Data presented below indicate that the presence of natural resources, or more particularly oil wealth, in Arab and other Islamic societies can provide high incomes, but oil wealth has not resulted in Western standards of economic growth. Where oil is not present, incomes in Islamic societies are low, as also has been economic growth. Whether or not natural resource wealth is present, human development indicators in Islamic societies show lower standards of health and education than predicted by income levels.

The economic and human-development outcomes in Islamic societies provide the beginning from which to evaluate the consequences of radical Islam. Radical Islam introduces a conjunction between supreme values and rent-seeking behavior that has not been recognized or has not been given prior emphasis when explanations have been sought for economic outcomes. By ranking objectives hierarchically, supreme values disallow trade-offs that would compromise the achievement of unattained priority goals. The supreme values that guide radical Islam subordinate economic achievement to religiously ordained geo-political goals.

A priority objective, as in the original Arab conquests, is increasing the domain of Islam. Lands previously conquered and subsequently lost to Islam are required to be reconquered—and, in the end, all lands and people are required to submit to Islam. In contemporary times, not all Islamic rulers and states actively abide by the supreme values. To do so would require an ongoing active state of war against non-Islamic societies. Radical Islam does, however, actively seek the priority supreme-value objectives.<sup>3</sup>

In the quests to achieve the supreme-value objectives, economic progress is foregone. Economic progress is also reversed where achieved. Two contemporary natural experiments described below exemplify the decisions required by the supreme values to forego and to reverse economic progress.

In the foregoing and reversing of economic progress, Radical Islam imposes economic self-derivation on own populations. Economic analysis categorizes self-imposed economic deprivation aimed at achieving distributional objectives as rent seeking. In usual representations, rent seeking occurs in the course of the internal distributive quests that take place within a society. Rent seeking in the case of radical Islam is *externally* directed at changing institutions and belief systems of other societies. The social loss due to rent seeking is expressed in internal economic deprivation. The rent or benefit that is sought is attainment of priority supreme-value geopolitical objectives.<sup>4</sup>

Willingness to give one's life in defense of one's people and country has been considered meritorious in numerous societies. For example, the children's verse of the La Marseillaise

<sup>2</sup>The extensive literature on economic development in sub-Saharan Africa includes Collier and Gunning (1999), Rowley (2000), and Easterly (2001). See also my overview in Hillman (2002) of Easterly (2001). Paap et al. (2005) document the diversity of growth experiences in sub-Saharan Africa and provide comparisons with other regions, including the Middle East.

<sup>3</sup>As Bernholz (1995, 2004) observes, supreme values have historically not been exclusive to Islam. Societies with supreme value systems have included the Anabaptists, other variants of Christianity at various times such as during the Spanish and Portuguese inquisitions, the Nazi regime in Germany and regimes in collaborating European societies, and communist regimes.

<sup>4</sup>The social loss due to rent seeking was pointed out by Tullock (1967). Krueger (1974) introduced the terminology. For overviews of rent seeking, see Tullock (1989) and Hillman (2003, Chap. 6.3).

is an exhortation to children to be prepared to die for France.<sup>5</sup> Under post-heroic Western values, people expose themselves to the likelihood of harm or death in times of war and conflict. However, death is not actively sought—not for one’s self, one’s own fellow population, or for other non-combatant civilian populations. Radical Islam randomly takes lives and maims people in populations that have not submitted to Islam or that adhere to another variant of Islam. Life of own adherents is also required to be willingly foregone. Departure from this world as a *shahid* or martyr has ultimate merit. Murawiec (2007) documents how, in ceremonies that honor the impending meritorious behavior, martyrs participate in the celebrations of their own deaths and so “die before they die”. Debasement of the worth of own-life is expressed in the proclamation that “we love death more than you love life”—a preference that derives from rewards promised and believed to be delivered after “death”. The foregoing of own life extends self-deprivation beyond the quality of life, to end to own-life. The logical consistency in the value and belief system is that the immediacy of benefits in the afterlife is enhanced by self-deprivation in this life.<sup>6</sup>

We need to address semantic issues and also issues of categorization before we proceed to further consider the economic consequences of Islam. The term Islamic can refer to traditional Arab society. Yet Islam and also radical Islam are not exclusively Arab. Nor correspondingly has Islamic terror emanated exclusively from Arab societies. The Arab conquests and the spread of Islam introduced elements of Islamic values and institutions to different degrees in creating a non-Arab Muslim world. In some cases institutions of the state are secular as in contemporary Turkey, as well as in Tunisia and in the Turkic societies of Central Asia.<sup>7</sup> Secular institutions are consistent with populations for whom more traditional Islamic values guide personal and family behavior. Populations are also not homogeneous. Lebanon has been a special case of a multicultural secular state where radical Islam has become embedded with its own separate institutions. Ideally, in considering radical Islam, we would want data for the radical Islamic state-within-a-state in Lebanon. The fragmentation of society is not reflected in the data for Lebanon.

The plan of the paper is as follows. After presentation of the data, we shall turn to explanations of the revealed economic outcomes. A brief general overview will be provided of the role of institutions in economic growth and of competing explanations of resources and geography. We shall then focus specifically on Islam. Here we shall draw on the writings of Timur Kuran. We shall then proceed to the perspective founded in the conjunction of supreme values and rent seeking. Issues of cultural relativism, which are inevitable in a

---

<sup>5</sup>The last verse of the French national anthem is called the children’s verse, and was intended to be sung by children only:

*Into the fight we shall enter  
When our fathers are dead and gone  
We shall find their bones laid down to rest  
With the fame of their glories won (repeat)  
Oh, to survive them care we not  
Glad are we to share their grave  
Great honor is to be our lot  
To follow or to venge our brave  
To arms ...*

I thank Pierre-Guillaume Méon for bringing this verse to my attention.

<sup>6</sup>In a focus on the benefits of sexual favors, the value of ongoing life is diminished when “death” is believed to bring access to the 72 virgins who await a shahid.

<sup>7</sup>On the latter societies, see Pomfret (1995).

study such as this, will also be addressed. Conclusions note the economic challenges that radical Islam poses for aid donors and development agencies and the security challenges that are posed for other societies because of disallowance by the supreme values of possibilities of conciliation and compromise.

## 2 Comparative data

Empirical studies show a consistent pattern of outcomes associating Muslim societies with low incomes and low economic growth. McCleary and Barro (2006) review studies of the relation between religion and economic outcomes and find that, of all belief systems, only the Muslim share of the population is significant in regressions explaining economic growth, and the coefficient is negative.<sup>8</sup> Rather than once more summarizing the empirical evidence from regression analysis, we can look more directly at outcomes.

### 2.1 Per-capita income comparisons

The World Bank provides comparative data on per capita incomes based on exchange rate conversion and correction for purchasing-power-parity. The more indicative statistics are the latter. The tables below show both measures.

Table 1 shows 2004 per capita income for a sample of countries, together with country rankings. The US, UK, and Australia are examples of high-income countries, Mexico is medium-income, and China is low-income by the exchange rate measure but medium-income by the purchasing-power-parity measure. Sub-Saharan Cameroon, Kenya, and Sierra Leone represent low-income countries.

Table 2 shows per capita income for Arab states with oil. Also included is non-Arab but radical-Islamic Iran. The United Arab Emirates and Kuwait have high incomes. The per capita income of oil-rich Saudi Arabia is some half of that of the Gulf States. The other states have lower incomes but incomes by purchasing-power-parity place them in the middle-income range (as Mexico and China in Table 1).

**Table 1** Reference countries

	2004 per capita income in US dollars	Rank	2004 per capita income purchasing-power-parity	Rank
US	41,440	5	39,820	3
UK	33,630	13	31,340	14
Australia	32,220	21	30,610	22
Mexico	6,790	70	9,640	80
China	1,500	129	5,890	108
Cameroon	1,010	147	2,150	163
Kenya	480	171	1,130	187
Sierra Leone	220	199	780	202

Source: <http://sitesources.worldbank.org/DATASTATISTICS/Resources/GNIPC.pdf>

Note: The per capita income data that follow are for the years 2003 and 2004. The same or similar outcomes are present in the data in any other year in recent years. There is consistent pattern beyond the cross-section for the year chosen

<sup>8</sup>See McCleary and Barro (2006, Table 4, p. 67).

**Table 2** Arab oil states

	2004 per capita income in US dollars	Rank	2004 per capita income purchasing-power-parity	Rank
UAE	23,770	31	24,090	42
Kuwait	22,470	33	21,610	43
Saudi Arabia	10,140	55	13,810	61
Libya	4,400	81	n/a	n/a
Iran Islamic Rep*	2,320	109	7,530	92
Algeria	2,270	113	6,329	105

\*Non-Arab

**Table 3** Arab non-oil, non-Muslim Mediterranean countries, secular Muslim

	2004 per capita income in US dollars	Rank	2004 per capita income purchasing-power-parity	Rank
<i>Arab non-oil</i>				
Jordan	2,190	117	4,770	128
Morocco	1,570	128	4,250	131
Egypt	1,250	133	4,200	134
Syria	1,230	134	3,500	139
West Bank and Gaza	1,120	135	n/a	n/a
Yemen	550	167	810	197
<i>Non-Muslim Mediterranean</i>				
Italy	26,280	28	28,020	28
Spain	21,530	34	24,750	33
Israel	17,360	39	23,770	37
Greece	16,730	42	22,230	41
<i>Secular Muslim/significant non-Muslim populations</i>				
Turkey	3,750	89	7,720	90
Tunisia	2,650	102	7,430	94
Lebanon	6,010	73	5,550	117

Table 3 compares three groups of countries that do not have natural-resource wealth.<sup>9</sup> Arab states have per capita incomes substantially below neighboring non-Muslim Mediterranean countries.<sup>10</sup> The purchasing-power-parity adjusted incomes of the non-Muslim Mediterranean countries approximate those of the high-income oil-rich Arab states. Middle-income Lebanon has a significant non-Muslim population but also harbors radical Islam.<sup>11</sup>

<sup>9</sup>Syria has oil but not in the quantities that other Arab oil extracting states have.

<sup>10</sup>For these states, the purchasing-power-parity measures leave the rankings of Morocco, Egypt, and Syria more or less unchanged; Tunisia's rank increases; the ranks of Jordan and Yemen decline.

<sup>11</sup>Egypt has a substantial Copt minority.

**Table 4** South Asia

	2004 per capita income in US dollars	Rank	2004 per capita income purchasing-power-parity	Rank
<i>Singapore and neighbors</i>				
Malaysia	4,520	79	9,720	78
Indonesia (oil)	1,140	137	3,480	140
Singapore	24,760	29	27,370	29
<i>Subcontinent</i>				
Pakistan	600	161	2,170	157
Bangladesh	440	174	1,970	164
India	620	159	3,120	144

Tunisia is quite secular. The constitution of Turkey detaches the institutions of the state from Islam.

Table 4 shows comparisons in South Asia. Primarily Muslim Malaysia and Muslim Indonesia have considerably lower incomes than neighboring non-Muslim Singapore. The per capita income of Malaysia, which has a large Chinese non-Muslim minority, is substantially higher than that of Indonesia, which has natural-resource wealth and where non-Islamic minorities are smaller. India and its Muslim neighbors Pakistan and Bangladesh are among the poorest countries in the world. Using the purchasing-power-parity measures, Indian per capita income is 44% higher than that of Pakistan and 58% higher than that of Bangladesh.<sup>12</sup>

## 2.2 Comparisons of economic growth

Economic theory predicts “convergence” in economic growth across countries. Populations in high-income countries that are on the frontiers of knowledge are limited to benefits from the creation and application of *new* knowledge. Populations in countries not on the frontiers of knowledge have lower incomes but should be able to benefit from higher growth through application of knowledge that already exists.<sup>13</sup>

In Fig. 1, the vertical axis shows the natural logarithm of Gross Domestic Product (GDP) per capita at purchasing-power-parity over the period 1950–2005. The horizontal axis shows time. Data is presented for the country average of four groups of countries: a group of 26 Western European countries, a world average based on 133 countries, and respective oil and non-oil Arab states.<sup>14</sup> The slope of the line for a country group indicates growth or decline in the *value* of per capita output. *Value* is emphasized, because output may not change but per capita GDP responds to changes in prices. The price of oil is particularly significant for

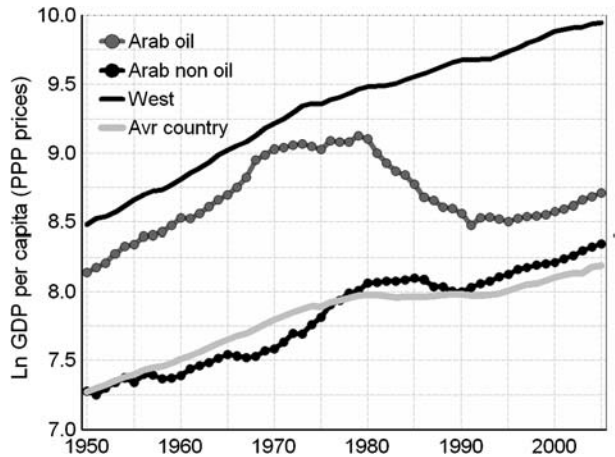
<sup>12</sup>In India, there is a substantial middle-class with incomes not derived from quasi-feudal land ownership. See Rodrik and Subramanian (2005).

<sup>13</sup>Convergence refers to rates of economic growth, and not necessarily income levels. Conditional on initial low incomes, growth is predicted to be higher in low-income countries than in high-income countries. In the formal expositions, convergence is also shown to be conditional on steady state characteristics. The so-called Dutch disease describes expansion of the natural resource sector at the expense of other sectors; oil extraction in Arab oil states does not, however, appear to have attracted domestic resources from other sectors. The other sectors were not there to begin with. Employment of expatriates has been prominent in oil-rich Arab states.

<sup>14</sup>Arab non-oil countries included here are Jordan, Lebanon, Syria, Yemen, Egypt, Morocco, and Tunisia; Arab oil countries are Algeria, Bahrain, Iraq, Libya, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE.

**Fig. 1** Growth comparisons.

Note: All averages are based on the Maddison dataset (Maddison 2003), updated to 2005 using the World Bank WDI data. All averages are unweighted. The average country covers 133 countries with consistent data. Ln refers to natural logarithm



the GDP per capita of Arab oil countries. Where the slope in Fig. 1 is positive (the natural logarithm of) GDP per capita has increased and so growth has been positive. Where the slope is negative, GDP per capita has declined, indicating negative growth or contraction. The change in the slope of the line indicates the growth rate.<sup>15</sup>

In consistency with the previous per capita income data, the Western countries in Fig. 1 are shown to have had the highest levels of per capita output over time, followed by Arab oil countries. Per capita output of non-oil Arab states has approximated the world average. All country groups experienced growth over time, with the exception of Arab oil states between the late 1970s and 1995. Growth for the world-at-large has been below the Western European average, with small divergence; hence the world-at-large did not use the technology and knowledge gap to advantage to catch up to Western European incomes. As with levels of output per capita, the pattern of economic growth of non-oil Arab states closely follows the pattern for the world at large. Growth of Arab oil states was above the world average but slightly below the Western European average up to the late 1970s. Growth was therefore positive but convergence to Western European income levels was not taking place. In the late 1970s, growth in the Arab oil states became negative, indicating divergence. Around 1995 positive growth resumed.

### 2.3 Human-development indicators

Table 5 shows data on mortality under age five, life expectancy at birth, secondary school enrolment, the ratio of boys to girls in primary and secondary schooling, and the literacy rate for selected countries. The UN Human Development Index averages components of these and other indicators. Non-oil Muslim countries tend to have greater infant mortality than Western countries and slightly lower life expectancy. Secondary school enrolment also tends to be lower. Literacy rates are high, and with the exceptions of Egypt and Syria girls tend to attend school at the same rates as boys. Whether an Arab country has oil was

<sup>15</sup>That is, formally, denoting by  $y$  the natural logarithm of GDP per capita output:

$$\frac{d \ln y}{dt} = \frac{\dot{y}}{y}$$



**Table 5** Selected development indicators, selected countries

2004	Mortality rate under age 5	Life expectancy	School enrolment secondary	Ratio girls to boys in schooling	Literacy rate	Human Development Index 2003	
						Value	Rank
<i>High-income</i>							
Australia	5.5	79.9	153.8*	98.5*	99	0.955	3
US	7.6	77.4	94.5*	100	99	0.944	10
France	4.6	80.2	110.0*	100.2*	99	0.938	16
Greece	4.9	78.9	95.6	100.9	97.5	0.912	24
Israel	5.9	79.4	92.8*	99.0*	97.1	0.915	23
Singapore	3.3	79.3	na	na	92.5	0.907	25
<i>Middle-income</i>							
Mexico	27.6	75.1	78.8*	101.9	91	0.814	53
China	31.0	71.4	70.3*	98.5*	90.9	0.755	85
Turkey	32.0	69.9	85.3*	85.1*	97.7	0.750	94
<i>Oil</i>							
UAE	7.6	78.9	66.4	101.6	n/a	0.849	41
Saudi Arabia	26.6	72.3	67.8	92.3	79.4	0.772	77
Iran	40.3	70.8	81.9	100	77.0	0.736	99
<i>Non-oil</i>							
Malaysia	12.4	73.5	69.3**	104.5**	88.7	0.796	61
Jordan	26.8	71.8	88.3*	101.3*	89.9	0.753	90
Syria	16.4	73.6	63.2	93.8	79.6	0.721	106
Indonesia	38.4	67.4	61.8*	98.2*	90.4	0.697	110
Egypt	36.2	70.2	86.9*	94.0*	57.7	0.659	119
<i>Sub-Saharan Africa</i>							
Cameroon	149.4	46.0	43.8	86.7	67.9	0.487	148
Kenya	119.3	48.3	48.0	94.1	73.6	0.474	154
Sierra Leone	282.5	41.1	na	na	35.1	0.298	176

\* 2003

\*\* 2000

Sources: [http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20535285~menuPK:1192694~pagePK:64133150\\_piPK:64133175~theSitePK:239419,00.html](http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20535285~menuPK:1192694~pagePK:64133150_piPK:64133175~theSitePK:239419,00.html)

<http://hdr.undp.org/statistics/data/indicators.cfm?x=1&y=1&z=1>

Data not available from the above source (literacy rate for Australia, US, France, Greece, Egypt; mortality rate under age 5 Iran) has been supplemented by data from <https://cia.gov/cia/publications/factbook/geos/eg.html#People>

shown in Tables 2 and 3 to affect per capita income significantly. Oil wealth is however not of the same significance in determining outcomes measured by the Human Development Index.

Table 6 presents summary data for groups of countries on: GDP per capita (purchasing-power-parity), the Human Development Index, and components of development measured by life expectancy at birth, the adult literacy rate, and gross school enrolment. Rankings of GDP per capita and the Human Development Index for all country groups would be

**Table 6** Development indicators and income, average for country groups, 2003

	GDP per capita (ppp)	Human Development Index	Life expectancy at birth	Adult literacy rate (proportion aged 15 and above), %	Gross school enrolment, all levels, %
Sub-Saharan Africa	1,856	0.515	46.1	61.3	50
South Asia	2,897	0.628	63.4	58.9	56
East Asia and the Pacific	5,100	0.768	70.5	90.4	69
<i>Arab states</i>	5,685	0.679	67.0	64.1	62
Latin America and the Caribbean	7,404	0.797	71.9	89.6	81
Central and eastern Europe and CIS (former communist)	7,939	0.812	68.1	99.2	83
OECD	25,915	0.892	77.7		89
High-income OECD	30,181	0.911	78.9	98.9*	95

\*Developed countries, from <http://portal.unesco.org/education>

perfectly correlated, were it not for the low values of the Human Development Index for the Arab states. The same divergence from perfect correlation with ranking by income is present in life expectancy at birth, the adult literacy rate, and school enrolment.

#### 2.4 Summary of the data

We can now summarize the data. Oil wealth is a necessary condition for Arab states to have high per capita incomes. Under similar geographical conditions, Arab or Muslim states without oil wealth have substantially lower per capita incomes than neighboring non-Islamic states that also lack oil or other natural-resource wealth. More secular Muslim countries without oil wealth have higher incomes than more traditional non-oil Arab states. Convergence of growth rates occurred in neither the oil nor non-oil Arab states, with the Arab oil states faring less well overall with regard to growth than the non-oil states. Arab and Muslim states have had lower indicators of human development than predicted by the ranking of country groups by per capita income. Oil wealth has had asymmetric effects on incomes and on human development indicators such as life expectancy, the adult literacy rate, and school enrolment. Incomes are significantly increased by oil wealth in Arab societies. Similar gains through oil wealth are not expressed in the values of human development indicators.<sup>16</sup>

<sup>16</sup>The summary presented here is consistent with the econometric evidence. In econometric results that go against the pattern of evidence, Noland (2005a) concludes however from regressions that Islam, if anything, is conducive to growth. One of Noland's findings is that Jewish, Catholic, and Protestant population shares negatively affect per capita income growth. Less puzzling is Noland's finding that closeness to Mecca of a national capital weighted by Muslim population share increases a country's total factor productivity: since oil or natural-resource wealth increases total factor productivity, this finding by Noland appears to reflect the geographic concentration of oil and of Islamic populations around Mecca.

### 3 Institutions and economic outcomes

We turn now to explanations. Explanations for different economic and human-development outcomes as expressed in the above data can be categorized into (1) resource availability including investment, (2) geographic location, and (3) “institutions”. Explanations that stress resource availability underlie the quest to achieve economic development through foreign aid programs. Geographic location has consequences through climate and access to markets. Institutions, however, have been identified as the primary determinants of societal economic achievement.<sup>17</sup> Institutions affect personal and political behavior through incentives, conventions, and social norms. In turn, institutions are influenced by history, traditions, and the presumptions of appropriate behavior expressed in culture and belief and value systems. Institutions determine whether there is democratic and accountable government or authoritarian and despotic rule with corruption and benefit for a privileged few. Institutions also determine the scope of individual opportunity through social mobility, expressed in access to education and health care, attitudes to free markets and free trade, and access to credit and resources. The role of institutions in economic development has an historical context, for example with respect to why the Industrial Revolution began when and where it did, and why the Industrial Revolution bypassed some societies. Rent seeking associated with institutions has been identified as inhibiting economic growth in different ways (Rama 1993; Murphy et al. 1993; Pedersen 1997). If insufficient resources were the sole impediment to economic development, aid would be successful in achieving economic growth. However, aid has been ineffective in fostering economic growth (Doucouliagos and Paldam 2005). Rent seeking is facilitated when aid provides rents to be contested (Svensson 2000). Whether natural resource wealth invites the contestability of rent seeking also depends on institutions (Mehlum et al. 2006). The data presented above confirm that societies have achieved economic growth and high incomes with little or no natural resource wealth, and that populations in countries in similar geographic locations and with similar natural resources have fared quite differently in economic outcomes. The evidence that natural resource wealth and advantageous geography are neither sufficient nor necessary for high incomes and economic growth substantiates the primary role of institutions and associated rent seeking behavior in economic development.

Attributes of institutions are reflected in discretionary behavior of rulers. Incentives have been observed to be present for autocratic rulers to resist economic development because higher incomes and improved standards of health and education are anticipated to bring demands for democratic accountability and political participation (for example, Welzman 2005). There are also incentives to resist elimination of poverty because maintained poverty provides ongoing foreign aid flows. The poor are held as “hostages” to secure the foreign aid (Easterly 2001; Hillman 2002).

These observations regarding institutions are drawn primarily from the study of economic development in sub-Saharan Africa. Similar observations about institutions, including roles of rent seeking in various forms, have been made about the transition from socialism to a private-property market economy (Gelb et al. 1998; Campos and Fidrmuc 2003).

The prominence of institutions and associated incentives including rent contestability in explanations of economic outcomes in other societies leads us to inquire about the role of institutions in Islamic societies. In the quest for answers, we can begin by drawing on

---

<sup>17</sup>Confirmation of the role of institutions in economic development is provided by a substantial literature including Rodrik et al. (2002), Glaeser et al. (2004) and Acemoglu et al. (2004).

the writings of Timur Kuran, who has proposed a number of traditional and historically-based explanations for economic outcomes under Islam. We shall then supplement Kuran's explanations with explanations framed more in terms of public-choice oriented concepts. We begin with moderate Islam while noting that manifestations of contemporary radical Islam are reflected in values and objectives of historical traditional Islam.

### 3.1 Islamic legal and ethical principles

In a series of papers, Kuran (for example, 1993, 1995, 1997, 2004) has studied the economic dimensions of Islamic societies. In Kuran (2004), he points to inhibitions on economic development due to Islamic legal principles that disallow payment of interest, prohibit businesses as judicial entities, and allow no scope for insurance. He stresses how economic growth was deterred by Islamic trusts. The purpose of the trusts was to provide legal entities that would protect private property rights against intent of appropriation by rulers. Legally designated objectives of the trusts, however, prevented resource reassignment in response to changing priorities and opportunities. Since change in the allocation of resources of the Islamic trusts could only be informal, a tradition of bribery and corruption came to be established, as means were sought to circumvent the legal impediments to changes in the ways that the assets of trusts could be used. Kuran also notes the adverse consequences of an inheritance system that fragmented wealth and disrupted business partnerships. He points out that the Islamic legal system did not necessarily apply to the Jews and Christians living under Islam, and proposes that as a consequence Jews and Christians came to dominate economic activity in Islamic societies.

Ethically based principles are not necessarily expected to promote personal material gain. This is particularly so when personal wealth acquired through productive effort is deemed non-meritorious and guilt feelings are imparted by personal economic success. Guilt resulting from economic success is consistent with Max Weber's distinction between "publican" and "pharisaic" religions. As noted, for example by Grondona (2000), in the former cases, which include Islam, the economically successful are perceived, and are made to perceive themselves as ethically inadequate while the poor and economically unsuccessful are given comfort in the ethical merit of their personal circumstances. By contrast, in the latter cases, economic success is a sign of worthiness, and it is the poor who are made to feel ethically inadequate.<sup>18</sup>

Kuran's (1996) evaluation is that an economic system based on Islamic principles can be "criticized extensively for its incoherence, incompleteness, impracticality, and irrelevance." The principles, however, are not consistently applied in contemporary Islamic societies. As in the past, means are found of redefining economic transactions to establish consistency with Islamic principles, in particular through Islamic banking. Islamic legal principles do not directly explain contemporary economic outcomes under Islam.

Islam initially accommodated the openness of societies that it conquered and flourished intellectually while Europe languished in the Dark Ages. Subsequent closure to new knowledge followed. Kuran (1997) has pointed to the adverse effects on economic growth of impediments to new knowledge and independent thought. Easterlin (2004) correspondingly draws attention to evidence that modern education of a broad segment of the population is a requisite for a society's ability to absorb new information and technology. An education system that stresses rote learning of religious tracts is not conducive to advances in

---

<sup>18</sup>The comparison is usually made for Protestant and Catholic variants of Christianity. See Grondona (2000).

scientific knowledge. While the Industrial Revolution bypassed Islamic societies, there has also been no significant industrialization in contemporary times. The low rates of economic growth in oil-rich states are consistent with impediments to access to new knowledge. New knowledge could have been embodied in investment, with accompanying human adaptation. As was shown in the data, convergence to Western growth rates did not take place, indicating that the hereditary rulers in the Arab oil states did not use income from oil wealth for knowledge-based and technology-embodied investment.<sup>19</sup> Why did the potential beneficiaries of growth not succeed in introducing growth-promoting change? An impediment to change is inhibition of the public discourse that would permit dissemination of information about benefits of a more open approach to new knowledge. The inhibitions take the problem of impediments to new knowledge one step back, to impediments to knowledge about the consequences of new knowledge.

The above framework based on Kuran's writings provides important insights for understanding economic outcomes under Islam. An alternative and supplementary direction of analysis focuses on insights from the theory of the rent-seeking society and the relation between rent seeking and supreme values.

### 3.2 Rent seeking

In Islamic societies, as elsewhere, wealth and power have historically been concentrated in the hands of an absolute ruler and associated elites. The concentrated wealth attracts resources to contestability—if the means of contestability are available. As also elsewhere, the institutions of Islamic societies have sought to protect property rights of rulers through hereditary succession.<sup>20</sup> In the case of Islam, since the ruler follows the principles of Islam, rebellion against the ruler is rebellion against Islam itself.

The objective of preempting internal rent seeking directed at the ruler's wealth has not always been achieved. Rebellions have occurred over the course of time. Internecine contestability of succession has often been a consequence of rulers' large numbers of wives and children.<sup>21</sup>

Where contestability is possible, the wealth of the ruler is threatened by private wealth *not* in the hands of the ruler, because of the prospect for use of the private wealth in rent-seeking quests to acquire the ruler's wealth. Institutions that sustain the ruler therefore deter competing private wealth creation, which would occur with the creation and adoption of new technology. Impediments to growth thus arise as a consequence of the objective of protecting the wealth of the ruler.

In European societies, absolute monarchy was historically compromised through concessions made by reigning monarchs. Congleton (2001, 2006) has observed that monarchy in Europe came to be limited by constitutional provisions that were consistent with and

<sup>19</sup>The distinction here is once more between creation and adoption of new technology. Technological creativity is a foundation for societal wealth and resistance to technical growth impedes growth (see Mokyr 2002, Chap. 6). On inhibitions to growth because of impediments to technology adoption, see also Parente and Prescott (1994). As noted when considering convergence of growth, adoption of pre-existing technology is an easier task than creation of new knowledge. The changes in economic growth rates for Arab oil states in Fig. 1 reflect changes in oil prices and not growth due to creation or adoption of new knowledge.

<sup>20</sup>On hereditary succession, see Buchanan (1983).

<sup>21</sup>Conflicts have at times been particularly violent. At times, the consequence has been "failed states", as in contemporary times, in different instances, in Algeria, Lebanon, Yemen, Somalia, Iraq, and the areas of jurisdiction of the Palestinian Authority.

could evolve into eventual democracy. The same liberalizing trends did not occur in Arab societies, where absolute hereditary authoritarian rule persisted, to contemporary times.<sup>22</sup> Borooah and Paldam (2007) conclude from a study of 171 countries between 1972 and 2004 that Islam is a primary reason for absence of democracy.

Persistence of autocracy has consequences for corruption, beyond the historical role of the Islamic trusts noted by Kuran (2004). Corruption is facilitated when the political accountability of democracy is absent.<sup>23</sup> In authoritarian regimes, permissible corruption is a means of sustaining loyalty to the regime by providing privileged sources of incomes within the government bureaucracy.<sup>24</sup>

Easterly et al. (2006) have measured social cohesion in terms of ethnic fractionalization and equality in income distribution, including the indicator of presence of a middle class with a substantial share of national income. They use their measure to confirm empirically the benefits of social cohesion expressed in institutions that are conducive to growth. Muslim countries or countries with large Muslim populations are identified as among the least socially cohesive.

Landes (1999) observed how historically it was expeditious in Islamic societies to hide personal wealth. The unostentatious facades of houses hid more valuable internally ensconced private wealth. The behavior was due to lack of trust, expressed in insecurity of personal property rights. We recall Kuran's observation that the reason for the existence of Islamic trusts was to protect property rights from incursion by rulers. The need to hide personal wealth from the ruler is consistent with the incentive of the ruler to preempt the presence of competitive wealth that could be used to contest the ruler's own wealth.

---

<sup>22</sup>On the Arab regimes, see Noland (2005b). Where there has not been formal hereditary monarchy, hereditary rule has often been de facto, as for example in Syria. In Iraq under Saddam Hussein, a son was the designated successor. In Egypt, a son of the president has been proposed as the successor. In democratic societies as well, there have been political family dynasties. A criterion for the presence of democracy is an identifiable leader of the opposition not in jail or exile who could credibly replace the head of government when new elections are held. This criterion is, for example, satisfied in Turkey. Democratic institutions allowing contestable political office have also been present in other Muslim non-Arab states, including Iran, Bangladesh, Pakistan, Malaysia, and Indonesia. In Algeria, an election that would have brought radical Islam to political office was cancelled in the second round in 1991 (there are estimates that some 100,000 people died in violent conflict in Algeria in the two decades up to 2,000). See Online. Available HTTP: [http://news.bbc.co.uk/1/hi/world/middle\\_east/country\\_profiles/811140.stm](http://news.bbc.co.uk/1/hi/world/middle_east/country_profiles/811140.stm) (accessed 28 February 2007). Algeria has considerable natural resource wealth. Often, elections in Arab societies provide partial democracy. In a contemporary example, a woman was appointed minister of planning and administrative development in Kuwait in 2005, against Islamist opposition. See Online. Available HTTP: [http://news.bbc.co.uk/1/hi/world/middle\\_east/4111234.stm](http://news.bbc.co.uk/1/hi/world/middle_east/4111234.stm) (accessed 28 February 2007). Women had been given the right to vote a month previously and also voted in elections that took place in 2006. Primary political power, however, remained with the hereditary ruler, who appointed the 15 members of the cabinet, who in turn joined the elected assembly of 50. Attempts have been made to impose democracy in Afghanistan and Iraq. Elections in 2006 in the areas of jurisdiction of the Palestinian Authority resulted in a radical Islamic regime.

<sup>23</sup>Accountability is to be distinguished from transparency in governance. Accountability relates to opportunities expressed in institutions for the population to change governments, through government being accountable to voters. Transparency describes the provision of information about the internal functioning of government including budgetary allocation decisions. Roumeen Islam (2006) uses a measure of government transparency to confirm that greater transparency in government is associated with enhanced quality of institutions of governance.

<sup>24</sup>For a discussion of the causes and consequences of corruption, see Tanzi (1998). Empirical studies include Paldam (2002). A ranking of countries according to corruption is provided by Transparency International [http://www1.transparency.org/cpi/2005/cpi2005\\_infocus.html](http://www1.transparency.org/cpi/2005/cpi2005_infocus.html).

Crossette (2000) has observed absence of trust in conventions regarding gender relations. She explains female genital mutilation and denial of sexual satisfaction for women as reflecting lack of trust of women by men. Lack of trust is also expressed in prohibitions on women being in the company of men from outside the extended family. The restrictions on women also impede labor-market participation, which reduces incomes.

When social mobility and incomes are low, gender relations provide compensating benefits or rents for males through polygamy and male dominance within the extended family. Financial independence through personal income earned by women would compromise male dominance. Disallowing participation of women in labor markets is consistent with the ruler's objective of restraining creation of competitive private wealth. Literate mothers promote literacy in children and increase children's future productiveness and future income. If girls are not destined for earning of market income, there are disincentives for educating girls. Again, incomes are kept low, across generations, and the creation of private competitive wealth is contained.

### 3.3 Externally directed rent seeking

It is an enlightened conception that a society should seek economic improvement through own productive activity, comparative advantage and market exchange. Much of human experience is a history of quests for enrichment at the expense of others, through conquest and appropriation. In a Nietzschean context, as I have described elsewhere (Hillman 2004), the strong seek to enrich themselves by taking from the weak.

Islam divides the world into the domain of Islam and the domain of the sword, that is, the domain yet to be conquered by the sword. If the pre-Islam tribes of Arabia were predatory with respect to one another, and if Islam disallowed continued predation among the tribes themselves, then, after the demise of the local Jews and the taking of their possessions and property, the predation would have to continue elsewhere, through wider Islamic conquests.<sup>25</sup> The predation is externally directed rent seeking. The benefit to the ruler is in the distraction from internal rent seeking. In different instances, Islam met barriers to continued conquest and expansion. At the battle of Poitiers, at the gates of Vienna, and elsewhere, the advances stopped. Conquered land was lost in various locations including the Iberian Peninsula, the Balkans, Sicily, and in the 20th century through the partition of India and with the establishment of the state of Israel. Since loss of land previously conquered by Islam is required to be only temporary, the losses set in place the injunction of re-conquest. This injunction brings us to contemporary radical Islam, which adheres to the supreme-value injunction of re-conquest—and also new conquest.

### 3.4 Radical Islam

Expression of the supreme values of radical Islam is found in the declaration by Hamas foreign minister Mahmoud Al-Zahar of the government of the Palestinian Authority that, "Even if the US gave us all its money in return for recognizing Israel and giving up one inch of Palestine, we would never do so even if this costs us our lives."<sup>26</sup> In another expression

<sup>25</sup>See Bernholz (2004) for elaboration. As Timur Kuran has stressed in private communication, conversion to Islam was often voluntary. Nonetheless, for those who were not of the People of the Book (Jews and Christians), the alternative to conversion was in principle death. The survival of the Hindu population of India under Muslim rule demonstrates that this injunction was not always followed.

<sup>26</sup>Source: website of Honest Reporting. <http://www.honestreporting.com/>.



of the supreme values, the Hamas leader Khaled Mashaal has stated, “We do not promise our people to turn Gaza into Hong Kong or Taiwan, but we promise them a dignified and proud life behind the resistance in defense of their honor, their land and their pride.”<sup>27</sup> Both declarations substantiate that economic improvement for the population is subordinate to the priorities of re-conquest of the supreme value system.

Kuran (1996; p. 438) has posed the question:

“If the critics of Islamic economics are right, and its capacity for improving economic performance is at best marginal, what explains its existence and popularity? . . . Why would anyone believe that Islamic economics is capable of raising productivity, stimulating growth, or reducing inequality?”

His answer (*ibid*) is that:

“These questions mask an essential, if paradoxical fact: the main purpose of Islamic economics is not to improve economic performance . . . Its real purpose is to help prevent Muslims from assimilating into the emerging global culture whose core elements have a Western pedigree.”

Kuran (1996; p. 439) therefore points out:

“A complementary objective of Islamic fundamentalism has been to weaken the prevailing commercial and industrial ties between the Muslim world and the West, in order to protect Muslims from un-Islamic influences.”

The intent is therefore separation. Western economic theory, with origins in Adam Smith and classical economists including David Ricardo, points in contrast to the mutual gains from voluntary exchange in markets. As Kuran explains, radical Islam seeks to ensure that influences undesirable to Islam do not permeate through the contacts of market exchange. Although mutually beneficial by usual Western economic criteria, trade would benefit the adversary in the yet-unconquered or to-be re-conquered world of sword. The supreme values would thereby be contradicted. Two natural experiments, which occurred almost simultaneously, are illustrative of the behavior predicated on the supreme values.

Toward the end of the summer of 2005 all areas of the Gaza strip were transferred by the government of Israel to the jurisdiction of radical Islamic government of the Palestinian Authority. With oversight from the World Bank, and with the former president of the World Bank taking charge, the property of Jewish farmers was transferred to Palestinian farmers.<sup>28</sup> The transferred assets, which consisted principally of agricultural greenhouses, were in the end not put to productive use. Terror sponsored by the radical Islamic government resulted in closing off the border crossing with Israel through which produce of the Palestinian farmers was to be shipped to market. Denial of market access *by their own government* led the Palestinian farmers to abandon the farms in late May 2006. Productive activity in the farms ceased, with a loss of income for the local Palestinian population.<sup>29</sup> With the cessation of productive activity, externally directed rent seeking resumed priority. War was initiated with

<sup>27</sup>Jerusalem Post, April 7, 2006.

<sup>28</sup>The primacy of private property rights makes it appropriate to stress that the Jewish farmers had established their agricultural hothouses on sand dunes that had not previously been productively utilized and to which there were no prior private property rights.

<sup>29</sup>The agricultural hothouses had employed 6,000 people, twice the number that had been employed by the Jewish farmers. (Source: Jerusalem Post, May 22, 2006.)



Israel in summer 2006, through kidnapping and armed assault, and missile attacks were directed at Israeli towns. As was to be anticipated, suffering among the Palestinian population increased. Added to the self-deprivation that had occurred because of the cessation of productive activity was the deprivation and loss of life incurred as the Israel Defense Forces responded by attempting to free the kidnap victim and to end the missile attacks.<sup>30</sup>

Whereas Hamas is a Sunni radical Islam organization, radical Islam Hezbollah (the Army of God) is Shi'a. The Shi'a variant of radical Islam was consistent in exhibiting the same behavior as the Sunni radical Islam. By summer 2006, Lebanon had undergone economic reconstruction and semblances of economic normalcy had returned. Resources were being used for economic improvement and incomes had increased. That summer, the Hezbollah, a state-within-a-state in Lebanon but also a member of the coalition government of that country, likewise initiated conflict with the state of Israel, by the same means of kidnapping and armed incursion across recognized boundaries and missile attacks on towns in Israel.<sup>31</sup> The consequence was war. Economic progress for the local populations in Lebanon ceased and previous economic gains were destroyed.

The nuclear weapons program of Iran was required by a supreme value objective of radical Islam. As the data has shown, notwithstanding natural-resource wealth, the population of Iran is quite poor. Income from natural resource wealth that could have been used for economic improvement of the population was used in externally directed rent seeking with the intent of changing institutions in other societies, through the threat of destroying or taking what others outside the belief system have.

### 3.5 Demographic contestability

Contemporary conquering and re-conquering by violent means is the method of radical Islam. The advent of change can also be non-violently awaited. A non-violent form taken in awaiting change is through demographic contestability. Demographic contestability is a sensitive issue because of social consequences and collective intent imputed from the conjunction of personal fertility choices.<sup>32</sup> The question that we confront here is whether democracy can be used to change institutions by majority voting, including ending democracy itself.<sup>33</sup> The political turnover in office necessary for sustained democracy requires political competition to present voters with choices among alternative policies or candidates with different

<sup>30</sup>Economic outcomes in the jurisdiction of the Palestinian Authority are described by the World Bank (2006). The World Bank documents how external focus has resulted in lack of economic progress and how low incomes in the areas under the jurisdiction of the government of the Palestinian Authority further declined under radical Islam. Other claims apportion blame to the Israeli "occupation". This paper is not concerned with the important topic of disinformation. The World Bank makes clear that the Palestinian Authority has been an autonomous regime since the Oslo Accords of 1992, with a head of state, a head of government, and a finance minister, and copious aid resources.

<sup>31</sup>In 2000, Israel Defense Forces, which had been in Lebanon to preempt attacks on the Israeli civilian population, withdrew under the auspices of a UN resolution to a recognized international boundary with Lebanon. The UN resolution required the Lebanese government to exercise sovereignty and to police border areas, which were, however, occupied by the armed forces of the radical Islamic group Hezbollah.

<sup>32</sup>Demographic contestability has been discussed and investigated against the background of differential fertility in India. See Basu (1997) and Borooah (2004). Institutional issues include legal polygamy and the ease of Muslim divorce. Johnson-Hanks (2006) has studied relative fertility in seven West African countries and finds that, where Muslims are a majority, fertility is lower among Muslim than non-Muslim women, but the contrary is the case where Muslims are a minority in the population.

<sup>33</sup>On the use of majority voting for redistribution, see Tullock (1959).

competencies. If a part of the population votes exclusively according to religious identity rather than by comparing policies and political competencies, democracy will no longer be sustainable when that segment of the population becomes the majority of voters.

The opportunity cost of demographic contestability is lowered if women do not participate in labor markets. Non-participation in labor markets and high fertility reduce per capita or family incomes. A host welfare state to which emigration has taken place may however maintain living standards.

Home-societal disincentives for personal productive activity and wealth creation may be sustained by intergenerational cultural transmission in immigrant populations. With norms and conventions—and culture—sustained, the beneficiaries of the welfare state who have come from outside do not undertake productive activity to create personal wealth. Norms disallowing personal wealth that is competitive with the ruler's wealth combine with the perception of the welfare state as expressing the traditional merit of charity to those who have less.

The welfare state relies on productive activity to provide the tax base for redistribution. Demographic trends of declining fertility and increased longevity among local historically-original populations pose problems of fiscal sustainability of European welfare-state commitments. Demographic contestability hastens the advent of non-viability of the institutions of the welfare state—and eventually achieves the demise and replacement of Western institutions.<sup>34</sup>

### 3.6 Contestability and passivity

Contestability suggests a contest. The theory of rent seeking describes the rent seeking contests. Contestability may however be met with passivity from those whose property—and freedom, for example in the way that women dress and are required to behave—provide the rents that are contested. The source of the passivity that makes the contest one-sided can be hyperbolic discounting. The influence of cultural relativism can also be present.

## 4 Cultural relativism

Since at least the writings of Max Weber,<sup>35</sup> there has been awareness that belief and value systems have economic consequences. Max Weber's insights are expanded in the modern literature on the economic consequences of religion.<sup>36</sup> The effects of belief and value systems are reflected in culture, which in turn is reflected in institutions.<sup>37</sup> We have observed that aspects of culture appear to have a role in explaining economic outcomes under Islam. The differences in criteria across cultures for evaluation of personal and societal success introduce cultural relativism.<sup>38</sup>

<sup>34</sup>On the threats to viability of the European welfare state, see for example Sinn (1997, 2005) and Nannestad (2004).

<sup>35</sup>Weber (1958) and other writings.

<sup>36</sup>See Iannaccone (1998) for an overview of religion and economic behavior. Empirical studies of economic consequences of religion include Paldam (2001), Guiso et al. (2002), Barro and McCleary (2003, 2005).

<sup>37</sup>On culture and economic progress, see Landes (1999) and the papers in the edited volumes by Harrison and Huntington (2000) and Rao and Walton (2004). Tabellini (2005) concludes that aspects of culture explain regional development disparities in Europe.

<sup>38</sup>Cultural relativism is the position that we cannot or should not judge the values of others. There is a relation to political correctness as an impediment to intellectual enquiry. See my paper, Hillman (1998).

Cultural relativism might be proposed as disallowing the raising of the type of questions as posed in this paper. The contrary position can also be taken, as eloquently expressed by Harrison (2000), that cultural relativism should not be permitted to restrict intellectual inquiry. In particular, this is the position that we might expect to be taken when a culture harms people or condemns people to economic deprivation. Acceptance of cultural relativism would also presuppose that adherence to the value system is voluntary. For women, subjugation through gender dominance can make personal preferences unclear. Proponents of cultural relativism also confront the need to account for effects on personal security of those outside of the belief system. When a culture seeks to compel imposition of its value system and harms people who do not accept the imposition, cultural relativism is a denial of the right of self-defense for those who are threatened with harm.

## 5 Conclusions

Arab and also other Muslim societies without oil have lower incomes than non-Muslim neighbors who similarly are without natural resource wealth. Growth has not closed income gaps, including in oil states where resources for investment have been available from oil revenues. Absence of convergence of growth indicates that innovations and new technologies available from outside have not been used to advantage. Human development indicators show outcomes for populations inferior to those predicted by per capita income. From these initial circumstances of moderate Islam, the supreme values of radical Islam de-prioritize economic achievement and impose self-deprivation on own populations. Theories of economic development pre-suppose that intended beneficiaries seek economic improvement. The theories lose applicability when supreme values require economic self-deprivation and when ongoing life has no value. Since the supreme values require all available resources to be directed to the priority objectives, aid donors and international agencies also cannot be expected to achieve development objectives.

In the absence of significant consequences for other societies, an appeal to cultural relativism could allow acceptance that voluntarily chosen supreme values de-prioritize economic progress. More difficult for cultural relativists are gender relations and the diminution of the worth of ongoing life. These are nonetheless internal consequences of a belief and value system that cultural relativism would have those outside the belief and value system not judge. The supreme values, however, have security consequences through the change sought in other societies.

Do the supreme values make impediments to compromise with other societies insurmountable? A civil constitution could seek to change institutions of radical Islam but would require voluntary relinquishing of the supreme values of the belief and value system. A change in values could be sought through education but, when the value system is embedded in the content of education, education reinforces the supreme values and does not promote tolerance. Radical Islam can accommodate temporary compromise or truce if, in the longer perspective, the likelihood of the achievement of the supreme value objectives is enhanced. As long as other societies remain unwilling to accept the supreme values (and it is a supreme value of radical Islam that the supreme values should become universal), it seems that the challenge will remain for longer-run conciliation between radical Islam and the societies whose institutions (and beliefs) radical Islam seeks (or is required by its own values) to change.

## References

- Acemoglu, D., Johnson, S., & Robinson, J. (2004). Institutions as the fundamental cause of long-run growth. NBER Working Paper No. 10481. Cambridge: National Bureau of Economic Research.
- Barro, R. J., & McCleary, R. M. (2003). Religion and economic growth across countries. *American Sociological Review*, 68, 760–781.
- Barro, R. J., & McCleary, R. M. (2005). Which countries have state religions?. *Quarterly Journal of Economics*, 104, 1331–1370.
- Basu, A. M. (1997). The politicization of fertility to achieve non-demographic objectives. *Population Studies*, 51, 5–18.
- Bernholz, P. (1995). Supreme values, tolerance, and the constitution of liberty. In G. Radinsky & H. Bouillon (Ed.), *Values and the social order. Values and society* (Vol. 1, pp. 235–250). Brookfield: Avery Publishing.
- Bernholz, P. (2004). Supreme values as the basis for terror. *European Journal of Political Economy*, 20, 317–334.
- Berrebi, C., & Klor, E. (2006). On terrorism and electoral outcomes. *Journal of Conflict Resolution*, 50, 899–925.
- Borooh, V. K. (2004). The politics of demography: a study of inter-community fertility differences in India. *European Journal of Political Economy*, 20, 551–578.
- Borooh, V. K., & Paldam, M. (2007). Why is the world short on democracy? A cross-country analysis of barriers to representative government. *European Journal of Political Economy*, 23.
- Brück, T., & Wickström, B.-A. (Ed.) (2004). Special issue on the economic consequences of terror. *European Journal of Political Economy*, 20(June).
- Buchanan, J. M. (1983). Rent seeking, noncompensated transfers, and laws of succession. *Journal of Law and Economics*, 26, 71–85.
- Campos, N. F., & Fidrmuc, J. (Ed.) (2003). *Political economy of transition and development: institutions, policies, and policies*. Dordrecht: Kluwer.
- Chen, A. H., & Siems, T. F. (2004). The effects of terrorism on global capital markets. *European Journal of Political Economy*, 20, 349–366.
- Coçgel, M., Ahmed, R., & Miceli, T. (2007). *Law and state power: the institutional roots of the strong state in Islamic history*. Department of Economics Working Papers Series 2007-01. Storrs: University of Connecticut.
- Collier, P., & Gunning, J. W. (1999). Why has Africa grown so slowly? *Journal Economic Perspectives*, 13, 3–22.
- Congleton, R. (2001). On the durability of king and council: the continuum between dictatorship and democracy. *Constitutional Political Economy*, 12, 193–215.
- Congleton, R. (2006). *From royal to parliamentary rule without revolution: credible commitments and the market for power within divided governments*. Working paper, Public Choice Center, George Mason University, Fairfax VI.
- Cowen, T. (2004). Road map to Middle Eastern peace? A public choice perspective. *Public Choice*, 118, 1–10.
- Crossette, B. (2000). Culture, gender, and human rights. In L. E. Harrison & S. P. Huntington (Ed.), *Culture matters: how human values shape economic progress* (pp. 178–188). New York: Basic.
- Doucouliaogis, H., & Paldam, M. (2005). *The aid effectiveness literature: the sad result of 40 years of research*. Available at [http://www.econ.au.dk/vip\\_html/mpaldam/Papers/Meta-meta\\_8.pdf](http://www.econ.au.dk/vip_html/mpaldam/Papers/Meta-meta_8.pdf).
- Easterlin, R. (2004). Why isn't the whole world developed? In R. Easterlin (Ed.), *The reluctant economist* (pp. 57–73). New York: Cambridge University Press.
- Easterly, W. (2001). *The elusive quest for growth: economists adventures and misadventures in the tropics*. Cambridge: MIT.
- Easterly, W., Ritzen, J., & Woolcock, M. (2006). Social cohesion, institutions, and growth. *Economics and Politics*, 18, 103–120.
- Eldor, R., & Melnik, R. (2004). Financial markets and terrorism. *European Journal of Political Economy*, 20, 367–386.
- Franck, R., Hillman, A. L., & Krausz, M. (2005). Public safety and the moral dilemma in the defense against terror. *Defense and Peace Economics*, 16, 347–364.
- Gelb, A., Hillman, A. L., & Ursprung, H. W. (1998). Rents as distractions: why the transition from socialism is prolonged. In N. C. Baltas, G. Demopoulos, J. Hassid (Ed.), *Economic interdependence and cooperation in Europe* (pp. 21–38). Berlin: Springer.
- Glaeser, E. L., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2004). Do institutions cause growth? *Journal of Economic Growth*, 9, 271–303.

- Grono, M. (2000). A cultural typology of economic development. In L. E. Harrison & S. P. Huntington (Ed.), *Culture matters: how human values shape economic progress* (pp. 44–55). New York: Basic.
- Guiso, L., Sapienza, P., & Zingales, L. (2002). People's opium: religion and economic activities. NBER Working Paper no 9237. Cambridge: National Bureau of Economic Research.
- Harrison, L. E., & Huntington, S. P. (Ed.) (2000). *Culture matters: how human values shape economic progress*. New York: Basic.
- Harrison, L. E. (2000). Why culture matters. In L. E. Harrison & S. P. Huntington (Ed.), *Culture matters: how human values shape economic progress* (pp. xvii–xxxiv). New York: Basic.
- Hillman, A. L. (1998). Political economy and political correctness. *Public Choice*, 96, 219–239. (Presidential address, European Public Choice Society, Prague, 1997).
- Hillman, A. L. (2002). The World Bank and the persistence of poverty in poor countries. *European Journal of Political Economy*, 18, 783–795.
- Hillman, A. L. (2003). *Public finance and public policy: responsibilities and limitations of government*. New York: Cambridge University Press.
- Hillman, A. L. (2004). Nietzschean development failures. *Public Choice*, 119, 263–280.
- Iannaccone, L. R. (1998). Introduction to the economics of religion. *Journal of Economic Literature*, 36, 1465–1495.
- Islam, R. (2006). Does better transparency go along with better governance? *Economics and Politics*, 18, 121–167.
- Johnson-Hanks, J. (2006). On the politics and practice of Muslim fertility comparative evidence from West Africa. *Medical Anthropology Quarterly*, 20, 12–30.
- Krueger, A. O. (1974). The political economy of the rent-seeking society. *American Economic Review*, 64, 291–303. (Reprinted in J. M. Buchanan, R. D., Tollison, & G. Tullock (Ed.), 1980, *Toward a theory of the rent-seeking society* (pp. 51–70). College Station: Texas A & M Press.)
- Kruger, A. B., & Maleckova, J. (2003). Education, poverty, and terrorism: is there a causal connection? *Journal of Economic Perspectives*, 17, 119–144.
- Kuran, T. (1993). The economic impact of Islamic fundamentalism. In M. Marty & S. Appelby (Ed.), *Fundamentalists and the state: remaking politics, economics, and militancy* (pp. 302–341). Chicago: University of Chicago Press.
- Kuran, T. (1995). Islamic economics and the Islamic subeconomy. *Journal of Economic Perspectives*, 9, 155–173.
- Kuran, T. (1996). The discontents of Islamic economic morality. *American Economic Review*, 86, 438–442.
- Kuran, T. (1997). Islam and underdevelopment: an old puzzle revisited. *Journal of Institutional and Theoretical Economics*, 153, 41–71.
- Kuran, T. (2004). Why the Middle East is economically underdeveloped: historical mechanisms of institutional stagnation. *Journal of Economic Perspectives*, 18, 71–90.
- Landes, D. S. (1999). *The wealth and poverty of nations*. New York: Norton.
- Maddison, A. (2003). *The world economy: historical statistics*. Paris: OECD.
- McCleary, R. M., & Barro, R. J. (2006). Religion and the economy. *Journal of Economic Perspectives*, 20, 49–72.
- Mehlum, H., Moene, K., & Torvik, R. (2006). Institutions and the resource curse. *Economic Journal*, 116, 1–20.
- Mokyr, J. (2002). *The gifts of Athena: historical origins of the knowledge economy*. Princeton NJ: Princeton University Press.
- Murawiec, L. (2007). Deterring those who are already dead? In E. Inbar & H. Frisch (Ed.), *Radical islam and international security: challenges and responses*. London: Routledge.
- Murphy, K. M., Shleifer, A., & Vishny, R. W. (1993). Why is rent seeking so costly for growth? *American Economic Review Papers and Proceedings*, 83, 409–414.
- Nannestad, P. (2004). Immigration as a challenge to the Danish welfare state? *European Journal of Political Economy*, 20, 755–767.
- Noland, M. (2005a). Religion, culture, and economic performance. *World Development*, 33, 1215–1232.
- Noland, M. (2005b). *Explaining Middle East authoritarianism*. Working Paper 05-5. Washington: Institute for International Economics.
- North, D. (1981). *Structure and change in economic history*. New York: Norton.
- Paap, R., Franses, P. H., & van Dijk, D. (2005). Does Africa grow slower than Asia, Latin America and the Middle East? Evidence from a new data-based classification method. *Journal of Development Economics*, 77, 553–570.
- Paldam, M. (2001). Corruption and religion: adding to the economic model. *Kyklos*, 54, 383–414.
- Paldam, M. (2002). The big pattern of corruption. Economics, culture, and the seesaw dynamics. *European Journal of Political Economy*, 18, 215–140.

- Paldam, M. (2003). Economic freedom and the success of the Asian tigers: an essay on controversy. *European Journal of Political Economy*, 19, 453–477.
- Parente, S. L., & Prescott, E. C. (1994). Barriers to technology adoption and development. *Journal of Political Economy*, 102, 298–321.
- Pedersen, K. R. (1997). The political economy of distribution in developing countries: a rent-seeking approach. *Public Choice*, 91, 351–373.
- Plaut, S. (2004). Misplaced applications of economic theory to the Middle East. *Public Choice*, 118, 11–24.
- Pomfret, R. W. T. (1995). *The economies of Central Asia*. Princeton: Princeton University Press.
- Rama, M. (1993). Rent seeking and economic growth: a theoretical model and some empirical evidence. *Journal of Development Economics*, 42, 35–60.
- Rao, V., & Walton, M. (Ed.) (2004). *Culture and public action: understanding the role of culture and development policy in an unequal world*. Stanford: Stanford University Press.
- Rodrik, D., & Subramanian, A. (2005). From “Hindu growth” to productivity surge: the mystery of the Indian growth transition. *IMF Staff Papers*, 52, 193–228.
- Rodrik, D., Subramanian, A., & Trebbi, F. (2002). *Institutions rule: the primacy of institutions over geography and integration in economic development*. Discussion Paper 3643. London: CEPR.
- Rowley, C. K. (2000). Political culture and economic performance in sub-Saharan Africa. *European Journal of Political Economy*, 16, 133–158.
- Sinn, H.-W. (1997). The selection principle and market failure in systems competition. *Journal of Public Economics*, 66, 247–274.
- Sinn, H.-W. (2005). Migration, social standards and replacement incomes: how to protect low-income workers in the industrialized countries against the forces of globalization and market integration. *International Tax and Public Finance*, 12, 375–393.
- Svensson, J. (2000). Foreign aid and rent seeking. *Journal of International Economics*, 51, 437–61.
- Tabellini, G. (2005). Culture and institutions: economic development in the regions of Europe. Working Paper 1492. Munich: CESifo.
- Tanzi, V. (1998). Corruption around the world: causes, consequences, scope, and cures. *IMF Staff Papers*, 45, 559–594. (Reprinted in Abed G. T. & Gupta S. (Ed.) (2002). *Governance, corruption, and economic performance* (pp. 19–58). Washington: International Monetary Fund.)
- Tullock, G. (1959). Problems of majority voting. *Journal of Political Economy*, 67, 571–579. (Reprinted in Arrow, K. J., & Scitovsky, T. (Ed.) (1969). *Readings in welfare economics* (pp. 169–178). Homewood: Richard D. Irwin.)
- Tullock, G. (1967). The welfare costs of tariffs, monopolies, and theft. *Western Economic Journal*, 5, 224–232. (Reprinted in J. M. Buchanan, R. D., Tollison, & G. Tullock (Ed.) (1980). *Toward a theory of the rent-seeking society* (pp. 39–50). College Station: Texas A & M Press.)
- Tullock, G. (1989). *The economics of special privilege and rent seeking*. Boston: Kluwer.
- Weber, M. (1958). *The protestant ethic and the spirit of capitalism*. New York: Scribner.
- Welzman, Y. (2005). *Corruption, poverty, and political exclusion*. Paper presented at the 14th Silvaplane Workshop on Political Economy, Silvaplane, Switzerland.
- World Bank (2006). *Growth in West Bank and Gaza: opportunities and constraints*. West Bank and Gaza Country Economic Memorandum. Washington.
- Yetman, J. (2004). Suicidal terrorism and discriminatory screening: an efficiency-equity trade-off. *Defense and Peace Economics*, 15, 221–230.