

# Policy Perspective

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## ECONOMIC VALUES IN THE ARAB WORLD FAVOR CAPITALISM

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### **In a nutshell**

- *There are many economic values that predispose citizens of Arab countries to be part of a market economy, including strong work ethics, comfort with competition and the work of markets, and opposition to large-scale income redistribution.*
- *The main value that is inimical to the workings of a market economy is a low trust in state institutions, combined with a perception of high levels of corruption both in government and business.*
- *It is thus imperative to find ways of building trust between citizens and their state institutions to serve as the foundation of future economic growth.*

Why the Arab region has under-performed economically, after what looked on paper to be successful market reforms, is a question that has been debated for years. Three culturalist arguments have been used to explain this under-performance; they can be termed the “excessive reliance on the state,” “Islam is the problem,” and “fear of redistribution” views. But such essentialist claims have tended to rely more on speculation than on empirical verification.

A recent paper titled *Economic Values in the Arab World through the Prism of Opinion Polls*, written by Ishac Diwan and Zafiris Tzannatos (ERF WP no. 1102) tries to remedy that. It uses new data from the World Value Survey (WVS), which includes individual economic values for 18,000 respondents from 13 Arab countries throughout the period 2000-2008. These values can be compared to those of more than 100,000 individuals of all income levels in 72 non-Arab countries from around the world.<sup>1</sup> This is also complemented with some data from Gallup.

### **What Are “Economic Values”?**

Culture can influence economic performance in several ways. One celebrated approach under the

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<sup>1</sup> Our sample includes 13 Arab countries: Algeria, Palestine, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Saudi Arabia, Tunisia, Egypt, and Yemen. All together, there are 25 Muslim-majority countries, where at least 50 percent of the respondents declare themselves as Muslim. Of these, 13 are located in the Arab region, and 12 outside it. The latter are: Azerbaijan, Bangladesh, Indonesia, Iran, Kazakhstan, Kyrgyzstan, Malaysia, Mali, Pakistan, Turkey, Burkina Faso, and Uzbekistan.

umbrella of the WVS asserts that local cultures evolve with modernization; values move from survivalist to self-expressive, and from religious to rational, as individuals achieve higher levels of education and move into cities and out of agricultural lands (Inglehart and Welzel, 2010). Others believe that modernization does not displace local culture entirely; Gorodnichenko and Roland (2011) in particular define culture as a preference map over individualism/collectivism.

An earlier study was based on stereotypes that Muslim or Arab cultures are immutable to change, and that these cultures are intrinsically anti-development. More serious studies have found that Muslim-majority countries form a “civilization” with a preference map that is distinct from that of other cultures (Esmer, 2003). The differences found have been related to core tenets of Islam that may have shaped social norms and affected preferences in several domains, such as the fear of “fitna” (discord) exacerbating the fear of chaos (Platteau, 2011), the deference to the communal goals of the “ummah” (nation) reducing the appeal of individualism (Bayat, 1992), and the value of self-help reducing the appeal of redistributive policies in favor of more structured forms of solidarity such as Zakat (Rodinson, 1966; Al-Gamal, 2015). Timur Kuran has also studied several factors that weaken economic growth in Muslim societies, but he relates those largely to institutions shaped by historical and political forces rather than to culture (Kuran 2004, 2012).

Researchers often assume that Arab culture can be reduced to its Islamic content. Whether this is a true representation of reality is an empirical question. There are historical dissimilarities between the Islam of the Middle East and in other regions, which could have influenced social norms. In contrast, and despite some obvious differences in terms of economic wealth, ethnic diversity, or political systems, one is led to view Arab countries as one

entity with a relatively homogeneous economic culture. The region shares one language, and the rise of a regional Arab media and the movement of migrants have facilitated the spread of ideas. On the political front, “presidents for life” have entrenched autocratic regimes in all countries until 2011 (save Lebanon); an important difference from the rest of the world after the spread of the third democratization wave in Africa, Latin America, and Asia. The economies of Arab countries have been dominated by the logic of rents extraction and distribution – oil, geopolitical, and regulatory. This has fostered crony relations between power and business, taxed growth, and generated similar social and economic frustrations among the population of the region. These similarities were most stark during the 2011 protests that spread across the Arab world. Yet, while our research does reveal many similarities in values, it also underlines some diversity within the Arab region, which we highlight below.

### **Pro-Market Sentiments**

In order to assess the opinions of individual Arabs about the core value of capitalism, including private property, markets, and competition, we constructed an index of “pro-market” values by averaging the responses to three WVS questions: (i) “Private ownership of business and industry should be increased” OR “Government ownership of business and industry should be increased”; (ii) “Competition is good; it stimulates people to work hard and develop new ideas” OR “Competition is harmful; it brings out the worst in people”; and (iii) “People can only get rich at the expense of others” OR “Wealth can grow so there’s enough for everyone.”

The examination of this pro-market index shows – in contrast to the Arab region scoring slightly above all the other regions – that non-Arab Muslim-

majority countries score the lowest. Moreover, the more pious amongst Arab citizens are more pro-market than the rest of the population. This suggests that the particular form of Islam in the Arab region is pro-market perhaps because of its cultural inheritance, as suggested by Azm (2013); the Prophet himself was a trader, and the various regimes that reigned in the region until the Ottomans were also relatively pro-market – a point stressed forcefully by Rodinson (1966). While the region as a whole is found to score above the world average on this value, it exhibits a high level of variability within the region. Individuals in Egypt, Iraq, Libya, Tunisia, and Yemen are especially supportive of markets, perhaps in reaction against the type of economic policies implemented in the past. Individuals in GCC countries, Jordan, Morocco, Palestine, and Algeria, on the other hand, tend to be as pro-markets as the global average.

### Work Ethics

The precise WVS question we look at relating to the value of “hard work” reads: “Hard work doesn’t generally bring success – it’s more a matter of luck/connections” *vs.* “In the long run, hard work usually brings a better life.”

The Arab region scores above the world average, but there is a lot of variability within the region, with Jordan, Egypt, Libya, Yemen, and Iraq exhibiting larger values.

We also found that this value is influenced positively by faith in the Arab region. These results illustrate what Bayat (1992) calls a Muslim ethics of work. In Bayat’s description, the drive for hard work rests on principles that are different from those of Protestant ethics. The latter is driven by a desire to earn income in order to save and reinvest. Drawing on theological writings, Bayat argues that

Islam encourages people to work hard in order to be self-sufficient and avoid being a burden on their community – as a personal contribution to social peace in the *ummah*.

### Preference for Work in the Public Sector

Unemployment in the Arab region is more than double unemployment in the rest of the world and this applies to all groups, such as men and women, adults and youth – more so in the case of women and youth. One explanation that is often offered is that wait unemployment is high among women and the educated youth, who prefer to queue until they can get a public sector job rather than accept a job in the private sector at inferior working conditions and wages. While this characterization seems reasonable for the case of the GCC countries, it is harder to believe that this is the case in the poorer parts of the Arab world, where the civil service wage bill has been shrinking since the 1980s. Given that unemployment is largely a macroeconomic issue, it is more likely that unemployment in the Arab region is mainly due to low aggregate demand and is therefore involuntary to a large extent.

Examining opinions regarding preferences for work in the public *vs.* the private sectors can help discriminate between these two hypotheses. As the WVS does not have a question on this issue, we utilized relevant questions from Gallup in its 2010 wave. The question we asked over 64,000 respondents in 22 Arab countries (but not in other countries) is: “If the conditions are similar, would you prefer to work for the public or private sector?”

The result that has made the headlines is that on average, only 25 percent of respondents prefer to work for the private sector. The proportion is below 15 percent in Yemen, Bahrain, Algeria, Egypt, Qatar, Iraq and Kuwait. But there is no comparable information in other parts of the world

to gauge whether this is a low figure, especially that the question specifies that the choice is for jobs with “similar conditions.” We can, however, look at variations within the Arab region in order to learn what types of individuals prefer to work in the public *vs.* private sectors. We found that Arab women have a strong preference for working in the public sector. This is also the case among poorer, older, and more religious individuals. More importantly, younger and more educated individuals prefer to work in the private sector compared to the average population.

This last result suggests that the situation has changed over time, and that presently, the educated youth are unlikely to line up for work in the public sector in most countries, at least outside the GCC countries that still enjoy a large public sector wage premium. In most other countries, this premium has largely disappeared in recent years, at least at the skilled end of the civil service.

### **Fear of Income Equality and Redistribution**

Some authors have claimed that one reason for the low “supply response” after structural adjustment reforms since the 1990s has been the fear – among economic elites and foreign investors – of a future of socialist-type expropriation for redistribution. As markets were liberalized, it claimed that a lingering fear arose among potential investors that the population remained committed to income redistribution, and that, as a result, democracy could usher a return to populist strategies that support the high taxation of the rich. Several authors have recently stressed the move to the “left” in Muslim-majority countries (El-Gamal, 2016). In order to evaluate the desire for redistribution in the Arab region, we constructed an index titled “preference for income equality” from two WVS questions that ask whether “Incomes should be made more equal” *vs.* “We need larger income

differences as incentives for individual effort,” and whether “Government should take more responsibility to ensure that everyone is provided for” *vs.* “People should take more responsibility to provide for themselves.”

Regional averages reveal that redistributive policies are as popular in the Arab region and in Muslim-majority countries as they are in the rest of the world. Asians and Africans on the other hand tend to also be on the “right,” while Europeans and Latin Americans are on the “left.” Morocco and Iraq are more to the “left” than the regional average. In terms of individual characteristics, the old in the region are more to the “right” compared to the youth – the opposite holds of global averages; perhaps a reflection of the dislike of the type of socialism they experienced in their youth. Educated Arab individuals are more to the “right” compared to global averages, possibly reflecting the unequal distribution of education opportunities in the region. These results thus shed serious doubt on the hypothesis that the fear of redistribution is the culprit for low economic dynamism across the region. These averages should not hide the fact that labor unions are more organized and vocal in some countries, even when the policies they push for are not particularly popular countrywide, as in the case of Tunisia in particular.

### **Trust in Institutions and Perception of Corruption**

Institutions play a crucial role in the workings of markets. The liberalization policies since the 1990s ushered more active markets, occurring without a parallel political liberalization. As a result, governments remained wary of the emergence of autonomous economic powers that could translate into rising political opposition. They instead fostered the rise of large crony firms, corrupting the rule of law and the workings of state institutions, and overall, reducing competition and economic

growth. The question before us is whether this state of affairs has also been reflected in a low level of trust in state institutions.

We constructed an index of “confidence in national institutions” using WVS questions relating to trust in the armed forces, the police, the courts, the government, the parliament, and the civil service.

We found that the Arab average is about equal to the world’s average. However, we also found that non-Arab Muslim-majority countries have much more confidence in their institutions compared to the world average, and also, relative to Arab countries. It thus seems that Islam pushes the Arab region towards trusting institutions (fear of *fitna*), but the realities of the Arab region push in the opposite direction, resulting in a net wash relative to the world average. Moreover, trust has fallen dramatically after the uprisings of 2011.

Within the Arab region, Yemen and Tunisia trail the pack, followed by Libya, Iraq, and Lebanon. However, some other Arab countries do well, such as Qatar, Jordan, Bahrain, and Kuwait. In all the countries, younger Arabs have less respect for national institutions.

The lack of trust in institutions parallels high levels of concern about corruption. The WVS does not ask direct questions on corruption. However, Gallup includes questions about perceived levels of corruption in government and business. There is a strong correlation between corruption in government and in business. Some Arab countries have high levels of perceived corruption – Lebanon, Morocco, Iraq, Algeria, and Egypt being among the highest. Perceived corruption in government in the Arab region is high by international standards. The data we analyzed suggest that perceptions of corruption may have had an important impact on social behavior, and generally, undermine the

legitimacy of entrepreneurship and the private sector among large parts of the population, especially among religious people, the poor, and the youth.

### Policy Implications

Cultural arguments abound in the literature to try explaining the economic under-performance of the Arab world. However, our work rejects the view that the reasons behind the slow growth of the economy lies in some intrinsically anti-market values held by the Arab population.

The negative value that we have uncovered is the lack of trust in the state, and it seems to be at the heart of the Arab malaise. While there is a surplus among non-Arab Muslim countries with regards to trust in institutions, there is a large deficit in Arab countries. This suggests that institutions must be particularly untrustworthy in Arab countries in order to elicit such strong feelings, in spite of religious injunctions, steeped in orthodoxy, not to oppose the state. In parallel, we have also found that within the Arab region, there are important concerns about corruption in government and in the private sector, which must affect both trust in the state and respect for entrepreneurs.

Unlike culture, these constraints are man-made and can be changed by better policies and better politics.

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