

Institutional Values Needed for Transformative Socio-economic Development in the Muslim World

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Abstract. There is a growing amount of literature that tries to explain what institutions are, how they are established and how they can be reformed for desired social and economic development. This paper explores key institutional values needed for transformative socio-economic development in the Muslim world. The paper begins by examining the role of uplifting institutional values found in the Golden Ages of the Muslim world and how they moved to the West. It then presents new institutional economics as an effective tool to understand long-term development. The paper adds a new layer to institutional economics literature by addressing the importance of hidden internalized institutional values (liberty, critical thinking, justice, rule of law, equality, participatory culture, accountability, competency, punctuality, and plurality) in explaining the socio-economic success of the West and failure of the Muslim world over the last few centuries. The paper concludes with some developmental policy recommendations for Muslim countries based on these internalized institutional values.

Keywords: Institutional economics, development, institution, Muslim world, informal institutions, formal institutions.

KAUJIE Classification: G5, H4.

1. Introduction

New institutional economics (NIE) places great importance on social, cultural, and legal norms and rules in understanding long-term economic development. It defines institutions as the rules of games while organizations as players who partake in economic transactions based on those rules. Institutional economists believe that it is impossible to explain how some countries have been successful while others have failed without examining institutions. In North's terms, the core issue of economic development is "to account for evolution of political and economic institutions that create an economic environment that induces increasing productivity" (North 1991, p. 98). That is because institutions set incentives for better economic performance. This paper is an attempt to explain the relative success of the West⁽¹⁾ compared to the Muslim world. We will use an NIE approach to understand the rise of the West over the East⁽²⁾. First, we will provide a historical overview of the Golden Age of Islam. Second, we will discuss how the sun set in the East and rose in the West. Third, we will contrast the West for the West and the West for the Rest⁽³⁾. Fourth, we will explore the roles of ten internalized institutional values that facilitated Western success in the last few centuries. Fifth, we will deliberate on the path dependence and challenges for a transformational change. Finally, we will derive important lessons of the institutional approach to have a better understanding of the Golden Age of Islam, and policy implications for the current development of Muslim societies.

2. Golden Age of the Muslim World

From the eighth to almost the thirteenth century, the Muslim world was experiencing its Golden Age (George, 1998). The Muslim world thrived in science

during its Golden Age while the Western world was in the Dark Ages of ignorance, intolerance, superstition, and religious oppression. The Muslim world was the center of science and inventions. The Islamic civilization, rooted upon the fabric of Qur'anic principles and prophetic practices (Sunnah), was spreading certain values such as justice, equality, rule of law, and critical thinking which resulted in great scientific accomplishments. The spiritual, moral, and intellectual value-based Islamic teaching reached three continents within the first century after the birth of Islam.

Increasingly, scholars in the West are now acknowledging the role of Muslims in science and technology (Collins and Huff, 1994; Kaviani et al., 2012; West, 2008), while the National Geographic published a book documenting 1001 inventions of Muslim scientists (al-Hassani, 2012). Those studies reveal that the Muslim world in the early Middle Ages (the 8th to the 13th century) were the center of learning, tolerance, science, peace, and prosperity. For instance, during the Abbasid era, Baghdad became the capital of scientific knowledge. The supportive tolerant cultural values attracted scholars of various religions around the world to the House of Wisdom (Bayt al-Hikmah) in Baghdad, which had extensive book collections in Persian, Indian, Greek, and even Chinese. The translation of Greek literature was particularly an ambitious historical project. The scholars gathered the accumulated knowledge of the world and added their own discoveries. Great advancement was observed in many fields, including mathematics, astronomy, medicine, chemistry, zoology and geography. For instance, Al-Khawarizmi, in his book of *Kitab al-Jabr*, devised modern algebra while trying to solve inheritance problems for Muslims based on the verses in the Qur'an. al-Hasan Ibn al-Haytham truly revolutionized the study of light and optics. Abu Raihan al-Biruni, a Persian scholar, calculated the earth's circumference with only 1% error from what is known today. Furthermore, Muslim scholars played significant roles in preserving and transferring the intellectual heritage of ancient Greek, which became the seed of the Western Enlightenment later on (al-Khalili, 2012).

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- (1) There are various definitions of the West used by different disciplines. In this paper, we used a definition of the West as Europe and European Offshoots including USA, Canada, Australia, and New Zealand. Indeed, this definition is used by the official statistics bureau of Norway in categorizing countries for the purpose of immigration statistics.
- (2) In this article, we refer to the Muslim world as "the East" for the sake of easy and memorable comparison.
- (3) By "the Rest", we mean any country other than those which are considered to be part of the West.

In recent decades, several books have been written documenting the contributions of Muslims to science during the Golden Age. One of them was written by Jim Al-Khalili, an Iraqi-born non-Muslim physicist, who has lived in England since 1979. Fascinated by the contributions of Muslims to modern science, al-Khalili in his bestseller, *The House of Wisdom* (2012), reveals these important Muslim contributions based on historical evidence. He makes a compelling case by presenting tolerant, plural, and pro-science views of rulers in the Muslim world during the Middle Ages when the West was in its Dark Ages. He states that Arabic was the language of science for 700 years. People had to learn Arabic to study science. It was the West that translated scientific books written by Muslims. For instance, Ibn Sina's book on medicine (Canon of Medicine) was translated and used in Western universities until the 17th century, for a period spanning almost six hundred years.

Al-Khalili also discusses in detail the contributions of Abbasids to science. He reports that the Abbasid caliph Al-Mamun made Baghdad the center of intellectual flowering in the early ninth century. Al-Mamun established an institute called the House of Wisdom that offered great opportunities for scholarly flourishing. Over the next two centuries, many great works of Greek philosophers, Persian and Indian thinkers were translated into Arabic to support intellectual endeavors. Al-Khalili argues that if it were not for the translation project of al-Mamun, we might have lost the major Greek texts forever. As he repeats in the book, while the Greek works were being destroyed in the West, the Arabs were translating and preserving them for the future. This was happening not only in Baghdad as Muslims were repeating similar success patterns in other places such as Damascus, Cairo, Isfahan, and Cordoba that were centers of scientific learning at the height of the Muslim rule. For instance, there were many more books in libraries in Cordoba during the 11th century than there were in all the European libraries combined (Al-Khalili, 2012).

Al-Khalili states that many of the innovations that we think of as symbols of Western science were the products of Muslims' works. "Astronomers laid the foundations for the heliocentric model of the solar system long before Copernicus; physicians accurately

described blood circulation and the inner workings of the eye ages before Europeans solved those mysteries; physicists made discoveries that laid the foundation for Newton's theories of optics" (Al-Khalili, 2012, outside back cover). The West even acquired certain economic instruments from the East. As clearly stated by North (1991), Europe borrowed necessary economic techniques and instruments, for example, the Italian city-states borrowed from the Muslim or Byzantines commercial contracts such as the *commenda*, to lower transaction costs of economic exchange over long distances.

3. The Sunrise from the West

The Golden Age of the Muslim world did not last forever. The biggest blow came from the Mongol invasion in the mid-13th century. Later, the Ottoman Empire ruled for almost six centuries. The glory of the Ottomans was mostly military, not scientific. Meanwhile, the sunlight began to emerge in the West, almost 600 years ago. The dawn of Western civilization dates back to the 14th century when Europe began having the Renaissance. It gave birth to the Industrial revolution in the 18th century. The West did not stop there but progressed toward the Information Society in the second part of the 20th Century while the East had barely woken up from its multi-centurial hibernation.

Many scholars have tried to unearth the success of the West in the last few centuries. They provide several competing arguments to explain long-term economic growth in Western Europe and Western offshoot countries. For instance, some economists attribute the development to geography (Sachs, 2001), while others put weight on political competition (North and Thomas, 1973; Rosenberg, Nathan, and Birdzell, 1986) and international trade (Dollar, Kleineberg, and Kraay, 2016; Dollar and Kraay, 2003; Sachs and Warner, 1995). Ferguson (2012) postulates six factors determining the Western success over the Rest: scientific revolution, modern medicine, work ethics, the rule of law, competition, and consumer society. He calls them six killer apps behind the Western power.

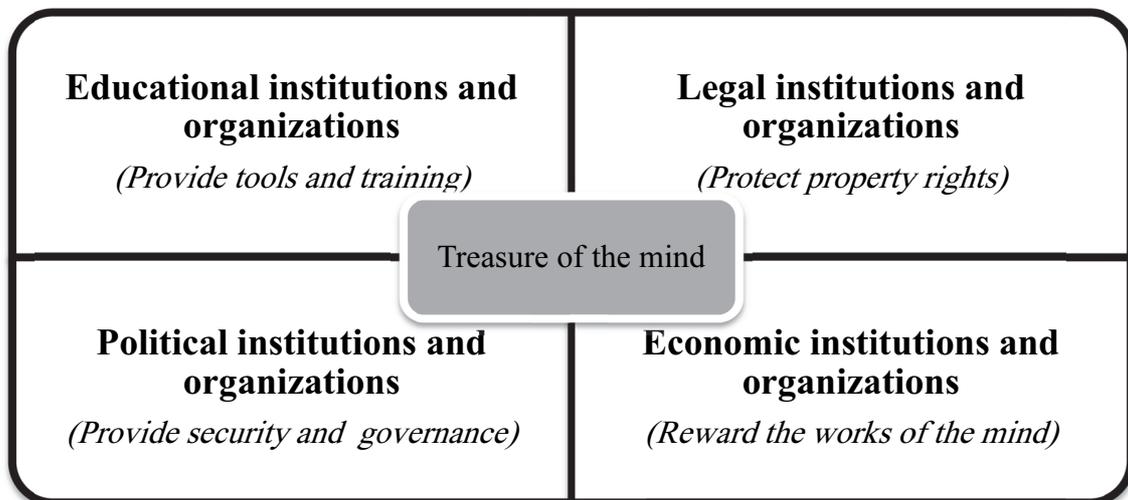
It is important to mention Weber's view of economic development. He gave great importance to values to understand the emergence of capitalism in the West. Weber (2001), in his famous book, *The*

Protestant Ethic and the Spirit of Capitalism, argues that the main reason that capitalism emerged in Western Europe is the Protestant Ethics which considers working for this world as a sacred duty for believers. According to Weber, it was certain ethical values which promoted hard work and rational pursuit of economic gains leading to capitalist accumulation. In recent decades, economists began paying more attention to values as the driving force behind long-term economic development. Those who approach from NIE make a strong case for institutions as the key determinant of long-term economic development (Hall and Jones, 1999).

We agree with the NIE approach in understanding the success of the West over the East. As shown in the chart below, we think the main secret of the Western success since the Enlightenment is the discovery of the mind. While the Dark Ages was the enemy of the mind and thinking, the Enlightenment thinkers considered the mind as the greatest treasure ever. Since then, the West has established educational, legal, political, and economic institutions to unearth the treasures of the mind. Thus, we could reduce Ferguson’s six killer apps to a single one:

mining the minds. In other words, the West has gained its essential economic and technological power from mining the treasure of the mind through proper institutions. Indeed, science is built upon the understanding that the human mind is the most valuable treasure. While scientific works unearth the gold and diamonds of the mind, such as cars, computers, airplanes, etc., the competitive market system provides an effective reward mechanism for the products of minds. The legal system assures the freedom to mine the minds. Modern medicine helps to maintain a healthy body for a healthy mind. A work ethic makes people do their best while mining and exchanging the products of minds. As a result, the gap between the West and the East has widened for several centuries. It is still growing because the East is not investing in minds as the West does. Indeed, according to recent data, the 57 countries in the Organization of the Islamic Conference spend only 0.81% of GDP on research and development; about a third of the world average. On the other hand, the United States, which has the world’s biggest science budget, spends 2.9%, while Israel lavishes 4.4% (*The Economist*, 2013).

Figure (1) Institutions and organizations to unearth the treasure of the mind



4. Two Different Wests: The West for the West and the West for the Rest

We think it is important to provide clarification on what we mean by the West. Indeed, we consider two different Wests. The first West is the one which implements certain informal and formal institutional values for internal peace and prosperity. This is what we call the West for the West. The second West does not necessarily follow those values when they deal with the rest of the world. This is what we call the west for the rest. By the two Wests, we do not mean that the West is hypocritical when it comes to foreign affairs. Actually, we think that what the West does domestically and internationally is perfectly in-line with its underlying secular worldview. We argue that the first West has established certain humane institutional values such as liberty, justice, etc., not because they truly believed in them as ends. Rather, they considered those values as means to the end. The supreme value, the ultimate end, is utility (benefit and pleasure). The West, through a painful historical experience, has learned that implementing certain values would be in their best interest even if they did not really believe in them. Particularly, the first West learned its lessons of institutional values from very bloody civil wars it went through. For instance, during the English Civil War (1642–1651), the number of deaths is estimated to be around 876,000. Likewise, during the American Civil War, 750,000 people were killed. As a result, people came to the firm understanding that they shall establish a society on certain informal and formal institutions to allow everyone to follow their dreams without fighting with each other.

Some Muslim scholars also suggest avoiding thinking about one version of the West. For instance, Nursi (1996a) considers European civilization as having two different sub-civilizations. The first Europe is guided by sacred values coming from Christianity while the second Europe is guided by secular values coming from atheist and materialist philosophy. He argues the second Europe:

accepts ‘force’ as its point of support in the life of society. It considers its aim to be ‘benefits’. The principle of its life it recognizes to be ‘conflict’. It holds the bond between communities to be ‘racialism and negative nationalism’. Its fruits are ‘gratifying the appetites of the soul

and increasing human needs’. However, the mark of force is ‘aggression’. The mark of benefit – since they are insufficient for every desire – is ‘jostling and tussling’. While the mark of conflict is ‘strife’. And the mark of racialism – since it is nourished by devouring others – is ‘aggression’. It is for these reasons that it has negated the happiness of mankind. (Nursi, 1996a, The Words, 12th Word, p.146)

We agree with Nursi in terms of the supreme values of secular Western civilization. The exploitation and oppression of the Rest by the Western colonialism provides strong historical evidence that the West believes in power and benefits, rather than justice, fairness, and equality. Likewise, in the modern time, the veto right of five permanent members of the UN Security Council clearly reveals that the West follows certain values because of pragmatic reasons, not virtuous ones. Even though their domestic institutions are based on great values, they have not truly internalized those values. They shall not be blamed for that because perhaps it is not possible to internalize those values without belief in God and the hereafter. However, they believe that for their interest, it is important to follow those values at the national level. Since those values are like physical laws for socio-economic development, they are internally very successful compared to those countries which do not follow those values. In other words, the Western people have established certain uplifting institutional values because they are convinced those values are in their best interest in the long-run. Through their historical experience, educational, and cultural upbringing, they have realized that those values are the necessary foundations for successful formal and informal institutions and organizations that provide higher economic returns from economic transactions.

As well documented by institutional economics, the first West has established uplifting institutions to do much better than the Rest for the last three centuries. Since the Enlightenment, the first West has realized that the real treasure is buried in the minds, not mountains. It has developed necessary educational, legal, political, and economic institutions and organizations to unearth this treasure. Educational

entities provide training and tools to explore the treasure of the mind. Political and legal entities assure safety and freedom in working to unearth the treasure. Economic institutions promise competitive rewards for the hard works of treasure hunters.

The Muslim world first ignored what was happening in the first West. Then, it began wondering and envying the West. Then, it had attempted to duplicate the Western success. However, it has largely failed. We think the failure is due to the lack of understanding the embedded institutional values behind the Western success. We argue that what makes the West better than the Muslim world in socio-economic development is nothing but ten internalized institutional values. Those values are necessary to get efficient institutions dedicated to unearthing the treasure of the mind.

It is important to note that even the first West has failed to bring promised subjective wellbeing despite its success in science, technology, and economic development. This is known as “progress paradox” in the welfare literature. Thus, we are not claiming that the first West is a perfect model for the Muslim world. However, we are saying that we need to implement tested informal and formal values to bring socio-economic development along spiritual and moral values. In the following section, we will present those internalized institutional values that resulted in efficient economics, political, social, and legal institutions, and organizations in the West at present, and in the East in the past (from the 8th to 11th centuries).

5. Ten Internalized Institutional Values behind the Western Success

As well established by Adam Smith, conventional economics considers self-interest as the driving force (invisible hand) behind people’s choices. In other words, from a conventional economic perspective, we all care about ourselves first and foremost. That is just our nature. As rational beings, we compare the costs and benefits of alternative options and decide on the one that gives us the highest benefit (or utility). Even though modern economics acknowledges the shortcoming of rational calculus, it still relies mostly on rational choice theory when analyzing human preferences. We argue that the Western people have internalized certain uplifting

institutional values because they are convinced those values are in their best interest in the long run. Therefore, they are largely committed to those values in making their choices, even when it has short-term high opportunity costs for them. Through their historical experience, education, and cultural upbringing, they have realized that those values are the necessary foundations for successful formal and informal institutions and organizations, which will provide higher economic returns from economic transactions. In this section, we will discuss the following ten internalized institutional values as the tenets of Western institutions: liberty, critical thinking, justice, rule of law, equality, participatory culture, accountability, competency, punctuality, and plurality.

First Value: Liberty

Perhaps, the most important value among the ten institutional values is liberty of all kinds, including liberty of thought, liberty of speech, liberty of religion, economic liberty, political liberty, etc. The mind can work best once it is free from any kind of actual or potential coercion. The Western Enlightenment movement was first a war for liberty. The war was waged against the religious establishments who were the enemies of liberty. Once the West won the war against religion, they soon realized that the liberty should be both from religion and for religion. Thus, they engraved liberty, including religious freedom, into their formal and informal institutions. For Western individuals, liberty has become more important than almost anything. For instance, while in almost all developing countries, flag-burning is considered a form of treason, in the US, the Supreme Court has ruled that flag-burning is a form of expression that is protected by the First Amendment provisions for free speech. Of course, there is a limit to liberty in every country and culture. However, generally speaking, the West has championed the liberty of all kinds since the Enlightenment. Thus, we can see both good and bad fruit of freedom in the West. For instance, from an Islamic perspective, it might be fair to say that in the modern time the shortest path to the Paradise and the Hellfire both pass through democratic Western countries such as the USA.

The West and Western offshoot countries have paid a high price for liberty, and therefore, truly have internalized liberty as a necessary value for individual, social, economic, and national development. For instance, it is estimated that one in three southern households in the US has lost at least one family member. As a result, the Western society has a better appreciation of liberty than the Eastern one does. It is not negotiable. It does not matter who comes to power; no one can touch the core liberty. Therefore, voter turnout in general elections is relatively low. For instance, in the last U.S. presidential election, only 55% of people cast their votes.

We argue that through painful historical experience and rich intellectual discourse on all varieties of liberty, Western society has recognized liberty as the most important value. Of course, liberty has to be supplemented by proper institutions and organizations in order to breed success. Indeed, the success of the US lies in the formal and informal institutions established before and after the American Revolution (Hughes, 1989). Particularly, when we compare the historical progress of Latin American countries under the Spanish and Portuguese rule, the role of institutions becomes quite evident. Centralized bureaucracy and strict religious intolerance were not friendly for developing required institutions, which led to inefficient economic transactions in Latin American colonies.

Economic literature is full of theoretical and empirical studies exploring the relationship between liberty, economic growth, and economic development. Indeed, free market economy is based upon the concept of free enterprise and freedom of consumer choices. Therefore, the market economy is also known as *laissez-faire* economy which puts emphasis on freedom of choice as an efficient form of allocating resources. Particularly, using various social, political, and economic freedom indices, economists frequently examine the importance of liberty. Indeed, Nobel Laureate Amartya Sen (1999) considers development as freedom. He makes a compelling argument that millions of people living in the Third World are denied basic freedom because of economic poverty, social deficiency, and political oppression. He argues that the ultimate purpose of development is to provide freedom for flourishing in life.

Second Value: Critical thinking

Critical thinking is possible only if liberty of thought and speech is truly internalized and protected. This is absolutely essential for economic development because if the mind is a treasure as argued before, the best way to unearth this treasure is through critical thinking. Particularly, if we acknowledge the limitations of the human mind, it is essential to engage in critical thinking to make sure we separate truth from falsehood. Since the Enlightenment, the West has realized the importance of critical thinking. Indeed, Immanuel Kant (1996, 11) defines the very concept of enlightenment as “to dare to think”. We think internalizing critical thinking is different from promoting it without truly believing in it. We argue that in the East, even when organizations promote critical thinking, individuals do not truly believe in the merit of critical thinking. The desired values are obedience and blind imitation rather than critical thinking.

We argue that critical thinking has played a crucial role in the development of science and technology in the West. Indeed, Wuthnow (1979) states that Western Europe did accomplish a scientific revolution mainly due to scientific autonomy dating back to the sixteenth century. In his terms,

The importance of autonomy to engage in critical reflection, to advance and test its own paradigms, to allocate rewards on the basis of professionally evaluated performance, and to develop and maintain open internal communication has been emphasized as one of the conditions essential to the sustained development of modern science. (Wuthnow, 1979, p. 217)

Critical thinking also plays a significant role in economic transaction costs. NIE scholars turn to cognitive science to redefine our understanding of economic transactions. The NIE approach differs from neoclassical economics when it comes to rationality. It does not accept humans as perfect rational agents with the ability to come up with good calculations. Rather, as decisively argued by leading institutional economists such as Douglas North (1991) and Herbert Simon (1986), the instrumental rationality of neoclassical economics does not leave any room for institutions. In Simon’s terms,

If we accept values as given and constant, if we postulate an objective description of the world as it really is, and if we assume that the decision maker's computational powers are unlimited then two important consequences follow. First we do not need to distinguish between the real world and the decision maker's perception of it: he or she perceives the world as it really is. Second we can predict the choices that will be made by a rational decision maker entirely from our knowledge of the real world and without a knowledge of the decision maker's perceptions or modes of calculation (we do, of course, have to know his or her utility function). (Simon, 1986, p. 210)

Indeed, if we have the capacity and willingness to make right choices, then, the instrumental rationality will be sufficient to solve our problems. We do not need to pay attention to institutions or underlying values. The fact is that we are limited both in capacity and judgment to process the input data (Hayek, 1945). Therefore, it is essential to move beyond instrumental rationality. Indeed, conventional economics has moved from perfectly rational agents to bounded rationality and even predictably irrational agents. Thus, it acknowledges the limit of the human mind and recognizes the importance of cognitive studies in analyzing human choices and preferences.

North argues that it is essential to know how minds perceive phenomenal reality based on different mental models. In his terms, we perceive the "immense variation in mental models and as a result different perceptions of the world and the way it "works". ... individuals make choices on the basis of their mental models" (North, 1993, p. 2). The mental models help players develop their perceptions of payoff and make their choices. We think it is essential to first build intellectual capacity to understand the payoff of certain values leading to efficient institutions and organizations. The West did develop such mental models, mostly through intellectual discourse and critical thinking. The Enlightenment movement in the West did help greatly in terms of nurturing thinking in general and critical thinking in particular.

Critical thinking also mediates between education and economic growth. Economics puts great importance on education. There have been many studies on the impact of education on economic development

since the creation of endogenous growth theories in the 1980s. For instance, Romer (1986; 1987), Lucas (1988), and Robelo (1991) provide empirical evidence showing education as the main driving force for economic growth. Therefore, many policy makers in developing countries consider investment in education as a game changer, particularly in the long run. Even though investment in education might be necessary, it appears to be insufficient for an economic revolution, as seen in many third world countries and the Eastern European economies. That might be due to the lack of critical thinking in education. The mission of education shall not be filling the empty mind of students with great ideas of the educators. Rather, it shall be opening the mind of students through critical thinking. Then, it would be possible to unearth the great treasures of the mind.

Third Value: Justice

Justice is an important value to get the mind working at an optimum level. The West has realized the importance of social and economic justice for peace and prosperity. Western individuals have developed a better sense of justice largely due to extensive intellectual discourse on what is justice, why we need justice, and how we can achieve justice.

Indeed, the father of modern economics, Adam Smith, in his famous book *Wealth of Nations*, explicitly refers to justice as a necessary value for efficient market transactions:

Commerce and manufactures can seldom flourish long in any state which does not enjoy a regular administration of justice, in which the people do not feel themselves secure in the possession of their property, in which the faith of contracts is not supported by law, and in which the authority of the state is not supposed to be regularly employed in enforcing the payment of debts from all those who are able to pay. Commerce and manufactures, in short, can seldom flourish in any state in which there is not a certain degree of confidence in the justice of government. (Smith, 1976, Book V, Chapter 3)

While the East relies on story telling on how to be just, the West has engaged in much deep philosophical discourse on why justice is needed (Boot, 2012; Rawls, 1957, 1999). For instance, John Rawls' theory of justice provides compelling intellectual arguments on the need for justice and reasons for

redistribution in favor of the least advantaged in a society. Amartya Sen is a pioneering economist incorporating the theory of justice into economics (Brown, 2010). He establishes a strong link between social justice and his capability approach (Nussbaum, 2003).

Fourth Value: Rule of law

Belief in the rule of law is necessary to allow the mind to do its best. It is an assurance to individuals that they shall work hard and their property rights are under the protection of the laws. The rule of laws requires that the power shall reside in the laws, not in the people. No one shall be above the laws. This shall be internalized by everyone in a society, not just be on paper. The West has accomplished this value to a great extent while in the East, the people of power are the *de facto* laws; thus, formal laws work mostly for the weak, not for everyone, mainly because people do not believe in the power of laws. Again, it is not about having good legislation on paper, it is about having a mental mode or belief of realizing that the power shall reside in the laws.

NIE pays great attention to the legal environment in exploring the impact of the rules of the game on economic development. NIE truly appreciates the overlap between economics and law. Scholars have been particularly interested in contract law (Macneil, 1980), property law (Anderson, McChesney, and Dhami, 2004), and more recently, intellectual property law (Besen and Raskind, 1991). Judiciary is important in terms of enforcing property rights, thus, reducing transaction costs to create higher gains from trade.

There are many studies regarding the importance of property rights. As stated by Coase (1959, p. 12), "A private-enterprise system cannot function properly unless property rights are created in resources, and, when this is done, someone wishing to use a resource has to pay the owner to obtain it". Once property rights are well defined, they have to be efficiently governed through contractual relations and the judiciary system.

Securing property rights is absolutely essential for efficient market transactions. Particularly, to move from autarky toward free market transactions at the local, regional, national, and international levels, it is important to secure property rights. In modern economies, the transaction sector becomes a large

component of the gross national product. In response to various transaction needs, we observe highly specialized transaction organizations. The key question of economic development is how those organizations could evolve to become more productive in handling limited resources. Why do they work differently in different countries? Particularly, why do educational, political, economic, legal, and social organizations in the West work more efficiently than those in the East?

NIE scholars explore the relationship between property rights and transactions costs to find an answer to the questions above. For instance, North (1991) puts the evolvement of transactions in three forms. First, in the tribal society, transaction costs were lowered through trust and the tribal network. Second, the *sūq* (the market) was developed to allow bigger and relatively impersonal transactions. Sellers and buyers from long distances met at the *sūq* (the market) at a certain time of the year to find the best deals through bargaining. The third form of exchange, caravan trade, expanded the trade opportunity to a much further distance.

While in the tribal society, informal institutions such as trust and social reputation/network were key to assuring secure transactions (Greif, 1989; Milgrom et al., 1990), in long-distance trade for better gains, in the modern society, it was necessary to secure transactions through formal institutions such as the constitution and laws. Particularly, it was important to establish a constitution that set limits on the power of a ruler to prevent arbitrary seizure of assets. For instance, in England, the Glorious Revolution (1688) and in the United States, the Bill of Rights (1791) set a strong limit on the power of government in favor of protecting individuals and their rights, including property rights. North and Weingast (1989) explore the constitutional limits set in seventeenth-century England following the Glorious Revolution. They conclude that the resulting institutional changes were a key determinant of economic development through securing property rights, protecting private wealth, and eliminating confiscatory government practices.

Fifth Value: Equality

Equality is the quality of having the same rights, status, opportunities without being discriminated. A belief in equality means to recognize that any mind can create great values, regardless of gender, race, or

religion. It means to believe that any mind might contain a great treasure. The West came to this realization after painful and costly historical experiences. As a result, they have established a relatively fair system, which provides a relatively fair opportunity to every mind to flourish. In the US, they have witnessed the great merit of a non-discriminatory value, which allows every mind to make a contribution to social and economic outcomes. Electing a Black person as president and selecting Indians as CEOs of Google and Microsoft are evidence of this value. The East at this moment remains far from understanding that equality, not privilege, is the best for everyone in the long run.

Acemoglu and Robinson (2012) provide strong historical evidence for the importance of fair opportunity. They identify two types of institutions that account for success or failure of nations. In their book, *Why Nations Fail*, they argue that it is the nature of institutions that determine the fate of nations. Using historical data, they show that the success of nations mostly is the product of inclusive and pluralistic institutions, which provide opportunities for everyone to participate in wealth creation. On the other hand, nations fail when they have extractive institutions, which favor only the small elite for political and economic power while extracting resources from the rest.

Schwartz (1999) explores the relationship between certain values and basic human needs, as suggested by his six layered model that consists of embeddedness vs. autonomy, mastery vs. harmony, and hierarchy vs. egalitarian. He finds that countries with a higher rule of law, less corruption, and higher democratic accountability are likely to be tilted toward autonomy, mastery, and egalitarianism.

Sixth Value: Participatory culture

Participatory culture is necessary to connect the minds toward common goals. It is a belief in teamwork. It is a recognition of the power of connected minds and the understanding that higher outcomes are achieved by working together. It is a core value behind the success of the free market system. It is a recognition of power and productivity in specialization. As Said Nursi states through a metaphorical example, teaming can accomplish the outcomes of 1111 people from four persons. In other words, if four individuals work individually, the

accumulated outcome of their works would be: $1+1+1+1=4$. They will accomplish the total outcomes of four individuals. However, if they work as a team, side by side (true solidarity), united as one figure with nothing in between (no horizontal hierarchy), at the same level (no vertical hierarchy), the outcomes of their works will be equivalent to that of 1111 individuals.

If four times four remain apart, they have a value of sixteen. But if, through the mystery of brotherhood and having a common goal and joint duty, they unite coming together shoulder to shoulder on a line, they acquire the strength and value of four thousand four hundred and forty-four. Indeed, numerous historical events testify that the moral strength and value of sixteen self-sacrificing brothers have exceeded that of four thousand. (Nursi, 1996b, *The Flashes*, p. 215)

The West has realized the power of participation in accomplishing higher productivity. Indeed, in *Wealth of Nation*, Adam Smith explains the merits of teamwork and productivity through a pin-maker. He refers his observation at a pin factory in which pin production is divided into eighteen distinct tasks. One person is specialized in up to three tasks rather than doing all tasks as described in the book:

One man draws out the wire, another straightens it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head; to make the head requires two or three distinct operations; to put it on is a peculiar business, to whiten the pins is another; it is even a trade by itself to put them into the paper.... Each person, therefore, making a tenth part of forty-eight thousand pins, might be considered as making four thousand eight hundred pins in a day. But if they had all wrought separately and independently, and without any of them having been educated to this peculiar business, they certainly could not each of them have made twenty, perhaps not one pin in a day. (Smith, 1976, *Book 1, Chapter 1*)

The West has extended the spirit of participatory culture beyond economic transactions. They encourage participation of stakeholders at school, work, and governmental levels. While the East mostly has a leading figure with many blind followers, the West promotes collaborative participatory leadership. In the East, the political system is

mostly a strong man show even if it purports to be democratic because people do not truly believe in a participatory culture. Bureaucracy is a means to control people rather than serve them.

Political institutions also have received significant attention in NIE. For instance, some political economists explore efficient political institutions that allow bureaucrats to make policy choices that will last beyond their own terms of service (Moe, 1989). Inclusive, rather than extractive, political and economic institutions are essential for real economic transformation. Even though it is possible to have economic growth under a dictatorship, in the long run, it is not possible to accomplish market efficiency without participatory political institutions defining and enforcing property rights.

Tabellini (2010) explores the impact of individual values and beliefs such as trust, control, respect, and obedience on institutions and economic development in European regions. Using historical data for the last few centuries, he reports a strong positive correlation between the first three values and economic development while a negative correlation between obedience and economic development. He documents higher GDP per capita and economic growth in those regions with higher levels of the good cultural values such as trust and self-confidence, and autonomy. He concludes that history shapes institutions and institutions determine economic development in the long run.

Seventh Value: Accountability

Accountability is the culture of taking responsibility. It is making those who do not play the game according to the rules pay the price. It is an awareness of the opportunity cost for everything. It is an understanding of fairness in fulfilling your tasks as a team member of society. Internalizing accountability is to take personal responsibility for your mistakes or wrongdoings.

The West has implemented the sense of accountability at every level. At home, from an early age, children are given responsibility and held accountable for consequences. At school, students are held accountable if they do not study, while teachers are held accountable if they do not fulfill their responsibilities. At the corporate level, workers and managers are given responsibilities and held accountable to the stakeholders. At the government level, government

officials are held accountable if they mishandle public resources or do not fulfill their jobs properly. As a result, Western countries have the lowest corruption rate while Eastern countries have high corruption rates. Indeed, a World Bank study reveals that political institutions play a crucial role in determining the occurrence of corruption (Lederman, et al., 2001). The study points to the importance of political and legal system as well as freedom of the press in preventing corruption. Since corruption is largely a waste of resources, it has a negative impact on the economy. Many empirical studies reveal that a high corruption rate is inversely related to economic growth and development (Aidt, 2009).

Eighth Value: Competence

Competence is the required abilities, knowledge, commitment, and skills to do a certain task or job. Thus, feeling competent means to have self-reliance, rather than relying on one's parents and the government. It is the awareness of incredible human potential. It is cognizance of the self-treasure of the mind. The West gives people a sense of self-confidence at a very early age. Children are taught how to rely on themselves. Everyone is pushed to work hard to support his/her life rather than being dependent on others. Everyone is expected to trust in their competency rather than trust in their connections. For instance, in the US, if you are 18 years old, you are an adult. You are expected to work and earn your living. Even if you happen to stay with your parents after 18, you are expected to pay rent and share utility and grocery bills. In the East, you could rely on your parents until you die. You have a free lifelong credit line from "Baba (father) Bank". We might consider the West to be heartless and the East to be compassionate. In the end, the West helps new generations to help themselves rather than being dependent, while the East kills the potential of its new generation. Thus, the East is compassionate, but a "compassionate killer". The West is heartless, but a "heartless helper".

Doepke and Zilibotti (2014) explore the role of parenting in raising their kids as entrepreneurs. They found that parental upbringing is directly linked to entrepreneurship skills. They argue that it was such "entrepreneurial spirit" that led to the British Industrial Revolution. In a survey of development experiences of different nations, Landes (1998) concludes that successful nations tend to have

uplifting cultural values such as thrift, hard work, tenacity, honesty, and tolerance; while failed nations are associated with contrasting values such as intolerance, xenophobia, corruption, and government welfare dependence.

Ninth Value: Punctuality

Punctuality is to understand the importance of time and use it for the optimum outcome. It is a necessary byproduct of accountability and competency. It is a conviction that no time shall be wasted in unearthing the treasures of the mind. It is a belief in doing everything in a timely manner to accomplish higher outcomes. The West has mostly succeeded in making people punctual in fulfilling their work. At a very early age, it teaches individuals the importance of punctuality. It makes them develop a second nature internalizing punctuality. On the other hand, the East does not value time that much (White, Valk, and Dialmy, 2011). The most common waste in the East is the mind and time. This is a major impediment to development because knowing the value of time and completing the work on time is an important factor affecting productivity and economic growth, as recently found by economists (Basu and Weibull, 2002).

Tenth Value: Plurality

Plurality is not only tolerating differences but treasuring them. It is to realize the enriching value of being different. It is to acknowledge diversity as the essence of human beings. It is to become aware of the importance of the treasure of the mind of different individuals regardless of their cultural outlook and preferences. It is an understanding that syntheses of existing ideas could be possible when you have competing ones. The West has realized the importance of a pluralist culture in modern times to benefit from the minds around the world. They provide a fertilizing environment for people of different views to live side by side toward common goals. The relatively pluralist nature of American and European countries is a testimony to the Western success in creating a plural society. In a global world, learning how to live with people of different cultures and religions is not an option anymore. It is a necessity. And it is an important factor for economic development. Indeed, some studies provide clear evidence on the positive contribution of tolerant culture to economic growth (Berggren and Elinder, 2012).

6. Challenges in Change and Path Dependence

How to help the rest of the world to be as efficient as the West? Economists used to think that it is easy to bring the change. Indeed, early neoclassical analyses predicted that poor countries would have higher growth rates compared to wealthy countries because of diminishing returns to capital in the latter. Ironically, the prediction turned out to be false. Some economists suggest that the reason behind this false prediction was the underestimation of institutions (Knack and Keefer, 1997). Using empirical evidence, they argue that the ability of the poor countries to catch up with the rich ones is determined by institutional quality. Indeed, those studies conclude that in the absence of proper institutions, the gap is growing and the poor are getting poorer.

Ironically, even though it has taken perhaps ten millennia to truly appreciate the ten underlying social and cultural values leading to scientific and economic development, we still do not know how to create those institutions with their embedded values for at least half of the world's population. Indeed, it is not easy to bring change to society. Particularly, changing underlying values takes a long time. That is because of the collective learning manifested in a society over time. In Hayek's terms, collective knowledge makes people do things in particular ways. It is culture to transmit our experience from generation to generation through an "accumulated stock of knowledge" (Hayek, 1945).

Path dependence is a key concept developed to explain the challenges in change. The concept was originally proposed by Brian Arthur (1988, 1989) and Paul David (1985) to describe the difficulty in the path of technological change. A well-known example is the QWERTY layout for typewriters. Even though we have invented better keyboards for faster typing, the majority of the people still stick with the QWERTY layout. Path dependence is also a useful concept to understand why it takes hundreds of years to change mental models and embedded values behind institutions. Path dependence means that we could not ignore completely the economic choices we made yesterday when we decide on new ones today. Path dependence theory predicts very slow change in those values because of our cognitive dependence on historical knowledge. In other words, the theory argues that history does affect the way we think about

our problems. It is not easy to change beliefs, customs, or taboos in the short run.

North agrees that change is not easy due to path dependence:

Once an economy is on an “inefficient” path that produces stagnation it can persist (and historically has persisted) because of the nature of path dependence. Institutional path dependence exists because of the network externalities, economies of scope, and complementarities that exist with a given institutional matrix... paths do get reversed... but reversal is a difficult process about which we know all too little. (North, 1993, p. 3)

Thus, the key question is how to change the path toward productive social and economic outcomes. North defines five essential characteristics of institutional change: (1) Ongoing interaction of institutions and organizations. (2) Ongoing competition leading to the gaining of knowledge about organizational and institutional changes. (3) The institutional framework with perceived knowledge and skill for a better pay-off. (4) Mental models leading to the right perception of pay-off and means. (5) Incremental and path-dependent institutional changes as a result of economies of scope, complementarities, and network externalities (North 1993, p. 6). We think the lasting changes shall begin at the value level. As it is not possible to build a tall apartment without a sound foundation, it is also not possible to build lasting institutions and organizations without supportive social and cultural values.

North (1993) argues that it is not possible to replicate the success of developed countries by transferring formal political and economic rules to the third world because “the informal norms and enforcement characteristics” are different. Thus, it is almost impossible to have overnight economic revolution. Rather, change is evolutionary because it takes time to change underlying values. “Revolutions are extraordinary and even when they occur turn out over time to be far less revolutionary than their initial rhetoric would suggest” (North, 1993, economic history, p. 4).

As stated in his Nobel Prize speech, Coase referred to the challenges of Eastern Europe in moving toward the market economy without establishing sound institutions:

The value of including... institutional factors in the corpus of mainstream economics is made clear by recent events in Eastern Europe. These ex-communist countries are advised to move to a market economy, and their leaders wish to do so, but without the appropriate institutions no market economy of any significance is possible. (Coase, 1992, p. 714)

Two years later, Douglas North made a similar comment about the importance of institutional environment in his Nobel Prize speech. In his view, even though we are now better informed in terms of understanding the importance of politics because “they define and enforce the economic rules”... through creating and enforcing “efficient property rights”. However, we still “know very little about how to create such politics” (North 1994, p. 366).

7. Concluding Remarks and Future Studies

Is it possible to close the multi-centurial gap between the West and the East? Is it possible to catch up with the West in science and technology? If yes, how? We think it is possible because the gap is reduced to zero for every generation. Death works as the perfect equalizer. While death kills the old generation with all their knowledge and experience, birth allows the new generation to start from scratch at the perfectly equal level. Indeed, there is no difference between children born in the West and those born in the East. They all are equally ignorant when they begin their journey on this planet. They are born knowing nothing but few survival instincts. This means that it takes one generation to close the gap. In other words, if the East were to learn the lessons from the West and allocate enough resources to the mining of minds through instilling uplifting institutional values, establishing and enforcing right formal and informal institutions, and developing proper educational, legal, political, and economic organizations, it could close the gap. The most important change agent is formal and informal education. The East needs to, first and foremost, raise a new generation based on the uplifting institutional values.

In this paper, we try to make a strong argument that the Muslim world needs to regain certain formal and informal institutional values to catch up with the West. We think those values are not Western, but universal. Indeed, we can show evidence from the

primary Islamic sources (the Qur'ān and *ḥadīth*) supporting each one of those values⁽⁴⁾. We argue that those values are similar to the laws of nature; whoever follows them can succeed. From the *tawḥīdī* perspective, God is in control of everything, not only physical phenomena but social and individuals ones as well. Nothing happens without God's will, knowledge, and power. He governs the physical world through certain physical laws. Whoever complies with those laws, they succeed. Whoever contradicts those laws, they fail. Similarly, one might argue that God is directing individual and social affairs through certain law-like values. The success of individuals and society depends on compliance with those values. In general, in this world, God grants success to those who follow certain values such as justice, fairness, accountability, competence, etc. even if they are not believers. During the Golden Age of Islam, Muslims used to follow those values, therefore, they were successful. However, once they gave up on those values, they began failing in socio-economic development. Then, the West picked up those values and began practicing them. Thus, it is no surprise that God has granted the success to the West as they follow certain values in their economic, political, and legal entities.

Unfortunately, the education system in the East is far from its counterpart in the West. The East does not see human minds as the most valuable treasures to be discovered. Rather, it trashes the mind rather than treasuring it. It fills the empty mind with junk ideologies. Parents and educators in the East generally treat children like computers and upload certain knowledge to their memory, rather than helping them to write their own programs and unearth their own treasures. Minds are chained through education rather than opening minds and eyes to different ideas.

If the East wants to catch up with the West, it first needs to understand that the real power, wealth, and value come from "minds", not mines or minerals. It

needs to perceive the minds as a treasure more valuable than the treasure of gold and diamonds. It needs to set up a good education system that encourages students to unearth their own gold and diamonds. Of course, such change cannot happen overnight. It will take time. Indeed, the change shall be evolutionary, not revolutionary. It shall be through the use of smart power, not hard or soft power. We argue that real change is not possible through military power (hard power) or political power (soft power), it is possible only through proper formal and informal education (smart power). It is through changing mental models and instilling the uplifting values discussed in this paper.

We argue that the real transformative socio-economic change shall begin at the informal institutional level first. Then, the formal institutions and organizations shall be reformed. The change has to start at the family level first. Parents should be educated to implement institutional values such as liberty, critical thinking, and consultation at home. The educational system shall be reformed to assure that curricula reflect those values. Teachers should be trained to practice those values at school to set an example for students. More importantly, religious messages should incorporate those values as well. Religious teaching shall not be based on duality of affairs that are related to this world and hereafter. Rather, they shall be presented in a united manner in which worldly affairs are just another face of deeds related to the hereafter. Thus, Muslims shall not consider Islam as something dealing with worship in the form of relationship between human and God. Rather, they shall consider Islam as a guideline for human to human relationships based on certain values. We argue that once we incorporate ten institutional values at home, school and mosques, we can easily create necessary formal institutions and organizations to bring real socio-economic transformation.

Indeed, the following Qur'ānic verse clearly refers to internal transformation at the individual level as a necessary condition for societal change at the macro level: "...Verily, God does not change men's condition unless they change their inner selves..." (Qur'ān, 13:11). We argue that the condition meant in the verse above is informal institutional values such as fairness, hard work, competency, teamwork, etc. Indeed, another verse explicitly states that people

(4) For further discussion on this subject please refer to the following paper: Aydın (2016): "Ten Institutional Values for Socio-Economic Development: Preached in the Muslim World, Practiced in the West", presented at the International Conference on Islamic Finance, Islamic Economic Development and Sustainability, 25-26 July 2016, Durham University. The paper will be published in a book.

can have only what they deserve in life: “That man can have nothing but what he strives for” (Qur’ān, 53:39).

We suggest that future studies should use a structural equation model with formative and reflective variables to test the role of the ten internalized institutional values in explaining the success and failure of development in the West and the East.

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القيم المؤسسية اللازمة للتنمية الاقتصادية والاجتماعية التحويلية في العالم الإسلامي

نجاتي أيدين

أستاذ مشارك في الاقتصاد

كلية الأعمال - جامعة الفيصل - الرياض - المملكة العربية السعودية

المستخلص. توجد كثير من الأدبيات - وهي في ازدياد- التي تحاول شرح ماهية المؤسسات، وكيفية إنشائها، وكيف يمكن إصلاحها لتحقيق التنمية الاجتماعية والاقتصادية المرجوة. تستكشف هذه الورقة القيم المؤسسية الأساسية اللازمة للتنمية الاجتماعية والاقتصادية التحويلية في العالم الإسلامي. تبدأ الورقة بدراسة دور القيم المؤسسية المساهمة في نهضة الإسلام في عصوره الذهبية وكيفية انتقالها إلى الغرب. ثم تعرض الاقتصاد المؤسسي الجديد كأداة فعالة لفهم التنمية على المدى الطويل. وتضيف الورقة بُعدًا جديدًا لأدبيات الاقتصاد المؤسسي من خلال التطرق لأهمية القيم المؤسسية الضمنية (الحرية والتفكير النقدي والعدالة وسيادة القانون والمساواة وثقافة المشاركة والمساءلة والكفاءة والالتزام بالمواعيد والتعددية) في تفسير النجاح الاجتماعي والاقتصادي الذي حققه الغرب وفشل فيه العالم الإسلامي في القرون الأخيرة. وتخلص الورقة بذكر بعض التوصيات في سياسة التنمية للبلدان المسلمة على أساس القيم المؤسسية الضمنية. الكلمات الرئيسية: الاقتصاد المؤسسي، التنمية، المؤسسة، العالم الإسلامي، المؤسسات الرسمية، المؤسسات غير الرسمية.