

## **The Economics of Fundamentalism**

Growing religious fundamentalism in Pakistan and other muslim countries has aroused a lot of anxiety particularly among the urban educated middle classes. Their lifestyles are at serious risk and the recent speculations that Taliban were about to take over Peshawar had left a lot of chill in the spines of most of the people belonging to this class.

Why is fundamentalism despite its obscurantist and unreal view of Islam spreading so fast? Why did Hamas sweep the elections in Palestine? Why are other fringe religious organizations gaining popularity in other Muslim countries?

Most of the analyses explaining the resurgence of fundamentalism in the Muslim countries of the world have been rooted in the realm of religion, politics, social thought and geopolitics. Very few attempts have been made to link the current predominant paradigm of economic development with the disenchantment, frustration and sense of deprivation felt by the majority of the young entrants to the labor force in these countries.

Twenty years ago Iran was the only country which openly broke the ranks from the Western, liberal and secular way of life and adopted a more conservative, religion – based, back-to-back stance of governance backed by widespread popular support. Today, all the major Muslim countries – Indonesia, Pakistan, Algeria, one of the most secular countries, has been in the throes of a protracted civil war after the Islamic party, Islamic Salvation Front (F.I.S.) was denied power having won the elections. In Turkey, the Virtue Party having emerged as the largest single political party at the elections was dismissed from office. Subsequently banned and its popular leader Erdogan was debarred. But the reorganized Islamic Party AK with the new leader Erdogan won the elections. Egypt has been faced with repeated acts of terrorism against western tourists and tough action has been taken against the Islamic parties. Although in Pakistan the electoral record of the religious parties has not been impressive, the tacit tolerance or implicit support for religious movements some of them extremists such as Taliban is a conundrum that needs to be addressed.

First, in the larger global context, what do all these countries, so disparate and historically, ethnically, geographically so distinct have in common besides a common

religion? They all combine repressive political regimes with inequality promoting economic systems that have been indifferent to the demands of the poor segments of the population and have presided over economic systems where inequities are pervasive. Until the breakdown of the Soviet System, Communism and Socialism offered an alternate, although romanticized and idealized vision for economic improvement but since 1991 this ideal has also been shattered. Islam, with its strong emphasis on equity and equality of opportunity irrespective of race, creed, gender, etc. has thus emerged as the way out of the present economic predicaments. The dominant economic paradigm characterized by Washington consensus has weakened the capability of the State and tried to strengthen the market mechanism. But half hearted attempts to implement market based economic reforms have created unintended consequences which have resulted in the worst of both the worlds. Two distinct trends have characterized economic policies in developing countries. Until the 1980s, state led industrialization and central planning dominated the scene. It was hypothesized that market failures were overwhelming in the developing countries, structural rigidities were pervasive and thus domestic industries needed gentle care and nurturing. Under this peculiar set of conditions the state had to play a central role in allocating resources, setting up large scale enterprises and plan for the future development. Egypt and Algeria symbolized the extreme application of this mode of thinking. The results, as everybody knows, were simply disastrous. Highly capital intensive investments dependent on improved raw materials and capital heavily protected from domestic and international competition drastically reduced the scope of labor absorption in the economy. Rapid rates of population growth and massive expansion subsidized in higher education with no linkage to labor market demands gave rise to swelling ranks of millions of educated but unemployed youth. In countries such as Pakistan and Turkey which had practiced more of a mixed economy model, political connections, nepotism and favoritism rather than accomplishments determined the placement opportunities. Frustration, disenchantment and disillusionment among the majority of the educated youth and their families were the logical outcomes in all cases.

Second, the track record of the successive governments in these countries has been quite dismal. Repressive political systems have indulged in mainly promoting the interests of the ruling elites and patronage, privilege and pelf have characterized the allocation of scarce resources. While the problem faced by the million of educated youth

was how to find productive jobs for themselves and their families they have witnessed blatant misuse of authority and shameless exercise of favoritism, nepotism and corruption in the distribution of limited jobs. This sense of frustration and despair have sown the seeds of revolt against the established state and become breeding grounds for recruitment of the youth. Of course, the illiterate and uneducated young man have no stake in the present dispensation and at their impressionable age they are carried away by the pristine life in the hereafter and in the service of Allah and the fruits to be reaped in.

Third, for running day to day life, income disparities and denial of access to basic services have become common place resulting from decades of economic misgovernance, Big man personality – centred cults, denial of human rights and lack of recourse to justice. Those who have no connections or influence in the polity or are not economically well off lead a life full of misery and grief. Their ability to throw out the non performing rulers is also limited due to absence of democratic institutions and norms. This deep sense of alienation against the state is therefore exploited by the fundamentalist to win the sympathy and support of the population. The recent experience in Pakistan in which a large segment of the population in Swat showed support and sympathy for the Taliban attests to this phenomenon. How much is it an expression of dissatisfaction with the State and how much it is a manifestation of fear and intimidation of Taliban is not quite obvious.

The experience of state led industrialization was largely discredited in the late 1980s and early 1990s when serious policy distortions, macroeconomic imbalances, stagnant growth, rising poverty and a serious debt problem began to appear in a large majority of countries in Latin America and Africa. Macroeconomics stabilization and structural adjustment gradually and slowly became the dominant economic paradigm mainly because they were supported and articulated by the International Financial institutions and external donor community. The main ingredients of this new paradigm can be summed up for the sake of simplicity of exposition, as trade liberalization, privatization, deregulation, fiscal discipline, openness to foreign direct investment and private capital flows etc. while there is a lot of merit in each of these policy instruments the politics of implementing these policies remained unchanged. Trade liberalization was erratic, hesitant and selective which favored the chosen few rather than the

Privatization which was not carried out in an open and transparent manner or was implemented in a way which gave rise to oligarchs and quasi – monopolists. The accompanying legal structure for enforcing property rights, corporate governance and bankruptcy were about majority of the population. It did not promote exports which are so essential for domestic employment. Deregulation was not accompanied by increasing scope of competition, Foreign Direct Investment properly channeled would have created the right incentives for the owners of the firms to produce least cost efficient goods and services, promote consumer goods and consumption rather than absorb new technology. Private capital flows were utilized to finance current account deficits. Fiscal discipline was maintained more in form rather than in substance. The results from this second revolution in economic thinking have been uneven. Inflation has certainly been arrested but the economics have become more vulnerable to external shocks, inequities and conspicuous consumption by a small group of beneficiaries from these new policies have become too obvious, variability in economic growth has become more acute and job, both availability and uncertainty in keeping a job have become more problematic.

Neither of the above two paradigms in economic management at the global level has been able to address the most pressing problem facing these countries. How to find employment and economic opportunities for the millions of the youth who enter the labor force every year? For example, in five of the largest Muslim countries we have to find employment of some kind for at least 15 million new entrants to the labor force even if we exclude the existing stock of those who are already unemployed.

Fourth, there is a legitimate ideological affinity to the precepts of our religion. Islam with its emphasis on equality of opportunity for all Muslims irrespective of wealth race, creed, ethnicity, nationality, status etc. is beginning to fill in the gap created by the demise of the socialist ideology. Land redistribution from the wealthy khans to the poor farmers witnessed in some areas controlled by the Taliban is a reflection of this trend. Islamic scholars depict the daily lives of an ordinary poor Muslim who stands in the same row and rubs shoulders with a billionaire in the mosque. They are told that under Islamic nizam Zakat will be a powerful instrument of income redistribution whereby no Muslim can go hungry or deprived of the basic needs of life. Integrity, selflessness and empathy for the poor have been the hall marks of governance under Islamic rulers. Modest living

standards and shunning opulence are also strongly encouraged in Islam. There is also an enhanced sense of community values and community well being while maintaining private initiative and acquisition of private property as the basic pillars of the Islamic economic system. All the tenets of good governance can be found in the person of the Amir ul Mominin or the Head of the State. Islam, however, does not allow acts of tyranny, barbarism, violence which are being exhibited in the name of our sacred religion. This medieval age image of Islam is creating more harm than good and needs to be shunned and reversed. Devoid of these unacceptable and unwarranted acts of brutality the genuine Islamic way of life appears quite attractive to the poor and disadvantaged in the Muslim countries who have suffered enormously at the hands of the dictators, despots and dynastic rulers.

This combination of private initiative, collective welfare, adequate justice and good governance has given rise to expectations among the younger generation excluded from the privileges and benefits of the existing system that they will be better off under a true Islamic mode of economic management. From Indonesia to Turkey, from Morocco to Senegal and even within North America hordes of young men and women are rushing to adopt the fundamental ways of Islamic living. In few instances, the exuberant among them lead to a more aggressive path which involves them in more violent means. Islamic fundamentalism has unfortunately become popularly synonymous with this small group of believers. But this does not detract from the larger appeal of Islam as the basis for sustaining and equitable development. As the forces of globalization strengthen over time, economic insecurity would become accentuated and falling back upon some anchor such as Islam would become more prevalent.