Why free market economy is weak in Islamic world?

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Introduction

Trust is the lubricant of trade. It reduces the costs of transactions and uncertainty, which allows it to provide a dual mission: the incentive for individuals to participate in the exchange and coordination of their individual plans. Therefore, without trust there is no exchange and without exchange there is no market economy. Adam Smith (1776), argued that wealth was built on the division of labor. He gave the famous example of the pin factory, but the pin factory could achieve nothing if the workers can not trust each other. Trust matters!

Economists distinguish between the personal, specific trust that comes from being friendly with your neighbours and the impersonal, institutionalized trust that lets you give your credit card number out over the internet. The two kinds of trust are correlated with each other, because we are more willing to trust people if we feel that, ultimately, we can call the police or get a fair hearing in the court.

In the Islamic world today, market economy has hardly to take root and consolidate, which also explains the nature of rentier economies in the Muslim world where rent-seeking behavior push out productive behavior. This fact explains the lag in development of Muslim countries despite achieving high growth rates.

The majority of countries that have managed the transition from a rentier economy to a market economy have managed it through the institutionalization and the extending of social trust among all stakeholders (trust each other, trust state, trust corporations). Unfortunately, all of these is still lacking in muslim societies and this explains the difficulty of the transition to a market economy. In the Muslim world trust still remains limited to the confines of his personal circle, family, tribe or his ethnicity. This limitation of the extent of trust in society greatly restricts the opportunities for exchanges, partnerships and cooperation between members of the Muslim society. But if a market economy would grow it needs expanding its circle of trade beyond his family and close acquaintances. It's a network of impersonal exchange and sometimes anonymous. Such a network can't develop without individuals having trust beyond their blood ties.

In this paper, I will show first how the absence or at least the lack of institutionalized trust explains the absence or the weakness of a market economy in Muslim countries. Then, I will highlight the factors behind this lack of institutionalized trust in Muslim societies, which blocks the market economy. Finally, I'll explain how economic freedom could be a strategy to pass from the personalized trust to the institutionalized trust and allow the consolidation of the market economy in Muslim countries.

I. Market economy as a network of impersonal exchanges

Market economy isn't hampered only by the interference of state but also by the limitation of exchange opportunities to a personal circle.

Opportunities for economic development depend on exchange opportunities. It could be personal or impersonal. Personal exchange is limited to the circle of relatives, kinship relations, friends, colleagues, and it's often iterative. In contrast, impersonal exchange extends to strangers and anonymous and is often oneshot-lasting. But development opportunities are greater when trade is impersonal instead of limited to known people.

Economic historians had emphasized the impersonal nature of markets and the opportunities for speculation and arbitrage that they afford. Indeed by observing the history of development of markets, North (1987) argued that personal exchange was appropriate only for the modest level of medieval trade, but as the volume of trade expanded, exchange networks become more dense and complex enabling more specialization and more division of labor. The densification and the deepening of exchange networks enable more specialization and more sophisticated division of labor. So there is more partenership and association to create business. This in return creates more opportunities to exhchange and so on.

While personal exchange dominates economic transactions in subsistence economies, it still characterizes reproduction and the household economy (but also many small-scale crafts and trades). In market economies, due to the complexity of exchange networks and the division of labor, individuals enter into a transaction with only limited information about the counterpart's specific attributes; that is impersonal exchange.

Such a process of impersonal exchange can't develop without individuals having confidence beyond their blood ties. It can't develop without trust in strangers. Indeed, as market activity grows, there are more opportunities of exchange and profit, but the amount of information that has to be collated and processed increases transaction costs. This implies that to benefit from the new opportunities, it's necessary to move towards more efficient forms of exchange organization.

In other words, a market economy needs expanding its circle of trade beyond his family and close acquaintances in order to grow. It is a network of impersonal exchange and sometimes anonymous.

I.1. What is trust ?

Generally speaking, trust refers to the confidence that people have in others that they will act as we might expect. Hence, as Gambetta (2000) stated, it reflects the subjective probability with which a person (or a group) assesses that another person (or a group) will perform a particular action. Sarageldin and Dasgupta (2001) described trust as "*the expectation of one person about the action of others*". We distinguish two big catégories of trust : Interpersonal and institutional.

- **Interpersonal trust :** concerns the trust aboput persons. We could divide it in two categories : specific trust directed to relatives or friends, and generalized trust relative to strangers.

Specific trust, or as Putnam (1993b) named it **thick trust** it is based on experiences embedded in personal roots and relationships, and is generated by networks of kin and friends (sepcific individuals). It's very strong and identity-emebded and evolves when individuals repeatedly interact and so build reputations. Conversely, when A and B are people who do not know each other there is **thin trust** or generalized trust, which results from values, attitudes or social norms that produce trust when certain conditions are met. This form of trust describes a wider radius and is not limited to a relationship between specific individuals.

- **Institutional trust :** can be characterized as depersonalized trust in relation to officially established rules, norms and principles. It denotes trust *in* institutions (where institutions, like for example the law, are the object of trust). Institutional trust is not the result of an attitude to contracts, laws and organizations, but to persons responsible for the implementation of appropriate policies. For example, political trust includes trust in the political system and its institutions, and trust in the personnel in charge of these institutions

So system-based institutional trust reflects the degree in which individuals have confidence in the institutions. While actors-based institutional reflects the confidence of people in the responsable of the implmentation of institutions, policies and runing organizations.

I.2. Why trust matters for market economy ?

The market itself is a product of the mutual trust of its participants because the market cannot exist in such conditions where everyone would deceive each other. Trust is necessary for market economy because it's:

- encouraging an intensive exchange of informations which faciliate coordination and coopération.
- reducing transactions costs associated with formal coordination mechanisms like contracts, hierarchies, bureaucratic rules, and the like. It is of course possible to achieve coordinated action among a group of people possessing no social capital, but this would presumably entail additional transaction costs of monitoring, negotiating, litigating, and enforcing formal agreements. No contract can possibly specify every contingency that may arise between the parties ; most presuppose a certain amount of goodwill that prevents the parties from taking advantage of unforeseen loopholes.

Contracts that do seek to try to specify all contingencies-like the job-control labor pacts negotiated in the auto industry that were as thick as telephone books-end up being very inflexible and costly to enforce of contractual obligations, rather than towards adapting to changing opportunities. Trust reduces the need for controls and monitoring to safeguard abidance by transactional agreements.

- reducing uncertainity and risks associated with opportunistic behavior. An asymmetry in the available information leads to an adverse selection as a form of pre-contractual opportunism, based on which some seller may achieve a short-term benefit. This will be force the less informed party to spend costly resources in gathering informations about the trustworthiness of the other party or drawing up of a more detailed purchase contract, which would specify the parameters of the quality of goods and the obligations of the seller in case the goods sold do not match the specified parameters. This option involves additional transaction costs, incurred both by preparing such a contract and forcing the retailer to meet its obligations, which further burdens the business transaction. Developping trust enables to economize all these resources spended and reallocate it for more valuable uses.

Institutional-based trust deserves more attention ithan interpersonal trsut because :

- Many transactions aren't repetitive. So we can't rely on reputation-based trsut to facilitate exchange.
- We can hardly rely on interaction-based forms of trust creation alone. The latter requires repeated face-to-face contacts and is thus usually very time- consuming and – economically speaking – not always very efficient. Too often transactions would simply not take place if strong but time-consuming forms of interaction-based trust developed in long-winded face-to-face interactions were always needed before any exchange is considered. In contrast, where institutional trust exists, both parties refer to institutional safeguards in their decisions and actions and can thus develop trust without having any prior personal experience in dealing with one another.
- Institutional trust could bring interpersonal trsut : Trusting someone builds on a decision which is based on an assessment of the other party's competence, integrity and benevolence (Currall 1992; Sako 1992; Mayer et al. 1995), as well as a rough and quick semi-conscious assessment of the unrecoverable costs that would occur if the other party turned out to be untrustworthy (Bachmann 2001). In the case that the trustor and the trustee do not know each other, a third actor known to and trusted by the first two actors may function as a '**third-party guarantor**' and thus play an essential role in trust development (Coleman 1990, Shapiro 1987). The third-party guarantor does his or her job in that he or she provides an overlap of both parties', i.e. the trustor's and the trustee's, explicit and tacit knowledge domains, and allows for judgments on part of the (potential) trustor that would not be possible otherwise.

Within the concept of institutional-based trust, institutions can be reconstructed as being functionally equivalent to a personal third party guarantor (Bachmann and Zaheer 2008). Zucker (1986) has shown in her historical studies in the US-American socio-economic system of the 19th and early 20th centuries that institutional forms of behavioural coordination and control, such as institutional-based trust, are essential if the function of trust in inter-organizational relationships in differentiated modern business systems is to be understood.

II. Is islamic law responsable for market economy weakness in islamic world?

Timur Kuran (2010) claims that while Islam is neither inherently conservative, nor hostile to commerce, institutions (inheritance system, polygamy, specific partnership rules, absence of the concept of legal person, rigid *waqf* provision) that emerged during the first two centuries of Islam retarded the development of impersonal, as opposed to personal, exchange, so weakening market economy.

II.1. Partnership rules

In an Islamic partnership, any individual partner could end the relationship at will, and even the most successful ventures were terminated on the death of a partner. As a result of these rules, most businesses tended to be small and short-lived. Theses rules offered little protection to investors, and could not be scaled-up to exploit economies of size and scope. These shortcomings meant that Islamic partnerships were unable to sustain long-lasting or large-scale trading ventures. These limitations were largely irrelevant in the middle ages, and only became binding during the early modern period once opportunities for longer distance and larger-scale trade emerged. Moreover, Islamic partnership lacked entity shielding that active partners carried full liability. Any partner could force its dissolution unilaterally, and its assets were exposed to demands from third parties. The partnership termination rule, like the lack of entity shielding, discouraged the formation of large and long-lived partnerships.

II.2. Inheritance rules and mariage regulations

Customs also hindered business consolidation by enabling the fragmentation of wealth. The Koran dictated that when a Muslim merchant died at least two-thirds of his estate had to be split among surviving family members. This egalitarian stipulation helped prevent Islamic societies from accumulating capital and evolving into European-style feudal systems. But it further stymied the creation of long-lasting, capital-intensive companies. "The resulting organizational stagnation then prevented the Middle East's mercantile community from remaining competitive with its western counterpart," Kuran writes. Moreover, in allowing polygamy, Islam compounded the incentives to keep partnerships atomistic and ephemeral because merchants with more than one wife tended to have more heirs. The business empires of the most successful merchants rarely survived them because their estates were divided into too many pieces to make recombination practical.

II.3. Waqf rigidity

The waqf wasn't taxed. So it becomes a credible vehicle for sheltering wealth against arbitrary taxation and expropriation. Not surprisingly, vast resources flowed into *waqfs.* In establishing them, successful merchants transferred wealth from a sector in which re-sources could be deployed flexibly to one in which uses were essentially fixed, depressing the already low demand for more advanced forms of commercial organization. Kuran develops a parallel argument to show why waqfs—unincorporated trusts which allowed investors to fund mosques and schools—did not evolve into corporations as european universities did. Waqf had impede the development of market economy because many services provided through these charities would have been provided by corporations. Also, the inflexibility of *waqfs* became an obvious handicap only with industrialization, whose new technologies created a need for reallocating vast resources quickly.

If we shloud agree with Kuran explanation, that is the non adaptation of islamic institutions as obstacle to the consolidation of market economy, why the latter remains weak in islamic world despite reforms of the 19th and 20th centuries which allowed Muslims to borrow from banks, to invest in stock markets, to establish corporations.

As argued before, market economy relies on the development of impesonal exchange. This one depends of the spreading of institutional trsut. Consequently, if people don't trust institutions underlying market economy they can't trust strangers and if they don't do, exchange still limited to personal sphere and market economy become weak. Thus, if marker economy is waek in islamic world the reason is that muslim people don't trust dysfunctional institutions even they are in appearence pro-market.

III. Alternative explanation of this weakness…

Similar to a **personal guarantor** in the case of interaction-based trust, institutions help to establish a 'world-in- common' (Bachmann and Zaheer 2008), i.e. shared explicit and tacit knowledge between the trustor and the trustee. In these circumstances, an individual or collective actor finds good reasons to trust another actor, individual or collective, because institutional arrangements are, like a personal third party guarantor, capable of *reducing* – which is not the same as eliminating! – the risk that a trustee will behave untrustworthily, allowing the trustor to actually make a leap of faith and invest trust in a relationship. Institutions enable pooling the risks of being cheated, through formal and informal arrangements, extended families, community responsability. All these mechanisms allow reducing the size of the material threat should cheating occur. Moreover, institutional arrangements create familiarity and can lead to the suspension of critical questions about the actual trustworthiness of trustees.

Consequently, the high is the quality of institutions, the high is the trust of people in theses institutions, so the institutional trust is stronger. Institutional trust is established more completely in such an environment where the institutions function efficiently and fairly.

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III.1. Unsuccessful implementation of pro-market institititions

The reason why muslim people haven't confidence in pro-market institutions, is that they are dysfunctional because their transplantation wasn't successful. This has hampered the development of institutional trust necessary to impersonal exchange.

III.1.1 : lack of complemntary institutions

Indeed a market economy couldn't take place strongly without a set of complementary of rules. It's inusfficient to import only the corporation template or modern banks to hope consolidating market economy. The latter need also other institutions like rule of law, free contracts, free prices and free competition.

For example, the importation of, for instance, French civil law into the Ottoman empire was hampered by the absence of appropriate preconditions. The judges appointed to serve on specialized commercial courts lack proficiency because centuries of organizational stagnation removed the need for judges equipped with more sophisticated skills. No modern law schools existed because commerce remained largely personal, and training in Islamic law remained adequate to handle the disputes that commonly arose among people doing business under traditional Islamic institutions. It took time to train competent lawyers ; local norms of fairness and liability did not change instantly. Nepotism and judicial corruption have remained rampant, in part because at the time of the reforms state employees were not accustomed to arm's-length transactions.

Probably the most important determinant of the emergence and sustainability of extended trust is the availability of complementary contract enforcement from the state. Zak and Knack (1998) establish a close statistical relationship between their measure of (extended) trust and the quality of formal institutions (the protection of property rights, the enforceability of contracts, the extent of bribery, and an index of investors' rights).

However, government officials have few incentives to provide efficient third-party enforcement, because they remain members in "old boys" networks preserved for the purpose of rent-seeking. The lack of incentives for government officials to provide efficient contract enforcement – and admittedly the limited capacity of the state due to absent legal and administrative skills – find their corollary in persistently low levels of trust in public institutions.

III.1.2. Deficit of cultural appropriating

Only a subset of the institutions needed could be borrowed from abroad. Indeed, transplanting a legal code, organizational form or business technique is not the same thing as appropriating the social system that produced, refined and sustained it. The performance of a borrowed institution necessarily depends on pre-existing local institutions and depends on the capacity of the recipient community to adapt.

The Genoans merchants outpaced the Maghrebis, Greif (2005) argues, because they invented various corporate institutions that formed the core of capitalism, including banks, bills of exchange, and joint-stock companies, which allowed them to accumulate enough capital to launch riskier but more profitable ventures. These institutions, in

Greif's (1994b) account, were an outgrowth of the Genoans' Western culture, in which people were bound not just by blood but also by contracts, including the fundamental contract of marriage. The Maghrebis' Arab values, by contrast, meant undertaking nothing outside the family and tribe, which limited commercial expeditions' resources and hence their reach. The bonds of blood couldn't compete with fair, reliable institutions.

III.1.3 : weakness of civil society

States can have a serious negative impact on social capital when they start to undertake activities that are better left to the private sector or to civil society. The ability to cooperate is based on habit and practice; if the state gets into the business of organizing everything, people will become dependent on it and lose their spontaneous ability to work with one another limiting the development of undermine all forms of horizontal association in favor of vertical ties between Party-State and individual (Putnam, 2000). Hence limiting opportunities to cooperate between strangers and to enhance generalized trsut level in muslim societies.

For example, France had a rich civil society at the end of the Middle Ages, but generalized trust between individuals weakened as a result of a centralizing state that set Frenchmen at each other through a system of petty privileges and status distinctions. The same thing occurred in the former Soviet Union after the Bolshevik Revolution, where the Communist Party consciously sought to undermine all forms of horizontal association in favor of vertical ties between Party-State and individual. This has left post-Soviet society bereft of both trust and a durable civil society (Putnam, 1993b).

The weakness of civil society further limited the ability of indigenous firms or banks to emerge in the early modern period (see also Balla and Johnson 2009). This weakness persisted, even after western legal institutions were adopted. Indeed, the Middle East began to modernize without a strong civil society in place made it easier for states to take the lead in the development of sectors that might otherwise have advanced through decentralized private initiatives. The top-down development programs prevalent in the region have been criticized for limiting private enterprise through over- regulation and misregulation.

III.2 Bad policies and predatory governance

Besides the legacy of colonialisme, generalized trust necessary to impersonal exchange and market economy was hindered by the policy choices of decolonized muslim countries.

III.2.1 : Socialism and centralism

Independence took place at a time when the Soviet Union was influential and many believed that centrally planned socialism was a shortcut to power and prosperity. Arab governments thus found it tempting to confiscate private property, eradicate the existing bourgeoisie, and create massive state monopolies in resources like copper, oil, and phosphate. In the name of national independence and economic modernization, all the wealth could be concentrated in the hands of the ruling militaries and bureaucracies. In other words, muslim governments choose to consolidate the planned economy instead of market economy.

Moreover, centralism has foster personal exchange at the expense of impersonal exchange. Indeed, The centralized nature of resource allocation did not require decentralised contracting between parties to a transaction (Greif and Kandel 1994). Contracts were made between the planning agency and producers. Monitoring problems were acute and enterprises effectively suffered little sanction from contract under-fulfilment – they operated under soft budgets and soft contracts. Because the reliability of supplies under the planning system was low, enterprises were effectively forced to seek necessary inputs informally. Hence, central planning leads to the emergence of informal networks between enterprises – often using specific contact persons – and based on repeated interaction (Martin, 1999).

Bureaucratic coordination furthermore led to extensive bargaining, in which personal connections to government officials were a crucial asset. Central planning relied extensively on specific trust and not generalized trust, with enterprises, local and national government officials closely linked through informal networks. Following Putnam (1993b), it could be argued that social capital was low under central planning. The scope for social interaction, which would have allowed extended trust to emerge and to be reproduced, was limited. Business networks based on ties often remain closed to outsiders so hindering generalized trsut.

III.2.2 : Bad and preadatory governance

Predatory and poor governance reduces trust in public officials and institutions. In 1382, much of the Middle East came under the jarring rule of the Circassian Mamluks, who hailed from the Caucasus and treated their subjects as cash cows. "They not only continued the traditional exploitation of the peasantry, but also introduced extortionate taxes and forced sales on industrial production and commerce," Ronald Findlay and Kevin H. O'Rourke write in "Power and Plenty" (2007), leading to the decline of production and trade.

Halil Inalcik (1970) explains that otooman rulers being interested first and foremost by keeping their power, they put a premium on economic stability. Accordingly, the enforced prices controls, regulated investments and exports, established charitable foudnations, keep the burden of taxation largely on the countryside. This system was productive to enable the conquest of similar territories, but it proved a serious handicap to develop market economy.

Bad policies and governance led to the exacerbation of land and income nequalities. Zak and Knack (1998) for instance present cross-country evidence that the extent of trust between anonymous individuals (derived from the World Values Survey) is positively related to measures of social distance (income and land inequality and ethnolinguistic fractionalisation).

Institutional trust is closely related to perceptions of corruption. Political corruption – the misuse of public office for private gain – is one of the most important factors contributing to lower institutional trust in both the developed and the developing world (Blind, 2006). Institutional trust can be destroyed by corruption (either real or perceived), which cast a shadow on the transparency of the institutions. So, countries with a high level of perceived corruption (like the Slovak Republic, Poland, Hungary, Korea and Italy) have below-average levels of trust in institutions, while countries scoring a low level of perceived corruption (like Norway, Denmark, and Finland) have much higher levels of institutional trust.

III.2.3 : Rent-seeking and cronysm

Berry (1989) gives a convincing illustration of how redistributional rentseeking both within and between groups leads to inbred stagnation. She emphasizes the role of social institutions (social norms) regarding access to productive resources, for the strategies of resource use. During the transition from traditional tribal society, through colonial rule, to independence, cost saving 'indirect rule' by the colonial authorities to a large extent led to the survival of traditional kinship and community based polities, and their extension into higher levels of governance. As a result, both in productive enterprise and state governance, access to resources still depends heavily on strong community-based social relations, that is exchange still personal and trsut specific. This has prevented the development of generalized trust beyond blood and kinship ties.

Moreover, the discovery of oil and natural gaz in many islamic countires lead to the emergence of rentier economy contrary to the market economy. In an economy when When interactions become locked-in in a social structure characterized by parochial vested interests and patrimonial channels of access to resources, the political and economic sphere will be dominated by nepotist rentseeking. Fukuyama (1995) and Knack and Keefer (1997) identify patronage and rentseeking with low generalized trust.

After the fall of the Soviet Union showed socialism to be far less efficient than the free market, Muslim governments began to free up markets somewhat, but without surrendering their tyrannical authority. This resulted in an Arab crony capitalism, which is now the dominant economic arrangement in the Muslim Middle East. In today's pseudo-market Arab economies, it makes little sense to be an independent entrepreneur. If you want to open a business, you'll need a license, and the only surefire way to obtain it is to belong to (or be close to) someone in the ruling elite; even then, you'll share your profits with the bureaucrats. It's far easier to seek a rent based on your position in society. Rent-seeking is particularly prevalent in countries overflowing with natural resources like oil and gas, which bring in massive revenues that reduce the incentive to diversify the economy.

Egypt exemplifies the crony-capitalist model. During the 1990s, corrupt privatizations transferred state monopolies in energy, steel, cement, and other industries to private "entrepreneurs," most of whom were members of President Hosni Mubarak's family, top military officers, and other well-connected people. Meanwhile, economist Hernando de

Soto has calculated, opening a modest bakery in Cairo required two years of slogging through the bureaucracy, at each stage of which the would-be owner would need to grease official palms—and if his bakery finally opened, he would then have to pay ongoing protection money to the local police. Small wonder Egypt suffers from slow growth, massive unemployment, and a large black market.

III.2.4 : Fake reforms

Muslim governments had tried to implement some reforms to Foster free amrket economy, espacially privatizations. But thess reforms had failed leading muslim people to distrust market economy. Indeed, inadequate communication, lack of transparency, absence of institutional prequisites, corruption during the mass privatization resulted in the absence of an efficient system of property rights, increasing trust in the institution of the private property instead; a completely opposite situation occurred, which undermined trust in the competent institutions, especially the judiciary ones. The absence of effective mechanisms for the protection of property rights and contractual liabilities increases risk on the capital market, leading to the paralysis of the investment and innovation and bloqued the emergence of new entrepreneurs to stimulate market economy. Moreover, highly skewed privatisation policies could increase social distance considerably and undermine the basis for the development of extended trust. Increased income inequality in the context of reduced incomes overall also increases economic risks for individuals on the lower end of the wealth scale. Higher risks will tend to fortify reliance on closed social networks at the cost of lower extended trust.

Conclusion

How to strengthen market economy in islamic world? A market economy is an economy where decisions regarding resource allocation, production, consumption, price levels and competition, are made by the decentralized actions of householdes and firms seeking each one their interest. In other meanings, the system of market economy runs thanks to the autonomous coordination of people. In order that this decentralized system function efficiently, participants should be free to make their decisions and coordinate their plans. In other words, people should be free to consume, to produce, to invest, to contract, to exchange with others. That is market economy needs economic freedom.

Unfortunatley, in muslim countries, people haven't the freedom to choose their goods and services because economic planification, public monopolies. They haven't the freedom to produce and invest because heavy taxation, complex and excessive regulations. They haven't the freedom to exchange because protectionnism. Definitvely, the weakness of market economy in muslim coutries is the symtom of deficit of economic freedom. Consequently, to strengthen market economy in islamic world we should enhance economic freedom in theses countries by :

- Limiting the size of sate will allow on the one hand reforming the state in order that citizens refind trust in state which will facilitate ppular moblization and cooperation with governement particulary when structural reforms are in stake. On the other hand, the withdrawl of sate from economic sphere will enable individuals and firms to develop cooperation and horizontal ties necessary to fooster trust between closed commnities. There are, of course, good reasons why countries should restrict the size of their state sectors for economic reasons. On top of this, one can add a cultural motive of preserving a sphere for individual action and initiative in building civil associations.

- Consolidating the rule of law, protection of property rights and contract enforcement are very important to generate trust among individuals. Because it reduces the risk of cheating, convey information about the trustworthiness of the other partner, allow the truster to reduce the cost to be cheated. This aim pass through the effective independence of justice, rationalization of laws, decentralized judiciary apparatus, specialization in commercial and business law and training of judges.

- Fostering competition to guarantee the principle of opportunity equality between all the participants to market transactions. Every individual or firm gets a fair chance to succeed. The percieved fairness of the market process will lead producers to invest because the rules of the game will be the same for everybody and consumers also will be confident that they pay the fair price without undergoing anti-trust practices. To have open competition we need to liberalize markets, implement anti-trust regulations, abolish public monopolies, relax output and inputs markets regulations to remove barriers to new entrants, enhance business climate to guarantee no discrimination between entrepreneurs.

The secret of western countries in succeeding to develop free market economy is to institutionalize trust. Muslim countries should follow the same way and enhance the quality of their institutional capital through promoting economic freedom.

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