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“Assessing the economic impact of Sharia”, GDN Regional Research Competition Project RRC16+23

Non-technical Summary

My project aims to identify the effect of introducing strict religious rules of conduct (Sharia rules in an Islamic society) on economic outcomes, with the main focus being the labor market outcomes of women, as the lives of women under Sharia is the main concern of the human rights discourse (Afrianty, 2015). I use Indonesian data for the exercise. First, I look at the introduction of local Sharia by-laws after the decentralization of Indonesia following the fall of the Suharto regime, which allows for a straightforward diff-in-diff analysis on a regional level and using discontinuities at the borders of adopting and not adopting subregions. I find that adoption of the Islamic regulations are associated with higher unemployment and worse performance on a range of poverty measures on the long run. The analysis suggests that the reason behind these features is that the focus of policymaking shifts from providing basic public goods. Auxiliary evidence suggests that another channel could be an increase in religious vigilantism and public unrest. On the other hand, the data does not suggest that these regulations achieve what they nominally plan to achieve, a more moral, conservative and just society as reflected by measures of perceived crime, religious infrastructure, education and equality.

Second, I make a proposition on the potential mechanisms driving the religious turn in Indonesia, which I believe can be generalized for different countries as well as different cultural contexts. It has been argued for a long time that economic calamity is the main driving force behind religious revivals around the world. Earthquakes kept theocrats in their seats in Medieval Italy (Belloc, Drago Galbiati 2016); Islamic institutions provided ex-post insurance for the financial crisis in Indonesia both in psychological and material terms (Chen 2010); and losing faith in social mobility motivated Egyptian middle class youth to gain faith in God (Binzel and Carvalho 2016). But this does not paint a whole picture. I argue that Sharia lawmaking in Indonesia is not driven by the impecunious many, but by the affluent some; that Sharia policies serve as a substitute for redistributive policies which help alleviate poverty and increase material welfare directly.

Secular politicians run on “Sharia tickets” where they can get substantial organizational support from Islamic pressure groups, thus, they can avoid paying off voters and middlemen directly. This comes at a price, though. Letting Islamic pressure groups closer to power weakens institutions such as tolerance and religious freedom which also have a measurable negative social impact. The reason that not all the country chooses this path is that the supply of local Islamic networks is not uniformly distributed, but is a legacy of earlier institutions (Buehler 2016). Regions which benefited from colonial capitalist progress earlier on developed a sense of belonging together and formed a middle class with its own vision on Islam which is much closer to the one professed in Mecca than the traditional and syncretic Islam of the peasantry and the elites of the pre-colonial Javanese kingdoms (Geertz 1976).

This socially reformist and morally conservative Islam became the driving force of progress just as socially reformist and morally conservative Christianity was the driving force of progress in 16th century Europe. Spatial patterns of support for this movement are reflected by vote shares of the Masyumi party, which came second on the country's first democratic election in 1955. Decades of dictatorial government might have washed away economic and social differences, but it did not renew local differences in the mindset of the people which were passed on through institutional memory and the reinforcing effects of episodes such as the Darul Islam revolt in the 1960s (Buehler 2016). I exploit these geographical patterns as exogenous supply of Islamic pressure groups for the contemporary democratic politicians.