

The Production of Terrorism in Pakistan: A Religious Market Explanation

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Does intervention in religious market produce negative externalities? To explore this question, firstly, I market for religious products secondly, I provide a chronological discussion on the consequences of government interventions in the market of religion in Pakistan. It is argued that an oligopolistic market for religion exists in Pakistan, thus, it is regulated over time by both democratic and non-democratic regimes. Furthermore, it is discussed that the main intent of regulations in the religious market of Pakistan was the appropriation of rent by three players, that is, religious sect(s), incumbent governments, and cold war allies of Pakistan. However, these interventions produced negative externalities over space and time while polarising religious sects and sub-sects. Over the years, these spillovers are realised in the form of sectarian violence which slowly and gradually transformed into an extreme form of conflict, i.e., terrorism.

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1. INTRODUCTION

The prevailing debate about the roots of terrorism in Pakistan emphasises the religious aspect, i.e., sectarianism, which is comprehensively studied through the theories of anthropology, sociology, political science, law and international relations [Zaman (1998); Nasr (2000a,b); Stern (2000); Nasr (2002); Haleem (2003); Khan (2003); Abbas (2004); Nasr (2004); Grare (2007); Malik, *et al.* (2007); Palmer and Palmer (2007); Waseem, *et al.* (2010); Murphy (2012); Riedel (2012)]. Political scientist, Nasr (2000b), defines sectarianism in the following words: “Sectarianism in the Pakistani context refers specifically to organised and militant religiopolitical activism, whose specific aim is to safeguard and promote the sociopolitical interests of the particular Muslim sectarian community, with which it is associated. Its discourse of power promises empowerment to that community in tandem with greater adherence to Islamic norms in public life, as the religious sources and authorities of that community articulate them. These goals are to be achieved through mobilisation of the sectarian identity in question and the

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marginalisation of the rival sectarian community, largely through prolific use of violence.” Thus, the objective of this paper is to study the roots of terrorism through market and intervention perspectives. In particular, I analyse how economic incentives in the religious market motivate and mobilise different players to produce violence, either directly or indirectly, over space and time.

While emphasising economic incentives, this paper provides an alternative explanation to the origin of sectarian conflict and terrorism in Pakistan. A market perspective of religion has been exploited as an analytical framework to explain economically motivated interactions among different players which lead to the production of sectarian violence and terrorism over time.¹ It is argued that the religious market framework provides useful insights on the origin of sectarianism and terrorism as an oligopolistic market exists to produce different religious products in Pakistan.

In this context, to the best of my knowledge, this is the first study to define Islamic religious product(s) and its market explicitly. That is, what is the product available for the exchange?; what is the price of the transaction?; how is the price determined?; what are the available substitutes and complements of religious goods and services?; what is the nature of the market?

Since the seminal contribution of Iannaccone (1992), researchers have considered religious practices as rational and adherents as utility maximisers. For instance, religious organisations provide consumption smoothing technologies to followers [Hungerman (2005); McCleary and Barro (2006); Dehejia, *et al.* (2007)]; greater levels of religious participation are associated with greater level of reported happiness [Johnson, *et al.* (2002)]; a lower probability of committing crimes or engaging in risky behaviour [Gruber and Hungerman (2006)]; and greater level of educational attainment [Iannaccone, *et al.* (1997)]. Similarly, like other economic markets, religious market is also exposed to government interventions.

To analyse the research question in the context of economic incentives and market framework, it is instructive to shed some light on the dynamics of religion in Pakistan. Pakistan is a religiously homogeneous country having 96 percent Muslim population [ARDA (2014)]. On the one hand, religion was used as an identity in the creation of Pakistan in 1947, assumed to provide norms, morality, social legislation and an inner constitution of ethics and compliance to the nation. Thus, it played a significant positive role over the years. Social scientists acknowledge this role in words like “Pakistan: A resilient/hard country [Stewart (2012); Jaffrelot (2015)].” On the other hand, religion became an institution of rent-seeking for legislators, clergies, civil and military bureaucracies and foreign allies of Pakistan. To appropriate rent, religion is continuously regulated over time by both democratic and non-democratic governments.² A significant number of constitutional articles are related to the structure of the religious market. Still, the market is enriched over space and time with different sects and sub-sects within the Muslims’ faith.

¹A religious market refers to a place where religious producers interact with consumers within a market framework. Economics of religion frames religion as a product and those who practice with any particular religion as a consumer [Sherkat and Wilson (1995)].

²Islam is the official religion of Pakistan. There are various articles and clauses in the constitution regarding Muslim’s faith, practice and preaching of the religion [Pakistan (2012)].

Government regulations in the religious market is not a new phenomenon. These have been frequently practiced throughout history. In the contemporary world, on one side, there are countries where a specific religion has been given the monopoly power; while on the other side, a large number of states treat all religions with homogeneous rules and regulations [Yang (2010)].³ Pakistan belongs to the former category of countries, where one religion has been given an official status. According to the study of Grim and Finke (2006), Pakistan was among the top twenty countries where religion was highly regulated.⁴ An extensive literature is available on the effects of government (de)regulations on religious participation, religious activities, human behaviour and welfare effects [Posner (1987); Olds (1994)].⁵

In this context, the following regulations are considered the most significant in Pakistan's religious market. In the education sector, government has introduced *Islamic Study* as a compulsory course and invested in the religious schools (Madrassas) [Malik (1989); Nasr (2000a); Murphy (2012)]. On the fiscal side, Islamic mandatory charity and taxes (Zakat and Ushr) were imposed. In the judiciary, punishment for serious crimes, including theft, robbery and rape under the common law were replaced by the so called *Islamic punishment*. Nevertheless, explanation/interpretation of these regulations under the Islamic Jurisprudence (Sharia Law) is provided through Hanafi'ite jurisprudence. This school differs on social, religious and economic aspects from other schools of Islamic jurisprudence, which have millions of followers in Pakistan.⁶

It is argued that the main intent behind interventions in the religious market of Pakistan is the appropriation of rent by different players. Religious sect(s) received rents from the government in the form of investment in their religious schools, mosques and extended their role to the judicial institution. In return, they supported the prevalent government(s), specifically, the coup and helped (in different forms) the afghan fighters against the former Soviet Union invasion in Afghanistan. The governments, specifically, the dictatorships, backed the regulations to strengthen their domestic legitimacy. And foreign allies provided funds to the government to utilise its role in the cold war through religious institutions. For instance, the government provided support to Afghan fighters against the invasion of the former Soviet Union with the financial, strategic and technical support of the allies. However, the rent backed interventions in the religious market produced negative externalities. Over the years, these externalities are realised in the form of sectarian violence which slowly and gradually transformed into an extreme form of conflict, that is, terrorism.

³Yang (2010) studied that 84 countries have declared an official religion while 56 nations treat all religions equally.

⁴The Grim and Finke (2006) study sample size consists of 196 countries.

⁵Levin (2010) provides a comprehensive literature review about religious activities, health outcomes and well-being.

⁶The Hanafi'ite school is one of the three schools of law within the Sunni Islam. Ibn-i-Khaldun defines the Sunni schools as three: the Hanafi'ite school representing reason, the Zahir'ite school representing tradition and a middle school encompassing the Shafi'ite, Malik'ite and Hanbal'ite schools [Goldziher (1971)].

The remainder of the paper proceeds as follow: Related literature on the causes of terrorism is discussed in Section 2. Section 3 discusses a general economic theory of the religious market while Section 4 applies the theory to the religious market of Pakistan. The constitutional articles and resultant regulations are explained in Section 5. Section 6 deals with the unintended hazards of government interventions. Finally, Section 7 concludes the study.

2. RELATED LITERATURE ON THE CAUSES OF TERRORISM

The determinants which could affect the cost-benefit matrices of a terrorist include economic, political, institutional and demographic factors. In this context, several hypotheses have been presented and tested to understand the causes of terrorism [Krieger and Meierrieks (2011)].⁷ These hypotheses are briefly explained below with a summary of the relevant research in Table 1.

The most extensive research has been carried out on the ‘economic’ causes (poverty and inequality) of terrorism. Are poor societies more prone to terrorists? Conflicting evidence about economic causes has been provided while considering different time periods and regions. Political economists have also studied the role of ‘modernisation’ in the promotion of terrorism. They argue that new forms of lifestyle and communication, urbanisation and higher population density may attract more terrorist attacks, because, these may challenge traditional elements of a society. Again, mixed empirical support has been found about modernisation being a trigger for terrorist activities. This literature further focuses on the role of ‘liberal vs. non-liberal’ economic and political institutions as determinants of terrorist incidents. Liberal democracies are less prone to terrorism as they provide an alternative way of raising voice to disenfranchised segments of a society. Empirical results show that once the regression controls for the liberalisation component of the ‘institutional order,’ the effect of economic conditions become insignificant on terrorism. Relating to this, studies found a non-linear relationship between the type of political set up ‘democracy vs. dictatorship’ and terrorist activities. Nevertheless, inconclusive results have been observed. Furthermore, the role of ‘ethnic and religious fractionalisation’ has also been studied, but an ambiguous effect on terrorist incidents has been found. Lastly, significant contagious effects of terrorism in both space and time have been observed, that is, terrorist activities cluster over space and time. In short, concrete evidence has been found in the literature that terrorism is more likely to emerge in highly populated, non-democratic and instable countries.

Similarly, political economists provide facts and figures that terrorism in Pakistan has its root in the ‘identity conflict,’ including both ethnic and religious fractionalisation. However, few recent studies have found that ‘economic conditions’ also matter for terrorists in Pakistan. Thus, the current study adds to this literature while arguing that the root cause of violence and terrorism lies in the regular intervention of government in the religious market of Pakistan.

⁷Krieger and Meierrieks (2011) provide a comprehensive overview on different hypotheses that link socio-economic and political factors to terrorism.

Table 1

Determinants of Terrorism

Hypothesis	Potential Determinant	Positive Effect	No/Negative Effect
Economic Deprivation	Economic Conditions	Krueger and Maleckova (2003); Kurrild-Klitgaard, <i>et al.</i> (2006); Plumper and Neumayer (2010); Freytag, <i>et al.</i> (2011)	Blomberg and Hess (2005); Azam and Delacroix (2006); Lai (2007); Azam and Thelen (2008)
Modernisation Strain	Economic Performance, Population Dynamics	Krueger and Maleckova (2003); Burgoon (2006)	Azam and Delacroix (2006); Azam and Thelen (2008)
Institutional Order	Economic-Political Institutions, Education	Eubank and Weinberg (2001)	Krueger and Maleckova (2003); Burgoon (2006); Piazza (2008); Plumper and Neumayer (2010)
Political Transformation	Political Stability	Lai (2007); Piazza (2008)	Eubank and Weinberg (2001); Blomberg and Hess (2005)
Identity Conflict	Religion, Minorities	Piazza (2008)	Blomberg and Hess (2005); Azam and Delacroix (2006); Kurrild-Klitgaard, <i>et al.</i> (2006); Azam and Thelen (2008)
Global Order	Economic Integration, International Politics	Freytag, <i>et al.</i> (2011); Burgoon (2006)	
Contagion	Geography, Time	Blomberg and Hess (2005); Enders and Sandler (2005); Lai (2007); Piazza (2007); Plumper and Neumayer (2010)	
Economic Deprivation	Economic Conditions	Literature on Pakistan Nasir, <i>et al.</i> (2011); Shahbaz (2013)	
Institutional Order	Economic-Political Institutions, Education	Nasir, <i>et al.</i> (2011)	
Identity Conflict	Religion, Minorities	Zaman (1998); Nasr (2000b); Stern (2000); Grare (2007); Asal, <i>et al.</i> (2008); Fair, <i>et al.</i> (2010, 2013)	

Indicators used for hypothesis: *Economic Deprivation:* Per capita GDP, poverty or inequality; *Modernisation Strain:* Inflation, unemployment, GDP growth, urbanisation, population growth, size, structure or age; *Institutional Order:* Economic freedom, property rights protection, civil liberties, political rights, literacy or school attainment; *Political Transformation:* Regime stability, conflicts or civil war; *Identity Conflict:* Religious fractionalisation, ethnic or linguistic fractionalisation; *Global Order:* Trade openness, terms of trade, FDI, foreign aid, incidences of conflict or alliances; and *Contagion:* Spatial, climate, elevation, latitude or temporal proximity to terrorism.

3. ECONOMIC THEORY OF RELIGIOUS MARKET

Should the government seek a free or monopolised religious market? For the first time, this question was raised by Adam Smith in his famous book *The Wealth of Nations* (1776). Smith inquired whether optimality in the religious market requires establishing (state funded) monopoly churches or competitive religions. Smith advocated a free religious market and argued that the objective of self-interest motivates a religious scholar (the clergy) as it does in secular markets and firms. He

further added that the benefits of competition, the burdens of monopoly and the hazards of government regulations are as real in the religion as in any other sector of the economy. Smith holds:

“The teachers of each sect, seeing themselves surrounded on all sides with more adversaries than friends, would be obliged to learn that candor and moderation which are so seldom to be found among the teachers of those great sects, who [as a result of legal entry restrictions facing competing sects] ... see nothing round them but followers, disciples and humble admirers. The teachers of each little sect find themselves almost alone, would be obliged to respect those of almost every other sect; and the concessions which they would mutually find in both convenient and agreeable to make one to another might in time, probably reduce the doctrine of the greater part of them to that pure and rational religion, free from every mixture of absurdity, imposture or fanaticism ... This plan of ecclesiastical government, or more properly, of no ecclesiastical government, [would tend to be] productive of the most philosophical good temper and moderation with regard to every sort of religious principle [p. 332; emphasis added] [Smith (1845)].”

Smith presented the argument that if more than one religious sects compete with each other for resources and members, the clergies of each sect will challenge the adversaries and provide high quality of moral standards and beliefs at low prices. Furthermore, Smith emphasises the importance of a larger number of sects like different number of producers in a secular market. He mentioned the importance of a larger number of small sects as:

“The interested and active zeal of religious teachers can be dangerous and troublesome only where there is either but one sect tolerated in the society, or where the whole of a large society is divided into two or three great sects; the teachers of each acting by concert, and under a regular discipline and subordination. But that zeal must be altogether innocent, where the society is divided into two or three hundred, or perhaps, into as many thousand small sects, of which no one could be considerable enough to disturb the public tranquility. The teachers of each sect, seeing themselves surrounded on all sides with more adversaries than friends, would be obliged to learn that candor and moderation which are so seldom to be found among the teachers of those great sects, whose tenets [are] supported by the civil magistrate (p. 332).”

Similarly, Coase (1974) argued that “in the market for goods, government regulation is desirable whereas, in the market for ideas (speech, writing and the exercise of religious beliefs), government regulations are undesirable and should be strictly limited. The government, if it attempted to regulate the market for ideas, would be inefficient and its motives would, in general, be bad, so that, even if it were successful in achieving what it wanted to accomplish, the results would be undesirable.”

On one side, Smith and Coase advocated a free religious market to promote tolerance, peace, ideas and harmony in the society, but on the other side, David Hume argued against the competitive religious market and favoured the establishment of religion by the state. Hume explained that “in the free and unregulated market, each ‘ghostly practitioner’ (i.e., preacher) will have an incentive to maximise the number of his ‘customers’ by disregarding ‘truth, morals, or decency’ and appealing to the ‘passions and credulity of the populace.’ It is necessary for the state to regulate this competition in order to protect the ‘political interests of the society’.”⁸ Hume further added that a state

⁸ See Anderson (1998) for the reference to David Hume on this point.

takes necessary regulatory measures to mute the fanaticism which was associated with independent religious sects. Given the definitions/views of Smith and Hume, the following sections explain the structure and nature of the religious market in Pakistan.

4. THE ISLAMIC RELIGIOUS MARKET

Behavioural and political economists argue that beliefs shape current and future economic decisions of an individual [Benjamin, *et al.* (2010); Leeson (2012); Basten and Betz (2013)]. Beliefs which are subjectively true, objectively, may be true or false.⁹ Every religious belief has the characteristics of either subjectivity or objectivity, or both. Due to the lack of objective evidence, it was a challenge for the economists to explicitly define religious product and its market.¹⁰ However, in the last two decades, economists have extended the tools of market to study different aspects of religion. Religion has been viewed from the market perspective since the seminal work of Iannaccone (1992). In this context, this is the first study to explicitly define Islamic religious product(s) and its market. For instance, what is the product available for the exchange?; what is the price of the transaction?; how is the price determined?; what are the available substitutes and complements of religious goods and services?; what is the nature of the market? Given these questions, this section explains the market characteristics of the Muslims' faith in general and in Pakistan in particular.

A bundle of commodities is available for the exchange in the Islamic religious market. I term the set of products, *Islamic or Sharia Law*. There are some goods and services in the set of Sharia law which are subjectively true, but objectively lack scientific proofs. Examples include prayers, rituals, beliefs on God, heaven, hell, the day of judgment, and life after death. The opportunity cost of consuming such products is the time forgone which would otherwise be available for the labour market and consumption of secular products. Furthermore, Sharia law includes commodities which are not only subjectively true but also possess evidence of objectivity. For instance, laws of inheritance, marriage, divorce, child custody, financial transactions, and property rights. The opportunity cost includes not only time spent on production and consumption but also tangible costs in the form of income and wealth forgone. For example, beliefs on fiscal (Zakat) and monetary (risk sharing, i.e., prohibition of interest) systems [El-Gamal (2006); Vogel and Hayes (1998)], property rights, contract enforcement, government intervention and laws related to crime and punishment, inheritance, marriage, and divorce [Nomani and Rahnema (1994)]. To explain this idea further, consider the following application. In the money market, borrowing and lending is backed by real variables (gold, silver and land related property) to avoid nominal bubbles. Similarly, profit and losses are shared by both parties in the transaction to minimise moral hazard and adverse selection.¹¹ These transactions not only involve time but also money in exchange. Furthermore, different prices prevail in the Islamic religious market, depending on the nature of goods and services, i.e., tangible vs. non-tangible.

⁹The objectively false beliefs lack scientific support. Leeson (2012) called them superstition.

¹⁰Maloney, *et al.* (2010) define religion as a good having three components:

- (1) private satisfaction, which includes hope for an afterlife;
- (2) public camaraderie, which includes joint consumption of public goods, especially charitable works; and
- (3) reputation, respect and social networking.

¹¹For a detail discussion, see Kettell (2011).

The rules and regulations applicable to the Islamic religious market depend on the interpretation of Sharia law. For instance, one school of Islamic jurisprudence (Hanafi'ite) explains distribution of resources (Zakat) through government, while the other (Jafari'ite) argues in favour of individual freedom in the distribution of income [Talbot (2009); Powell (2009)]. The former gives a major role to the government in distribution, while the latter relies on the efficiency of market forces. Each and every individual compares the costs and benefits of different interpretations and decides which jurisprudence to follow.¹² The substitute for a product is the different commodity introduced by a competitive jurisprudence with slightly different characteristics.

4.1. The Religious Market in Pakistan

Violence and terrorism in Pakistan are often correlated with sectarianism rather than with socio-economic and political institutions [Zaman (1998); Nasr (2000b); Stern (2000); Grare (2007); Asal, *et al.* (2008); Fair, *et al.* (2010, 2013)]. Although, sectarian conflict and terrorism are explained through religious intolerance and extremism in Pakistan, nevertheless, there is a dearth of scholarship about the structure and function of the religious market. Thus, this study is also an attempt to fill this gap.

4.1.1. The Constitutional Provision of Religion

Being a predominantly Muslim country, the effects of religion can be seen in different constitutional articles and clauses of Pakistan [ARDA (2014)]. However, the nature and structure of the religious market (free vs. monopoly) is ambiguous in the constitution. Article 2 explicitly states that, "Islam shall be the State religion of Pakistan." If one focuses only on this article, it could be interpreted that there should be a state sponsored monopolised religion. If we read like this, then the question arises, which interpretation (jurisprudence) of the Sharia law should be implemented in Pakistan? What jurisprudence explanation of the Sharia will be acceptable to the majority? As we know, there are different Muslim sects and sub-sects in Pakistan. Although, the fundamental interpretation of the Sharia is same, there may be differences on various social, economic and religious issues. To clarify this ambiguity, the constitution further contains the provision that every sect is free to practice its religion according to its own interpretation. Thus, article 22 (2a) allows a free market for every religious denomination. According to the *Association of Religion Data Archives* (ARDA), religious education is not regulated or controlled by the state of Pakistan [ARDA (2014)].

4.1.2. Does a Religious Monopoly Exist in Pakistan?

If we consider the proportion of followers of a belief, Islam is the dominant religion in Pakistan. According to the 1998 census: 96.28 percent are Muslims, 1.59 percent are Christians, 1.60 percent are Hindus, 0.47 percent are Scheduled Castes and 0.07 percent are others [Pakistan (1998)]. If we further analyse denominational shares in the total population, which will give us an idea about the proportion of followers of each

¹²The preferences for a specific jurisprudence changes overtime when a new interpretation of the Islamic jurisprudence comes to the market. People continuously compare the costs and benefits of their decisions about rituals and tangible products.

sect. According to different sources, two main sects (Sunni and Shi'ite) constitute 70-75 percent and 20-25 percent of the total followers, respectively. Around 95 percent of the customers belong to these two sects which constitute a duopoly market with unequal shares. Due to unequal shares, the market of religion has experienced government interventions over the years.

According to the basic microeconomic theory, a duopolist market leads to inefficient outcomes if the two players collude on prices or output. To correct the inefficiency, it needs government regulations. This is also similar in the case of the religious market, as pointed out by Barro and McCleary (2005): in an unregulated religious market, a natural monopoly can arise. Nevertheless, Bainbridge and Stark (1987) follow Smith's theory of competition and argue that a religious monopoly occurs only if a government involves in coercive behaviour on behalf of the religion. Furthermore, a strong concentration of followers in a particular religion promotes a religious natural monopoly [Barro and McCleary (2005)]. The collective nature of participation and religious beliefs are important reasons to create a religious monopoly [Iannaccone (1992)]. When more individuals adhere to a religion, the higher number of people dispose toward its doctrine. Similarly, Bainbridge and Stark (1987) argue that a centralised authority of the state can use its legitimate power to enforce the state sponsored monopolised religion in a pluralistic market, if it were allowed without the intervention of the government.

Nonetheless, this is not the case in Pakistan. The political demand for an independent state led to the existence of a natural monopoly of the Muslims. After the independence of Pakistan in 1947, the natural distribution of different sects was such that it resulted in the monopoly of the one specific jurisprudence. However, Rehman (2015) discusses that there are more than 100 sects and subsects in today's Pakistan. Therefore, the market structure can be described as oligopoly.

5. LEGAL SHOCKS TO THE RELIGIOUS MARKET AND RENT-SEEKING

This section discusses the history of government interventions in the religious market of Pakistan. It also provides evidence about incentives (public vs. private) to intervene in the religious market.

5.1. The Second Amendment

The 1973 constitution declared Pakistan a religious state and allowed a free market for every denomination. Nonetheless, the first regulation on religion was introduced within a year by the then democratic government. It is implemented through the *Second Amendment*, that explicitly defines the word *Muslim*. The amendment declared a specific religious faction to be non-Muslim and minority.¹³

Theologically, the Second Amendment might be correct, since one of the sects does not accept the most fundamental principle of the Islamic faith.¹⁴ However, it was

¹³To become a Muslim, one must accept that Muhammad (PBUH) is the last Prophet of God. Chapter 33, verse 40 of Qur'an explains "Muhammad is not the father of any of your men, but he is the (Prophetic) Messenger of Allah (God) and the Last of the Prophets; and Allah (God) has full knowledge of all things."

¹⁴Interested readers can find more details on the specified sect on <http://www.pakistani.org/pakistan/constitution/amendments/2amendment.html>

the first attempt to regulate the market which provided a rent-seeking opportunity to different players (government and religious sects) in the religious market. The amendment legalised and institutionalised violence against the banned sect [Khan (2003)], which was the starting point of the sectarian violence in Pakistan.

At the time of the Second Amendment, the *de jure* political power with the religious denominations was insignificant, nevertheless, the *de facto* power with them was significantly high. The main reason was the religious homogenised society. There is considerable evidence that for the rent-seeking groups, a homogeneous polity is easier to exploit [Lipset (1959)].¹⁵ Therefore, the religious players used their *de facto* power of persecution and violence which pulled out one of their competitors from the market. Similarly, the intervention led to religious rent-seeking behaviour in Pakistan. It was an example of the rent-seeking via non-price competition where the competitors, whose fundamental beliefs coincided with each other, forced the government to raise the barriers of entry into the market [Boudreaux (1989)]. Furthermore, implications and externalities of non-price competition have been observed within the few years in the form of dictator Zia-ul-Haq's Islamisation amendments.

5.2. The Islamisation Amendments

General Zia-ul-Haq (July 1977-August 1988) had promulgated a series of ordinances in 1979 to Islamise legal, fiscal and monetary institutions of Pakistan. These amendments broadly include provisions of the Hudood ordinance (punishment for serious crimes under the Sharia Law); elimination of the Riba (interest-free banking); the introduction of profit and loss sharing schemes; establishment of the federal Sharia Court and the Ushr and Zakat (Islamic taxes) ordinances. The detailed chronology of the amendments is illustrated in Table 2.

In these amendments, the most debatable is the *Hudood Ordinance*. Hudood¹⁶ ordinances replaced Pakistan's Penal Code offenses based on the Common Criminal Law procedures with the laws based on the *Hanafi'ite* jurisprudence. As a consequence, punishment for theft, consumption of intoxicants (alcohol), extra-marital sex (fornication) and making false allegations of adultery are replaced by the so called Islamic criminal laws.¹⁷ The explanation of Hudood was limited to the jurisprudence of the Muslim scholar Abu-Hnifa which was rejected by the followers of competitive schools' jurisprudences. A significant scholarship has been written in favour of and against Hudood Ordinances [Kennedy (1992); Cipriani (1993); Polk (1997); Quraishi (1997); Hussain (2006); Weaver (2006); Lau (2007); Mustafa and Cheema (2008); Imran (2013)].

¹⁵Although, religion in Pakistan homogenises the society, however, in the electoral history of Pakistan, religious parties never won a simple majority. In the 1970 general election, three religious parties had won only 18 out of 300 general seats [PILDAT (2013)].

¹⁶Hudood is an Arabic word, literal meaning 'limit' or 'restriction.'

¹⁷Hudood includes Offenses Against Property Ordinance (prohibiting theft); Prohibition Order (prohibiting the consumption of intoxicants); Offence of Zina Ordinance (prohibiting adultery and fornication); and Offence of Qazf Ordinance (prohibiting false allegations of adultery) [Punjab Police (1979)].

Table 2

General Zia-ul-Haq Constitutional Amendments

No.	Name and Date of Institutional Change	Type of Action	Purpose
1.	Taking coup (July, 1977)	Constitution suspended	Imposed martial law and civilian government dethroned
2.	The Formation of a body by the Council of Islamic Ideology (November, 1977)	The establishment of an organisation	To formulate recommendations for the Islamisation Programme
3.	Empowering Supreme Court to Declare Un-Islamic Laws null and void (January, 1978)	Ordinance	To Islamize the laws
4.	New Education Policy (October, 1978)	Ordinance	To enhance the Islamic principles in education based on the Islamic Ideology
5.	Enforcement of Islamic Laws regarding rape, adultery and Prohibition of Wine (December, 1978)	Hudood Ordinance	To transform the punishments for these crimes with those prescribed in Islamic Sharia
6.	The Establishment of Sharia Benches in Superior Courts (February, 1979)	Ordinance	To deal the cases in courts according to the laws in Sharia
7.	More Islamic Laws for Murder, Theft and Robbery (December, 1979)	Ordinance	Again, to transform the punishments for these crimes with those prescribed in Islamic Sharia
8.	Zakat and Usher Ordinance and the Elimination of Usury (June, 1980)	Ordinance	To empower the government to deduct 2.5% Zakat annually from mainly interest-bearing saving accounts and shares schemes
9.	The Establishment of the Federal Sharia Court (May 1980)	Ordinance	To examine and decide the question whether or not any law or provision of law is repugnant to the injunctions of Islam
10.	Interest-Free Accounts in Banks (January, 1981)	Ordinance	To allow Pakistan's all nationalised commercial banks to offer profit/loss sharing accounts
11.	Provincial Constitutional Order (March, 1981)	Ordinance	The order provides for the appointment of a federal council (Majlis-i-Shoora) consisting of such persons as President may, by order, determine. It was equivalent to Parliament in modern democratic systems
12.	Blasphemy Laws (1980, 1982, 1986)	Ordinances	To set the disrespect to Muhammad (PBUH), Ahl-e-Bait (family of the Prophet), Sahaba (companions of the Prophet) and Sha'ar-i-Islam (Islamic symbols) as offenses
13.	Article 58/2-B (November, 1985)	Constitutional amendment	To give the discretionary power to the President to dismiss the Prime Minister, the elected government or the Parliament
14.	Validation of the above Ordinances (November, 1985)	Constitutional Act, 1985 (8th Amendment)	All the above changes were passed by Majlis-i-Shoora (Parliament) and signed by the President

Source: Khan(2013).

Nevertheless, the basic purpose of the intervention was to achieve legitimacy for the dictator's government. To get the support of the main sect and its sub-sects in Pakistan, the then president, general Zia-ul-Haq had designed constitutional amendments based on the Hanafi'ite jurisprudence [Khan (2013)].

General Zia's intervention in the religious market was a situation of two-way religious rent-seeking behaviour. From the government party, Zia was lobbying to remain in the power undemocratically, which could not have been possible if the dominant religious player/sect was not supporting him. From the producer side, the relevant sect was trying to expand their religious share to the political, fiscal and judicial institutions and markets. Thus, the religious sect(s) exploited this opportunity by supporting the dictator in return for the constitutional amendments.¹⁸ Once again, main religious sect(s) colluded with the dictator to restrict the influence of competitive players (sects) in the market through legal interventions [Talbot (2009)].

6. HAZARDS OF GOVERNMENT REGULATIONS

This section discusses how religious amendments created a sense of confrontation among different religious sects. First, it examines how religious violence correlated with the amendments in the short run and transformed into sectarian violence in the medium term. Then, it explains, how sectarian violence is converted to terrorism between sects and within a sect in the longer period.

6.1. The Short Run Hazards

The immediate reaction in the religious market came from sects who do not follow Hanafi'ite jurisprudence. They strongly objected to the Zakat tax and argued that it is against their beliefs to have the state involved in the distribution of resources. They politically mobilised thousands of their customers/followers against government intervention. Although, Zia eventually withdrew and exempted those sect(s) from the Zakat, this event accentuated differences between the two main sects in Pakistan [Nasr (2000a)].

Followers of Jafari'ite school of thought were suspicious of the state patronisation and enforcement of a particular jurisprudence in the religious market, and came forward to protect their religious principles, norms and values. Nevertheless, government allied sect(s) strongly reacted to the government's exemption of some sect(s) from the Zakat tax. Their hardcore sub-sects targeted each others' religious processions, mosques, leaders and professionals. In reaction, both main sects of Pakistan created their respective militant groups. This reaction with the formation of radical militant groups, unfortunately, led to the competition on violence between competitive sects in the religious market. Initially, it was converted to the market of violence. Thus, the future outcomes were sectarian violence and terrorism [Jackson, *et al.* (2009)].

¹⁸In the 1977 general election, the three main religious parties had formed an alliance with six other parties. The alliance had secured only 36 seats out of 200. Again, the religious parties were unable to get *de jure* power in the parliament [PILDAT (2013)].

6.2. The Medium Term Hazards

The lobbying of the religious sects can be seen in the well-known case of the *Hazoor Bakhsh vs. Federation of Pakistan*, Pakistan Legal Decisions (PLD), 1981, Federal Sharia Court (FSC), 145. The FSC had ruled that the sentence of *rajm* (stoning to death) for *zina* (fornication) was repugnant to the injunction of the Sharia Law. The FSC pointed out that the term *Hadd* was used in the Qur'an in a sense of restrictions (bounds set by Allah). None of these mean a fixed penalty. The court added that it appears from the traditions of the Prophet (PBUH) and sayings of his Companions that the word *Hadd* was used in the sense of punishment and not the 'fixed punishment.'

The court judgment was rejected by the followers of Hanafi'ite school of jurisprudence. They turned down the FSC 'interpretation' as being contrary to the Sharia Law and the judges were accused of being ignorant of law, the Islamic scripture and jurisprudence. The sect(s) who were not satisfied with the decision, lobbied against the dictator through country wide riots and protests. It led to another constitutional amendment (President's Order 5 of 1981), which added three judges who were religious scholars and raised the number in the FSC bench to eight. The reason for the extra three judges was a direct consequence of complaints by the main sect of Pakistan [Lau (2004)].

Government intervened in the judiciary institution due to the threat of riots and protests from one of the major sects. General Zia had needed support of that sect for the political legitimisation, thus, he intervened and made amendments in the FSC. The regulation made the government once again non-neutral in the religious market. Both players, the religious sect and the government colluded to maximise rents from the collaboration. In the early 1980s, Zia needed support of the specific faction to get Jihadies in the Afghan War against the former Soviet Union¹⁹ and the religious sect(s) were struggling for their presence in formal institutions.

6.2.1. Religious Schools and Rent-Seeking

According to the Article 22(2) of the constitution, "In respect of any religious institution, there shall be no discrimination against any community in the granting of exemption or concession in relation to taxation." Although, there is no explicit word for the subsidy in the above statement, however, one can interpret that the government will not discriminate against any religious institution in the provision of public goods. If the government provides concessions, it must treat all sects equally. But it was not the case in Pakistan, where governments changed wordings in religious concessions.

In the 1980s, one of the initiatives of Zia's *Islamisation* was the promotion of madrassas,²⁰ especially of the Hanafi'ite school of thought, to get political

¹⁹ For instance, these religious groups had provided and trained enough personnel for the Jihad in Afghanistan, aimed at defeating communism with the support of the United States (US), the Kingdom of Saudi Arabia (KSA) and the United Kingdom (UK) [Khan (2013)].

²⁰ Pakistan's madrassas are traditionally linked with the vast network of religious schools that started in Baghdad in the beginning of the 11th century. The process of the multiplication of madrassas continued with the passage of time owing to differences of the interpretation of the teachings of Qur'an and Hadith. The basic structure and system of education are more or less the same. However, since the 11th century till the rise of capitalism, madrassas were like modern schools, where, apart from religious texts, science, philosophy, art, astronomy, etc., were taught to the students.

benefits.²¹ Moreover, sects of this school were looking for long term investment in the promotion of their religious product and ideology. To get the initial liquid capital, these sects and sub-sects turned to the dictator, Zia. Zia was also looking for an investment, which could give him long term return. Investment in the promotion of a specific belief provided him both short and long term returns and rents.

Firstly, he successfully prolonged his undemocratic regime, and secondly, he used the return from religious investment as an instrument in his foreign policy in the Afghan War. Again, Zia kept aside Article 22(2) and intervened with his allies in the religious market. The US, UK and the Persian Gulf monarchies of Saudi Arabia and the United Arab Emirates had supported him with financial resources. The government provided a share from allies' funds for the promotion and construction of madrassas, and also enabled Islamic parties, social groups and religious scholars to do the same [Nasr (2000a)]. Since the 1980s, most of these madrassas became notable recipients of the Zakat funds that the government had collected. In 1984, for instance, 9.4 percent of the Zakat funds went to the support of religious schools, benefiting 2,273 madrassas and 111,050 students [Malik (1989)].

6.2.2. Rent-Seeking and Violence

At the end of 1979, the Soviet Union attacked Afghanistan. Few years later, Zia with the financial support of the US, UK and Arab monarchs intervened in the religious education market and supported religious schools. However, Zia linked the distribution of foreign rents to the provision of foot soldiers and sleeping cells to Afghan fighters who were fighting against the Soviet army. Therefore, the number of players in the religious market increased to three. The rent-seeking players were the hardcore sect(s), government (dictator) and foreign allies. Murphy (2012) argued that the rapid growth in madrassas during the Zia's regime led to the decline in the standard of training and scholarship.²²

A major proportion of the state and allies' funding went to specific hardcore sect(s) madrassas [Murphy (2012)]. The concession created a three way rent-seeking activity and every party took its share. The international players achieved their share of rent when the Soviet Union was pushed back by Afghan fighters, which led to the collapse of communism [Reuveny and Prakash (1999)]. Zia's government received external legitimacy and financial assistance from his allies in the form of grants, aid and loans. Between 1972 and 1999, 48 percent of total US aid was given to Zia [USAID (2014)]. The religious player received unprecedented investment in madrassas, students

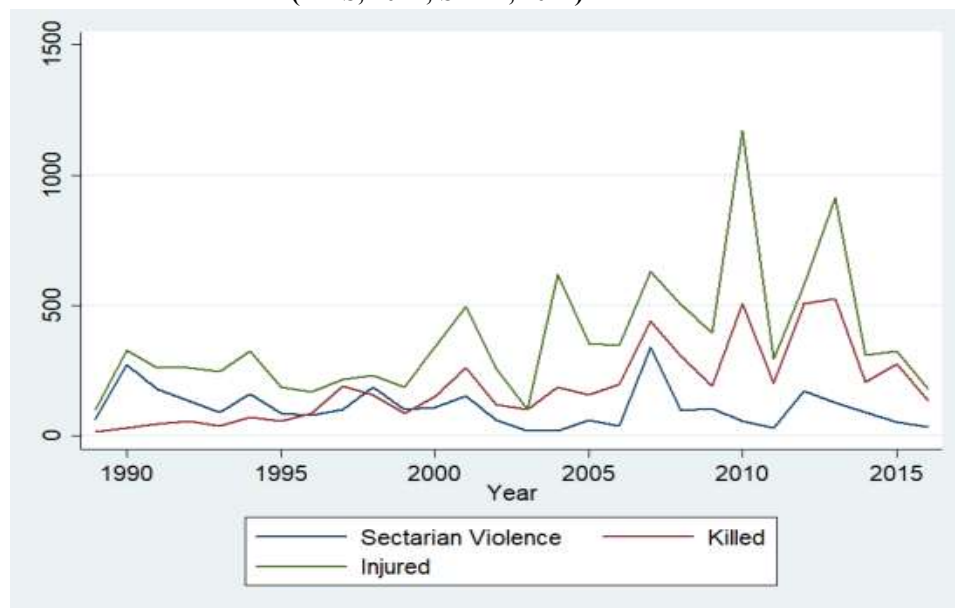
²¹Khan (2013) studied that Zia became the key ally of the US in the Afghan war. The West, especially the US and the Arab countries were against the Soviet Union's occupation of Afghanistan. Khan (2013) further explained that *Islamisation* helped Zia in attaining domestic legitimacy through the support of religious groups where the clergies allowed to initiate and conduct *Jihadi activities whole heartedly*. However, Zia's Islamisation policy had already started in November, 1977, while the Soviet Union had entered into Afghanistan on December 24, 1979 (see Table 2). Therefore, in our view, Zia's *Islamisation* was to get domestic legitimacy through the support of religious groups, not through support for the Jihad.

²² There were only 900 madrassas in 1971 in Pakistan, but increased to 33,000 (8,000 registered and 25,000 unregistered) by the end of Zia's era in 1988. One of the consequences of the large number of madrassas, especially the unregistered ones, was that they were strongly divided along sectarian rather than intellectual lines [Murphy (2012)].

and followers. The rent-seeking activities on the part of the three players created a social cost in the form of sectarian violence. Someone had to internalise this cost. Therefore, the citizens of Pakistan were exposed to the hazards of interventions.

With the withdrawal of Soviet troops from Afghanistan [The Geneva Accord (1988)], these hardcore sects who had accumulated financial and human resources went behind another competitor in the market. Since it was not possible to stop the competitor through legal rules (this school constitutes 15-20 percent of the population [Zaman 1998]), they turned into violence and effectively utilised its past investment in madrassas against that school.²³ Consequently, these organised sects started to compete in the production of violence rather than in moral standards and values. In the Zia's regime, almost every sect invested heavily in militant trainings. Figure 1 shows the increase in the production of sectarian violence immediately after Zia's rule. Unfortunately, we have little information available on sectarian violence during Zia's period and this is limited to a specific province. However, theologians, historians and political scientists concluded that sectarian violence is produced by Zia's interventions [Zaman (1998); Nasr (2000b); Stern (2000); Grare (2007); Asal, *et al.* (2008); Fair, *et al.* (2010, 2013) to mention a few].

Fig. 1. Sectarian Violence in Pakistan, 1989–2016
(PIPS, 2014; SATP, 2014)



6.3. The Long Term Hazards: Terrorism

Before 1979, there were 30 religious organisations of different denominations in Pakistan. After the Zia's Islamisation amendments, a sharp increase in the growth of the religious organisations was observed. The number rose to 239 in 2002 [Rana (2011)].

²³Most of the Jihadi organizations were established in the 1980s, the era dominated by Zia's regime Howenstein (2008)].

These figures take into account organisations at the national, regional and provincial levels. The number approaches to thousands if small local groups are considered as well.²⁴ Among the 239 organisations, 24 participated in electoral politics, 148 worked purely on the sectarian agenda, 24 became associated with the militant jihad, 12 were striving for the establishment of the renewalist/Khalifat movement and shunned democratic dispensations, 18 pursued missionary work, mainly preaching their sectarian ideas and 10 operated as charities [Rana and Ansari (2006)].

Zia's investment in different sects provided them enough human resources to challenge, not only competitive sects but also sub-sects of own jurisprudence and even the government. A militant group (Tehrik-i-Taliban Pakistan) converted initially into violent religious organisation, and gradually achieved a monopoly in violence. Their main objective is to capture the religious market through the production of extremism and violence. Figures 1 and 2 show sectarian and terrorism incidents in Pakistan. The extremists not only targeted their competitive sects but also sub-sects of their own jurisprudence. Over time, they diversified their targets from opposite sects to their own sect(s).

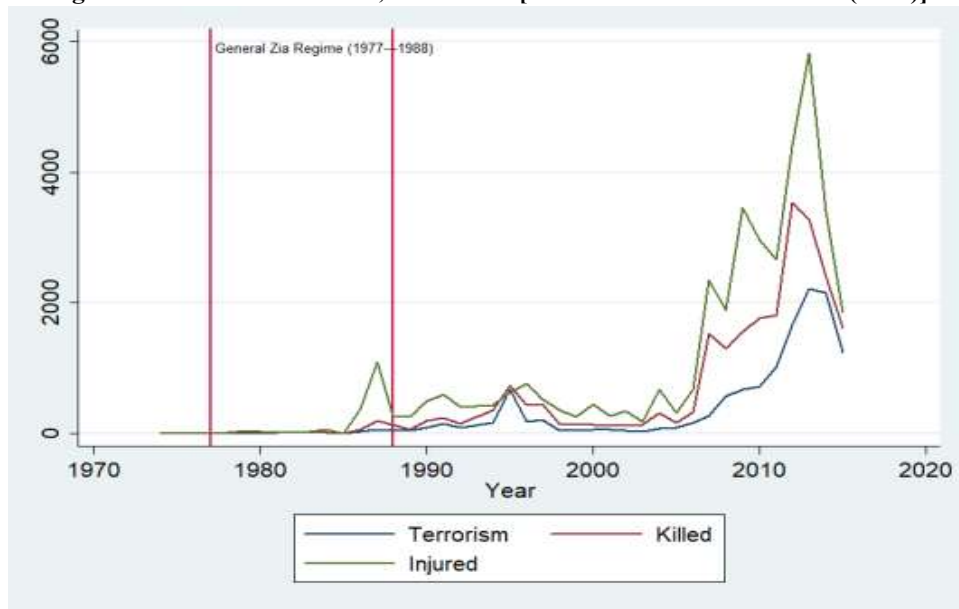
Due to political instability in the 1990s, government was unable to fully internalise the negative externalities which were created by the Zia's interventions. To control the spillover effect of 1980s policies, the Anti-Terrorism Act, 1997 was a major step forward in efforts to deal with the menace of terrorism.²⁵ Nevertheless, the religious market was so polarised at the end of the 1990s that mere laws were not enough to control the social costs of sectarian violence and terrorism. Although, there are divergences among the objectives of religious, political, sectarian, militant and charitable organisations, the commonalities play a significant role in shaping the religious discourse in the country. All sects and sub-sects are part of a single discourse and share common objectives. Their discourse encourages Islamisation and religiosity in society. These commonalities have led to the demand for the Sharia law (based on a narrow interpretation) by extreme violent and terrorist groups in Pakistan. For example, Tehrik-i-Taliban Pakistan (TTP)'s main objective and ideology was the enforcement of the Sharia based on its own narrow jurisprudence, which was also one of its main conditions in the peace negotiation with the government.²⁶

²⁴There is a trend in Pakistan that every big mosque or madrassa has its own religious organisation. They are mainly set up to gain influence in the area, collect donations and organise religious congregations. They often formally or informally merge and support the mainstream polity at the regional and national level which is in line with their schools of thought.

²⁵The Preamble of the Anti-Terrorism Act state, "Whereas it is expedient to provide for the prevention of terrorism, sectarian violence and for speedy trial of heinous offenses and for matters connected therewith and incidental thereto."

Section 6 of that Act defined a 'terrorist act' in the following terms: "Whoever, to strike terror in the people, or any section of the people, or to alienate any section of the people or to adversely affect harmony among different sections of the people, does any act or thing by using bombs, dynamite or other explosive or inflammable substances, or fire-arms, or other lethal weapons or poisons or noxious gases or chemicals or other substances of a hazardous nature in such a manner as to cause, or to be likely to cause the death of, or injury to, any person or persons, or damage to, or destruction of, property or disruption of any supplies of services essential to the life of the community or displays fire-arms, or threatens with the use of force public servants in order to prevent them from discharging their lawful duties commits a terrorist act."

²⁶Interested readers can find the objectives and ideologies of different extremist and terrorist groups at SATP (2014).

Fig. 2. Terrorism in Pakistan, 1974–2015 [Global Terrorism Database (2016)]

7. DISCUSSION AND CONCLUSION

This paper uses a market framework to analyse the implications of government regulations in the religious market of Pakistan. It defines a set of commodities which is available to customers in the religious market. The set includes both goods and services, i.e., rituals and prayers, financial markets and judicial institutions, monetary and fiscal policies, property rights and contract enforcement, etc. The religious product is differentiated on the basis of different interpretations of the Islamic jurisprudence. The commodity of one sect is an imperfect substitute for the comparative denomination. Producers in the market are different religious organisations and institutions which follow a specific interpretation to produce their products. Consumers are the general public who possess religious preferences and demand commodities which satisfy their religious taste. The price of a religious product includes the opportunity cost of time, that is, energy and resources used during the transaction and consumption processes.

This analysis shows that an oligopolistic structure exists in the religious market of Pakistan. This oligopoly is based on different religious denominations which coexist in the market. The number of sects and sub-sects are increasing over space and time. To be specific, oligopoly firms compete over the provision of mosques and madrassas to attract more followers. Due to the oligopolistic structure, the market forces are not efficient to provide different religious commodities including the collection and distribution of Zakat, and provision of interest free loans. Thus, government regulated the religious market over the years to provide certain religious products.

The study concludes that the appropriation of rent by the three players—the federal government, religious sects and cold war allies of Pakistan—played a significant role in the interventions of the religious market. From the government side, domestic legitimacy for a political governance was the main factor to back the regulations in the religious market.

Both democratic and non-democratic regimes tried to strengthen the domestic legitimacy of their respective governments, thus limiting these regulations to Hanafi'ite jurisprudence. The sects of this school received rents in the form of investment in their madrassas, mosques and congregations in return for support of the government in the cold war. Lastly, foreign allies provided funds for investment in the religious market to utilise the return against the former Soviet Union invasion in Afghanistan. Over time, the regulations delivered returns to the relevant players of the market, i.e., government, religious sect(s) and international allies. However, they created a social cost to be borne by the society.

The social costs include riots and violent protests, sectarian violence, and terrorist attacks. Over the years, the divisions among different sects have deeply polarised with the ensuing competition in the production of violence against each other. This non-price negative competition still exists in Pakistan and is intensifying over space and time. Nevertheless, few hardcore sects dominated over others in the production of violence [Global Terrorism Database (2016); SATP (2014)].

The main contribution of this paper is an alternative explanation of the prevailing sectarian conflict and terrorism in Pakistan from the religious market perspective. In this context, the study discussed the structure of the religious market and the incentives and probable consequences of the government interventions in it. Furthermore, it analysed that how demand and supply of the religious product(s) interact in the religious market. Similarly, it defined the price of the traded religious product(s) from the opportunity cost perspective; nevertheless, further research is needed on price determination and its mechanism in the Islamic religious market.

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