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The Bread Revolutions of 2011 and the Political Economies of Transition

During the 2011 uprisings, Arab protesters channeled decades of discontent with failed economic policy. However, the demise of leaders will not be enough to answer this discontent nor ensure productive development. Scholarship on the political determinants of economic development finds that the common recipe of expanding the private sector and increasing trade openness may be valuable but is not sufficient on its own for successful development. The Arab world's economic path to 2011 included implementation in these areas, yet reform in underlying socio-economic structures and interests lagged. Addressing these conditions constitutes one of the most serious challenges facing Arab economies and politics.

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During the 2011 uprisings, Arab protesters channeled decades of discontent with failed economic policy. Some targeted inequality (“I am an Egyptian worker. Where is all the money the companies stole, you sons of bitches!”), while others ridiculed regime cronies, like Tunisia’s “Mr. 10%” Slim Chiboub. Perceptions of growing inequality, accelerating corruption, and weakened labor protection were, therefore, not new in 2011, but once coupled with mobilized protest, they proved powerful. However, the demise of leaders in four countries and the chance for more in others will not be enough to answer this discontent nor ensure the kind of socio-economic development needed to deepen political transition.

Citizens are wary of more externally-conditioned neoliberal reform, widely associated with socio-economic deterioration. Meanwhile, the international lending community and its supporters appear wedded to the standard recipes: reforming the state through better governance and transparency,¹ expanding the private sector, increasing trade openness, and public belt-tightening.² Scholarship on the institutional and political determinants of economic development suggests elements of this recipe may be valuable in and of themselves but on their own are not sufficient for successful development.³ Socio-political arrangements linked to institutions matter greatly, so searching for a single developmental blueprint is likely an analytical dead end. However, in the historical record of successful developers, the role of a fiscally capable state and sustained investment in human capital comes up again and again. A more fiscally capable state is one that is in a position to deepen investment in human capital while the benefits of greater human capital yield the kind of growth that contributes to fiscal strength. Seen from this vantage, corruption in the Arab world did not weaken states and divide society; rather, already-impaired public sectors and unequal societies fostered conditions for abusive corruption. Unmet expectations for growth may have propelled protesters in 2011, but it was the prior failure of Arab states to discipline neoliberalism and create the conditions for productive economic development that left expectations unmet.

The political economist Karl Polanyi, commenting on the 19th century spread of market forces, wrote, “laissez-faire was planned; planning was not.” The 21st century Arab world needs a return to the drawing board. Building the fiscal capacities of the state and investing in human capital are the leading challenges facing Arab economies and politics

¹ “Supporting Social Accountability in the Middle East & North Africa: Lessons Learned from Past Political & Economic Transitions,” The World Bank, November 2011.

² Adeel Malik and Bassam Awadallah, “The Economics of the Arab Spring,” Center for the Study of African Economics, Working Paper WPS 2011-23, December 2011.

³ Peter Gourevitch, “The Role of Politics in Economic Development,” *Annual Review of Political Science* (2008), pp. 137-159.

post-2011. Clearly, however, current politics favoring deeper reform are not promising. There is likely to be an extended period of economic policy drift as new leaders, and incumbent leaders seeking to maintain power, privilege short-term survival over medium-term institutional reform.

The Road to 2011

What Egyptians and Tunisians now term the “bread revolutions” were in some respects not much of a surprise. Popular protests infused with socio-economic grievances have characterized the region since the late 1970s. What transpired had a history in terms of uneven and stagnant economic development since the 1980s and the underlying socio-political dynamics shaping these trends.

First, in comparison to other parts of the globe, there is agreement that the Arab world achieved respectable socio-economic success by the 1960s and 1970s. Public investment in infrastructure, better income equality, reduced infant mortality, increased literacy, and higher GDP growth put the Arab world on the cusp of more successful development, much like East Asia. Agreement breaks down over what caused subsequent decline and stagnation by the 1980s. Some point to the downturn in oil prices and the knock-on effects for the resource-poor Arab countries.⁴ Other external culprits include increased regional instability and conflict as well as the rise of East Asian competitors.⁵

With the advent of neoliberalism in the 1980s, views of the region’s socio-economic record became more contested. Neoliberal advocates claimed success in lowering regional barriers to trade and investment, expanding the privatization of state assets, and encouraging greater private sector involvement. Thus, Tunisia and Jordan were regularly hailed as model reformers; even Egypt and Morocco were seen to have made progress. Some data seemed to back their case. Growth rates, while not East Asian-like, were nevertheless positive well into the new century. Inequality of income or wealth distribution as measured by GINI coefficients did not improve very much, but neither did the measures show significant deterioration. Poverty as measured by percentages living below \$2 a day improved in some countries. Critics responded that these achievements were mostly imaginary and supported by problematic data.

GINI measures based on household consumption surveys were periodic and likely under-measured inequality because poor households consume higher percentages of their income than do the rich. Static poverty measures can also mislead, as they do not take account of public good provisions. Thus, \$2 a day will go further in a country like South Africa with robust public goods than it would in, say, Egypt.⁶ In the decade before 2011, Arab unemployment ranked the highest in the world while gains in productivity were

⁴ Tarik M. Yousef, “Development, Growth and Policy Reform in the Middle East and North Africa Since 1950,” *Journal of Economic Perspectives*, 18:3 (Summer 2004), pp. 91-116.

⁵ Dani Rodrik, “Where Did All the Growth Go? External Shocks, Social Conflict, and Growth Collapses,” *Journal of Economic Growth*, 4 (December 1999) p. 385-412.

⁶ Robin Broad and John Cavanagh, “The Hijacking of the Development Debate: How Friedman and Sachs Got It Wrong,” *World Policy Journal* (Summer 2006), p. 23.

among the lowest.⁷ Growth occurred, but its most prominent contributors were footloose investments in real estate and consumption. Public surveys over the last decade, like the Arab Barometer, reflected these contradictions by consistently ranking economic situation and corruption among Arabs' top personal concerns.

Second, the case study literature on Arab economic reform offers socio-political reasons for the uneven development. In brief, scholars argued that political leadership crafted bargains with their populations to ensure continued authoritarian control and protection of socio-economic privileges in exchange for promises of continued social welfare. These bargains worked in different ways in different countries, but generally regimes ensured their public workers a modicum of security, pensions, and health coverage while much of the rest of the labor force and society was left with uneven coverage and unsustainable price subsidies. By contrast, the socio-political interests and structures supporting authoritarian rule were left untouched. In particular, these interests would not be burdened with the financial obligations necessary to meet the growing costs of the other half of the bargain. Financial weakness became as much a strategy of rule in the neoliberal era as its consequence.

The resulting political economy dynamics had less to do with building markets and more to do with addressing political exigencies. Business gained greater prominence in policy participation and investment decisions, not just to satisfy neoliberal demands but also to shore up authoritarian leaders facing growing political opposition. Moreover, business access came at the cost of blocking participation for other important social actors, like labor and professional associations. Debt increased, forcing reductions in public goods, thus imperiling one side of the bargain, while corresponding efforts to secure new forms of revenue avoided upsetting the other side of the bargain. External adjustment loans and debt forgiveness came periodically to the rescue, yet international lenders often set aside the political bite of conditionality when it came to Washington's regional allies.⁸ Aid policies tended to ignore local socio-political conditions in favor of ideologically-inspired general rules. Specific U.S. policies in the region were often confusing. In many cases, the assumption was that fostering economic openings would translate into political gains, like regional peace, when in experience these linkages are complex and sometimes run in the opposite direction. U.S. trade policy fostered bilateral free trade agreements at the same time it advised the need for greater multilateral and regional trade. And if productive economic growth was the goal, then direct budgetary and military aid incentivized precisely the wrong kind of socio-political interests. Incumbent leaders, therefore, had every reason to use economic reform to entrench centralized political rule and protect their socio-political interests.

In response to these dilemmas, international lenders and bilateral donors moved past the earlier mantra of "getting prices right" to embrace institutional and governance reforms assumed to support development and combat corruption. The problem, however, is that

⁷ "Rethinking Economic Growth: Towards Inclusive and Productive Arab Societies," *International Labour Organization* (February 2013), p. 4.

⁸ Jane Harrigan and Hamed el-Said, *Aid and Power in the Arab World: World Bank and IMF Policy-Based Lending in the Middle East and North Africa* (Basingstoke: Palgrave Macmillan, 2009).

our understanding of what makes good institutions is nascent and highly contextual. Externally-conditioned administrative and legislative changes may be blocked by already resident structures, interests, and bargains.⁹ For contrast, consider the successful East Asian economies. There, observers hold capable public sectors and “market governance” as keys to success. These were also societies marked by respectable social equity, sustained educational investment, and reform of property rights. For the Arab world, the socio-political inequality of past bargains has proven a poor foundation for economic development and the institutions needed to support it.

Post-2011: Financial and Human Capital

If this diagnosis is correct, there are no quick fixes and continued socio-economic stagnation is likely to fuel social tensions. This section advocates strengthening the fiscal capacities of Arab states and qualitatively building human capital as medium-term opportunities to refashion socio-political conditions for genuinely inclusive development. That may be easier said than done, as immediate political conditions are not conducive to serious institutional reform. Nevertheless, most roads to higher development entail institutional arrangements which support fiscally capable public sectors and increased human capital.

Social scientists have long agreed that how a state collects its revenue reflects basic socio-political power arrangements; and, in turn, systems of collection have important influences on the quality of socio-political institutions needed to nurture productive development.¹⁰ To date, much of the region’s fiscal politics has been examined through the large role that external revenue, like oil and aid, has played. But this is only part of the equation, because opportunities to develop domestic sources of revenue extraction have been historically thwarted by many of the same socio-political interests that profited during the neoliberal era. Graph 1 (on page 7) measures total revenue collection including forms of domestic taxation and external grants/aid over GDP.

Despite some peaks and valleys associated with periodic infusions of external aid and debt forgiveness, it is clear the less resource-rich Arab countries have suffered steady declines in public revenue despite aggregate economic expansion. With less revenue, the quality and provision of public goods, like health, education, and welfare, declined. Poorly-paid policemen and civil servants could be expected to turn to informal means to cope. Urban infrastructural achievements in the 1960s and 1970s atrophied. However, fiscal health is not only about levels of revenue, it is also about who pays and who does not. On that score, the Arab world is decidedly unequal with very low levels of direct taxation and very high levels of indirect taxation. Most notable in the neoliberal era has been the spread of general sales taxes. Easy to introduce and manage, these forms of regressive taxation have come to comprise the majority of domestic extraction in the region at the cost of aggravating inequality because poor consumers contribute proportionally more than do the rich. The weakness of income and corporate taxation

⁹ Marcus J. Kurtz and Andrew Schrank, “Growth and Governance: Models, Measures, and Mechanisms” *Journal of Politics*, 69:2 (May 2007), pp. 538-554.

¹⁰ John L. Campbell, “The State and Fiscal Sociology,” *Annual Review of Sociology*, 19 (1993).

meant that profits and gains, much of which left the country, went unevenly distributed. These strategies of weak fiscal rule paid benefits to the few and imposed increasing costs on the many.

Linked to more capable public finance are the long-term payoffs from building the stock of human capital in the Arab world. Much of the neoliberal agenda focused on openings to international markets and less on the local conditions allowing technological absorption and domestic spillover. There is now substantial literature pinpointing the vital role that human capital plays in pathways from underdevelopment to productive growth,¹¹ themes widely reflected in the Arab Human Development Reports from the United Nations Development Programme. Human capital in this context starts with educational investment and continues into research and development, upgrading labor skills, and building coordination among firms. As with fiscal health, these dynamics require a central role for the state, and once begun, they tend to deepen overtime. The impasse in building Arab human capital has been the lack of sustained investment to improve quality.

An example in this respect is the early success that Arab states achieved boosting primary school enrollment and literacy (an achievement some point to as a key ingredient in the 2011 uprisings).¹² Educational specialists term this sort of trend “quantitative educational expansion” in contrast to qualitative expansion. The gap is evidenced by the fact that most Arab societies have achieved high levels of primary school enrollment (with Jordan even approaching East Asian levels) but low scores in international testing.¹³ On standard tests in science and mathematics, Arab countries regularly rank below comparator countries and well below international averages. A chronic frustration among middle-class Arab families has been the added financial burden of having to hire private tutors to compensate for poor public education. Similar to coping with fiscal weakness, state responses have often emphasized cheap, quick fixes like expanding classroom technologies, hiring contract teachers, or promoting private options.¹⁴ One of the more egregious examples is King’s Academy in Jordan, a private secondary school where the average tuition is six times the country’s GDP per capita as measured in purchasing power parity. Broad access to quality primary education is an important foundation for human capital because educational scholarship tells us that trends set at this level tend to carry into later years.

Today, the impasses standing in the way of such reforms are significant. While a number of countries have reacted to fiscal problems post-2011 by either reducing or increasing public spending, the revenue side of the equation remains largely the same. For example, with American help, Jordan crafted an income tax law in 2009 that is at least a decade

¹¹ Robert J. Barro, “Human capital and growth,” *American Economic Review*, 91:2 (2001), pp. 12-17.

¹² Filipe R. Campante and Davin Chor, “Why was the Arab World Poised for Revolution? Schooling, Economic Opportunities, and the Arab Spring,” *Journal of Economic Perspectives*, 26:12 (Spring 2012), pp. 167-188.

¹³ Marcus Noland and Howard Pack, *The Arab Economies in a Changing World* (Washington DC: Peterson Institute for International Economics, April 2007), pp. 33-37.

¹⁴ “Rethinking Economic Growth,” pp. 11-12; and *Arab Knowledge Report 2010/2011: Preparing Future Generations for the Knowledge Society*, United Nations Development Programme, p. 37.

late and far from implementation. During Egypt's presidential election, the issue of direct taxation came up several times, but, like Jordan, actual movement has been absent. Instead, both countries have turned to international lenders and external aid to mollify immediate fiscal concerns. Other external pressures, such as widespread violence in Iraq and Syria and the standoff with Iran, can be expected to incentivize leadership to avoid additional tough political calculations which pay few immediate political dividends. At the same time, however, domestic populations continue to demand action on the socio-economic front.

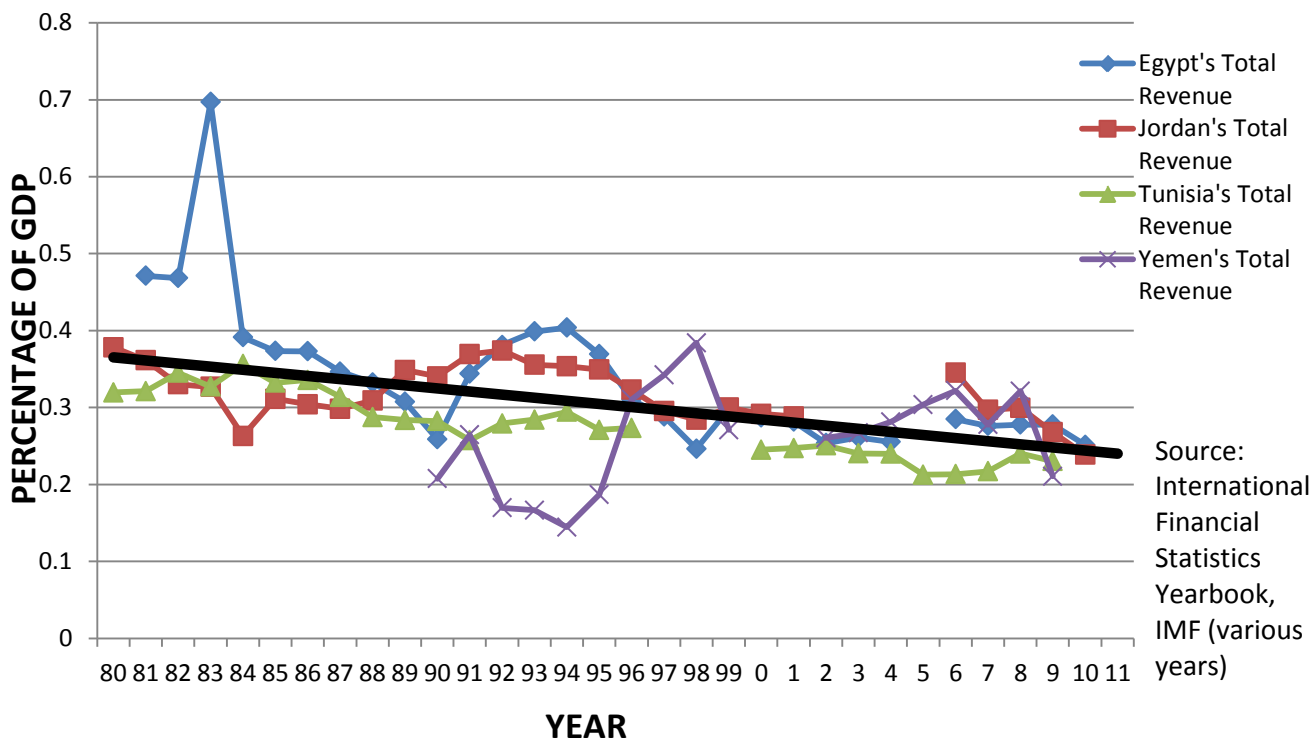
Professional and trade associations, long repressed by authoritarian leaders, are exercising their new autonomy by voicing opposition and undergoing increased competition for their own leadership.¹⁵ While it is easy to view resurgent, organized interests and the continued use of 2011-type street protests as unproductive instability, this social activism also introduces political choice to economic policy processes that for too long operated in exclusive reference to external demands. Additionally, the reorganization of social actors and activism is a necessary step toward deeper public-private coordination. In order for progress on fiscal and human capital to start, the days of limiting genuine policy participation to the private sector needs to give way to the inclusion of labor, consumers, students, and rural actors. Elite and business interests which profited during the neoliberal years should be moved to the front of the tax line. This will certainly entail more than just juridical tax change to include renegotiation of the social pacts crafted under authoritarianism. Call it neo-corporatism or 21st century Arab corporatism, political leaders and social actors should be encouraged to fashion institutional arrangements for their own collective socio-economic paths forward.

Conclusion

The socio-political discontent that laid the foundations for 2011 has not disappeared with new leadership. However, the opportunities for charting new developmental pathways are unprecedented. To encourage these starts and move away from treating symptoms like corruption, informality, and weak development in isolation, it is time to begin treating some of the causes: inequality and fiscal underdevelopment. How this comes together in each Arab country should be left open to local ideas, new actors, and new coalitions. Encouraging these processes means abandoning the assumption that the Arab state is the problem in which, in the abstract, some better or worse balance between state and society exists. Supporting states that can progressively tax requires robust administrative links between citizens, groups, and state agencies. Effective public investment in human capital requires organized and capable social interests which can inform and monitor those investments. Social capacity and state capacity go hand in hand in a variety of ways. After all, protesters in 2011 were not calling for the state to leave their lives; they wanted their state back.

¹⁵ Ibrahim El-Houdaiby, "Losses in union elections mean Brotherhood faces tough choices," *Ahram Online*, 26 March 2013.

Graph 1: Total Public Revenue In Select Arab Countries (taxes, grants, other receipts)



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