Chapter 3
Socio-economic Regulation in Core Arab Economies: Institutional Contexts for Economic Reform

Abstract The chapter introduces theories dealing with socio-economic regulation and consolidates them into an integrated regulation framework. Further, the chapter focuses the framework on the context found in core Arab economies with their specific structural economic challenges.

Keywords Regulation school · National systems of innovation · Varieties of capitalism · Social systems of production · Inclusive and extractive institutions

The present chapter analyzes the relationship between economic action and socio-institutional context. While many approaches in economics as well as in economic geography and sociology use the term "institutions," understandings of what constitutes institutions and what does not vary. The arguments pursued in this book draw on the definition of institutions offered by Bathelt and Glückler (2014: 346) who regard institutions as "ongoing and relatively stable patterns of social practice based on mutual expectations that owe their existence to either purposeful constitution or unintentional emergence." Institutions can thus be understood "as patterned interactions which are neither fully determined by organizations nor by rules" (Glückler and Bathelt 2017: 123). In this definition, organizations are not understood as institutions but as "collective actors" (Bathelt and Glückler 2014: 346). Laws, regulations, or other formalized rules, summarized by Glückler and Lenz (2016) under the term "prescriptive rules," are not institutions either although "institutions develop in relation to rules, in response to them, or even against them" (Bathelt and Glückler 2014: 346). In this precise understanding, institutions are patterns of interaction defining "how the game is actually played differently in different contexts, but consistently across recurring situations" (Glückler and Lenz 2016: 261–262) with underlying expectations in interactions and possible sanctions for deviant behavior as their defining characteristics (Glückler and Lenz 2016: 262). Following Bathelt and Glückler (2014), Glückler and Lenz (2016: 261) emphasize that "practices are said to be institutionalized if they are widely accepted and enacted by actors in specific situations."

These definitions go beyond the traditional dichotomy of formal and informal institutions. Instead, they use the term "institutions" to capture a set of behavioral

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patterns in a society and economy and thereby establish a link between the economic action and social structures and practices. Economic action is thus conditioned by its institutional context (Glückler and Bathelt 2017) which includes prescriptive rules, institutions and organizations as components, and interactions between them. Such a socio-economic perspective is important for economic development because "institutional contexts may slow down or resist innovation processes or they may support and accelerate them" (Glückler and Bathelt 2017: 121). Glückler and Bathelt (2017: 130–131) emphasize that socio-economic regulation approaches and notably national innovation systems tend to focus on prescriptive rules and organizations while ignoring institutions as defined here as well as of processes and mechanisms of institutional change through upward and downward causation (Glückler and Lenz 2016). In the wider regulation perspective followed here, all components of the institutional context of an economy with their complex and bi-directional interactions causing institutional and organizational change and conditioning the effectiveness of policymaking are seen as critical parts of the system of socio-economic regulation.

In particular, entrepreneurship is a prominent driver of private-sector growth. Entrepreneurship is an important marker for the dynamism of an economy. Understood in a wider social and economic sense, an entrepreneurial spirit and entrepreneurial dynamics are central to building a vibrant private sector. Schumpeterian notions of creative destruction (Bathelt and Glückler 2012: 401–402) and the entrepreneurial struggle for new combinations (Bathelt and Glückler 2012: 344–345) underscore these arguments. Entrepreneurship is deeply rooted in the regulation system of an economy and its underlying institutions. As the OECD (2012b: 13) puts it, "values, beliefs and behaviours, embedded in the culture of a country and a place, influence [the] decision" of would-be entrepreneurs to start their own business, but the subsequent degree of success of entrepreneurial activities is equally conditioned by the institutional context in which they are situated. At the same time, entrepreneurship as a driver of innovation and structural change in a Schumpeterian sense affects regulation and can alter institutions. In a regulation context, entrepreneurship thus touches critical questions of agency by taking a role that can be understood with structuration theory and essentially through the insight that "structure is both medium and outcome of the reproduction of practices" (Giddens 1979: 5). When talking about regulation in economies, entrepreneurship is an essential mechanism of reproduction of institutional structures. The systemic role of entrepreneurship in linking structure and agency is captured by the term of "entrepreneurship ecosystem" (Isenberg 2010). Such an ecosystem includes, for instance, entrepreneurial attitudes, macro-level stability, and suitable degrees of regulation – all of which can be understood as part of the regulation framework of an economy. Ignoring the interconnected and systemic nature of entrepreneurship as an essential part of regulation in an economy can lead government to focus attention on isolated schemes of entrepreneurship promotion which might eventually generate unwanted results (Isenberg 2010).

Thus, the question of entrepreneurship cannot be isolated from wider regulation issues. This is why the present chapter uses the lens of entrepreneurship in discussing the role of economic, technological, and institutional innovation and change in regulation.

3.1 Theoretical Approaches of Regulation

Economic sociology and geography provide several approaches that address the fit between economic structure and socio-institutional context in national or regional economies. These approaches include the regulation school, national systems of innovation, varieties of capitalism including the variegated capitalism critique, and social systems of production. The newer theory of extractive and inclusive institutions developed in development economics complements the older approaches mentioned. Notwithstanding the common theme of socio-economic regulation, the theoretical perspectives offered by these approaches differ in critical aspects. This is why each of the five concepts is introduced in this section.

3.1.1 Regulation School

Since its emergence in the mid-1970s, the main interest of the regulation school was to explain the sequence of stable economic growth and structural crises in national economies. In contrast to earlier Marxist and Schumpeterian approaches such as long waves (Bathelt and Glückler 2012: 401–406), the regulation school rejected the idea of cyclical or deterministic regularities behind the sequence of stability and crisis. Instead, the regulation school combined the political and social framework of an economy with economic and technological developments (Bathelt 1994: 65).

One of the most prominent scholars of the regulation school, Boyer, describes regulation or, more precisely, the French term *régulation* which according to Bathelt (1994: 64) means coordination in a broader sense than only governmental regulation(s) – as dealing with "the process of fitting production and social demand in a given set of structures and institutions" (Boyer 1988: 68). The regulation school regards long-term economic and social development as a non-deterministic sequence of stable stages called formations and stages of crisis called formation crises or accumulation crises. Formations are stable if and when they combine economic and social structures such as technologies, production structures, consumption patterns, and coordination mechanisms in a consistent way. This socio-economic link is the regulation school's central tenet and can be summarized in a juxtaposition of two substructures, the growth structure or regime of accumulation and the coordination mechanism or mode of regulation (Bathelt 1994).

As illustrated in Fig. 3.1, the theoretical framework of the regulation school consists of three building blocks:

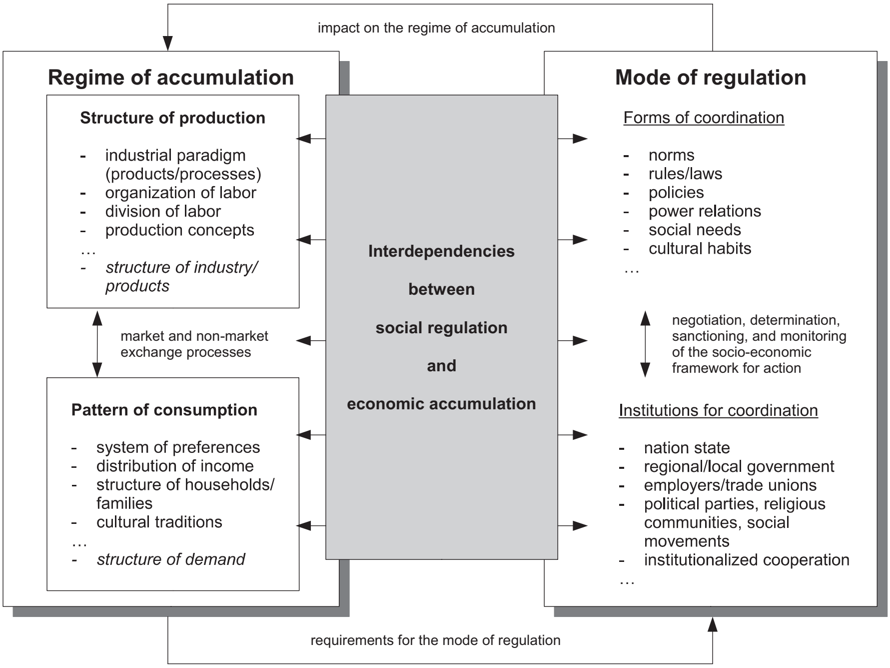

Fig. 3.1 Basic concept of socio-economic relations in regulation theory. (Source: Bathelt 1994: 66, own translation)

1. The *regime of accumulation* includes elements of the structure and functioning of an economy such as a particular pattern of productive organization constituted by elements such as firms' practices and routines; the prevailing time horizon for decisions on capital formation; the shares between various kinds of income accruing to employees, investors, or government; or the volume and composition of demand (Boyer 1988: 71). In essence, the regime of accumulation is shaped by the prevailing industrial paradigm which is in turn characterized by prevailing technologies. Such an industrial paradigm gives rise to a specific division of labor around dominant industrial sectors and a specific productive structure of the economy. Mirroring this productive structure is a pattern of consumption including, inter alia, consumer preferences, income distribution, household and family structures, and cultural traditions. The production structure is linked to the pattern of consumption through market or nonmarket relationships (Bathelt 1994: 67).
2. The *mode of regulation* includes elements of social structure such as prevailing norms, rules, laws, policies, power relations, social needs, and cultural habits. The mode of regulation defines the socio-institutional and political context for economic relations. Specific organizations and formal institutions shape, negotiate, organize, and supervise this socio-economic context. National states are still important agents in this regard, while regional and local government, political parties, employer associations, and trade unions and many other social and economic stakeholders are further relevant agents (Bathelt 1994: 68–69).

3. The regime of accumulation and the mode of regulation interact in many ways. While the mode of regulation shapes elements of the regime of accumulation, the regime of accumulation demands a mode of regulation consistent with its needs for a stable formation to emerge and to be maintained. Fundamental changes either in the regime of accumulation (e.g., through major technological changes), in the mode of regulation, or both endanger consistency and lead to a formation crisis. Formation or structural crises mean a breakup of the internal functioning of the regulation system and differ from cyclical crises that occur even under a stable formation. A formation crisis means that a formation "can no longer reproduce itself in the long run, at least on the same institutional and technological basis" (Boyer 1988: 76). During a formation crisis, the regulation system loses its equilibrium and will not gravitate to its previously stable state. Instead, agents are required to make long-term, strategic decisions leading to modifications in the regime of accumulation or in the mode of regulation. However, there is no deterministic solution to a formation crisis. Various new formations will be possible. Despite some degree of path dependence, a formation crisis opens up a window for opportunity for various courses of transition. Finding the eventual new formation requires negotiation and coordination between agents (Bathelt 1994: 66, 70–72; Boyer 1988: 75–77).

Since a stable formation goes along with a corresponding spatial structure, formation crises call into question the hitherto dominant spatial division of labor and therefore cause disorder in the spatial structure of an economy. At the same time, formation crises open up windows of locational opportunity (Storper and Walker 1989) since the negotiation of modifications in the regime of accumulation or the mode of regulation enables new forms of the spatial division of labor (Bathelt 1994: 72–74).

The regulation school stresses the importance of the institutional setup of an economy linked to credit relationships, the wage-labor nexus, prevailing types of competition, adhesion to the international regime, or prevalent forms of state intervention. In contrast to neoclassical models, the regulation school does not postulate one single process of reaching equilibrium but many different possible ones related to the various elements of the accumulation regime and the institutional setup. Therefore, the regulation school acknowledges the possibility of multiple equilibria in contrast to the absolute static equilibrium suggested by neoclassical models (Boyer 1988: 71–77).

Despite the important role technology plays, the regulation school does not follow the technological determinism inherent to the Schumpeterian theory of long waves (Boyer 1988: 67; Bathelt 1994: 64; Bathelt and Glückler 2012: 404–405). Rather, the regulation school stresses the importance of consistency between technology, institutions, and the other components of the formation (Boyer 1988: 83) as "the fate of any technological system cannot be disentangled from social (…) and economic determinants" (Boyer 1988: 89). Therefore, new modes of regulation cannot be predicted a priori because they are shaped by complex processes including, for example, social struggles and serendipity with uncertain outcomes (Boyer 1988: 91).

Bathelt (1994: 74–75) and Bathelt and Glückler (2012: 416–417) offer a critical appraisal of the regulation school by referring to the metatheoretical character of the approach; its determinism (although not purely technological); the mixture of macro-, meso-, and micro-level analysis; the vagueness of its understanding of institutions; and its disregard of secular socio-economic trends. Apart from this methodological critique, the regulation school has been used mainly to explain the crisis of Fordism and Keynesianism and to sketch presumable post-Fordist formations (e.g., Bathelt 1994: 75–86). Notwithstanding the relevance of the post-Fordism debate for industrialized countries in the latter half of the twentieth century, the strong focus of literature on this debate unnecessarily narrows the scope and applicability of the regulation school. The regulation school's strongest asset is the combination of economic and socio-institutional analysis in a unified theoretical framework. This combination makes the regulation school's perspective relevant for a much larger number of cases, many of them in developing or transition countries. The current economic, political, and socio-institutional transformation process in core Arab economies provides an example for such a case. The regulation school offers an approach to analyze such a transformational context and economic implications, while the aftermath of the "Arab Spring" provides an opportunity to extend the applicability of the regulation school to a wider context in development economics.

3.1.2 Social Systems of Production

The social systems of production (SSP) approach developed notably by Boyer and Hollingsworth (Boyer and Hollingsworth 1997a, b; Hollingsworth and Boyer 1997a, b) are closely related to the regulation school. In fact, the SSP approach might even be seen as a variant of the regulation school that focuses on specific questions of regulation under the post-Fordism debate.

The SSP approach develops a range of possible stable socio-economic arrangements in lieu of the neoclassical ideal type of an economy functioning along the lines of the perfect market. The SSP school challenges the neoclassical convergence thesis (Boyer and Hollingsworth 1997b: 51; Hollingsworth and Boyer 1997a: 1–2, 6) with the Polanyian "argument about the danger of the erosion of a society's cohesiveness when the market begins to dominate such fundamental social relations" (Boyer and Hollingsworth 1997a: 447). The SSP school emphasizes the importance of mechanisms of economic coordination other than market relationships (Boyer and Hollingsworth 1997a: 445). There is an inherent link between market dynamism and socio-institutional assets such as trust. However, "market activity – if not contained – will erode all kinds of traditional institutional arrangements (…) necessary in order to provide the trust on which transactions among economic actors depend" (Boyer and Hollingsworth 1997a: 447). This insight calls for striking a balance between the needs to achieve market dynamism and efficiency on the one hand and to contain the market's potentially destructive forces through social arrangements or constraints on the other hand (Boyer and Hollingsworth 1997a: 447).

Boyer and Hollingsworth (1997a) develop a framework for the socio-institutional embeddedness of firms. Intangible elements of what they call the "community" like trust, tacit, or collective knowledge, shared equipment, or mutual risk sharing influence characteristics of the firm and its capacity to innovate, which in turn is decisive for economic performance. Firm behavior is conditioned by governmental action aimed at securing the social arrangements necessary for markets to continue to function (Boyer and Hollingsworth 1997a: 447–449).

Similar to regulation theory, the SSP approach draws on the idea of stable configurations regulating economic action and socio-institutional context. Such a configuration includes various elements of the institutional context of an economy (Hollingsworth and Boyer 1997a: 2) and encompasses both firm-level and broader social elements such as labor relations, training arrangements, competitive relationships, buyer-supplier relationships, the configuration of capital markets, governmental action, or institutions such as societal ideas about justice (Hollingsworth and Boyer 1997b: 191).

Even if various SSPs coexist within an economy, one may be dominant (Hollingsworth and Boyer 1997b: 191). The elements of this socio-institutional context are interrelated and need to be coherent with one another since "an institutional logic in each society leads institutions to coalesce into a complex social configuration" (Hollingsworth and Boyer 1997a: 2). The SSP school attaches a similar role to technological change and structural crises as does the regulation school. Incremental technological change is managed within an existing socio-institutional framework, while radical technological change may require institutional changes and call into question an existing SSP (Hollingsworth and Boyer 1997a: 20–22).

The institutional arrangements of SSPs are "nested" across spatial scales, creating a complex web of multilevel interactions and calling for coordination between economic actors on all relevant spatial scales (Boyer and Hollingsworth 1997a).

Seen from the angle of the post-Fordism debate, possible forms of SSPs include customized production, diversified quality mass production, flexible diversified quality mass production, and adaptive production as possible post-Fordist techno-economic paradigms (Boyer and Hollingsworth 1997a: 456–458). Thus, the embeddedness of the SSP school in the post-Fordism debate is obvious. The narrow focus of the SSP school on the transition between Fordism and post-Fordist paradigms and on challenging the convergence hypothesis within the context of the post-Fordism debate restricts the approach's applicability to a specific historical and spatial context relevant primarily for industrialized countries. Further, the SSP school proposes modes of regulation below the macro-level and may be useful mainly in a sectoral perspective. The central role ascribed by the approach to governmental action in maintaining the social arrangements necessary to keep markets functioning raises questions of agency. For instance, what is the role of intermediary organizations such as chambers of commerce, business associations, or trade unions in an SSP? The SSP school does not address their action or the relevance of their interactions among each other and with both firms and government. Intermediary agents' highly relevant role in creating and brokering trust (Benner 2018) is not recognized by the SSP approach.

Despite the limited applicability of the SSP approach, its basic assumptions are relevant for wider questions of socio-economic regulation. In particular, the recognition of the Polanyian paradox of markets and their social or institutional preconditions as well as the resulting need to balance market forces and socio-institutional coordination mechanisms is an important insight for regulation in general which the SSP school shares with other regulation approaches introduced above.

3.1.3 National Systems of Innovation

The conglomerate of approaches known as national systems of innovation (or NIS for national innovation systems) emerged in the 1980s with a wide range of case studies analyzing particular NIS (e.g., Freeman 1988; Nelson 1988). These approaches dealt with the wider systemic context of economic development and specifically with the socio-institutional setting innovation takes place in. In a narrower focus than the regulation school, NIS approaches looked mainly at innovation as a driver of economic growth and development.

Another characteristic that the NIS approach shares with the regulation school is its rejection of technological determinism. This rejection is based on the insight that historically, industrialization was not a matter of mere invention but of new combinations of technology on the one hand and industrial or institutional organization on the other hand (Freeman 1988: 330). Institutional experimentation may be just as important in an NIS than technological innovation (Nelson 1988: 326).

While there are various differing interpretations of what constitutes an NIS, the common feature of NIS approaches is that they focus on systemic relationships instead of explaining innovation either on the demand side or the supply side only. NIS approaches look at interactions between agents in the system including those between users and producers, as well as nonmarket relationships. Thus, NIS approaches challenge to the formerly prevailing linear model of innovation while taking into account national specificities and variations. The latter point is the reason why NIS approaches analyze *national* systems of innovation. In an NIS, four important kinds of institutional aspects shape variations in the national context for learning and innovation: the time horizon of agents, the role of trust, the actual mix of instrumental rationality and other motivations, and the way authority is expressed which includes the actually prevailing relationship between trust and authority (Lundvall and Maskell 2000: 359–363).

Following Bathelt and Glückler (2012: 418) as well as Lundvall (1992a: 16–17), two schools of NIS approaches can be distinguished. The first one represented by Nelson (1988) tends to focus primarily on R&D producers, while the second one shaped in large part by Lundvall (1992a, b) analyzes interactions between enterprises within a value chain. Lundvall (1992a) considers learning an interactive and culturally embedded process. He characterizes an NIS as a social, dynamic, and self-reinforcing system with elements of cumulative causation. The focus is put on *national* systems of innovation because the national environment with its cultural norms and values defines the conditions for the transfer of tacit knowledge. This leads to the insight that "different systems may develop different modes of innovation while still following parallel growth paths" (Lundvall 1992a: 6). Given the importance of interactive learning (Lundvall 1992a: 9), NIS approaches shift the focus from individual forms of innovativeness and entrepreneurship to collective ones. Within an NIS, interactive learning takes place not only in R&D but also in routine activities in production and distribution. Therefore, an NIS is rooted in the national system of production. The institutional setup of an economy is important for innovation because under conditions of uncertainty, institutions provide the stability necessary for innovative activities. An NIS offers the socio-economic arena for innovative learning, searching, and exploring activities and can be divided into subsystems (Lundvall 1992a: 12). Innovation in an NIS is neither completely accidental nor completely predetermined by either economic structure or institutional setup. Both the economic structure and the institutional setup differ between nations and include national idiosyncracies resulting from history, language, and culture. These idiosyncracies include the internal organization of firms and their relationships with each other in terms of competition, networking, user-producer interactions, or clustering, the role of the public sector in education and R&D but also as a user of innovation, specifics of the financial sector, characteristics of the R&D sector such as resources and competencies, and the education and training system. Still, innovation does not occur exclusively within national borders. Instead, NIS have a certain degree of international openness (Lundvall 1992a).

In Lundvall's (1988) NIS approach, user-producer relationships play a major role in innovation because they are seen as a driver for interactive learning. Such user-producer interaction can be more efficient in a national context due to cultural, geographical, and social proximity likely to be bound to some degree by national borders. Furthermore, national governments play an important role in shaping the framework conditions for innovation. A specific NIS is the result of a historical and path-dependent process and therefore cannot easily be replicated elsewhere. Apart from the critical role of user-producer interfaces, links between industry, academia, and final users in a wider sense are relevant for driving innovation. Importantly, an NIS does not only represent the framework for narrowly defined technological innovation. The socio-institutional embeddedness (Granovetter 1985) of innovation means that organizational and institutional patterns prevalent in an economy can be important prerequisites for technological innovations to be exploited (Lundvall 1988).

The latter point calls for a systemic approach to innovation (Lundvall 1988: 366) and underscores the similarity between NIS and the regulation school. Despite coming from different scientific traditions and although the NIS school focuses more narrowly on innovation, both NIS and the regulation school argue for overcoming the strict technological determinism that characterized former approaches such as the theory of long waves. The two approaches call for integrating the analysis of economic action driving processes of economic growth including innovation into an analysis of the larger socio-institutional framework. Nonetheless, the NIS approach is marked by a certain vagueness. Basically, the approach draws on the following central tenets:

1. The critical role of innovation for processes of economic growth in economies which are becoming increasingly knowledge-based
2. The embeddedness of innovation in the wider socio-institutional context
3. The assumption that such a socio-institutional context is in several important aspects defined within the borders of a nation
4. The conclusion that innovation processes should be analyzed within a systemic national context that includes relationships and interactions between agents

Apart from the weak conceptualization of the exact nature of relationships between components of the system (with the exception of user-producer relationships), the NIS approach rests on assumptions that call for a further refinement. While the assumption of national embeddedness does make sense from a more formal institutional view (e.g., regarding legislation), the idea of a necessarily nationally delimited "culturally based system of interpretation" (Lundvall 1992a: 3–4) shared by agents within a national context (Lundvall 1992a: 3) appears essentialist and reductionist. This point becomes clear in a context such as the one studied here. In Arab countries defined by national borders often drawn artificially by colonial powers (Gasper 2014) but sharing cultural characteristics such as the same language, majority religion (Lee and Ben Shitrit 2014), political and social movements, ideas and ideologies (Gasper 2014; Lee and Ben Shitrit 2014), and an emerging cross-national media scene,[1] postulating a nationally defined cultural context becomes very questionable (Lynch 2014: 374–375).[2,3] While the formal institutional relevance of the national context remains a valid point, the cultural argument should be treated with utmost caution. The vague notion of "culture" bears the risk of becoming an analytical black box that escapes definition and lacks analytical rigor. Such a black box of a not further defined or refined "culture" could be used to explain everything and nothing at the same time while neglecting possibly more important and more complex elements of socio-institutional environments such as educational backgrounds or milieux. The latter point is particularly critical since socio-institutional indicators such as education or milieu affiliation are arguably

[1] The cross-country media scene in the Arab world can be seen, for instance, in the rise of satellite television channels such as Al Jazeera or Al Arabiyya (e.g., Lynch 2014: 378, 389), the popular casting show "Arab Idol," or the transnational appeal of Egyptian or Lebanese-produced television series or music.

[2] While the NIS approach has been adapted to subnational contexts by analyzing regional innovation systems (e.g., Bathelt and Glückler 2012: 421–423), a cross-national perspective on NIS and their elements (as might be interesting in the context of Arab countries) has not been figured yet prominently in the NIS literature.

[3] Historically, Rivlin (2009: 290) suggests that a sense of shared identity across Arab populations may be, at least in part, based on the common history during the Arab and Islamic empires under the Umayyad and Abbasid dynasties.

much more relevant for understanding both structures and agency than the vague ideas of a national "culture."[4]

3.1.4 *Varieties of Capitalism*

The varieties of capitalism (VoC) approach was developed first and foremost by Hall and Soskice (2001). The approach assumes "that many of the most important institutional structures (…) depend on the presence of regulatory regimes that are the preserve of the nation-state" (Hall and Soskice 2001: 4). In analyzing these structures, the VoC approach is agent-centered and specifically firm-centered, and it studies these agents' strategic interactions. The approach assumes that structures and interactions define the functioning of an economy which can differ from the workings of another economy, despite the economies considered being capitalist market economies and the differing configurations being stable over time and leading to successful growth trajectories. In this regard, the VoC approach is similar to what Lundvall (1992a: 6) suggest in the framework of different NIS. Bathelt and Glückler (2012: 425) stress this similarity in emphasizing the relational view on enterprises inherent to both approaches. The insight that capitalist market economies might work somewhat differently and that this difference be stable and potentially successful contrasts with the neoclassical assumption of convergence of all capitalist market economies towards a single model. In offering a different perspective and in empirically underscoring stable variations between capitalist market economies, the VoC approach looks at the specific mode of embeddedness of economic action in the socio-institutional context of an economy (Hall and Soskice 2001; Bathelt and Glückler 2012: 425–428).

Drawing on a literature of case studies focusing in industrialized countries, the VoC approach identifies two types of capitalist market economies (Hall and Soskice 2001):

- *Liberal market economies* (LMEs) such as the United States or the United Kingdom rely more heavily on pure market coordination and on formal contracts. Markets and hierarchies are the main coordination mechanisms. On markets and notably labor markets, competition tends to take precedence over collaboration. Capital markets are the main source for corporate finance, leading firm managers to align their corporate strategies with investors' interests, typically implying a more short-term perspective. Government plays a major role in securing the good functioning of markets which often includes policies directed towards deregulation and privatization.

[4] The critique brought forward here can be applied to the regulation school, too, as far as the regulation school refers to "cultural" aspects of nationally bounded regulation. However, unlike the NIS approach with its explicit focus on national systems of innovation, the regulation school is conceptually open to integrating socio-institutional framework conditions defined in a cross-national context.

- *Coordinated market economies* (CMEs) such as France, Germany, or Japan are more focused on other coordination mechanisms and particularly on relationships other than arm's-length market relationships. Intermediate institutional arrangements between markets and hierarchies, for example, networks in their many appearances, are often found. CMEs heavily draw on intermediate arrangements to reduce uncertainty in strategic interaction. These intermediate arrangements include associations, trade unions, ownership interlinkages, and legal frameworks inducing collaboration. An illustrative and often-cited example for such a collaborative arrangement is the organization of technical and vocational education and training (TVET) in Germany based on a partnership between government which provides vocational schools and a legislative framework, companies who hire apprentices, and public law chambers of commerce and industry who oversee the process and organize exams. In CMEs, agents such as employer associations, trade unions, or chambers provide capacities for sharing information, monitoring agents' behavior, and sanctioning defections in strategic interaction. These agents have an important role to play in finding solutions to new problems as well as reactions to exogenous shocks.

As the VoC approach follows a relational view centered on companies' behavior and strategic interactions with each other and with other agents in the economy, Hall and Soskice (2001) stress that the primary mechanism for coordination between economic action and socio-institutional context is the adaptation of firms to the coordination modes the national economy provides institutional support for. The precise shape of an eventual equilibrium is hence not predetermined but depends on informal institutions like shared strategic understandings and visions which are not only historically formed and path-dependent but also have to be reaffirmed periodically. While both markets and hierarchies are prevalent in CMEs and LMEs alike, a third type of coordination structure directed at strategic cooperation is what distinguishes these two stylized forms of capitalist market economies from one another. The establishment of collective institutions requires cooperation and coordination, and their establishment is in itself a strategic problem that often needs coordination by the government. The firm then adapts their strategies to the established collective coordination mechanisms. Therefore, firm strategy follows the structure of the political economy. However, this insight does not imply determinism as multiple possible ways of adaptation are possible (Hall and Soskice 2001).

Within a specific VoC, institutional complementarities emerge as "nations with a particular type of coordination in one sphere of the economy should tend to develop complementary practices in other spheres" (Hall and Soskice 2001: 18). These complementarities give rise to increasing returns (Hertog 2016: 3–4). Despite the attention and generally positive view on CMEs evident in much of the VoC literature, neither type is seen as strictly superior to the other. Overall, CMEs and LMEs seem to achieve similar outcomes in terms of well-being although innovative capacities of agents and the income and employment distribution tend to differ between CMEs and LMEs. Typically, LMEs exhibit higher levels of income inequality than CMEs (Hall and Soskice 2001).

Despite identifying two basic types of market economies, Hall and Soskice (2001: 33–35) emphasize that other types than CMEs and LMEs can be found and even within the two ideal types, much variation is possible. Remarkably, Hall and Soskice (2001: 21) hint at the possibility that Southern European nations may constitute a third type of capitalism termed "Mediterranean."[5] In contrast to absolute institutional advantage addressed by the NIS school, the VoC perspective focuses on comparative institutional advantage that can lead to an institutionally founded international division of labor (Hall and Soskice 2001: 38).

Another important feature of the VoC school is that instead of inducing private-sector agents to cooperate with the government, securing economic performance depends more on inducing them to cooperate with one another. This can be done in different ways. The choice of effective economic policies therefore depends on the particular VoC of an economy. The basic policy choices are market incentive policies and coordination policies, but the latter are confronted with information asymmetries that can be overcome through the intermediary role of organizations such as associations, chambers, or trade unions who build trust and social capital (Putnam 1995) and enter into implicit contracts with governments to implement coordination-oriented economic policies. To solve coordination problems and to share information, companies have to trust coordinating organizations; hence employer associations distant from government can fulfill coordination roles. However, for a credible government commitment, producer groups need to have structural influence in the political realm, e.g., through political parties. Such prerequisites for coordination-oriented policies are usually not given in LMEs to the same extent as in CMEs. Interestingly, in a VoC perspective "strong" governments may be counterproductive in securing coordination-oriented policies (Hall and Soskice 2001: 45–48; Wood 2001: 256–258).

According to Bathelt and Glückler (2012: 426–428), the VoC school can be criticized for its institutional determinism and for the difficulty to generalize from the wide range of firm behavior possible. Another element of the VoC school that warrants critical discussion is its national orientation. Similar to the NIS school, the VoC approach focuses on institutional variations on the national level. As was said above in relation to the NIS school, focusing on the national level renders the approach prone to the essentialist notion of national "culture" and its black-box character. Peck and Theodore (2007: 740) call the VoC school's nationally bounded approach "methodological nationalism." They detect "a tendency to reify national economic 'boundaries'" (Peck and Theodore 2007: 738) and stress the importance of what they call "(transnational) transformational processes" (Peck and Theodore 2007: 738).

More generally, Peck and Theodore (2007) offer a comprehensive critique of the VoC school. Their main argument is that idiosyncratic institutional analysis on the national level must be complemented by analysis of transnational transformative trends such as globalization, trade liberalization, and what they call "neoliberalization" (Peck and Theodore 2007: 756). Notwithstanding the vagueness of these

[5] Such a type might presumably exhibit some common features with Arab economies, notable in the Maghreb (Benner 2015).

tendencies,[6] the multilayered perspective that Peck and Theodore (2007) call "variegated capitalism" is definitely useful to complement the primarily nationally bounded VoC perspective. Peck and Theodore's (2007) critique of the nationally bounded perspective of the VoC approach calls for a consideration of transformative tendencies above the national level and eventually leads to the call for a wider, multi-scalar regulation framework. Such a perspective is particularly useful for understanding socio-economic regulation in core Arab economies by considering pan-Arab tendencies, EU *rapprochement* (notably in Maghreb countries), WTO membership, geopolitical interests, or the influence of international donors.

Peck and Theodore's (2007) call to consider transnational transformative forces relates to a further critique against the VoC approach. The VoC perspective is basically static and does not seem to pay sufficient attention to dynamic changes both from within and without national economies. Openness for transnational transformative processes and their path-dependent and embedded adaptation and absorption in a particular context, as suggested by Peck and Theodore (2007), is one way to render VoC perspective more dynamic. Yet, endogenously induced change in a VoC should not be ignored either. An integrated conceptual framework for socio-economic regulation should thus pay attention to transnational trends, endogenous dynamics, and the interrelationships between them.

3.1.5 Inclusive and Extractive Institutions

The fifth regulation approach introduced here is a significantly newer one with origins in a different academic tradition. The approach offers a theory of development elaborated in development economics. Still, similar to the other four regulation approaches stemming from economic sociology and geography, the fifth approach deals with the fit between long-term economic development and socio-institutional embeddedness.

Acemoğlu and Robinson (2012) propose a theoretical framework that centers on economic and political institutions. In both dimensions, institutions can be either inclusive or extractive, with inclusive institutions offering chances of economic participation to wide parts of a country's population and notably enabling newcomers to enter the entrepreneurial sphere and workers to use their skills in the best possible ways (Acemoğlu and Robinson 2012: 74–75). In contrast, extractive economic institutions are those "designed to extract incomes and wealth from one subset of society to benefit a different subset" (Acemoğlu and Robinson 2012: 76). Similarly, political institutions can be inclusive by giving a voice to wide parts of the population and to "a broad coalition or a plurality of groups" (Acemoğlu and Robinson

[6] Globalization is a highly vague term that calls for a rigid definition of what precisely it encompasses. The term "neoliberalization" (Peck and Theodore 2007: 756) is particularly fuzzy and lacks a commonly accepted definition, despite it being widely used in the public discourse and media.

2012: 80) or extractively by restricting political decision-making to a small group or even an individual only (Acemoğlu and Robinson 2012: 79–81).

Acemoğlu and Robinson (2012) argue that economic and political institutions are closely related. Equilibrium is about a socio-institutional fit, similar to the regulation and VoC schools. Extractive economic institutions are often shaped by extractive political institutions as to benefit the ruling political group economically, and they could not be maintained in an inclusive political system. Therefore, the framework leads to two stable socio-economic configurations: either a society with both inclusive economic and political institutions or one with both extractive economic and political ones (Acemoğlu and Robinson 2012: 81–83).

However, the case studies presented by Acemoğlu and Robinson (2012) suggest that the combination of both inclusive economic and political institutions is more conducive to long-term economic growth and development than the alternative one of extractive institutions. The authors conclude that "nations fail when they have extractive economic institutions, supported by extractive political institutions that impede and even block economic growth" (Acemoğlu and Robinson 2012: 83). In a reference to Schumpeterian creative destruction, Acemoğlu and Robinson (2012: 84–87) emphasize the role of new agents such as entrepreneurs in the process of structural change which often threatens established power structures and hence the ability of ruling elites to extract resources. Inclusive institutions facilitate creative destruction by entrepreneurs and thus the emergence of a new entrepreneurial and merchant class that competes for economic success with older, established economic agents and that will eventually claim political participation. This mechanism confirms the intricate link between inclusive economic and political institutions. In essence, Acemoğlu and Robinson (2012) extend the Schumpeterian notions of creative destruction and of the entrepreneur as an agent introducing new combinations (Bathelt and Glückler 2012: 344) from the techno-economic realm to the wider socio-institutional realm by creating a link between micro-level individual and relational economic action and meso- or macro-level institutional context (Acemoğlu and Robinson 2012).

The combined economic-political relevance of entrepreneurs and businessmen is similar to the argument of structural influence in the VoC school (Hall and Soskice 2001: 45–48; Wood 2001: 256–258). The theory of inclusive and extractive institutions focuses on developing nations (or industrialized nations during their historical periods of industrialization) instead of focusing on structural crises of industrialized nations that are in the focus of the other four regulation approaches that emerged under the influence of the post-Fordism debate. Still, much in Acemoğlu and Robinson's (2012) reasoning remains vague. In particular, their understanding of institutions is not precisely defined. A more precise and narrow understanding of institutions such as the one offered by Bathelt and Glückler (2014: 346) could add analytical rigor to the concept and lead to a deeper differentiation between formal and informal institutions and organizations and eventually to a better understanding of the relationships of inclusive or extractive structures and agency. Another open question is the exact delimitation of economic and political spheres. For example, where do institutions such as perceptions of justice or intermediary organizations such as trade unions and chambers of commerce belong? These organizations can be thought to belong both to the economic and political spheres. Despite having economic functions, they often unfold considerable political relevance and can become power bases of societal groups, either inclusively or extractively.

Despite these conceptual shortcomings, Acemoğlu and Robinson's (2012) theory does add an important idea to the other regulation approaches by stressing the critical economic and political role of entrepreneurs for long-term economic development. In a synthesis of regulation approaches, the notion of the entrepreneur as a Schumpeterian change agent both economically and politically and the distinction between inclusive and extractive institutional architectures are important elements. The next section turns to sketching the outlines of such a synthesis.

3.2 Towards a Synthesis of Regulation Approaches

The five approaches introduced in Sect. 3.1 exhibit a number of similarities but also differences and complementarities. The regulation school, SSP, NIS, and VoC share roots in related academic traditions such as economic sociology and geography, while the approach of inclusive and extractive institutions comes from development economics. Combining these five approaches can contribute to constructing a broader framework useful to analyze and explain regulation between economic action and socio-institutional context.

One of the most relevant weaknesses of the four regulation approaches used in economic sociology and geography is their strong orientation towards a particular historical and spatial setting. The regulation school and SSP are embedded in the post-Fordism debate and the quest for new techno-economic paradigms after the Fordism crisis. They focus on industrialized nations and their challenges related to structural change roughly between the 1970s and the 2000s. The VoC approach has a broader historical outlook, but VoC research so far is still mostly limited to industrialized countries,[7] with the United States, the United Kingdom, Japan, France, and Germany as the main cases studied. The theoretical foundations of the NIS approach equally tend to focus on industrialized countries and particularly the United States, Japan, and Northern European or Scandinavian countries.

Acemoğlu and Robinson's (2012) theory of inclusive and extractive institutions has a much wider historical and spatial scope. Consistent with its roots in development economics, the approach looks at long-term economic development of developing countries or of industrialized countries during their historical periods of industrialization. This wide scope makes the approach a valuable complement to the other four regulation approaches. With the possible exception of SSP and its highly specific tenets adapted to the quest for post-Fordist paradigms, there is nothing

[7] Hertog (2016: 4) briefly summarizes a few attempts to extend the VoC perspective to developing countries and applies the perspective to Arab economies. Apart from these attempts, the VoC school mostly focuses on industrialized countries.

inherent to the fundamental theoretical reasoning behind the regulation approaches used in economic sociology and geography that generally limits their applicability to other historical or spatial contexts. Coming up with a synthesis that adapts these regulation approaches to a different context, for example, today's industrializing or developing countries, and that adds the idea of inclusive and extractive institutions thus appears worthwhile.

While every regulation approach focuses on causes and effects of institutional advantages in economies and societies, there is some variation in what exactly is understood as institutional advantage. For example, VoC looks for comparative institutional advantage, while NIS turns to absolute institutional advantage (Hall and Soskice 2001: 38). The role of entrepreneurship as a central driver of economic action within socio-institutional contexts differs between the regulation approaches. Apart from Acemoğlu and Robinson (2012), there is no specific focus on entrepreneurship in the regulation approaches introduced. This is somewhat surprising since entrepreneurship is deeply rooted in absolute or comparative institutional advantages and can in turn cause them. Entrepreneurship therefore has to be a critical component of a synthesis of regulation approaches and can well be integrated as a driver of economic, technological, and institutional innovation and therefore structural change. On this account, too, the theory of inclusive and extractive institutions well complements the other regulation approaches.

Following these ideas, a framework for analyzing regulation in wider contexts of economic development and particularly for developing countries is suggested. Figure 3.2 illustrates this framework. It builds on the fundamental architecture of the regulation school as shown in Fig. 3.1. The regulation school's architecture with its building blocks, the regime of accumulation and the mode of regulation, appears well-suited to analyze economic action within socio-institutional contexts and provides the structural basis for a more comprehensive list of components for regulation enriched with ideas from other approaches. Ideas from NIS can be integrated by emphasizing more strongly the role that patterns of innovation and interaction play, for example, within the structure of production and notably in its role as a driver for structural change. Such an emphasis on innovation includes, for example, interactive learning in user-producer relationships. Placing innovation processes in the wider system of socio-economic regulation overcomes the black-box thinking about "culture" observable in the NIS approach, since the regulation school defines components of the socio-institutional setup of an economy more precisely. In addition, since many of these components are not necessarily nationally bounded, the framework proposed here allows for analyzing innovation processes along the tenets proposed by the NIS school but not necessarily within the confines of the nation-state.

The framework uses the precise definition of institutions proposed by Bathelt and Glückler (2014: 346) and distinguishes institutions from prescriptive rules (e.g., laws and regulations) that can eventually form the basis for institutions and organizations such as government agencies or intermediary organizations (e.g., chambers of commerce, trade unions, or trade associations).

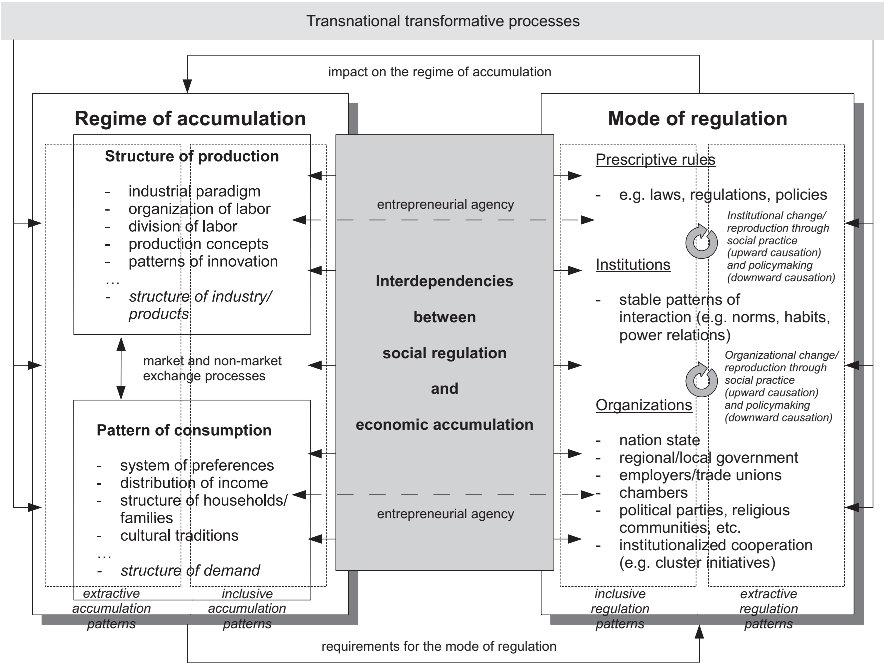

Fig. 3.2 Framework for a synthesis of regulation approaches. (Source: Own work based on Bathelt 1994: 66)

The reasoning behind the VoC approach fits well within this framework but is complemented by the framework's openness for dynamic change. In essence, each stable configuration between a particular regime of accumulation and a particular mode of regulation is equivalent to a certain VoC. The VoC perspective comes into play notably when looking at the mechanisms of negotiation, determination, sanctioning, and monitoring of the socio-economic framework for action within the mode of regulation. Such mechanisms that characterize a certain VoC have to be consistent with the regime of accumulation, thereby confirming the similarity between the architecture of the regulation school and the VoC approach.

The framework integrates some essential ideas brought forward by Acemoğlu and Robinson (2012), in particular by distinguishing between inclusive and extractive patterns of each component of accumulation and regulation. Complementing the framework with this idea allows for a more precise examination, of which "institutions" in a given economy and society have an inclusive or extractive character, and thus helps overcome the lack of rigor and the vague definition of "institutions" offered by Acemoğlu and Robinson (2012). Another idea adapted from Acemoğlu and Robinson (2012) is the critical role of entrepreneurial agency, which may even lead to the emergence of an economically and politically independent and confident entrepreneurial or merchant class, as a driver of both economic and institutional political change. Through this tenet, the Schumpeterian ideas of creative destruction

(Bathelt and Glückler 2012: 401–402) and his characterization of the entrepreneur as an agent introducing new combinations (Bathelt and Glückler 2012: 344) are part of the framework. As agents driving experimentation and creating new innovations, entrepreneurs play a prominent role particularly in patterns of innovation and thus stimulate and shape structural change. This important dynamic role of entrepreneurial agency unfolds best if and when it faces inclusive patterns of accumulation and regulation. This is why in Fig. 3.2, entrepreneurial agency is represented by arrows pointing in the directions of both the regime of accumulation and the mode of regulation but in both ways only to the sections of accumulation and regulation covered by inclusive patterns.

Transnational transformative processes, as argued by Peck and Theodore (2007), affect regulation in a national (or regional) economy. The arrows from the layer of transnational transformative processes and the various components of the regime of accumulation and the mode of regulation symbolize the manifold influences these processes can initiate. However, transnational transformative processes in and by themselves do not predetermine certain ways of changes in the various components of regulation. Rather, they will be met with internal dynamics of adaptation and change within a regulation regime that vary from one economy to the other. What the arrows from transnational transformative processes to elements of regulation stand for is therefore not any direct or deterministic change to regulation itself but rather a stimulus for dynamic processes internal to a particular regime of accumulation or mode of regulation and contingent on the extant elements of regulation and their systemic interrelationships with each other.

The framework builds on the regulation school, the NSI and VoC approaches including the variegated capitalism critique, and the theory of inclusive and extractive institutions. It does not directly include the SSP approach since this approach can be seen as a more specific elaboration of the regulation school that focuses on a peculiar historical context. However, this does not mean that the framework proposed here dismisses any ideas of the SSP school. Ideas such as nestedness across spatial levels, the relevance of internal firm structure, or the analysis of specific SSPs on the level of particular markets or sectors can indeed complement the framework when it is used in examining cases of regulation. Further, the SSP approach's basic tenet that markets do not function in a vacuum but are contained and maintained by institutional arrangements guaranteed by governmental action is inherent to the regulation perspective pursued here, calling into question pure free-market policy approaches.

The framework follows the distinction between organizations, prescriptive rules, and institutions as understood by Bathelt and Glückler (2014) and Glückler and Lenz (2016) but at the same time regards all of these three levels as components of the mode of regulation. When using the framework to examine and describe regulation in an economy, attention is thus drawn to the distinction between these three levels of institutional context (Glückler and Bathelt 2017).

It is important to note that these levels of the mode of regulation are not independent exogenous variables. Rather, they affect each other. As Glückler and Lenz (2016: 262–263) argue, institutions are affected by social practices and thus subject to upward causation of institutional change and reproduction from the micro-level. At the same time, prescriptive rules affect institutions, leading to processes of downward causation of institutional change and reproduction (Glückler and Lenz 2016).

Similar processes are plausible between prescriptive rules and organizations, as well as between institutions and organizations. Lastly, social practices within and between organizations may induce processes of upward causation of organizational change and reproduction. These conduits work in two directions (represented as circular arrows in Fig. 3.2). While prescriptive rules and organizations have causative effects on institutional change, institutions may condition the performance and effectiveness of prescriptive rules and organizations (Glückler and Lenz 2016: 264–265). Similarly, organizations may condition the performance and effectiveness of prescriptive rules.

When it comes to institutional change or reproduction, Glückler and Lenz (2016) suggest a taxonomy of interactions between prescriptive rules and institutions. Given that policies are directed towards shaping rules (or, analogously, organizations), the effects of these interactions on the framework of regulation become clear. The following mechanisms of institutional (or organizational) change or reproduction can be characterized (Glückler and Lenz 2016: 264–270):

1. Rule-reinforcing institutions can be shaped by upward causation and are thus a matter of micro-level agency processes (Benner 2014, 2017c) such as innovation and entrepreneurship.
2. Institution-reinforcing rules are a case for downward causation and thus of explicit top-down policymaking. These policies can be expected to have a considerable chance of proving effective.
3. Rule-substituting institutions[8] are subject to upward causation and therefore to micro-level agency processes such as innovation and entrepreneurship and bridge gaps on the level of prescriptive rules (Lehmann and Benner 2015). Institutional change through rule-substituting institutions can thus correct policy failure or inaction but can lead to beneficial or harmful aggregate effects, depending on the kind of institution that develops.
4. Rule-circumventing institutions, too, are subject to upward causation and therefore to micro-level agency processes such as innovation and entrepreneurship. They can endanger legitimate policy goals pursued by prescriptive rules, but it may equally be that rule-circumventing institutions unfold beneficial effects in terms of static or dynamic efficiency by circumventing rigid prescriptive rules that cannot be explicitly overturned, for example, because of political sclerosis or inertia.
5. Institution-circumventing rules are a case for downward causation and thus by explicit policy and are directed towards correcting harmful institutions according

[8] The opposite case of institution-substituting rules is not considered here because of its unlikelihood and lack of empirical validity (Glückler and Lenz 2016: 268).

to policy goals. For example, they can aim at upgrading processes in industries or regions such as tourism destinations or urban quarters.[9]

6. Rule-competing institutions are the last case of upward causation and thus of micro-level agency. In this case, agents adapt their behavior to new rules without complying with the rules' goals.
7. Institution-competing rules relate to downward causation policymaking but tend to exhibit low effectiveness in terms of their long-term effects.

It goes without saying that the framework cannot capture all possible elements of regulation in a complex economy and society. It can only be seen as a simplified and stylized model that can serve as a lens for analyzing regulation patterns and crises and that can draw attention to possible ways of overcoming structural crises through suitable institution-sensitive policies (Benner 2017b; Glückler and Lenz 2016). This is precisely what the next sections attempt to do in relation to socio-economic regulation in Arab economies in the context of the current economic and political transformations going on in the Arab world. The next section relates to the structural difficulties introduced in Chap. 2 and relates them to aspects of socio-economic regulation including historical developments and institutions.

3.3 Socio-economic Regulation in Core Arab Economies

Socio-economic regulation in core Arab economies is characterized by specific economic and socio-institutional configurations. While economic action and socio-institutional contexts certainly differ in each individual Arab country, some common features shared at least to some degree by most Arab economies can be identified. While the oil-producing Gulf states (and, in some respect, Algeria and Libya) exhibit economic and political conditions that differ significantly from those found in resource-poor, labor-abundant Arab economies, some historically grown ways of regulation may still be shared true between these groups of countries. This section and the following one put the emphasis on resource-poor, labor-abundant core Arab economies whose context is further detailed in the cases of Tunisia and Jordan.

The political and social transformations commonly termed "Arab Spring" can be seen as a symptom of a formation crisis with deeper economic roots. While economic reasons should not be seen as the only reason for the popular uprisings that occurred after 2010 in Tunisia, Egypt, and other countries across the Arab world, symptoms of a regulation crisis such as persistent high youth unemployment certainly represented major motivating factors for youth who took to the streets and

[9] The designation of business improvement districts including the concomitant funding arrangements is a good example for institution-circumventing rules because they are meant to counter institutionally based trading-down processes in urban quarters. Public law tourism associations promoting or upgrading tourist destinations through obligatory membership fees (e.g., in Austria) follow a similar logic.

formulated a wide range of political, social, and economic demands (Cammett 2014: 161; 170–171; Moghadam and Decker 2014: 73–74).

Assuming that these transformations and their underlying economic and social causes are intricately related to the breakdown of a formerly dominant mode of regulation, the next sub-section characterizes the old Arab social contract as this prior mode of socio-economic regulation along the lines of the framework developed in Sect. 3.2. Thereafter, the role of entrepreneurship as a major dynamic element of the regulation framework is discussed in the context of the old Arab social contract. This leads to the elaboration of possible future pathways for socio-economic regulation after the collapse of the old Arab social contract in Sect. 3.4.

3.3.1 The Arab Social Contract as a Mode of Regulation

The specifics of the interplay between the social and economic spheres of Arab countries, including their institutional landscape, and specifically the socio-economic configuration understood as the Arab social contract, can be conceptualized as a particular mode of regulation. The regulation approaches introduced in Sect. 3.1 and the integrated regulation framework proposed in Sect. 3.2 can help analyze and understand how socio-economic regulation tends to work in core Arab economies, although in a stylized way since a detailed analysis of socio-economic regulation in an economy needs to take into account the idiosyncratic features of a specific (national, regional, or even local) economy in question. The present section elaborates some stylized facts of socio-economic regulation in middle-income, resource-poor, and labor-abundant core Arab economies (including notably Morocco, Tunisia, Egypt, Jordan, and prewar Syria) and inserts these stylized facts into the proposed regulation framework.

Hertog (2016) argues that low- and middle-income Arab economies represent a particular variety of capitalism characterized by "a stretched, overcommitted and interventionist state; deep insider-outsider divides in private sectors and labor markets resulting from lopsided state intervention; and low levels of cooperation and trust between state, business and workers" and a resulting "equilibrium of low skills and low productivity" (Hertog 2016: 2). Richards and Waterbury (2008: 180–209) confirm the impression of interventionist states in most core Arab economies, both in republics that experimented with Arab socialism such as Egypt and Tunisia and in conservative monarchies such as Morocco and Jordan.[10] The state was seen as the driver of industrialization, and the private sector was seen as either weak or subject to outright distrust, enriched with ideological and anti-colonialist sentiments (Richards and Waterbury 2008: 181). Amin et al. (2012: 3–4) confirm that support

[10] State interventionism was a widespread tendency over much of the MENA region, at least for some decades during the twentieth century. Richards and Waterbury (2008: 180–209) cite examples not only from Arab economies but also from Iran, Turkey, and Israel, with Lebanon apparently being the exception.

for the idea of interventionist government seen not just as a regulator and redistributor but also as a producer persists (Amin et al. 2012: 4).

In detail, Hertog (2016) emphasizes the role of market segmentation in the Arab VoC through (i) the dependence of the a large part of the private sector on government support and protection; (ii) strong labor market regulation and a strong role of government as employer, creating a coalition of labor market insiders; (iii) the widespread distribution of resources by government to a comparatively broad middle class, again creating coalitions of insiders mirrored by the exclusion of outsiders not being part of these coalitions due to weak formal social security systems; (iv) vested interests of insiders resisting reform and change; and (v) low cooperation and trust due to government overstretch and broken promises, leading to what can be called a low-productivity equilibrium (World Bank 2013), a low-level equilibrium (Rivlin 2009: 294), or, more precisely, a low-investment, low-skills equilibrium (Hertog 2016: 4–6).

These features of the Arab VoC have to be understood historically. Starting with Arab nationalism in the newly independent states during the 1950s and 1960s and concomitant distributive needs and the necessity of state-building, the public sector expanded through rent distribution and extensive social commitments. Critically, these commitments included public employment guarantees for higher-education graduates, public housing, and supply-side subsidies[11] (Amin et al. 2012: 86–89; Hertog 2016: 7), thereby implicitly establishing the Arab social contract. In the 1970s, fiscal difficulties compelled Arab states to scale back their commitments, but the dominance of the state with high rates of government employment, bureaucracy, and subsidies persisted (Hertog 2016: 7). However, the former guarantees of public employment could not be maintained anymore, making coveted government jobs scarce and their allocation often intransparent (Hertog 2016: 8). Despite the breakdown of the public employment promise, large parts of the populations including young people still hold aspirations to attain a government job:

> Despite waiting lists that stretch up to 13 years, large percentages of Arab populations prefer government jobs to employment in the private sector. (Amin et al. 2012: 43)

At the same time, the Arab VoC exhibits a high degree of segmentation in the private sector, mainly due to uneven government intervention and rent-seeking by politically well-connected businesspeople at the expense of outsiders (Hertog 2016: 11). Despite its exclusiveness, the system was for a long time marked by a considerable persistence due to a coalition of regimes and cronies interested in blocking change (World Bank 2009: 172). Since the mixture of partial liberalization and protection from competition benefited established and well-connected businesspeople (World Bank 2009: 183), outsiders capable of driving structural change as entrepreneurial newcomers according to Acemoğlu and Robinson's (2012) theory find it hard to compete with the established and well-connected business elite of insiders. Inclusiveness towards new entrepreneurial agents under the old Arab

[11] For instance, Amin et al. (2012: 87) state that in Egypt food subsidies account for 2% of GDP, while fuel and electricity subsidies account for 6% of GDP.

social contract seems to be limited. Independent entrepreneurial activity was largely confined to small-scale trading, while regimes tended to prefer politically less daunting foreign investors and tried to pursue FDI-based strategies (Noland and Pack 2007: 249–250). Tunisia's special investment regime for offshore activities can serve as an illustrative example underscoring this claim. In the terminology of Acemoğlu and Robinson (2012), under the old Arab social contract, the dominant approach of regimes towards entrepreneurship was one of establishing and maintaining extractive economic institutions, although to degrees varying between countries. Partial liberalization in the latter decades of the twentieth century did not fundamentally change the role of the well-established business elite or ease the constraints for independent newcomer entrepreneurship. To benefit from liberalization, entrepreneurs needed ties to the public sector, notably for attaining the licenses required to enter newly opened sectors. In some instances, former officials or SOE managers started a business career to benefit from their ties and knowledge (World Bank 2009: 185).

The political and economic clout of an established, politically well-connected business elite precludes opportunities for economic development. Egypt offers an interesting case because "politically connected firms accounted for only 11 percent of total employment, but 60 percent of total net profits" (World Bank 2014a: 72), implying rents afforded by political connectedness. In part, these rents may stem from favorable enforcement of prescriptive rules as well as from the protection of connected firms from international competition (World Bank 2014a: 75, 78). The cost of rent-seeking by the politically well-connected business elite is considerable. In Egypt, sectors politically connected enterprises engage in witness lower competition, lower rates of firm entry, lower employment growth, and a concentration of unconnected firms in small-scale niches with lower productivity and higher degrees of informality (World Bank 2014a: 71, 79–83).

Furthermore, the well-established and politically connected business elite tends to dominate business organizations such as associations or chambers of commerce which under the Arab social contract are often not inclusive and lack political independence (World Bank 2009: 185). In many cases, intermediary organizations in core Arab economies tended to be controlled by government or dominated by large enterprises (World Bank 2009: 187–188). Hertog (2016: 13) confirms this impression, suggesting a low degree of effective organized advocacy for independent business. Business interests tend to be articulated primarily on an individual basis in the form of favoritism and rent-seeking by the politically well-connected established business elite at the expense of outsiders or newcomers (Hertog 2016: 12–13; Rijkers et al. 2014). It is therefore no surprise that the policy advocacy agenda of business associations in Arab economies tends to focus on furthering vested interests by calling for subsidies or other incentives (World Bank 2009: 188). Yet, the emergence of new business associations representing newcomers or young entrepreneurs is observable (World Bank 2009: 187–191). Similar to business organizations, trade unions in core Arab economies tend to be weak, segmented, and close to government with the partial exception of the Tunisian trade union federation UGTT (Hertog 2016: 14–15). The weakness and lacking inclusiveness of business associations as well as trade unions mean that agents advocating reform such as entrepreneurial newcomers, young people, or women do not enjoy sufficient voice to change policy agendas (Amin et al. 2012: 43–44). In the words of Acemoğlu and Robinson (2012), the old Arab social contract is marked by the absence of an inclusive, broad coalition powerful enough to push for change.

The regime of supply-side subsidies for energy and food is another core feature of the old Arab social contract, although fiscal constraints have forced the Arab government to reduce subsidies in recent years (Hertog 2016: 9–10). Together, the subsidy system and inflated public employment can be considered as non-inclusive "crypto-welfare policies" (Hertog 2016: 10). These policies cover more than those directly employed in the public sector, generating much wider webs of dependence through family relations (World Bank 2013: 8). Crypto-welfare policies are an essential part of the authoritarian bargain critical to the old Arab social contract (Amin et al. 2012: 32–40).

According to Hertog (2016), labor market segmentation in resource-poor and labor-abundant core Arab countries is high even in comparison to other developing world regions. Labor markets in core Arab economies are characterized by the dominance of public sector employment in formal employment, comparatively low mobility within the labor market, high degrees of inflexibility and rigidity, generous public-sector employment conditions, and, consequently, high de facto reservation wages leading to the waithood phenomenon. The consequence is that the major non-oil Arab economies have significantly shares of public-sector employment significantly higher than the global average, with only Morocco as an exception. These facts are underpinned by institutions including preferences and attitudes in favor of public employment. In almost all Arab countries,[12] the vast majority of school and university graduates desire public-sector jobs, with more than 70% of tertiary education graduates in Tunisia aspiring for government employment and more than 50% in Jordan[13] (Hertog 2016: 8–9, 25).

The skills mismatch prevailing in labor markets (see Sect. 2.2.5) seems to be based – at least to some extent – on institutional features of regulation in Arab economies. A lack of coordination between educational systems and the private sector as well as limited incentives for on-the-job training makes bridging skills mismatches difficult (World Bank 2013: 176). Accordingly, educational systems in Arab economies tend to be supply-driven and skewed towards the needs of the public sector, even though the explicit public-sector job guarantees to high school or university graduated valid in former times are no longer given (World Bank 2013: 181–182). Institutionally, high educational aspirations prevail, and tertiary education tends to be regarded as the educational path of choice, as is evident from the impression that "parents and students alike perceive 'good jobs' as those requiring a university degree (…). In the words of a secondary student from Jordan, 'It is simply not prestigious if you hold less than a bachelor's degree'" (World Bank 2013: 181).

[12] Lebanon is the major exception (Hertog 2016: 25).

[13] Interestingly, the desire to attain government jobs increases with educational attainment in Tunisia, while it decreases significantly in Jordan (Hertog 2016: 25).

The flip side of the coin is that TVET suffers from a fairly low reputation and tends to be perceived as a "punishment for failure" (Amin et al. 2012: 68) to enroll in university because of lower scores in important and competitive university entry exams (World Bank 2013: 182–184). Thus, TVET is seen as a second-best solution to an academic education at most (Amin et al. 2012: 68; World Bank 2013: 24). Consequently, apart from Tunisia, demand and enrolment for TVET significantly declined during the 2000s (World Bank 2013: 185–186). Driven by both the low reputation of TVET and the pursuit of academic tracks geared towards the needs of the public sector such as humanities, the skills mismatch contributes to the low-productivity equilibrium prevailing under the old Arab social contract (Hertog 2016; World Bank 2013: 7, 25).

Labor market segmentation in low-income Arab economies is exacerbated by the rigidity of labor laws with high levels of legal protection for public and formal private-sector employment and low or absent protection for informal-sector jobs. Restrictions of layoffs in Arab economies include requirements of third-party notification or even approval (World Bank 2013: 148). Coverage of formal social security systems in core Arab economies is limited, with marginal groups such as the poor, the young, or the unemployed being particularly exposed to risks (World Bank 2013: 152–153). Unemployment insurance schemes tend to be weak or non-existing in Arab economies with the exception of Jordan and Bahrain which introduced more comprehensive systems in recent years (World Bank 2013: 159–160). Thus, while there is intense labor market regulation in most core Arab economies, the large group of outsiders such as the unemployed or those working in the large informal sector by definition do not benefit from government regulation. Crypto-welfare policies such as public employment or subsidies do not address these outsiders' welfare needs (Hertog 2016: 13–16).

On the level of institutions, low trust creates disincentives for cooperation, driven by favoritism and exclusion. Mainly due to this lack of cooperation and trust, Hertog situates the stylized Arab VoC somewhere between the classical types of CME and LME. Relationships are typically situated somewhere between market-based and coordinated and often steered informally. However, organizations such as associations or trade unions play a significantly weaker role than in CMEs (Hertog 2016: 17).

Rivlin (2009) proposes a concept similar to Hertog's (2016) Arab VoC which he calls the "Arab equilibrium." In essence, what these authors describe is the socio-economic regulation regime of the old Arab social contract. Historically, this regulation regime can be seen to have followed what Bobek (1959, 1974) describes as a system of relationships between farmers and landowners which he termed "rent capitalism." This system found in various places in the Middle East is essentially characterized by a split between productive agricultural labor and urban landlords who extract rents without reinvesting capital, thus preventing increases in productivity (Bobek 1959, 1974). Rent capitalism with its structures of urban-rural land ownership patterns was characterized by the lack of productive investments and the reliance of the landed elite on their rural land possessions (World Bank 2009: 129–149). Land ownership is one of the traditional factors underpinning the system of regulation in core Arab economies. Land allocation in Arab economies tends to involve a strong role of government and a traditional and well-established landowning (or today, real-estate development) elite (Bobek 1974; World Bank 2009: 129–149). However, the old Arab social contract refers to wider aspects of socio-economic regulation beyond land ownership and extended rent extraction to wider parts of the economy.

It is plausible to assume that during the 1950s and 1960s and due to the challenges of independence and nation building, land reform, industrialization, import substitution policies, as well as the prevailing ideologies of Arab nationalism and socialism, a regulation crisis led to the emergence of the old Arab social contract or Arab VoC as described above. Another regulation crisis became apparent in the 1980s in the wake of structural adjustment programs (Richards and Waterbury 2008: 218–226) and in the context of demographic challenges (see Chap. 2). One might argue that this long-lasting regulation crises eventually led to the events commonly known as the "Arab Spring" in the 2010s, but discontent built up over a long time (Amin et al. 2012; Richards and Waterbury 2008).

Beyond the purely economic sphere, socio-institutional framework conditions in Arab societies include the role of religion. Following Weberian reasoning, one might assume that in societies in which religion plays major role both in public and private life, religious attitudes will have a decisive influence on the conditions for economic growth. However, the argument is not as straightforward as Weberian thought suggests. The influence of Islam on economic growth and development is a hotly debated issue. Rivlin (2009: 50–54) provides an overview on the literature discussing the impact of Islam on economic growth and development. The arguments summarized by Rivlin suggest that while some elements of Islam can be shown to contradict the tenets of modern capitalism, the evidence on Islam's economic impact is inconclusive. This is not least because religion is endogenous to development processes. Even if religion in and by itself does not pose an obstacle to economic growth, constraining factors could be found in political realities such as regimes using religion or particular interpretations of religion as a means to legitimize and maintain power. The historically founded idea of the identity of state and religion in Islam could be another politico-religious concept conditioning economic development (Rivlin 2009: 50–54; 290–291).

Noland and Pack (2007: 139–144; 300–301), too, review the literature and by attempting to econometrically isolate the effect of religion on economic growth conclude that the evidence does not suggest that Islam in and by itself is an obstacle to economic development. Basedau et al. (2017) present an extensive literature review on empirical evidence of dimensions of religion in general (disaggregated into religious identity, religious practice, religious actors and organization, and religious ideas) on economic and social development outcomes. They conclude that while the empirical evidence on the effect of dimensions of religion is mixed and unclear (often due to methodological fuzziness), common hypotheses such as an alleged positive effect of Protestantism on economic development and an alleged negative effect of Islam are not supported (Basedau et al. 2017).

On a more general level, the different development paths taken by various majority Muslim societies suggest that religion does not predetermine the course of economic development. For example, comparing countries such as Malaysia, Turkey, Iran, Sudan, and Yemen with their Muslim majorities but extremely diverging economic development paths calls for a rejection of simplistic and monocausal explanations on the economic role of Islam. The fact that reforms in economically relevant policy areas have occurred in recent centuries shows that religion does not predetermine processes of economic development but that policy matters (Rivlin 2009: 52).

In sum, the evidence on the role of Islam in economic development and thus its role as a possible factor of socio-economic regulation are inconclusive. It appears that religion in and by itself can be seen neither as a promoter of long-term economic growth nor as an obstacle to it. Rather, religious beliefs and interpretations can indirectly affect the institutional framework conditions of an economy, but this relationship is a complex one. Religion or, more precisely, interpretations of religious prescriptions probably exert some influence on the level of institutions, but exactly how and to which degree they do so is a matter of each individual case and will most likely differ between countries and even between regions, sectors, and social *milieux*. This is why in the regulation framework developed here, religion is not accorded the status of an independent element of socio-economic regulation because doing so would create an analytical black box (just as would be the case for "culture"). The more precise approach chosen here is to identify institutions such as attitudes or preferences that condition socio-economic regulation which may or may not be affected by religious ideas or interpretations. On the level of organizations, religious authorities or entities can indeed play a role in socio-economic regulation and, through their agency and religious interpretations, affect institutions such as commonly accepted attitudes.

The nestedness of institutions in a complex multilevel system or web of interactions across spatial levels proposed by Boyer and Hollingsworth (1997a) implies that an analysis of regulation in Arab economies cannot be complete without considering external or overarching layers. For example, the modes of coordination known from France with its public-sector-centered approach (Hall and Soskice 2001: 35) might be relevant for Tunisia. Policy transfer from France – as is visible, for example, in Tunisian cluster policy which follows the French *pôles de compétitivité* model and wording – and post-colonial legacies such as French-inspired traditions in the education system but also general policymaking attitudes such as prevailing attitudes towards government and public-sector involvement in the economy arguably affect regulation in a French-speaking Maghreb country such as Tunisia. Interactions with the Tunisian diaspora in France and education of elites in French schools or universities can be expected to underscore these complex interactions and their effect on regulation. British legacies may exert an analogous influence in other Arab economies, although probably to a somewhat lesser degree.

Moreover, for some Arab economies – most notably Morocco and Tunisia – regulation is affected by EU *rapprochement*. Morocco's and Tunisia's relationship with the EU strongly intensified within the framework of the EU's Mediterranean neighborhood policy called "Barcelona process" since 1995 and the signature of bilateral association agreements. Basically, this process and related EU-assisted large-scale programs of institutional alignment and competitive upgrading for the private sector arguably contributed to de facto integration into EU structures and policies in technical and economic areas (Benner 2015; Ghali and Rezgui 2015: 40).

While other Arab economies did go as far in EU *rapprochement* yet – with Algeria following Morocco's and Tunisia's steps but trailing them (Benner 2015) – the EU neighborhood policy of the Barcelona process, including the Union for the Mediterranean as a EU-Mediterranean dialogue forum, is relevant for most Arab economies including Egypt, Jordan, Lebanon, the Palestinian Authority, and theoretically Libya and Syria. This context suggests that regulation in Arab economies will be, to a larger or lesser extent, affected by some regulation patterns known from Europe. In the case of (Mediterranean) Arab economies, this influence is a major element of what Peck and Theodore (2007) call transnational transformative processes, although others such WTO membership play a role, too. When examining regulation in a particular core Arab economy, it is necessary to carefully consider the degree and shape of transnational institutional alignment and policy transfer and to identify the particular forms of adaptation and possible modification occurring under the specific regulation patterns prevailing in a specific core Arab economy.

Taking together the considerations presented above, socio-economic regulation in Arab economies under the old Arab social contract can be conceptualized in a stylized way through the regulation framework proposed (Fig. 3.2) as follows.[14] Figure 3.3 illustrates the points elaborated in the subsequent discussion by summarizing the major findings on socio-economic regulation patterns prevailing in core Arab economies.

Salient features of socio-economic regulation prevailing in most core Arab economies under the old Arab social contract, as represented in Fig. 3.3, include the following ones:

- As part of to the regime of accumulation, the *structure of production* in labor-abundant core Arab economies is characterized by the high degree of labor market segmentation between formal and informal sectors and along age, gender, regions, and between public and private sectors, high levels of youth as well as female unemployment,[15] low female labor-force participation, inflated public sectors, a strong role of SOEs in production, low innovative dynamics, crowding out of private investment by large public sectors, and the orientation of educa-

[14] The following discussion offers a stylized characterization of socioeconomic regulation in core Arab economies without considering in detail the variation between core Arab economies. While variation can be extensive between countries, the discussion focuses on generally observable common features shared by most Arab economies (excluding special cases such as present-day Syria, Libya, or Yemen). To account for specifics of regulation in a particular economy, a detailed refinement will be necessary, as is attempted here for the cases of Tunisia and Jordan in Chap. 4.

[15] High youth unemployment does not only complicate the transition from education to work but also the transition to forming an own household since in Arab economies the prospects for marriage and founding an own family is related to employment (Amin et al. 2012: 57), underscoring the wider socio-institutional effects of a salient economic phenomenon such as unemployment and its wider implications for socioeconomic regulation. The common expectation for young people to be gainfully employed before marrying can well be understood as an institution.

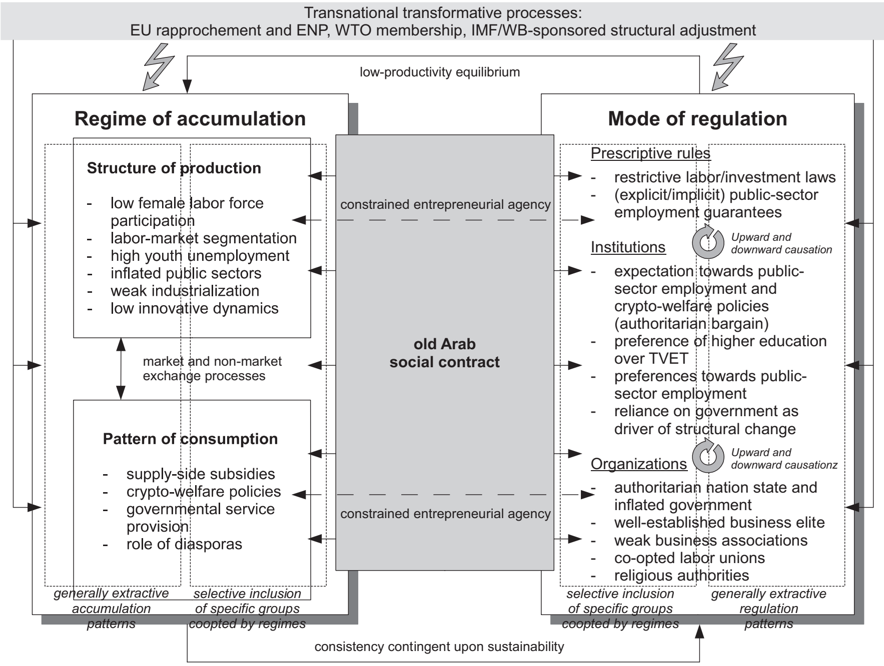

Fig. 3.3 Stylized regulation framework under the old Arab social contract. (Source: Own work based on Bathelt 1994: 66)

tional systems towards the employment needs of the public sector. Implicit in these characteristics is the skills mismatch between labor market supply and demand. Weak industrialization, evident in the comparatively low share of manufacturing in GDP and the higher shares of the agricultural and service sectors relative to other middle-income countries in comparable stages of development (Amin et al. 2012: 112–117) are further characteristics of the structure of production in core Arab economies. As part of the large and diverse service sector, tourism plays a major role in countries such as Tunisia and Jordan (Hazboun 2008), Egypt, Morocco, or some Gulf states.

- The *pattern of consumption* is characterized by the prevalence of supply-side subsidies, notably on fuel and foodstuffs; the effects of crypto-welfare policies (including inflated public-sector employment); the effect of public service provision by governments; the role of diasporas such as the Moroccan or Tunisian diasporas in France, the Netherlands, Spain, or Italy; and the effect of their remittances (Richards and Waterbury 2008: 389–390; 397–400; Maghraoui and Zerhouni 2014: 667; Benner 2015).
- Within the *mode of regulation*, relevant prescriptive rules include restrictive labor laws[16] and investment laws including, for instance, authorization require-

[16] When it comes to restrictive labor laws, one might expect a range of rule-circumventing institutions to deal with stringent regulations. One interesting example for a rule-circumventing institution

ments for investments in defined "strategic" sectors or polarized investment regimes with privileged offshoring or export processing zones, as well as formerly explicit or implicit guarantees for public-sector employment to university graduates. Institutions critical to the old Arab social contract include widely held expectations and aspirations towards public-sector employment and towards the maintenance of crypto-welfare policies including, for example, supply-side subsidies. These expectations and aspirations are a critical component of the authoritarian bargain (Amin et al. 2012: 18, 32–40; Desai et al. 2009: 93). Further institutions include prevailing preferences for public-sector employment among jobseekers and their families (Amin et al. 2012: 19, 43) as well as a continued reliance on state intervention in economic development and a general distrust towards the private sector (Richards and Waterbury 2008: 180–181). Parents' willingness to support their children during waithood while queuing for prestigious public-sector jobs is another institution under the mode of regulation, since "societal norms encourage parents to support their children well into their twenties rather than having them accept low-status employment" (Amin et al. 2012: 59). Organizations characteristic of the old Arab social contract include an authoritarian nation-state, inflated government and SOEs, a well-established and politically well-connected business elite either as an informal group or dominating non-inclusive business associations, and co-opted labor unions. Following Acemoğlu and Robinson (2012: 79–81), these organizations are the exact opposite of what an inclusive broad coalition would look like. Religious authorities may play a role in defining attitudes relevant for the socio-economic sphere of society, e.g., towards women's participation in the labor market, fertility (Richards and Waterbury 2008: 78), or legitimate financial instruments. Mechanisms of upward and downward causation between prescriptive rules, institutions, and organizations are apparent, for instance, in the design and implementation of the crypto-welfare policy of public-sector employment which was so central to the authoritarian bargain in the old Arab social contract. Prescriptive rules such as previously explicit public-sector employment guarantees shaped institutions such as citizens' expectations, aspirations, and educational/employment preferences, while together they led to inflated public sectors. In this regard, downward causation works through institution-reinforcing rules such as public-sector employment guarantees, while citizens' expectations, aspirations, and preferences formed rule-reinforcing institutions.

- Cutting through the regime of accumulation and the mode of regulation, *entrepreneurial agency* is constrained for a number of reasons. Entrepreneurial dynamism tends to be weak. Aspirations towards public-sector employment constrain entrepreneurial attitudes among jobseekers and notably among young university graduates. Educational systems are geared towards the needs demanded by the public sector instead of the private sector. The extractive nature of much of the

on a highly regulated labor market is the one cited by the World Bank (2009: 32) quoting a Syrian businessman's approach in countering legal constraints to dismissing workers by requiring employees to sign an undated resignation letter upon recruitment.

regime of accumulation and the mode of regulation severely limits the growth perspectives for entrepreneurial ventures, and the extractive political nature of the authoritarian bargain inherent to the old Arab social contract does not encourage the rise of a confident and independent new entrepreneurial class. The economic clout and political connectedness of the well-established business elite, its rent-seeking behavior, and resulting phenomena of state capture are all symptoms of the extractive politico-economic setup of regulation under the old Arab social contract which render successful independent and innovative entrepreneurship difficult. The constrained nature of entrepreneurship and, by extension, Schumpeterian creative destruction is thus an outcome of the dominance of selected insider groups and the generally extractive design of economic and political rules, institutions, and organizations that, according to Acemoğlu and Robinson's (2012) understanding, preclude the emergence of broad coalitions and the emergence of economic and political newcomers.

- The resulting system of regulation under the old Arab social contract is characterized by a low-productivity equilibrium and hence some degree of consistency, as the interplay between rule-reinforcing institutions and institution-reinforcing rules, for instance, between former public-sector employment guarantees and citizens' expectations, jobseekers' aspirations, and students' educational preferences, demonstrates. While the equilibrium is marked by low productivity and thus dissatisfying economic results expressed by structural deficiencies such as those explained in Chap. 2, it still was by definition stable as long as the general conditions of the old Arab social contract held. However, the system of regulation under the old Arab social contract was consistent and stable only as long as the model could be sustained fiscally and demographically. Coming under fiscal and demographic pressure due to the ever-increasing size of inflated public sectors and the youth bulge, the system of regulation of the old Arab social contract lost its internal consistency and hence its stability. *Transnational transformative processes* certainly contributed to the exposure of the growing inconsistencies under the old Arab social contract. In particular, structural adjustment sponsored by the IMF and the World Bank (Richards and Waterbury 2008: 218–226) contradicted entrenched features of the regime of accumulation and the mode of regulation such as crypto-welfare policies and notably supply-side subsidies. Thus, structural adjustment put additional political and societal pressure on an increasingly unsustainable system of socio-economic regulation, arguably exposing or even exacerbating structural deficiencies in socio-economic regulation. As will be discussed in Sect. 3.4, the sustainability deficit of the old Arab social contract and structural adjustment inserted new institutional configurations into the regulation regime such as institution-circumventing rules or even institution-competing rules, severely calling into question the prior internal consistency of the old regulation regime. The so-called "Arab Spring" may be seen as the culmination of public discontent with the not-so-latent cracks in a regulation system that lost its internal consistency.

The present sub-section has characterized the old Arab social contract in a stylized way and conceptualized it as a regulation regime. The sub-section thus addressed the first research question proposed (How does regulation between economic action and institutional context work in Arab economies, notably in relation to drivers of private-sector growth such as entrepreneurship?). The role and constraints of entrepreneurship and innovation as drivers of Schumpeterian creative destruction under the old Arab social contract merit a closer discussion, specifically if promoting a stronger role for entrepreneurship and innovation is regarded as a pathway to a higher-productivity equilibrium. Indeed, development policy in Arab economies increasingly focuses on promoting entrepreneurship and innovation, but as Isenberg (2010) observed, isolated schemes are questionable since entrepreneurship is a systemic driver of creative destruction operating within a complex regulation regime. The next sub-section therefore focuses on the role of entrepreneurship and innovation under the old Arab social contract.

3.3.2 Regulation in Arab Economies: What Role for Creative Destruction?

As was argued in Sub-section 3.3.1, the weak dynamism of the private sector and the low traction of Schumpeterian creative destruction in core Arab economies cannot be understood without having a look at the historically founded position of government in Arab economies. After independence, governments, not the private sector, were drivers of structural transformation in Arab economies. Creative destruction did not feature in this paradigm as an essential driver of structural change. Rather, on the institutional level, a wide acceptance and even expectation of a large, interventionist government emerged. The ideology of Arab socialism was abandoned sooner or later by most core Arab states that experimented with it (e.g., Tunisia in 1969), and conservative monarchical regimes such as Jordan or Morocco did not explicitly pursue Arab socialism in the first place. Still, the public sector was generally seen as the critical force for economic development, and the legacy of large public sectors and reliance on the government as the driving force in the economy, directing industrialization and solving structural problems, has survived and become an essential institutional reality in core Arab economies (Richards and Waterbury 2008: 179–181).

The strong role of government in core Arab economies is mirrored by a weak entrepreneurial middle class. Rivlin (2009: 55–59) describes that the weakness of the middle class in most Arab economies poses an obstacle to entrepreneurship and that hence challenges to political regimes from within the middle class used to be absent. Basically, in the terminology of Acemoğlu and Robinson (2012), the absence of a strong coalition calling for political and economic inclusiveness is critically related to weak entrepreneurship. Taking a historical perspective, Rivlin illustrates how a *bourgoise* mercantile class developed during the Abbasid era but failed to gain enough economic prominence to cause the development of capitalism because of too weak capital accumulation and government ownership of industries. Thus, the government was left to military rulers, while at the same time, inheritance laws prevented the rise of a landowning *bourgeoisie* that could have accumulated sufficient capital to set in motion the development of capitalism (Rivlin 2009: 87–89).

Rivlin's historical explanation of secular trends of deficient processes of Schumpeterian creative destruction in most Arab countries[17] is consistent with Bobeks' (1959; 1974) rent capitalism theory. Rent capitalism fits well with the absence of entrepreneurship in a Schumpeterian sense because neither the agricultural laborers not the urban landlords assumed it, the former ones due to the lack of reinvestable capital and the latter ones due to the lack of incentives. Rent capitalism might have been an obstacle to industrialization because of its role in preventing increases in productivity in the agricultural sector and thus making a shift of productive resources to the development of industry more difficult, an argument in line with Rostow's (1959) conditions for the takeoff of industrialization. In such a context, the lack of an independent entrepreneurial or merchant class enables the ascent of rent-seeking behavior by well-connected cronies – a phenomenon commonly known as crony capitalism – and the setup and maintenance of high barriers to entry against new entrepreneurs. In a regulation regime with highly extractive economic institutions that make the rise of a politically confident and economically powerful entrepreneurial class virtually impossible, thus reinforcing existing extractive political institutions, competition is limited, and Schumpeterian creative destruction is severely constrained.

Paradoxically, the gradual retreat of government from direct economic interference in the wake of partial liberalization did not create space for a more dynamic and entrepreneurial private sector. Although economic liberalization since the early 1970s in both Egypt and Tunisia led to an emergent private sector, entrepreneurship remained undynamic and lacking in terms of productivity and growth (Adly and Khatib 2014: 172). The space left by the receding public sector was filled by a privileged, politically well-connected business elite. Even under liberalization, crony capitalism posed constraints to entrepreneurship due to the dominance of the well-established and politically well-connected business elite and resulting power and information asymmetries, leading "to the transferring of once state-held assets and market shares into the hands of a few cronies that were tightly-connected to the incumbent regimes" (Adly and Khatib 2014: 173). The dominance of business associations and informal political advocacy channels by the well-established business elite further complicated conditions for entrepreneurial newcomers who had no political voice (Amin et al. 2012: 38; Adly and Khatib 2014: 174; World Bank 2009: 12–13).

Consequently, Arab economies tend to feature low levels of enterprise creation (OECD and IDRC 2013: 14). Hertog (2016: 12, 28) summarizes evidence of comparatively low entrepreneurial dynamism and Schumpeterian creative destruction in

[17] Rivlin (2009: 55–59) lists some exceptional cases featuring strong merchant middle classes in Arab economies, the most important being Lebanon.

core Arab economies, and resulting weaknesses in investment and productivity. Amin et al. (2012: 107) state weak competition and low entrepreneurial dynamism in Arab economies, leading to a slow pace of creative destruction. The World Bank (2009) confirms this result by suggesting a lack of dynamism and creative destruction. These insights are consistent with what Adly and Khatib (2014: 40) call “capitalism without entrepreneurship.” While the two countries surveyed by Adly and Khatib (2014), Tunisia and Egypt, had some success in liberalizing and unleashing the private sector, the expanded private sector consists mostly of underproductive family-owned MSMEs and lacks dynamic efficiency. Interestingly, Adly and Khatib (2014) show that the bigger SMEs become, the more vulnerable they are to corruption and distortion, effectively incentivizing them to remain small (Adly and Khatib 2014).

Entrepreneurship in Egypt and Tunisia (and probably in other core Arab economies) is marked by a sense of muddling under conditions of sub-optimality (Adly and Khatib 2014: 167). Entrepreneurs in Egypt and Tunisia use social capital (Putnam 1995) to counter deficiencies in the formal environment by relying on family and friends for funding and a secure resource endowment (Adly and Khatib 2014: 178). Traditional values including family values support entrepreneurship not just through funding but more generally through a supportive attitude (OECD and IDRC 2013: 107–108). The finding that entrepreneurs use social capital to overcome deficiencies in the entrepreneurship ecosystem suggests the prevalence of rule-substituting or rule-circumventing institutions that may play an important role in a regulation regime marked by considerable deficiencies in terms of prescriptive rules and organizations. Further, barriers to entry for entrepreneurial newcomers are high in Arab economies, not necessarily because of strict formal rules but because of their arbitrary implementation (World Bank 2009: 97). In the framework of the regulation perspective pursued here, constraints towards entrepreneurship, entrepreneurial innovation, and related Schumpeterian creative destruction are thus not so much a matter of strict prescriptive rules but institutions in terms of arbitrary implementation.

Following the taxonomy of interactions between rules and institutions proposed by Glückler and Lenz (2016), in terms of entrepreneurship, innovation, and Schumpeterian creative destruction, the regulation system prevalent in the old Arab social contract exhibits the following features:

- Rule-reinforcing institutions such as expectations towards public-sector employment and other crypto-welfare policies, as well as widely held preferences among university graduates and jobseekers towards public-sector employment, are consistent with prescriptive rules such as formerly explicit or implicit public employment guarantees, restrictive labor laws, and generous public-sector employment conditions. These prescriptive rules function as institution-reinforcing rules, and the rule-reinforcing institutions mentioned are likely to constrain entrepreneurship by preventing the emergence of a strong entrepreneurial attitude.
- The reliance of entrepreneurs on social capital (Putnam 1995) based on family and friends to overcome formal barriers to entrepreneurship is a case of rule-substituting or even rule-circumventing institutions. Social capital enables them

to pursue their entrepreneurial activity by compensating a non-supportive environment of prescriptive rules or non-supportive ways of rule implementation with supportive relational capital. Yet, it is likely that this compensation mechanism will work only to a certain point, probably constraining the growth of entrepreneurial ventures.

- Arbitrary implementation of prescriptive rules may follow rule-circumventing or even rule-competing institutions caused by the agency of formal or informal organizations such as the well-connected business elite or through formal business organizations dominated by the business elite and authoritarian nation-states. Hence, institutions of arbitrary rule implementation represent a case of upward causation.

In such a regulation regime, consistency is assured under a low-productivity equilibrium as long as the regulation regime is stable, a condition which is confronted with severe long-term fiscal constraints. As long as the regulation regime is stable, the prevailing low-productivity equilibrium is marked by low entrepreneurial dynamism, low levels of innovative activity, weak competition, and a lack of vibrant Schumpeterian creative destruction. These features underscore the inefficiency of the regulation regime not just in terms of static efficiency but also, and probably even more importantly, in terms of dynamic efficiency.

The present sub-section has shed light on the conditions the regulation regime of the old Arab social contract offered for entrepreneurial dynamism and innovation. It has thus refined the answers to the first research question (How does regulation between economic action and institutional context work in Arab economies, notably in relation to drivers of private-sector growth such as entrepreneurship?), in terms of entrepreneurship and innovation and their role as drivers of private-sector growth through Schumpeterian creative destruction. Consistent with the wider perspective of socio-economic regulation pursued here, the sub-section highlighted the nexus between Schumpeterian creative destruction and political change through the importance, or absence, of an economically dynamic and politically confident independent entrepreneurial class.

The next sub-section turns to research questions two to four by dealing with the possibilities to come up with a new, consistent, and sustainable regulation regime or what could be termed a new Arab social contract, with a more prominent role of Schumpeterian creative destruction.

3.4 Alternatives for Socio-economic Regulation: Pathways Towards a New Arab Social Contract

The regulation regime under the old Arab social contract was consistent and stable as long as its major features could be sustained. However, the sustainability of the regulation regime came under increasing pressure since the late 1970s. The structural economic problems of Arab economies presented in Chap. 2 can be understood as the symptoms of these underlying pressures. Formerly explicit and subsequently implicit public employment guarantees for secondary or tertiary education graduates led to inflated public sectors that could no longer be fiscally sustained. Other crypto-welfare policies such as extensive subsidy schemes for food, fuel, and energy put additional pressure on public budgets (Amin et al. 2012: 86–89). Public infrastructure investment was getting more difficult to sustain. Demographic trends such as the youth bulge exacerbated the problem of youth unemployment. The weakness of the formal private sector left the young unemployed effectively with the alternative options of either waiting for future opportunities to attain a public-sector job or entering the informal sector. Structural adjustment programs sponsored by the IMF and the World Bank were designed to correct macro-level imbalances through reforms and austerity programs. Yet, the outcomes of reforms were generally disappointing. While structural adjustment helped countries in severe balance of payment or fiscal crises regain some degree of macroeconomic stability, it did not lead to significant decreases in unemployment or rises in living standards (Richards and Waterbury 2008: 218–261).

A socio-economic regulation perspective provides a plausible explanation for the mixed outcomes of structural adjustment. With the basic tenets of the regulation regime under the Arab social contract still in place, structural adjustment focused on fiscal imbalances did neither attempt nor achieve a readjustment of the socio-economic framework. Factual constraints towards entrepreneurship, innovation, and Schumpeterian creative destruction (see Sub-section 3.3.2) were not addressed. More generally, the institutional context in core Arab economies did not see significant modifications. In particular, structural adjustment did not change rule-circumventing or rule-competing institutions such as the arbitrary implementation of prescriptive rules. Even if structural adjustment led to the modification of prescriptive rules, giving in theory more freedom to private-sector development and entrepreneurship, the institutionally founded arbitrary implementation of these prescriptive rules did not improve the situation for independent entrepreneurs. While public employment guarantees were given up over time (a modification of prescriptive rules), institutions such as citizens' expectations and preferences for public-sector employment remained in place.

It is plausible to assume that changes in prescriptive rules brought about by structural adjustment combined with essentially unchanged institutions deepened the fissures in the regulation regime. As public employment guarantees and other crypto-welfare policies and thus the promises made by regimes to citizens under the authoritarian bargain were not fulfilled anymore while institutions such as citizens' educational and employment preferences remained unchanged, the old Arab social contract lost its internal consistency. Rule-reinforcing institutions such as jobseekers' preferences for public-sector employment and citizens' expectations towards the upkeep of crypto-welfare policies such as supply-side subsidies arguably turned into rule-competing institutions without avenues for upward causation through micro-level agency. New policies such as investment laws designed to promote private investment, entrepreneurship support policies, or policies implementing conditionalities related to IMF- and World Bank-sponsored structural adjustment programs established new prescriptive rules that were did not fit with prevailing institutions such as citizens' expectations and preferences. Therefore, these policies tended to put in place institution-competing rules in the case of "hard" policies such as the cutback in crypto-welfare policies or institution-circumventing rules in the case of "softer" policies such as entrepreneurship promotion. It is fair to assume that these new prescriptive rules did not radically change existing institutions. This lack of consistency became increasingly evident through structural problems such as high and persistent youth unemployment or deficiencies in governmental service provision. Amin et al. (2012) highlight results of opinion polls in core Arab economies including Egypt and Tunisia which show significant decreases in citizens' perceptions of their own well-being and in their satisfaction with governmental service provision during the late 2000s. In a regulation perspective, this hike in popular dissatisfaction is probably the logical outcome of an inefficient regulation regime with strong internal inconsistencies and of an authoritarian bargain that has become one-sided. In retrospect, the revolutions of 2010/2011 which led to the overthrow of the Ben Ali and Mubarak regimes can be regarded as the political side of a regulation crisis whose economic side has been evident since the late 1970s. Evolutionary reform movements marked by public protests and careful reactions by incumbent regimes as witnessed in Morocco and Jordan were much less radical than the revolutionary upheavals in Tunisia and Egypt.[18] Yet, the point of departure was the same: populations implicitly demanded a correction of the old Arab social contract through political accountability and citizens' participation in political decision-making, as well as effective solutions to structural economic problems such as high youth unemployment, interregional disparities, and deficiencies in public service provision.

While the revolutions or evolutions since 2010 were the culmination of a regulation crisis that has become more acute for years or even decades before, a new, consistent, and sustainable regulation regime will take years to unfold. Difficult processes of political and economic transformation in Tunisia and continued waves of demonstration in peripheral regions in the Center-West and South of Tunisia in 2016 and 2017 and in the Rif region of Morocco in 2017 underscore the complexity of painful and long-term regulation adjustment in a volatile political context and among widespread expectations of quick fixes. Yet, one might argue that the current period provides a window of opportunity for solving the long-standing regulation crisis in core Arab economies. The fact that Tunisia, Egypt, and Jordan are currently undergoing a new and painful process of IMF- and World Bank-sponsored structural adjustment which include, inter alia, cutbacks of crypto-welfare policies such as subsidies again underlines the inconsistency and unsustainability of the previously prevailing Arab social contract. At the same time, reforms could contribute to the development of an internally and externally more consistent and sustainable regulation regime, provided they are politically well managed and combined with the setup of sustainable and need-based social safety nets.

[18] Libya, Yemen, and Syria where initial revolutionary upheavals eventually turned into civil wars are not dealt with here.

While it is advisable to use historical analogies carefully, the current transformative political and economic context in core Arab economies may share some characteristics with the upheavals in Eastern Europe in the early 1990s. This is why considering how a new, consistent, and sustainable regulation regime for core Arab economies might look like, and which political and economic processes of transformation could facilitate the adjustment towards such a new regulation regime, is important. The remainder of the present section focuses on these questions and presents stylized arguments on what a more consistent and sustainable regulation regime in core Arab economies could consist of. While each country will develop its own new regulation regime, such a "new Arab social contract" could depart in several critical aspects from the previous regulation regime but at the same time draw on some of the specificities most core Arab economies share. The result could be a common regulation framework across core Arab economies that will most likely look different from the one-size-fits-all, "Washington Consensus"-type image of how an efficient economy is supposed to function (Williamson 1990; Richards and Waterbury 2008: 229–230). In essence, the new regulation regime proposed here attempts to offer a context-specific, institution-sensitive, and path-dependent approach (Bathelt and Glückler 2012: 48; 2014; Benner 2017b; Glückler and Lenz 2016) to structural economic reform in core Arab economies.

Considering the critical role of crypto-welfare policies and particularly of fiscally unsustainable and macroeconomically inefficient public-sector employment in the inconsistency of the old Arab social contract, it seems logical that a new Arab social contract will have to be based more on dynamic and efficient private sector that includes promoting entrepreneurships and SMEs (OECD and IDRC 2013: 13). To achieve private-sector-led growth, entrepreneurship, innovation, and concomitant Schumpeterian creative destruction will have to play a more prominent role in any new growth model for core Arab economies.

Such a new regulation regime or new Arab social contract could look like the one sketched in Fig. 3.4. The regulation regime depicted there in a stylized manner is an idealized and normative one. Essentially, Fig. 3.4 proposes hypothetical answers to the question of how a regulation regime in core Arab economies that gives a greater role to private-sector-led growth, entrepreneurship, innovation, and Schumpeterian creative destruction could look like, given the structural conditions found in core Arab economies. Figure 3.4 represents neither the only possible outcome of the current regulation crisis in core Arab economies, nor does it predict that the proposed regulation regime will be the result of the current political and economic transformation in the Arab world. Aspects related to the transition from the old regulation regime to any new one will be discussed below. The stylized regulation regime depicted focuses on some possible common answers across core Arab economies, but any new Arab social contract will most likely look somewhat different in each country. What Fig. 3.4 does attempt is to provide an impetus for discussing possible modifications of elements of the regulation regime in core Arab economies including institutional and organizational change, and the role policy can play in facilitating or even initiating these changes. In particular, the regulation regime sketched in Fig. 3.4 is meant to draw attention to a comprehensive policy agenda adapted to

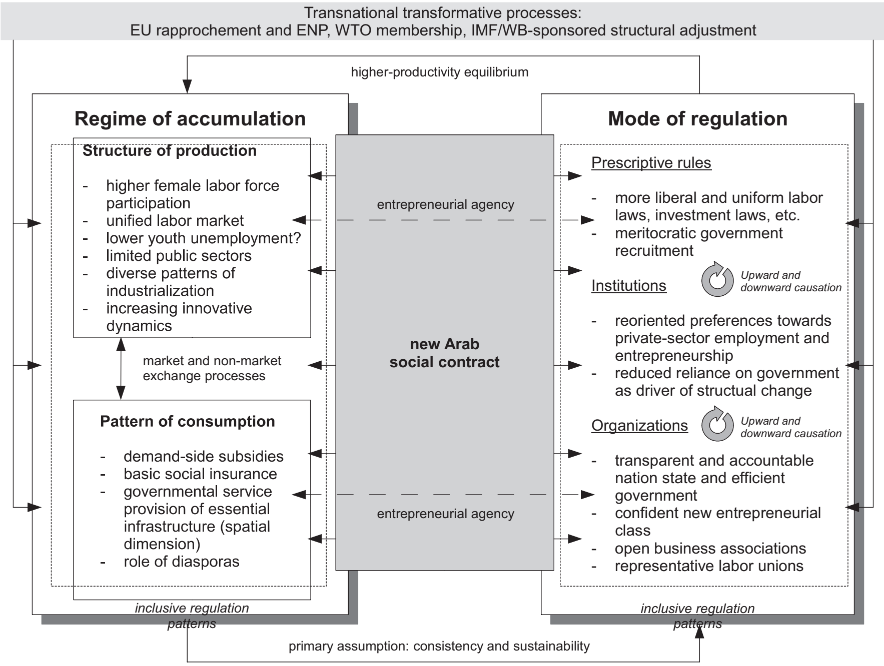

Fig. 3.4 Stylized regulation framework under a new Arab social contract. (Source: Own work based on Bathelt 1994: 66)

institutional context. Such a comprehensive, institution-sensitive approach (Benner 2017b; Glückler and Lenz 2016) would be the opposite of a piecemeal approach that tries to insert isolated policy measures into a regulation regime not suitable to absorb these measures because of institutional inconsistencies. A comprehensive and institution-sensitive policy approach requires looking at the levels of prescriptive rules *and* institutions as not to overlook institutional realities that condition the effectiveness of policies shaping prescriptive rules (Glückler and Lenz 2016: 272).

Stylized features of regulation under a new, sustainable, and internally and externally consistent Arab social contract as proposed in Fig. 3.4 and policy options directed towards reforming the regulation regime in a comprehensive and institution-sensitive approach include the following ones.

As part of a new regime of accumulation, the *structure of production* might include higher female labor-force participation which could be promoted, for instance, through policies to allow women to better balance job and family duties such as day care. Overcoming labor market segmentation is an important goal in reforming the regulation regime that would require policies described below under the mode of regulation because these policies require changes in prescriptive rules related to the labor market. The same holds true for the goal of limiting the size of public sectors, allowing for less crowding out of private-sector investments and recruitment. Increased innovative dynamics are another objective of a new regime of accumulation intrinsically linked to stronger entrepreneurial agency. Policies to promote entrepreneurship include multidisciplinary entrepreneurship education in schools and universities; incubation and acceleration services; training, coaching, and mentoring schemes to entrepreneurs; specific programs to support youth and women entrepreneurship and possibly senior citizen entrepreneurship; and policies to enhance innovation such as university-industry technology transfer schemes, science parks, cluster policies, or innovation vouchers. However, all of these measures' chances of success will most likely be limited if implemented in isolation. As the NIS approach emphasizes, innovation is a socially and institutionally embedded process that does not lend itself to engineering thinking. Higher levels of innovation are not simply the necessary outcome of isolated schemes of innovation support but may be path-dependent, contextual, and contingent (Bathelt and Glückler 2012: 48; 2014) outcomes of complex, interrelated, and relational social processes. This is why policies to promote entrepreneurship and innovation have to be an integral part of a comprehensive and institution-sensitive agenda to renew core Arab economies' regulation system such as the agenda proposed here and will have to include the long-term shaping of attitudes underlying an entrepreneurial ecosystem (Isenberg 2010; Amin et al. 2012: 135–136).

As for industrialization, it is hard to foresee significant growth of manufacturing sectors across the board in core Arab economies. Amin et al. (2012: 119–124) see three different industrialization challenges in Arab economies. For labor-abundant, resource-poor countries, entering global value chains is the main pathway towards industrial development, while for resource-poor middle-income countries, moving up the value chain through skills upgrading is the key challenge. Lastly, oil-exporting countries will have to diversify. Amin et al. (2012: 119) call these three pathways towards industrialization "break in, move up, and diversify." For instance, Tunisia will have to "move up" value chains towards more sophisticated tasks, products, or services through skills and knowledge policies such as entrepreneurship promotion and innovation policies as well as FDI attraction in more skills- and knowledge-intense sectors. Egypt and Morocco have to "break in" industrial development with a focus on provoking an export push in lower-value agro-industrial and trade-related areas through policy interventions such as export processing zones (EPZs) and FDI attraction. Algeria and the GCC countries will have to diversify into niche markets through skills and knowledge policies (Amin et al. (2012: 119–124).

As a relative forerunner in industrial development within the Arab world, Tunisia is a particularly interesting case. While Tunisia has achieved some relative success in industrialization (Cammett 2014: 164; Amin et al. (2012: 113; Diop and Ghali 2012; Ghali and Rezgui 2015), imitating the industrialization trajectories of the successful industrializers of the twentieth century, the East Asian NIEs (World Bank 1993), will be difficult because of the changes that have occurred in the global environment, including the rise of China and India, WTO membership, and a rising sentiment of protectionism notably in the United States and Europe. While for larger Arab economies such as Egypt, Morocco, or Saudi Arabia, growing the manufacturing sector in labor-intensive industries will be a necessity (Richards and Waterbury 2008: 67–68), pathways towards industrialization and underlying structural change in other countries may be more diverse. For example, Richards and Waterbury (2008: 68) classify both Tunisia and Jordan (as well as Israel) as "watchmakers," referring to their scarce natural resource base and the need to focus on human capital and skills development under an export-led strategy (Richards and Waterbury 2008: 68). For these countries, evolving into knowledge-based economies will most likely be the way forward, calling for a broad menu of innovation policies (Amin et al. (2012: 23; M'Henni and Deniozos 2012; Smadi and Tsipouri 2012). Other countries such as Lebanon or smaller Gulf states might well establish themselves as trade, services, and tourism hubs and pursue industrial policies to promote these sectors accordingly. Generally, sectors such as ICT, logistics, education, and tourism seem promising fields to promote through industrial policy in core Arab economies (Amin et al. (2012: 24). In particular, tourism will remain an important service sector for countries such as Morocco, Tunisia, Egypt, Oman, and the United Arab Emirates, calling for the continuation of tourism policies but probably with different goals in terms of target markets and differentiation. For instance, differentiating its tourism offer will be a continuing challenge and necessity for Tunisia (Hazboun 2008).

There is yet another reason for expecting diverse patterns of structural change and industrialization across core Arab economies. Given that university education in Arab countries tends to be directed towards traditional public-sector employment needs (World Bank 2013: 25; Moghadam and Decker 2014: 94–96), it focuses to a certain extent on social sciences and humanities. While a comparison of shares of students enrolled in science and technology fields and in social sciences and humanities in various Arab countries suggests a diverse picture, with some Arab economies having similar or higher shares of graduates in engineering, manufacturing, and construction fields than some industrialized countries (UNESCO Institute for Statistics 2015: 138–145), Achy (2010: 16) confirms that Maghreb countries in 2007 had rather low shares of students enrolled in engineering when compared to other emerging economies. Tunisia had the highest share (10.7%) among Maghreb countries but still lagged competitors such as Poland, Turkey, Indonesia, Romania, or Bulgaria (Achy 2010: 16). One might be tempted to call for a stronger focus on natural or medical sciences and engineering because at first sight, these disciplines appear more prone to entrepreneurship (Achy 2010: 26). However, it would be worthwhile to identify possible economic development trajectories that draw on the knowledge assets available in a society. For example, policies to stimulate entrepreneurship among university graduates often turn their attention to natural and medical sciences and engineering. A knowledge base in social sciences and humanities might, using this traditional lens, appear less conducive to entrepreneurship. However, a regulation perspective considers not only "hard" matters of technological and scientific possibilities but also "soft" factors such as the social acceptance of innovations or technologies. Theoretically there is no reason why a strong knowledge base in social sciences or humanities should not open up equally beneficial economic development trajectories than technological knowledge bases. Instead, a broader perspective towards differentiated knowledge bases and employing platform policies (Asheim et al. 2011) would be useful for policy to identify a wider range of possible trajectories that include using knowledge in social sciences or humanities as a base for entrepreneurship and innovation.[19] For example, the commercialization of technology requires the development of markets which, according to the SSP school, are social structures and conditioned by social acceptability, ethics, norms, and values which may constrain or enable the use of new technologies or innovations. Business knowledge such as marketing skills and broader social science or humanities skills will often be at least as relevant to successful commercialization of new technologies as technological knowledge.[20] In life sciences, ethical questions frame the adoption of medical technologies and therapies in societies. Cultural and creative industries are acknowledged as a promising field of economic development (Benner 2017a; European Commission 2010). The use of technology and innovation in tourism (e.g., tour guide apps) is another example for a trajectory where an innovation's competitiveness arguably rests more on "soft" knowledge on customer preferences than on "hard" knowledge on technological possibilities. As these examples demonstrate, knowledge bases in social sciences and humanities can create paths for economic development just as technologically oriented knowledge bases can. Indeed, the importance of multi-disciplinarity in entrepreneurship is recognized (OECD 2012b: 59). Assuming that some Arab economies might have comparative advantages in socially and culturally relevant knowledge bases, entrepreneurship and innovation policies could focus on trajectories emanating from these knowledge bases.

Reforming education is another aspect linked to industrialization. Considering the reputational deficits (Achy 2010: 18; Amin et al. 2012: 68; World Bank 2013: 24) and weak private-sector involvement in TVET systems in Arab countries, one might argue that efforts to build strong TVET systems modeled after European systems such as those known from Germany or Austria and their dual apprenticeship schemes (e.g., World Bank 2013: 179) do not correspond to basic factors of regulation in core Arab economies. High educational aspirations of youth and their families in Arab countries – including notably aspirations towards tertiary education – are an institutionally anchored fact. Instead transplanting elements of TVET systems from other countries to a regulation context marked by very different institutional patterns, looking for ways to better align university education with labor market needs appears more promising. For example, strengthening the role of entrepreneurial, managerial, or personal soft skills in university curricula or introducing dual-study programs combining paid employment in private-sector enterprises and academic education in universities (Lehmann and Benner 2015: 205) could reduce skills mismatches within the framework of existing organizational structures and given patterns of regulation. If TVET suffers from a rather low reputation and if students' and parents' aspirations are geared towards higher education in universities and other HEIs, a regulation perspective sensitive to institutional realities (such

[19] There are examples for policies promoting entrepreneurship and knowledge transfer in the humanities (e.g., OECD 2015a).

[20] For example, Felsenstein (1994: 107) finds evidence for the argument that "technical knowledge without business skill does not necessarily make for innovatively successful products or firms."

as aspirations and reputation) would probably advise policy not to invest in vocational schools but rather in building such dual-study programs in HEIs[21] since such programs can equip students with practical skills aligned with labor market needs and at the same time equip them with a high-prestige university degree.[22]

Ideally, the outcome of a reformed structure of production through a combination of policies such as the ones suggested here would be lower unemployment, notably among women and youth. Yet, the pathway towards this outcome is not straightforward. In the past, even in times of comparatively high growth, core Arab economies like Tunisia and Egypt barely managed to keep unemployment rates stable given the demographic situation in core Arab economies and notably the youth bulge (Richards and Waterbury 2008: 140). Even if in the best of cases, a new regulation regime such as the one proposed in Fig. 3.4 emerged and led to higher dynamism in terms of private-sector-led growth, entrepreneurial innovation, competition-induced efficiency gains, and Schumpeterian creative destruction, keeping youth unemployment roughly on current levels will be an ambitious goal. It thus appears fairly unlikely that unemployment levels will significantly fall until the effects of demographic change set in. In the meantime, establishing basic social security systems including unemployment benefits can only provide a partial reaction at best. To counter social pressure related to high and persistent youth unemployment, governments might have to promote the civil society to provide young unemployed at least with limited perspectives to employ their energy and creativity for social or cultural causes in the absence of sufficient employment opportunities.

As for the *pattern of consumption*, a new and sustainable regulation regime would include a reformed welfare system. Instead of the crypto-welfare policies prevailing under the old Arab social contract and supply-side subsidies for food and energy, a reformed welfare system would offer targeted, need-based, demand-side subsidies through cash transfers which are more efficient than supply-side subsidies. However, doing so is politically sensitive. Tunisia's "bread revolt" in 1983–1984 after cuts in government subsidies for bread (Hazboun 2008: 41–42) and riots in other Arab economies in the wake of cost-of-living raises (Richards and Waterbury 2008: 222) provide examples for the sensitivity of the issue, emphasizing the need to take a broader regulation perspective and to tackle long-term institutional change related to citizens' expectations and preferences. Without changing institutions, cutting subsidies can result in institution-competing rules, as it did in Tunisia in 1983. Further, the sensitivity of fuel and energy subsidies suggests that introducing need-based cash transfer will have to go hand in hand with subsidy cuts.

[21] Such a dual-study model was established at Al-Quds University in the West Bank and supported by German technical cooperation (Al-Quds University 2016). The author was involved in this project as a consultant. Another example for a scheme similar in its intention is the study model implemented by the German-Jordanian University that includes obligatory internships in Germany.

[22] In Tunisia, for example, the practically oriented higher educational entities called ISET (*Institut supérieur des études technologiques*) (Ben Miled-M'rabet n.d.; Erdle 2011: 29) may offer suitable conditions for setting up dual-study programs.

Basic social insurance including unemployment insurance would be another element of a reformed pattern of consumption. Moving from broad and inefficient supply-side subsidies to targeted demand-side transfers would free fiscal resources for the maintenance and provision of essential government services in the health, education, and transportation sectors. These services and the underlying infrastructure are particularly important for peripheral regions (World Bank 2011), underscoring the spatial nature of reforming the pattern of consumption. Further, the role of diasporas might be redefined. Apart from remittances, the role diasporas play in their economies of origin could include the transfer of skills and knowledge and possibly even entrepreneurial activity. For instance, returnees from Europe or North America could provide a potential for entrepreneurship and technology transfer.[23] Promoting deeper interaction of Arab countries with their diasporas abroad would require a more proactive and systematic diaspora policy, maybe following examples of East Asian NIEs in the 1970s and 1980s (Noland and Pack 2007: 259–260).

Within the *mode of regulation*, prescriptive rules under the new regulation regime suggested here would include somewhat more liberal and uniform labor laws and investment laws to alleviate the strong segmentation on the labor market and to create a legal landscape more conducive to competition with lower barriers to entry particularly for entrepreneurial newcomers. Instead of explicit or implicit public-sector employment guarantees for secondary or tertiary education graduates that were so characteristic of the old Arab social contract and its constituent authoritarian bargain, under a new regulation regime, government recruitment would have to be based on meritocratic criteria. On the level of institutions, consistency of the regulation regime would require that popular attitudes and preferences, notably towards public-sector employment and the role of government as the major driver of economic development, change into attitudes and preferences more directed towards private-sector employment and entrepreneurship as well as towards more trust in the private sector's capability and legitimacy in propelling economic development and structural change. In line with the argument that policies to counter the major structural problems prevalent in core Arab economies are less likely to succeed if they focus on isolated interventions without taking a wider look at the systemic interrelationships in the regulation regime, tackling widely held attitudes is an important yet challenging long-term policy goal. While entrepreneurship education in high schools and universities, business planning competitions, and incubation and acceleration schemes will not in and by themselves create a stronger entrepreneurial attitude, they can be parts of a wider policy to shape the public image of entrepreneurship and private-sector employment. Further elements could include the diffusion of good entrepreneurial practices and public awards for successful new entrepreneurs, building on the strong effect successful role models can have in shaping entrepreneurial attitudes (Isenberg 2010). In addition, changing attitudes will require ending the stigmatization of failure (Isenberg 2010). Modifying prescriptive

[23] Strictly speaking, entrepreneurial activity and knowledge or skills transfer by members of the diaspora would be part of the regime of accumulation and, if successful, strengthen innovative and entrepreneurial dynamism and thus Schumpeterian creative destruction.

rules such as bankruptcy laws which in some Arab countries consider bankruptcy a crime (Amin et al. 2012: 23–24) is important, but changing attitudes requires changing institutions through policies aiming at downward causation. Doing so is a contingent, contextual, and path-dependent process (Bathelt and Glückler 2012: 48; 2014) that can be approached with a broad set of policy measures over the long term. For instance, while successful role models are important, the usually much larger number of entrepreneurial failures is an important lever for entrepreneurship promotion largely ignored by policy. Learning from failure can be a powerful means of increasing future entrepreneurial ventures' chances for success and at the same time contribute to establishing an entrepreneurial culture of trial and error in repeated experimentation. Policy interventions that focus on learning from the experience of entrepreneurs who failed or interventions that even target failed entrepreneurs through second-chance mentoring or coaching schemes can thus be a part of the broad policy agenda required to tackle institutional change.

Finally, on the level of organizations, the regulation regime proposed here would ideally include a transparent and accountable nation-state with a smaller but more efficient administration. While difficult to achieve, a number of governance reforms on the administrative level will be necessary. Combating the arbitrary enforcement of rules on the level of institutions will be an important complement to organization- and rule-related administrative reform. If successful, the combination of regulation reforms suggested should over time lead to the gradual emergence of a confident new entrepreneurial class demanding administrative accountability and fairness (Acemoğlu and Robinson 2012) that should express its voice through more inclusive business associations. Representative labor unions might play a similar role for employees.

The regulation reforms suggested above would have to be consistent with *transnational transformative processes* such as IMF/World Bank-sponsored structural adjustment and EU *rapprochement*. Indeed, most of the reform measures included in the proposed regulation reform agenda have for years been advocated by international organizations such as the OECD (2012a, 2013, 2015b, 2018) or the World Bank (2009, 2011, 2013, 2014a, b, c, d, 2015). Yet, as was argued above, reforming prescriptive rules along classical "Washington Consensus" policies (Williamson 1990), even if combined with a "good governance" perspective (Richards and Waterbury 2008: 229–230), will not be sufficient to come up with a consistent and sustainable new regulation regime. For instance, sizing down the public sector will create friction in a regulation regime characterized by institutions that include reliance on government as the driver of economic development, distrust in the private sector, and aspirations of public employment. Without looking at institutions and designing appropriate long-term policies to tackle institutional change, not only will the regulation system remain unstable but also will reforms of prescriptive rules have a lower chance of success if they keep an institution-competing character.

EU *rapprochement* offers some opportunities to achieve greater inclusiveness in policymaking. For example, applying the concept of smart specialization with its inherent participatory method of prioritization and action planning or combining it with horizontal entrepreneurship policies in the concept of smart experimentation

(Benner 2014, 2017c) could be suitable for countries aligning their economies more closely with the EU while suffering intense interregional disparities. Morocco and Tunisia are probably the most apparent candidates for doing so. The smart specialization approach is a policy method applied under the umbrella of EU cohesion policy and focuses on diversification based on regional knowledge bases (Asheim et al. 2017), drawing on the notion of related variety (Asheim et al. 2011; Frenken et al. 2007). The approach includes a participatory public-private prioritization process embedded in the institutional context of a regional economy (Benner 2018). However, the process that is supposed to lead to the prioritization of activities towards diversification and supported through public funds under the framework of a smart specialization strategy is confronted with institutional and governance-related problems, particularly in economically weaker regions or countries. Challenges include a lack of trust among agents, lacking government capacities in coordinating public-private policymaking processes, established legacies of hierarchical policymaking, and weak intermediate organizations such as regional development agencies or chamber of commerce (Trippl et al. 2018). While these obstacles are generally difficult to overcome, paradoxically some of these aspects of (mostly regional-level) socio-economic regulation may improve due to upward causation of institutional change (Glückler und Lenz 2016) within the participatory prioritization process inherent to the smart specialization approach (Benner 2018).

For rural regions, a concept such as the EU's long-standing LEADER (*Liaison entre actions de développement de l'économie rurale*) or CLLD (community-led local development) methodologies to develop rural development policies in a process of broad stakeholder participation might be suitable to achieve higher consistency between prescriptive rules and institutions and in setting in motion mutually reinforcing cycles of upward and downward causation on the regional level (Benner 2017d, forthcoming).

If successful, reforming the regulation system could lead to more inclusiveness of economic institutions and, through the emergence of an independent entrepreneurial class and representative business associations and labor unions, to a certain degree of political inclusiveness. While Tunisia with its post-revolutionary democratic system offers an arena for political inclusiveness, other core Arab countries such Morocco or Jordan seem to pursue a more gradual, evolutionary opening which might eventually give more though still limited freedom to citizens to participate to a certain degree in political decision-making but at the same time keep the ultimate decision-making power centralized at the top echelons of the monarchy. Both ways could eventually come up with a reformed regulation regime with more economic inclusiveness and at least some degree of political inclusiveness on matters of economic policy.

More economic inclusiveness of the regulation regime, combined with modified institutions such as stronger entrepreneurial attitudes, could facilitate entrepreneurial agency and thus provide an opening for a more dynamic, innovative, and competition-driven economy marked by a higher degree of Schumpeterian creative destruction. If such a regulation regime is internally and externally consistent and sustainable – which is the primary assumption behind the definition of the elements of the new regulation regime proposed[24] – it could enable core Arab economies to reach a higher-productivity equilibrium than was the case under the old Arab social contract.

Moving towards such a new regulation regime requires policies directed towards institutional change. These policies, if successful, should lead to processes of downward causation. Establishing institution-circumventing rules will be important to change institutions such as citizens' expectations towards public-sector employment and other crypto-welfare policies. The policies towards changing attitudes and promoting a more entrepreneurial spirit mentioned above can be a part of such an effort but will require time. Current structural adjustment programs pursued in Tunisia, Jordan, and Egypt will have to be complemented by more efficient but sensible social policies such as the establishment of need-based cash transfers and basic social safety nets.

The current transformative context in most core Arab economies may provide a window of opportunity (Amin et al. 2012: 13) for pursuing policies designed to change institutions through downward causation and institution-circumventing rules. While such a process will in any way be difficult and painful, the processes of political reform (be they revolutionary or evolutionary) may facilitate concomitant economic reform. Changing institutions such as the persisting reliance on government as the driver of economic development may be somewhat easier in a context such as the one currently found in Tunisia, with a newly established political system with checks and balances and a flourishing civil society which demonstrates the effectiveness of private initiative at least politically, if not yet economically. In countries where political reforms were far more limited and evolutionary such as Jordan, institutional change towards more reliance on the private sector may be considerably more difficult but still possible. Downward causation of institutional change will require determination by policymakers to consistently advocate more reliance on private initiative. The economic necessities of limiting state interventionism in the current context of political and economic transformation and, in some cases, structural adjustment may create space for private entrepreneurialism to fill voids left by a receding state and eventually, if successful, contribute to a nascent culture of trust towards the private sector.

Amin et al. (2012: 16–17) stress that in contrast to the political and economic transformation in Eastern Europe in the 1990s, there is no coherent ideological vision for reform in the Arab world. While the previous state-led approach so prevalent under the old Arab social contract has not managed to solve the structural problems of Arab economies, a new comprehensive ideological paradigm generally appealing to populations is not in sight. However, this lack of an ideological vision

[24] Methodologically, in elaborating the new regulation regime proposed here, the approach was not to define a new regulation regime and then to claim its consistency and sustainability but to ask how elements of the regulation regime would have to look like to be consistent with each other and sustainable over the long term and then proposing elements of a new regulation regime and policy actions to facilitate the transition accordingly. This is why consistency and sustainability are the primary assumptions behind the new regulation regime suggested here. However, the proposed regulation regime is only a scenario, while other ones, too, are possible.

is not necessarily a problem because it may give rise to a pragmatic approach by younger generations eager to seize economic opportunities (Amin et al. 2012: 16). Hence, transitioning towards a new regulation regime might involve non-ideological, eclectic mixed economy solutions inspired by emerging economies such as Brazil or Turkey or successful CMEs such as Germany and in line with an evolving institutional context in core Arab economies (Amin et al. 2012: 16–17).

Such a mixture between a developmental state and private initiative may indeed lead to the formation of new, rule-circumventing institutions consistent with the necessities of scaling down the public sector and limiting the government's role to more efficient, effective, and catalytic interventions, to upward causation of corresponding policies establishing consistent prescriptive rules and eventually to a more internally and externally consistent and sustainable regulation regime. Eventually, coherent prescriptive rules and institutions centered around a more limited and catalytic nature of state intervention in the form of an effective developmental state and, at the same time, more dynamic private initiative may lead to the emergence and mutual reinforcement of rule-reinforcing institutions and institution-reinforcing rules.

The nexus between political transformation and economic reform is further underlined by the need for administrative reform designed to strengthen good governance and to reduce the institutionally entrenched arbitrariness of prescriptive rule implementation. This argument is consistent with the World Bank's (2009 15–16) claim that economic reforms will need to be accompanied by administrative reforms that signal commitment to even-handed implementation of reforms and thus shape private-sector expectations.

Provided that policies for institutional change through downward causation, notably through the establishment of institution-circumventing rules designed to change attitudes and preferences succeed, the internal and external consistency of a new regulation regime might lead to processes of cumulative and circular causation through both upward and downward causation. For instance, stronger entrepreneurial attitudes may strengthen organizational change through entrepreneurs' inclusion in more vocal and more representative business association and, through the political clout of a new and confident entrepreneurial class, shape policies and thus prescriptive rules through upward causation accordingly. Micro-level agency in processes such as entrepreneurship and innovation, both individually and relationally (Benner 2014, 2017c), and resulting dynamics of Schumpeterian creative destruction are likely to establish institutional patterns that exert pressure on policymakers to design prescriptive rules accordingly. For such a process to happen, private-sector entrepreneurs will probably need to gain structural influence in the political realm, e.g., in political parties (Hall and Soskice 2001: 47–48; Wood 2001: 257). Coalition governments may be conducive for entrepreneurs' political clout (Hall and Soskice 2001: 49–50), allowing for political representation of broad societal coalitions according to the argument suggested by Acemoğlu and Robinson (2012) and thus political inclusiveness. Again, the current transformational context in some core Arab economies could enable the emergence of such a coalition, presumably to the highest degree in a democratic system such as the new Tunisian one which is indeed characterized by multiparty democracy and coalition governments but maybe at least to some degree in countries subject to a limited and evolutionary (although sometimes partly retrogressive) political opening such as Jordan or Morocco. Eventually, these processes may establish a considerable degree of consistency between major prescriptive rules and institutions as their interactions may gradually assume the character of institution-reinforcing rules and rule-reinforcing institutions.

Even if past years witnessed much disappointment with the course of reform in core Arab economies, there is still reason for realistic optimism. Even if the ongoing transformative context and transnational transformative processes such as IMF- and World Bank-sponsored structural adjustment do not lead to the economic reform policies proposed, for example, because of political sclerosis or inertia, there may still be a chance for reforming the regulation regime through upward causation. Micro-level agency through entrepreneurship and innovation might lead to the formation of rule-substituting institutions such as stronger entrepreneurial attitudes and the emergence of a confident entrepreneurial class demanding policies to establish prescriptive rules accordingly. In the present regulation context marked by persistent preferences for public-sector employment and limited entrepreneurial dynamism, however, it is difficult to see what would trigger such a process. More likely, policies designed to promote entrepreneurial attitudes and innovation through downward causation are needed to kick off a process of cumulative causation of changing rules and institutions. However, this process is contingent and its outcome unpredictable. Firstly, it is unsure whether policies, even if well-designed, succeed in triggering institutional change. Secondly, even if they do, resulting new modes of regulation cannot be predicted because they are shaped by complex processes including social struggles and chance (Boyer 1988: 91).

The present section has attempted to propose answers to the second (Which new modes of regulation could help Arab countries in addressing structural economic and social difficulties by facilitating private-sector-led growth?), third (What role can entrepreneurship play in such new modes of regulation?), and fourth research question (Which implications does the current transitional context in Arab economies hold for regulation). The answers to the research questions proposed in Sects. 3.3 and 3.4 will be applied to the cases of Tunisia and Jordan in Chap. 4.

3.5 Regulation in Core Arab Economies: From Theory to Empirics

Drawing on the theoretical background on regulation approaches and their synthesis in Sects. 3.1 and 3.2, Sect. 3.3 proposed a stylized framework for regulation in Arab economies so far, while Sect. 3.4 took a dynamic perspective and discussed pathways towards the hypothetical scenario of a new, consistent, and sustainable regulation regime for core Arab economies. While these findings and propositions have the character of a scientific model and therefore are simplified representations of reality, empirical validation is necessary to develop them into a theory. As for the results of Sect. 3.3, empirical validation would turn the stylized regulation framework under the old Arab social contract into a positive theory, while empirical validation of the new regulation regime and policies to facilitate transition suggested in Sect. 3.4 would allow for deducting normative conclusions from the positive theory (Benner 2012: 5) if combined with politically set postulates or first principles.[25] While empirical validation of a positive theory is straightforward, attempts towards the empirical treatment of normative conclusions are more complex. The basic assumptions made in Sect. 3.4 that a new regulation regime would have to be internally and externally consistent as well as sustainable led to the definition of elements of the such a hypothetical new regulation regime and then to policies capable of facilitating the emergence of these new regulation elements. Empirically validating the axioms implicit in this reasoning (on one level, from assumptions to regulation elements and on another level, from regulation elements to policies) is beyond the scope of this book. What empirical validation can do is explore what kind of regulation elements and policies are perceived by agents as necessary or desirable and then analyze the consistency of these insights with the model proposed which departs from the assumed postulates that it be (i) internally and externally consistent, (ii) statically and dynamically more efficient, and (iii) economically sustainable. Empirical validation can assess whether transition to the model proposed is likely and finally elaborate conclusions on what would have to change to come to the regulation regime proposed or to modify the model to make its materialization more feasible and realistic.

The following chapters attempt to validate both the positive model and its normative conclusions. Chapter 4 will take a look at Tunisia and Jordan. While sharing a number of common features such as those identified in Chap. 2, core Arab economy countries differ from each other in several details of their regulation regime. For example, in a country such as Egypt where the military is a major economic factor (Masoud 2014: 457; World Bank 2014a: 58), the regulation regime proposed in Sect. 3.3 would have to be complemented with resulting country-specific implications. Still, bearing in mind that the model developed in Sects. 3.3 and 3.4 is highly stylized and designed to capture major features common to regulation in most core Arab economies, applying it and checking its validity in two smaller Arab economies that share some structural characteristics but at the same time exhibit considerable and important differences can indeed grant the model a higher degree of empirical relevance and thus validate it as a theory, thus adding validity to its normative conclusions.

Although featuring comparatively liberal long-term economic policies with more freedom for the private sector than in other core Arab economies, Tunisia and Jordan share the general pattern of structural deficits evident in most resource-poor and labor-abundant Arab economies, including the marked and persistent insider-

[25] For example, politically set normative first principles can refer to the desirability of a rise in living standards, income, employment, or other indicators of economic or human development.

outsider contrast that was so characteristic for the old Arab social contract (Hertog 2016: 18). Still, Tunisia and Jordan appear to have more efficient legal systems and less burdensome bureaucracy than other core Arab economies and arguably even vis-à-vis other international comparators (Noland and Pack 2007: 144–155). Due to these characteristics of both countries and their relative success in industrial and economic development so far but also due to their sharing the fundamental structural difficulties of most core Arab economies, these two case studies are meant to serve as an example of how to apply the regulation framework proposed in a specific context and to adapt it to the resulting particularities, notably on the national level but taking account of some important conclusions for regional development and considering some aspects of regional context.

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