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The Failure of Arab Macro Policy

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1. Introduction

On the eve of the 'Arab Spring', late 2010, most Arab governments were faithfully implementing economic measures similar to those included in the much-touted policy package known as the 'Washington Consensus' (Williamson, 1990).¹ Some had faithfully been doing that for a very long time, even before Professor Williamson coined the term, and others were latecomers doing their best to make up for lost time. The IMF, and other self-appointed spokespersons of the Washington gospel, hailed Tunisia as a success story. Other Arab governments were busy sending their economists to Tunis to learn from the Tunisian experiment, which was on the verge of being declared the 'Tunisian Miracle'. Soon enough, a watershed moment did happen when Mohamed Bouazizi, an unemployed 26-year-old, set fire to himself outside a municipal office in the town of Sidi Bouzid in central Tunisia, protesting his inhuman environment, and triggering street protests throughout the AW that shattered the half-century stagnant political and social structure of the whole area. For a brief moment, a brief shining moment, it seemed as if the Arab masses re-entered history and were on their way to resuming their historical march, which started at the end of the nineteenth century and was crushed twice before,² towards building free independent democratic societies. But soon enough, everything that was starting to become clearer grew dark and chaotic again. Young revolutionaries were jailed and tortured, civil wars were fought everywhere and dark murderous religious fanatics were unleashed, motivated by convictions from the Middle Ages and equipped with twenty-first-century finance, weapons and telecommunication technology. In the midst of all of this, human suffering and the economic situation of the masses became quite

unbearable. Tyranny was not replaced by democracy, as revolutionaries have hoped for, but with various shades of civil wars. Naturally, this unfortunate outcome has raised many questions in the minds of both ordinary citizens and social scientists. The following are some typical questions:

- Was the ‘Arab Spring’ a genuine revolution aimed at liberating the Arab masses, or was it merely a sinister conspiracy to bring about a permanent destruction of both the fabric of Arab societies and the structure of Arab states?
- What went wrong with the early promise of the mass uprising in Tunis and Egypt? On the other hand, were we rather quite naive in expecting anything different from what has actually happened, given the factual conditions of Arab societies on the eve of the ‘Arab Spring’?
- What is the true nature of the various forces that have been fighting in the ‘Arab Spring’ countries, since 2010, to replace the old regimes? What are the differences, in appearance and reality, of their political projects from those of the old political orders?
- After several years of ‘Arab Spring’, is the turmoil dying down, promising a new morning in the AW, or a return to a more familiar situation of calm and stagnation; or are these years nothing but the opening ceremonial scenes of a long revolutionary era that will last for many years to come?

Instantly, we can dispense with the first question. The ‘Arab Spring’ is indeed a revolution that marked a new epoch in Arab history. History is full of conspiracies, and many things are achieved by conspiracies, but conspirators, by their very nature, cannot move masses and induce them to sustain sacrifices of heroic spirit and gigantic proportions. Moreover, yes, there is nothing wrong with using the name ‘Arab Spring’, despite the dispirited and gloomy events presently associated with the name, and regardless of what ultimately would be its place in history. Pivotal events in history do not always acquire names that literally reveal their true worth and significance, as is evident by names like the American Tea Party of 1773 and the French Tennis Court Oath of June 1789. After all, *what’s in a name?*

The other questions are not so easy and the scope of their analysis is a lot larger than the scope of this chapter. I am confining myself here to making some observations on matters related to the third question and the nature of the forces currently occupying centre stage in the ‘Arab

Spring' battles. More specifically, I am interested in drawing attention to what appears to be a major contradiction in Arab Spring politics regarding the *economic* dimension. On the one hand, it is taken for granted that the poor economic condition of the Arab masses is the mainspring of the uprising in each country. On the other hand, *economics* has not been a fundamental issue in all the battles that followed the uprising. Moreover, various forces fighting to replace the old order in the Arab Spring countries, especially Egypt and Tunis, are promising to dismantle the old system of corruption and political repression, while at the same time keeping their allegiance to the old regimes' economic structures and policies. It is obvious that these forces, representing diverse political groups of Islamists and liberals, stand by the notion that the present disastrous situation, fraught with unemployment, poverty and human rights violations, is an outcome of the corrupt nature of the old regimes and not of their economic structure. They are advocating the fallacious and deceptive notion that democracy and prosperity will be the inevitable outcome of 'free elections': 'clean governments' with no changes in economic orientations. The purpose of this chapter is to argue that new constitutions and free elections would bring, at best, a system of 'unstable democracy' similar to what was prevalent in Egypt, Syria and Iraq during the 1940s and early 1950s before the advent of the military regimes. The chapter will demonstrate that the existing economic structure is decidedly anti-democratic, and that working towards the goal of achieving 'stable democracy' requires dismantling its structure, and adopting a comprehensive 'pro-democracy' economic strategy.

The rest of the chapter is divided into three sections. Section 2 presents a graphic picture of the social conditions, along with their ideological trappings, in Egypt and Tunis at the eve of the Arab Spring. Section 3 analyses the present Egyptian scene as a struggle among three forces; revolution, counter-revolution and anti-revolution. Section 4 outlines elements of a pro-democracy economic vision for the AW.

2. The social conditions of Egypt and Tunisia on the eve of the Arab Spring turmoil

For almost three decades preceding the Arab Spring, most Arab governments were pursuing economic policies similar to those prescribed by the 'Washington Consensus', aimed at maximising the growth of gross domestic product (GDP). Growth, according to the gospel (the Washington Consensus), will increase the size of the pie and thus

increase everyone's share. 'A rising tide lifts all boats; large and small' was very popular aphorism at the time.

Guided by that logic, most Arab economies were restructured by privatising 'inefficient' state-owned enterprises, and adopting 'fiscal responsibility', de-emphasising public investment and social expenditures. Macroeconomic policies were reoriented, with the priority of combating inflation, attracting foreign direct investment (FDI), and increasing openness to trade and capital flows.

These policies succeeded as most Arab economies (in particular Tunisia and Egypt) grew at a rate higher than the world average. However, the growth was jobless and associated with inflation, as indicated by the Misery Index in Table 2.1 (Okun, 1960s).³ Furthermore, it was associated with large inequality, concentrating the fruits of growth in the hands of elite and excluding the majority of poor people, as indicated by the Anti-Democracy Index in Table 2.2 (see also Table 2.3).⁴

Table 2.1 Economic indicators (2000–2010)

Country	Growth rate of GDP**	Misery Index*
Tunisia	4.93 (3.45)	17.2
Egypt	4.90 (2.97)	17.7
Korea	4.83 (4.0)	6.0
US	1.81 (0.91)	8.5

*Misery Index = unemployment rate + inflation rate.

**Numbers in parenthesis are growth rate per capita.

Source: Calculated from the World Development Indicators.

Table 2.2 Anti-Democracy Index*

Period	Egypt	Tunisia	Korea	US
1961–1970	0.45		0.55	0.38
1971–1980	0.50		0.53	0.47
1981–1990	0.66	0.66	0.40	0.48
1991–2000	0.63	0.68	0.41	0.44
2001–2010	0.65	0.68	0.38	0.48
2011–2013	0.74	0.72	0.38	0.50

*Anti-Democracy Index = rate of unemployment + rate of inflation + GINI Coefficient - rate of growth of per capita income.

Source: Calculated from the World Development Indicators, University of Texas Inequality Project.

Table 2.3 Inequality in the twenty-first century

Block	Population* (no. of countries)	Weighted average of GINI Index**	Percentage change in the period (1996–2008)
EU	481 (27)	36.5	0.6
Asian Tigers	66 (3)	39.2	1.6
US	318 (1)	40.1	5.2
BRICS	3,006 (5)	43.9	(5.4)***
Israel	8.2 (1)	45.4	6.6
Africa	246 (9)	48.4	5.1
Latin America	364 (7)	49.5	0.2
Arab Countries	168 (8)	51.1	6.7

*Population in millions.

**2006 or 2007 or 2008.

***Negative number.

Source: Calculated by the author using data from the World Development Indicators (2014) and University of Texas Inequality Centre (2014).

A quick look at these three tables is enough to underline the following two interconnected points:

- As of 2015, there are two different capitalist roads: the neoliberal anti-democratic road championed by the US and faithfully followed by Israel and most Arab countries, and a capitalist road similar to the post-World War II ‘social democracy’ system adopted by some Latin American countries and Brazil, Russia, India, China and South Africa (the BRICS countries).
- The unipolar system, in which the US has hegemony over the whole world that was ordained following the demise of the Soviet Union in the early 1990s, is being challenged in the economic sphere. We are witnessing a return to world power rivalries.

After a closer look at the tables and their supporting data, we observe that the economies of Tunis and Egypt have been in lockstep with the US economy.⁵ This strong relationship is an indication that, in both the US and Arab countries, the forces of income convergence (working towards equality) are weak and are dominated by the forces of income divergence (working towards inequality). Historical evidence demonstrates that the main force for convergence is the diffusion of knowledge and investment in training and skills. It depends on educational policies, access to training, and the acquisition of appropriate skills and

Table 2.4 Mechanism of divergence ($r > g$) (2000–2010)

	Capital's rate of return (r)	Direction	Income's rate of growth (g)
Egypt	0.181	>	0.0645
Tunisia	0.091	>	0.060
US	0.029	>	0.019
Korea	0.044	>	0.045

Source: Calculated by the author.

associated institutions. It is public good par excellence and not a market mechanism. This mechanism of income convergence was weakened in the US by the dismantling of the welfare state and the process of deregulation, and in the AW by the destruction of the public sector and the rolling back of the state. On the other hand, the main force for divergence is associated with a process of accumulation and concentration of wealth that results in the rate of return on capital (including profits, dividends, interest and rents) being greater than the rate of growth of the economy: $r > g$. Under such a condition, inherited wealth will dominate wealth accumulated from a lifetime's labour by a wide margin, and the concentration of wealth could reach a high level that is incompatible with the principles of social justice fundamental to modern democratic societies. Table 2.4 shows that the first decade of the new century was characterised by the forces of divergence working in Egypt, Tunisia and the US, but not in Korea.

3. The economics of revolution, counter-revolution and anti-revolution in Egypt

The analysis in Section 2 has revealed the anti-democratic nature of the economic and political structure of Egypt and Tunisia on the eve of the Arab Spring. In this section, we analyse the nature and orientation of the political forces that have occupied the political centre stage in Egypt since the January 25 Revolution.

In any revolutionary situation, we can identify three different contending forces. First, the revolutionary forces, resolving to destroy the old political order and create a new one. Secondly, the counter-revolutionary forces, fighting to turn back the clock and restore the old order. Thirdly, the anti-revolutionary forces that do not want to turn

back the clock to the old order, but want to divert the revolutionary course and guide it to serve their interests.

The revolutionary forces in Egypt include groups of workers, students, professionals, and small political and social organisations who opposed the Mubarak regime, the military council regime, the MB regime and the present transitional regime. These revolutionary groups are fragmented and disorganised. They know what they are against, but they are far less certain about what they are for. Their ideologies vary across the political spectrum, but they are united in their opposition to the practices of the police state. Their power lies in their ability to mobilise the masses, as evidenced by the events of 25 January 2011 and 30 June 2013.

The counter-revolution forces include many army generals, businesspersons and political fixers, who hope to replace Mubarak's oligarchy with a new one. They promise to run free elections, fight corruption and reform the economy, without altering the underlying distribution of economic power. Their economic policies will be a continuation of Mubarak's. They will continue their support of the ideology of 'free market' and will continue their practice of monopolising economic activities for the interest of the oligarchy. The anti-revolution forces are mainly Islamist groups. Here, we need to distinguish between 'Muslims' and 'Islamists'. For the majority of Muslims, religion constitutes just one dimension of their social, cultural and political identity. Islamists, on the other hand, undertake to reduce all politics to selective reference to Islamic texts, which are themselves the subject of conflicting interpretations. There are many different Islamist groups, most of which are reactionary, but some are genuine *resistance* groups (Lebanon and Palestine). The MB and other Islamist groups in Egypt, like Islamist movements in other countries, are less the products of the authentic culture of Islam, and more the products of a particular historical development. This development is rooted in the legacies of the Ottoman Empire, British colonialism, Nasser and the Arab Liberation Movement, the Cold War and the post-Cold War period. The reactionary nature of the MB is evident by their adherence to the slogan: '*Islam is the solution*'. The economic dimension of that solution is the so-called Islamic economics. The latter is nothing but capitalism made Islamic-friendly. Thus, there is no difference between the economics of the counter-revolution and the economics of anti-revolution. It is worth noting that the confused, indecisive and sometimes contradictory US policies towards the 'Arab Spring' stems from the fact that the Obama administration is divided between those who support the counter-revolution camp and those who support the anti-revolution camp.

4. Elements of pro-democracy economic vision for the revolutionary forces in the Arab World

The 'Arab Spring' has exposed two fundamental truths about the contemporary AW: (1) the political economy system of each Arab country, based on oil, rents, foreign aid, remittances and a police state, has long passed its expiry date; (2) the success of the revolutionary forces depends, largely, on their ability to articulate a radical economic restructuring programme of society. A pro-democracy economic plan requires rehabilitating the public sector and empowering it with resources to create a new economic environment conducive to 'inclusive growth' (IG). IG requires the effective participation of the majority of the citizens by dynamic processes aimed at enabling the poor and the marginalised to improve their health and education and so acquire assets, information and legal standing, allowing them to become part of the socio-political structure of the country. IG is a long-term strategy that needs sound economic management policies to protect it from short-term shocks. The following are elements of such a strategy.

4.1 Fiscal policy

The combination of a fixed exchange-rate regime, a tax system that relies heavily on indirect taxes, an increasing pressure of external debt and free capital mobility render fiscal policy in most of the non-oil-rich countries of the AW quite ineffective. A pro-democracy fiscal reform should aim at enhancing government legitimacy by paying more attention to equity. The tax system needs to be reformed by increasing the reliance on income progressive taxes, restructuring the property tax and introducing presumptive taxes. A major reallocation of public expenditures should aim at allocating resources to build infrastructure services that help the poor and allow them to improve their health and education, as well as gain inclusion in the political structure of the country.

4.2 Monetary policy

Monetary policy in most countries is devoted to the sole objective of keeping inflation at a low rate. It is rather striking that tight monetary policy is used in a region that suffers from a very high rate of unemployment. A pro-democracy monetary policy should aim at lowering the real interest rates, particularly in strategic and priority sectors for poverty reduction, and expanding the money supply that accommodates growth and financial deepening. A pro-democracy financial reform should promote the creation of a widespread network of

financial institutions that encourage a rise in the propensity to save, and pave the way for an expanded and more equitable flow of funds to impoverished locations and to small and resource-poor business and micro-enterprises. A pro-democracy financial intervention should aim at the creation of development banks with the mandate to provide discounted or subsidised credit to selected sectors, such as agriculture, small-scale industries and priority industrial establishments.

4.3 Exchange-rate policy

The existing exchange-rate arrangements in most Arab countries have the worst aspects of the two polar-type exchange-rate regime. Pegging the local currencies to the US dollar renders monetary policy completely ineffective, as in a fixed exchange-rate regime. On the other hand, the continuous fluctuation of the US dollar has the potential for increasing costs associated with fluctuations in exchange rates, typical of a flexible exchange-rate regime.

After considering all other options (different fixed exchange-rate arrangements, unilateral free exchange rates, integrating into one of the key currency areas), it was found that monetary coordination among all the Arab countries aimed at adopting a unified exchange-rate regime is most promising. The coordination could start by linking the various currencies in the region in a common bloc, floating vis-à-vis the rest of the world. This will achieve double objectives. First, it will stabilise intraregional trade by pre-empting relative shifts in the intraregional exchange-rates structure. Secondly, it will insulate the domestic economies from external developments; thereby permitting monetary policy to concentrate on the problem of unemployment. The monetary coordination could move gradually towards the ultimate goal of creating a common super-national currency.

4.4 Regional integration

No Arab country is capable of implementing these policies alone. Implementations of these policies require Arab economic integration. This is not because such integration allows for a larger market and its attendant benefits of economies of scale, specialisation and stronger bargaining power with the rest of the world (important as they are), but because the segmentation of Arab countries preserves and sustains the sanctity of the rent system for the oligarchy and prevents the emergence of competitive markets, reinforcing the existing inequalities and undermining efforts of democratisation. Therefore, the lack of Arab economic integration is the most powerful weapon in the hands of the undemocratic

forces in the AW. This anti-democratic weapon is protected and strengthened by the US and Israel. The US treats the Arab region differently from other regions in the world. There is a need to contrast the US insistence on bilateral relations with Arab countries, with its efforts to mainstream regional trade in South Asia through a revival of the Old Silk Road in the Afghanistan–Pakistan region (Malik and Awaddallah, 2011). Needless to say, Israel has been, since its establishment in 1948, pursuing policies of reinforcing Arab fragmentation and disunity. Consider its economic policies towards the Palestinian-occupied territories and Jordan. This US and Israel stand is echoed by the following two pronouncements from the World Bank and the IMF:

World Bank: ‘It seems advisable for MENA policy makers to focus first on how to maintain and strengthen their countries’ competitiveness in the global market and only then ask what contribution regional integration can make toward achieving this end.’

(Shui and Walkenhorst, 2010, p. 294)

IMF: ‘Rather than set as the first economic policy priority the goal of regional integration, MENA countries should focus on domestic policy reforms and the associated process of greater integration into the world economy.’

(El Erian and Fischer, 1996)

Thus, the interests of all anti-democracy forces in the AW are to keep the Arab economies ‘organised in a honeycomb structure, whose individual cells are insulated from each other but connected to the outside world’ (Malik and Awaddallah, 2011). Consider the Qualified Industrial Zone (QIZ) agreements that were sponsored by the US to promote trade between Israel and Egypt and Israel and Jordan,⁶ which ended in trade rivalry between Egypt and Jordan (Elkhafif and Elagraa, 2012).

5. Summing up

Perhaps with exception of Syria, the present battles of the ‘Arab Spring’ are fought between the forces of ‘counter-revolution’ and the forces of ‘anti-revolution’. While each has different objectives from the other, both perceive their interests to be best served by maintaining the present political order unaltered. Both have no interest in challenging: (1) the fragmentation of the AW, (2) the hegemony of the US and Israel and (3) the political economy structure that protects and strengthens inequality within and between the region’s countries.

The 'Arab Spring' will turn into 'Arab Revolution' once the revolutionary forces succeed in challenging these three constraints.

Notes

1. In 1989, Professor John Williamson coined the term 'Washington Consensus' to refer to a set of ten specific policy prescriptions advocated by the IMF, the World Bank and the US Treasury Department as a reform package for developing countries. The term became an instant hit, and subsequently became another name for all economic policies ascribing to neoliberal capitalism.
2. Egypt is a good example as it has had two crushed revolutions: in 1919 and 1952.
3. The Misery Index is formed by adding the rate of unemployment to the rate of inflation. Arthur Okun created it during the 1960s. Okun served during the period 1968–1969 as the chairman of economic advisors to President Lyndon B. Johnson.
4. I built this indicator by adding to the Misery Index the Growing Inequalities' Impacts (GINI) Coefficient and subtracting the rate of growth of GDP per capita. The GINI Coefficient is a measure of income inequality. It varies between 0, which reflects complete equality, and 1, which indicates complete inequality.
5. The following regressions demonstrate that, over the period 1970–2010, there are strong positive correlations between the Anti-Democracy Index of the US and those of Egypt and Tunisia, whereas the correlation is negative between the indices of US and Korea.

$$\text{AD (Egypt)} = -0.296 + 1.966 \text{ AD (US)}; \text{ R squared: } 0.61.$$

$$\text{AD (Tunisia)} = 0.51 + 1.108 \text{ AD (US)}; \text{ R squared: } 0.79.$$

$$\text{AD (Korea)} = 1.019 - 1.259 \text{ AD (US)}; \text{ R squared: } 0.49.$$
6. QIZ is an agreement in which Egypt and Jordan could export manufacturing goods to the US free of tariffs, provided the goods contain a portion of Israeli input. There is a similar agreement between Jordan and the US.

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