

What Has Changed? The Political Economy of the Arab Spring And Implications for the Research Community

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Contents

Foreword.....	2
1. Introduction	3
2. Voice Trumps Loyalty: The Impact of the Arab Spring	4
3. What has changed? The Impact of Voice.....	7
4. Implications for the Policy Research Community	18
5. Conclusion.....	24

Foreword

SIG Working Papers present think-pieces that inform IDRC programming, and we trust are of relevance to the broader policy-research community. The current paper was prepared as background to an international conference that discussed priorities for a research agenda for inclusive and sustainable growth, post Arab Spring. The paper authors highlight that the challenges facing the Arab world remain fundamentally unchanged. Despite improvements in many indicators, the region's economy has stagnated. Economic growth has not created enough jobs particularly for young people. Challenges in terms of accountability in the public sector remain. In the private sector, competition and innovation are limited. But the Arab Spring has, according to the authors, changed some of the rules of the game, and the public's voice now is a part of decision making and development. The paper draws out the implications of these changes for policy research, in terms of priority areas of research, approaches, and the research community.

1. Introduction

The events of the Arab Spring have rocked the conventional social contract which had bound the ruled to their rulers for decades in the Arab world, leading to strains in the contract in some countries and its complete unraveling in others. These events have also ignited the imagination of activists, academics, and intellectuals who are searching for a constructive role to play in the changed – and still changing – environment.

This paper was written as the background paper and keynote presentation to stimulate debate at the International Development Research Centre (IDRC) conference “From Arab Spring to Economic Spring: A forward-looking research agenda for a more inclusive, sustainable growth.” The conference was designed as a forum for researchers to: (i) discuss the policy strategies and reforms that are required for the promotion of a more inclusive development model in the Arab region; and (ii) explore how research and evidence can inform policy making as well as raise public awareness of public choice issues and tradeoffs and their effect on development.

In order to figure out how we should respond to the changed environment, we need to start by identifying what has changed since the advent of the Arab Spring. A skeptic may say, “Not much!” The challenges facing the Arab world remain fundamentally unchanged and are the same issues that the research community has been addressing all along. Indeed, the issues being raised by protesters and the economic problems that stimulated the Arab Spring are not new. Although the past decades have seen improvements in education and health, and although levels of absolute poverty are low for the region as a whole, the economy has been stagnant. GDP growth rates have been too low to absorb the large numbers of youth entering the labor force. The public sector operates as a rentier system – offering citizens patronage but little voice and accountability. Natural resource rents have supported the development of a non-tradable, service-oriented economy, rather than a trade-oriented productive economy.¹ Much of the private sector lacks dynamism, relying on public sector contracts rather than competition and innovation.² Certainly this assessment remains as relevant today as it was before the Arab Spring.

This paper argues that the bulk of change comes from political economy factors which are changing the “rules of the game” and the relative power of stakeholders. The paper is divided into three main sections: Section II argues that the Arab Spring has introduced “voice,” as a major instrument of influencing decision making and, therefore, the course of development. Section III traces the impact of “voice” on the Arab social contract in terms of short term economic disruptions caused by the advent of voice, increasing demands within the existing social contract, and demands for transforming the social contract. Section IV explores the implications for the policy research community in terms of composition of stakeholders, the relevance/primacy of policy issues, and research approach.

¹ Over the last two decades the total manufacturing exports of the entire Arab world are below those of the Philippines. Together, Arab countries contributed to 4 percent of world trade and 5.5 percent of global exports (including oil!). They have the highest unemployment rates in the world (12 percent in 2006) along with the lowest labor participation rates in the world due to extremely low participation by working age females (50 percent in 2006).

² Between the years 1980 and 2000 Middle East Arab countries registered 367 patents in the United States compared to over 7,000 patents registered by Israel and over 16,000 by South Korea.

A Note on Generalizations and Exceptions in the Arab Context

How much one can generalize across the Arab region is a legitimate question to consider upfront. In the context of Arab countries and the Arab Spring, countries can be classified by region, (into Mashreq, Maghreb, and Gulf), by resources (oil rich, labor rich), or by political systems (monarchies and republics), etc. They can also be classified in terms of those which have experienced regime change (Tunis, Egypt, Libya, Yemen) versus those which are pursuing various degrees of reform (Morocco, Algeria, Jordan, Gulf countries). No taxonomy is ideal for all contents, and the appropriate level of generalization should depend on the question being asked. This paper attempts to pursue the general question of “what has changed” at the Arab regional level, but without ignoring the variance within. It is an attempt to see the forest from the trees.

It is also important to recognize that not all of the economic changes over the past two years have been due to the Arab Spring. The international economic situation including elevated commodity prices and reduced demand in Europe and the U.S. have had important impacts on the Arab countries which have interacted with the direct impacts of the Arab Spring.

2. Voice Trumps Loyalty: The Impact of the Arab Spring

In this paper, we use Hirschman’s insightful “Exit, Voice, and Loyalty” framework to characterize the potentially transformative effect of the Arab Spring on the conventional social contract.³ The terms exit, voice, and loyalty were coined by Hirschman to describe the options available to consumers in a competitive market and citizens in a pluralistic political system. Exit refers to the ability of consumers to shop elsewhere and in democracies to move to parties which best reflect their values and interests. Voice is practiced in cases where people, instead of walking out, opt to communicate their grievances, suggestions, demands, or proposals for change. The third term, loyalty, is the means by which organizations attempt to minimize exit and voice and mitigate their impact. Firms sometimes invest in building a brand name to create loyalty and limit exit by customers even if its prices are not competitive; it might give its employees a sense of “belonging or pride” to compensate for low pay; or a State might foster patriotism, nationalism and a fear of external threats to reduce demands for reform/change within. While “exit” can be described as the dominant individual behavior in competitive markets, “voice” as the dominant individual behavior in political democracies; “loyalty” can be described as the dominant individual behavior in post-colonial Arab states. Loyalty describes the dominant attitude of Arab subjects to their rulers as part of an implicit social contract combining paternalism, patronage and repression – all made possible by the regimes’ access to rent.

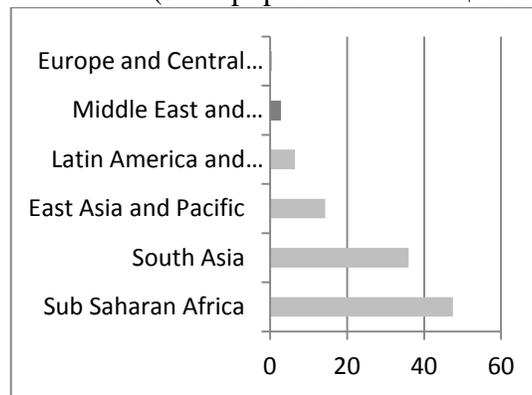
The conventional rentier social contract between the ruler and the ruled could be summarized by: “accept the status-quo in return for State patronage ...or else!” The status-quo represented autocratic regimes with little citizen participation, accountability or transparency. Patronage came in the form of public sector jobs, food and fuel subsidies, and special economic privileges enjoyed by favored groups. The “... or else” part came in the form of denial of privileges, marginalization and/or physical violence. For decades, Arab regimes had largely succeeded in “sanitizing” the public sphere from political discourse. This is not to say there was no opposition, but the combination of

³ Albert O. Hirschman 1970. *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*. Cambridge, MA: Harvard University Press.

despotism and rent distribution made regimes sustainable for many years, made “loyalty” the dominant mode, and gave credence to claims of “Arab exceptionalism.”

The figures below illustrate these characteristic features.⁴ Figure 1 shows that the MENA states have indeed succeeded in providing their populations with good physical standards of living relative to other regions – as measured by MENA’s relatively low poverty rates and relatively good access to education and health services. Figure 2, however, shows the development discrepancy in MENA countries when it comes to voice and accountability– as measured by the Kaufmann, Kraay and Zoido-Lobaton index of voice and accountability.⁵ In this figure, MENA countries systematically fall at the bottom of the voice and accountability scale.

Figure 1
MENA Countries Have Achieved Low Rates of Poverty
Poverty Headcount (% of population below \$1.25/day PPP)

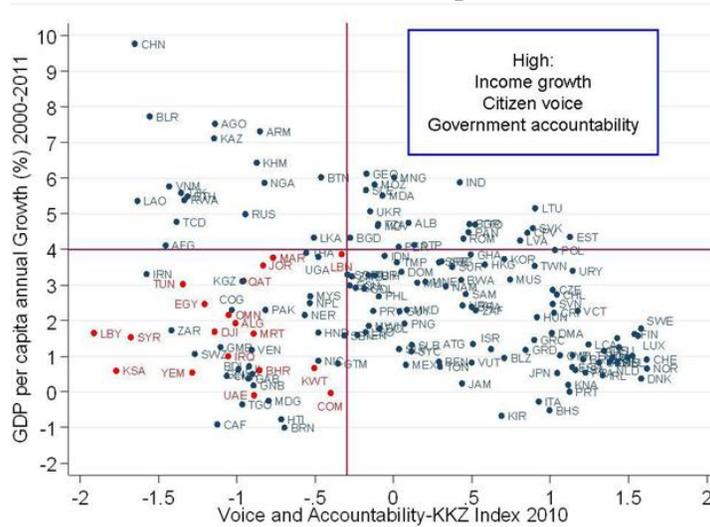


Source: World Development Indicators 2012

⁴ See also “Natural Resources, Volatility and Inclusive Growth: Perspectives from the Middle East and North Africa” by Rabah Arezki and Mustapha K. Nabli. IMF Working Paper WP/12/111. 2012. Taking stock of the economic performance of resource rich countries of MENA, the paper demonstrates that while those countries have maintained high levels of income per capita, they have performed poorly when going beyond the assessment based on standard income level measures. In particular, resource rich countries in MENA have experienced relatively low and non-inclusive economic growth as well as high levels of macroeconomic stability.

⁵ See “Governance Matters II” by Dani Kaufmann, Aart Kraay and Pablo Zoido-Lobaton. World Bank Policy Research Working Paper 2772. 2002. The figure used above was taken from “A Review of the Determinants of Decent Job Creation and Policy Options for a New Inclusive Development Model in the Arab Economies.” ILO/UNDP. 2012

Figure 2
MENA Countries (in red) Have Low Levels of Voice and Accountability
and Low Rates of Per Capita Growth



Source: ILO/UNDP (2012)

Figure 2 also illustrates an important failing of the social contract – low rates of economic growth. With largely rent-based economies, Arab states focused on allocation of rents and patronage much more than production and innovation. Because Arab states could rely on rents as a revenue base, there was little need for taxation. So long as the population was untaxed but receiving adequate services, jobs and handouts, there was little demand for representation and voice. Without the accountability that comes from representation and voice, allocation of rents were based on a high degree of discretion and personal connections rather than socially agreed upon rules of meritocracy and fairness.

The rent-based economy also meant that the natural relationship between economic growth on the one hand and workers and the private sector on the other was not present. The relationship to labor was only indirect: few jobs were needed to generate output or revenue but the state could use its revenue to provide jobs, more as a means to transfer resources to the population than as a means to produce goods and services.⁶ As a result, when revenue growth slowed, the state’s ability to create jobs and raise wages weakened, resulting in high unemployment. The private sector was also highly reliant on the state, which provided privileged access, permits, exclusive rights and contracts, often on the basis of elite access to decision makers.⁷ Even the media, which in other countries often plays a watchdog role, seemed to exist principally to praise the regimes.

Enter the Arab Spring! Manifested at first with civic street demonstrations and viral spread of social media calling for reforms, it was anathema to blind loyalty. It was an eruption of “voice.” Voice expressed dissatisfaction with the status quo (though not necessarily clarity on the alternative). Where regimes responded with crackdowns, it brought more daring slogans, calling for the downfall of the regimes. The events spiraled at different speeds and along different trajectories (table 1).

⁶ Labor force participation is lower in MENA than in any other developing region and has the highest ratio of public to private wages. See: World Bank 2009, *From Privilege to Competition*. MENA Development Report.

⁷ Reflecting this lack of dynamism, firms in MENA tend to be and have lower productivity growth than in most other regions. See The World Bank (2009) “From Privilege to Competition” for further discussion of this.

Almost two years into the Arab Spring, hardly an Arab regime has been spared the manifestations of voice. The fear barrier, created by the “or else” part of the social contract, has been shattered.

Table 1
Protests, Violent Clashes and Breakdown of Law and Order

	Tunisia	Egypt	Libya	Yemen	Syria	Bahrain	Algeria	Sudan	Morocco	Jordan	Kuwait	Lebanon	Iraq	Saudi Arabia	Oman	UAE	Qatar
Protest through demonstration, Social media, or Press	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Violent Clashes	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		
Breakdown of Law and Order	X	X	X	X	X	X											

Why the Arab Spring came when it did, is a subject that has received considerable reflection in the last year. The causality range from the global financial crisis; to global warming⁸ (!); to changes in international and regional geo-politics; to the social media revolution, to economic failures by Arab states to create sustainable development (unemployment, stagnation in per capita income, changing loyalties of the middle class⁹); to political failures in governance to ensure broad participation, transparency, and ultimately political legitimacy; or some combination of all the above.

This paper does not attempt to enter the fray of this debate on which factor is more or less important than which and what determined the “tipping point” of the Arab Spring, nor does it try to predict which countries will succeed in establishing stable democracies. Its point of departure rather is to simply acknowledge that the Arab Spring has brought about an *eruption* of “voice” into Arab streets, social media, and Arab psyche itself. The trajectories of voice have varied already from one country to another, including i) attempts to stifle (through patronage and/or repression) expressions of civic voice and return to the status quo ante; ii) capturing of civic voice by one dominant group which then re-introduces forms of patronage and repression, perhaps with religious, ethnic, or tribal connotations, relying on uninformed populism; iii) fragmenting voice through sectarian, tribal, and ethnic loyalties, thus raising the prospects for a protracted civil war and the dismemberment of the state; and iv) institutionalizing voice within a plural and contestable democratic framework thus transforming the political economy of decision making and developmental outcome.

3. What has changed? The Impact of Voice

A prominent Arab writer aptly describes the events of the 2011 and 2012 as “the river against the swamp.”¹⁰ The river represents the revolutionary forces of change that have swept the Arab world, flooding the swamp of corrupt and stagnant regimes. The metaphor is poignant in more than one way. The most obvious is that the river (voice), teaming with life and oxygen and change is coming to replace a swamp (status quo of exit and loyalty) which has been stagnant for decades and barely able to support life, let alone promote it. But the other poignant aspect of the metaphor is that

⁸ Thomas Friedman “The Other Arab Spring,” April 7, 2012, The New York Times.

⁹ Ishac Diwan, 2012 “Understanding Revolution in the Middle East: The central role of the Middle Class,” Harvard Kennedy School, forthcoming.

¹⁰ Khaled Hroub 2012 “*Fi Madeeh Al-Thawra* (In Praise of the Revolution), Beirut: Dar Al-Saqi, 2012, 240pp.

flooding rivers tend to also be unpredictable, bringing life, but also destroying both good and bad in their path. The ultimate risk is replacing the older swamp with a newer albeit differently shaped swamp, i.e. an unsustainable river turned into another lifeless swamp, an unsustainable revolution turned into another lifeless regime.

A shift in the dominant mode from “loyalty” to “voice” has changed the “fluid dynamics” and currents, to use the swamp/river analogy. In this section, we suggest that the advent of “voice” has brought three kinds of changes: the initial “shock” and disruption to the status quo; demands for “more” within the existing social contract and regime responses by increasing patronage; and demands for “different” with potential to transform the social contract itself.

The “Shock” Effect of Voice:

The most direct and obvious change, the one the media talks about most, is the disruption to normal day-to-day activity, including economic activity. Like any unanticipated shock, and to various degrees depending on intensity, the Arab Spring has disrupted the status quo ante. Tourism, trade routes and logistics, new investments, capital markets all have suffered the effects of the initial disruption and uncertainty associated with how deep and how protracted the change will be. In the social sphere the disruption to education and other social services was prominent. To some extent, even peaceful protests create a disruption of normal economic activity. Violent confrontations of course are far worse. And even countries with relatively little internal disruption, experience the effects of disruptions in neighboring countries through disrupted trade, inflow of refugees, and a region-wide decline in tourism and investment.

The disruption in economic activity is evidenced in the dramatic declines in GDP. In the first quarter of 2011, GDP declined by 24 percent in Tunisia and 26 percent in Egypt. For 2011 as a whole, GDP growth fell 60 percent in Libya,¹¹ 11 percent in Yemen and one percent in Tunisia.¹² The decline in output corresponded to an increase in unemployment. In Tunisia, for example, unemployment increased from 13 percent in 2010 to 19 percent in 2011 due to the disruptions in Tunisia itself and the spillover effect of Tunisian workers fleeing the more severe disruptions and violence in Libya.

¹¹ This large decline in Libya was followed by a speedy recovery in 2012 due to resumption of oil production.

¹² Tourism, an important component of GDP for several countries in the region fell off. Tourist arrivals declined in 2011 by 32 percent in Egypt and 31 percent in Tunisia. Even in Jordan where disruptions were relatively minor suffered a 9 percent reduction in arrivals as risk-averse tourists wondered if the disruptions in one country would spread throughout the region. (United Nations World Tourism Organization)

Table 2
GDP Growth (% change, constant prices)

Country	2008	2009	2010	2011	2012
Algeria	2.4	2.4	3.3	2.4	2.6
Bahrain	6.3	3.2	4.7	2.1	2.0
Egypt	7.2	4.7	5.1	1.8	2.0
Iraq	9.5	2.9	3.0	8.9	10.2
Jordan	7.2	5.5	2.3	2.6	3.0
Kuwait	4.2	-7.8	2.5	8.2	6.3
Lebanon	9.3	8.5	7.0	1.5	2.0
Libya	2.4	-1.4	3.7	-59.7	121.9
Morocco	5.6	4.9	3.7	4.9	2.9
Oman	13.1	3.9	5.0	5.4	5.0
Qatar	17.7	12.0	16.7	14.1	6.3
Saudi Arabia	4.2	0.1	5.1	7.1	6.0
Tunisia	4.5	3.1	3.1	-1.8	2.7
United Arab Emirates	5.3	-4.8	1.3	5.2	4.0
Yemen	3.6	3.9	7.7	-10.5	-1.9

Source: IMF World Economic Outlook Database October 2012

Table 3
Unemployment Rate

Country	2008	2009	2010	2011	2012
Algeria	11.3	10.2	10.0	10.0	9.7
Egypt	8.7	9.4	9.2	12.1	12.7
Jordan	12.7	12.9	12.5	12.9	12.9
Kuwait	1.7	1.6	2.1	2.1	2.1
Morocco	9.6	9.1	9.1	8.9	8.8
Tunisia	12.4	13.3	13.0	18.9	17.0

Source: IMF World Economic Outlook Database October 2012

Disruptions in export oriented activities resulted in deterioration in the current account for Libya, Tunisia, Morocco, Jordan and Lebanon.¹³ For oil importers, the high international price of oil exacerbated current account deficits. Oil exporters, on the other hand, benefitted from the high international price of oil and many increased production, compensating for the decline in Libyan oil exports. (See tables 4 and 5.) In the case of Yemen, although oil production declined dramatically in 2011, oil exports were maintained at a high level at the expense of local consumption.

¹³ In the case of Jordan, exports to its important trade partner, Syria, experienced a sharp decline in trade.

Table 4
Exports of Goods and Services (% change)

Country	2008	2009	2010	2011	2012
Algeria	0.0	-10.7	-2.4	-3.2	-2.9
Bahrain	5.4	-13.4	2.8	9.2	4.5
Egypt	15.1	-5.5	-3.1	-5.4	-7.8
Jordan	18.3	-15.3	9.5	12.2	6.8
Kuwait	5.7	-7.7	1.2	18.3	9.4
Lebanon	29.6	-5.5	7.5	2.6	-2.9
Libya	-6.5	-6.9	-0.8	-79.0	358.3
Morocco	-3.8	-4.7	19.3	4.2	8.9
Oman	17.7	2.8	7.6	3.0	5.6
Qatar	14.0	5.4	33.6	11.8	0.6
Saudi Arabia	-2.6	-4.7	0.4	4.7	4.0
Tunisia	5.7	-6.6	5.5	-7.9	5.4
United Arab Emirates	12.6	-1.9	-4.2	10.5	6.8
Yemen	0.2	3.2	5.9	-17.8	2.8

Source: IMF World Economic Outlook Database October 2012

Table 5
Current Account Balance (USD, millions)

Country	2008	2009	2010	2011	2012
Algeria	34.5	0.4	12.1	19.7	12.9
Bahrain	2.3	0.6	0.8	3.2	2.6
Egypt	0.9	-4.4	-4.3	-6.1	-8.7
Iraq	16.8	-9.3	-2.5	9.5	0.3
Jordan	-2.0	-1.2	-1.9	-3.5	-4.4
Kuwait	60.2	28.3	38.3	70.8	77.0
Lebanon	-2.8	-3.4	-3.6	-5.5	-6.7
Libya	37.1	9.4	14.6	0.5	18.6
Morocco	-4.6	-4.9	-3.9	-8.0	-7.6
Oman	5.0	-0.6	5.1	12.2	11.2
Qatar	33.0	10.0	33.9	52.4	54.6
Saudi Arabia	132.3	21.0	66.8	158.5	171.3
Tunisia	-1.7	-1.2	-2.1	-3.4	-3.6
United Arab Emirates	24.8	9.1	9.1	33.3	33.6
Yemen	-1.3	-2.6	-1.4	-1.0	-1.0

Source: IMF World Economic Outlook Database October 2012

Throughout the region, investment declined as investors were unsure when the disruptions would end. Stock market indices and FDI levels fell. In a dramatic swing, the positive investment flows (including portfolio investments) of US\$ 6.4 billion experienced in Egypt in 2010, turned into foreign divestment of US\$ 500 million in 2011. (See table 6.)

Table 6
Inward Foreign Direct Investment Flows

Country	2009	2010	2011
Algeria	2,746	2,264	2,571
Bahrain	257	156	781
Egypt	6,712	6,386	(483)
Iraq	1,598	1,396	1,617
Jordan	356	1,137	1,469
Kuwait	1,611	903	(470)
Lebanon	4,804	4,280	4,280
Libya	3,310	1,909	-
Morocco	3,193	2,500	1,218
Oman	1,462	1,075	788
Qatar	8,125	4,670	(87)
Saudi Arabia	32,100	28,150	16,400
Tunisia	2,752	(95)	232
United Arab Emirates	4,003	5,500	7,679
Yemen	129	56	(381)

Note: Numbers in parenthesis are negative

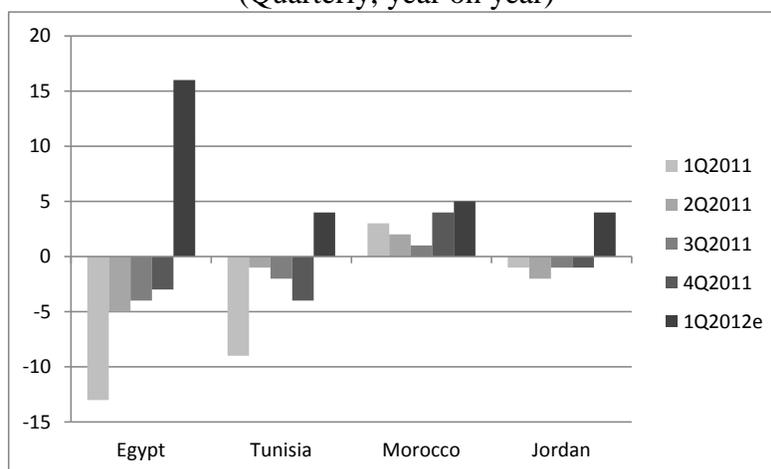
Source: UNCTAD International Investment Database October 2012

As the Current Account Deficit and investment rates worsened, Central Banks could only partially provide support for local currencies as they came under pressure. Central Banks used up large amounts of foreign exchange reserves but could not avoid depreciations. Reserves in Egypt fell by 60 percent -- from US\$ 43 billion in December 2010 to US\$ 15.1 billion in March 2012. Yemen's reserves fell by 50 percent and Tunisian reserves by 20 percent from end of 2010.

While clearly important, these impacts are not so different from disruptions due to war or natural disaster and are largely temporary. Indeed, there are already signs of recovery in several countries. Tourist arrivals increased in 2012 in Egypt and Tunisia.¹⁴ Libyan oil output recovery has surpassed expectations. Industrial production in Egypt and Tunisia has recovered to pre-Arab Spring levels. Although they remain below pre-Arab Spring levels, stock market indices have risen in 2012. Egyptian reserves and FDI are rising again.

¹⁴ Tourist arrivals in first half of 2012 increased by 31.5% in Egypt and 36% in Tunisia from the same period in 2011 according to their respective Ministers of Tourism.. (Daily News Egypt July 5, NAU Agencies July 21, 2012

Figure 3
Industrial Production Has Recovered in Several Countries
 (Quarterly, year on year)



Source: World Bank, Global Economic Prospects, June 2012

But not all disruptive impacts are temporary or reversible. In some cases, such as Syria and Yemen, the impact went beyond the “disruption” associated with the initial shock to reach significant loss of life, malnutrition, and loss of assets, all of which would have long term impacts on the future trajectory of development. The cost and duration of the initial shock is largely a function of international and regional geo-politics which have invariably played a role to crush (Bahrain) or support (Libya) opposition to the regime. In cases where international and regional geo-politics were at total odds, such as Syria, the cost and duration become catastrophic in magnitude, risking protracted civil war and threatening the viability of the state itself.

Thus the first impact of voice is the disruption that it causes to a status quo built on loyalty. The shock effect can be temporary and reversible, or protracted and costly in both human and financial terms. Ultimately, as we will see below, the long term impact is determined by the impact voice has on the underlying social contract.

Demands for More

Many of the mass protests were essentially calls for more: more jobs in the public sector, higher wages, more subsidies, public housing, etc. Reflecting a serious deterioration in the middle class status and in living conditions, these demands are often framed *within the existing rentier social contract*. Although new in the sense that the protests reflect a new-found voice, many of the demands for “more” came from loyal citizens who wanted “a bigger piece of the pie” but were not necessarily calling for structural change. Across the Arab world, regimes responded with offers of more jobs, higher wages, and increased subsidies.

Governments throughout the region promised increased jobs and increased wages. Ben Ali promised to provide 30,000 new jobs. Although the Mubarak regime refused to raise public sector wages citing the budget deficit, by July 2011, the SCAF increased public sector wages and benefits by 26 percent and increased the official minimum wage for the first time since 1984. Wages were also

raised in Libya (under Qaddafi), in Morocco, Jordan, Tunisia, Yemen and Oman. In Bahrain, each family was given a cash grant of US\$ 2,650.

Governments also addressed the cost of living issue by expanding subsidies. Morocco increased spending on subsidies by more than 60 percent. In Libya, successive subsidy increases (first by Qaddafi then with electricity bills waived by the National Transitional Council) brought subsidy spending from 12 percent of GDP in 2010 to 15 percent in 2012. In the first half of the 2011/12 fiscal year, Egypt's SCAF increased subsidy spending by 42 percent, bringing it up to 8 percent of GDP. Jordan and Bahrain also increased spending on subsidies.

To a large extent, the increased subsidy spending succeeded in containing the rising cost of living. In most Arab countries, inflation was low during 2011 (despite wage increases and high international commodity prices) because subsidies prevented price increases from reaching the consumers. Inflation fell in Egypt from a peak of 20 percent in October 2010 to under 5 percent in October 2011. In Jordan inflation fell from over 11 percent in the fourth quarter of 2010 to just 2 percent in October 2011. (See table 7.)

Table 7
Inflation (average change CPI)

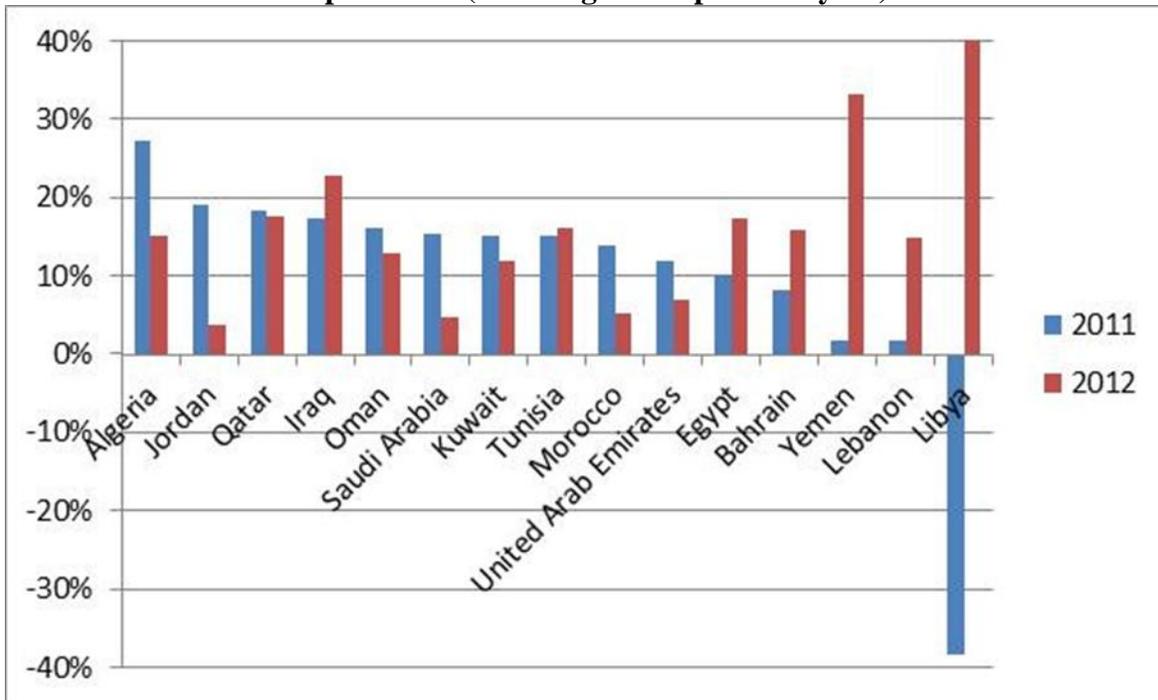
Country	2008	2009	2010	2011	2012
Algeria	4.9	5.7	3.9	4.5	8.4
Bahrain	3.5	2.8	2.0	-0.4	0.6
Egypt	11.7	16.2	11.7	11.1	8.7
Iraq	2.7	-2.2	2.4	5.6	6.0
Jordan	13.9	-0.7	5.0	4.4	4.5
Kuwait	10.6	4.0	4.0	4.7	4.3
Lebanon	10.8	1.2	4.5	5.0	6.5
Libya	10.4	2.4	2.5	15.9	10.0
Morocco	3.9	1.0	1.0	0.9	2.2
Oman	12.6	3.5	3.3	4.0	3.2
Qatar	15.0	-4.9	-2.4	1.9	2.0
Saudi Arabia	9.9	5.1	5.4	5.0	4.9
Tunisia	4.9	3.5	4.4	3.5	5.0
United Arab Emirates	12.3	1.6	0.9	0.9	0.7
Yemen	19.0	3.7	11.2	19.5	15.0

Source: IMF World Economic Outlook Database October 2012

For the regimes, these demands for jobs, wages and subsidies represent an increased cost of loyalty. Oil rich countries have been able to afford this increased cost – at least in the short term. By increasing expenditure, however, they have made themselves more vulnerable to a drop in oil prices and have exacerbated the intergenerational tradeoff (the unsustainable use of the resource, transforming the oil and gas wealth into current expenditure rather than sustainable capital wealth). In the case of non-oil rich countries, the impact of increased spending is not sustainable even in the short term. In Egypt, Jordan and Morocco, the increases in the wage bill and subsidies were partially offset by large reductions in public investment. The expenditure figure below (figure 4) shows that the jump in expenditure hit Morocco and Jordan in 2011, while it is hitting Yemen, Tunisia, Lebanon and Bahrain in 2012. As a direct result of this increased spending, combined with decreased

revenues as economic activity fell off, the fiscal balances worsened in many countries.¹⁵ In Egypt, the deficit for the 2011/12 fiscal year reached 11 percent of GDP. Perhaps ironically, accepting the protesters demands for jobs, wages and subsidies has forced regimes to make urgent appeals to the IMF and other sources of international funding -- agreements with entities that are looked at with considerable skepticism by the protesters.

Figure 4
Expenditure (% change from previous year)



Note: Libya's expenditure increased in 2012 by 96%, putting it off the chart.
Source: IMF World Economic Outlook Database October 2012

¹⁵ Only the GCC countries experienced an improved fiscal situation. Despite increasing expenditure by one fifth in dollar terms, oil revenues more than compensated. The non-GCC oil exporters increased expenditure by more (one third in dollar terms) and faced a fiscal deterioration. Governments had to increase borrowing to fund fiscal deficits. As sovereign ratings fell, the cost of international borrowing increased and Governments increasingly turned to domestic markets. There are now growing concerns that the domestic borrowing, and corresponding increase in interest rates, is crowding out the private sector.

Table 8
Fiscal Balance (General Government, % of GDP)

Country	2008	2009	2010	2011	2012
Algeria	7.6	-6.4	-2.4	-3.6	-2.9
Bahrain	4.9	-6.6	-6.7	-2.3	-1
Egypt	-6.8	-6.9	-8.1	-9.8	-9.8
Iraq	-1.3	-22.1	-9.1	7.4	0.2
Jordan	-5.5	-8.9	-5.6	-6	-5.2
Kuwait	19.8	27.2	24.2	31	34.5
Lebanon	-9.5	-8.3	-7.7	-5.6	-8.1
Libya	29.4	11.7	5
Morocco	0.7	-1.8	-4.4	-6.9	-5.4
Oman	13.8	-2.2	4.1	8.2	11.5
Qatar	10	15.3	2.9	8	9
Saudi Arabia	34.4	-4.6	6.6	15.2	16.6
Tunisia	-0.7	-2.6	-1.2	-3.2	-5.7
United Arab Emirates	16.8	-12.3	-2.1	2.9	7.7
Yemen	-4.5	-10.2	-4	-4.4	-5

Source: IMF World Economic Outlook Database October 2012

In responding to demands related to jobs, wages and prices, regimes not only addressed the immediate demands for more, but tried to prevent an escalation of the confrontation into more structural issues or regime change. To the extent they could, regimes de-linked calls for “bread” and “freedom” responding to the former as a way to undermine the latter

Demands for “Different”

Unlike demands for “more”, demands for “different” are potentially transformational of the “rules of the game”, the social contract itself, in both its political and economic dimensions. They go beyond getting a bigger share of the pie, to demanding to know the total size of the pie, who gets what, how and why, and to participate in determining the allocation. Such demands have the potential to transform the constellation rights, responsibilities, and privileges; who enjoys them or is affected by them; who enforces them; and how to modify them. Included are freedom of speech, separation of powers, contestability of public positions, corruption, economic justice, income distribution, regional disparities, transparency of budgets and resource allocation. Rather than being limited to demands within the same social contract, these demands question the social contract itself and press towards its transformation.

While political opposition to Arab regimes has always existed to varying degrees, the Arab Spring ushered in mass public political activism. Within a few months of the Arab Spring, social media activists such as Wael Ghonim, (an Egyptian Google executive working out of UAE)¹⁶ became household names; Salafis emerged from their hideouts; Islamist and leftist political outcasts, whether exiled or imprisoned were at the forefront of the news. Similarly, the middle class, increasingly disenfranchised by stagnant incomes found their voices in the street and in the media. And workers whose organizations had previously been limited to state-sponsored, state controlled unions, found

¹⁶ Ghonim organized the mass demonstrations anonymously as the administrator of the Facebook page, We Are All Khaled Said. The page, which has close to 600,000 supporters, was named in honor of a young Egyptian man allegedly beaten to death by Egyptian police in Alexandria in June 2010.

expression through new independent unions. There is little doubt today that there are new actors on the stage; that marginal actors have assumed new important roles; and that many of the power brokers are out. This new configuration of “voice” presents the potential for fundamentally transforming the social contract from the current rentier one based on patronage, lack of free speech and accountability, and the threat of repression. Indeed, within a couple of years of the start of the Arab Spring, the transformational changes in many Arab countries are significant, especially viewed in the context of recent history (table 9).

Table 9
Extent of Transformational Change

	Tunisia	Egypt	Libya	Yemen	Syria	Bahrain	Algeria	Sudan	Morocco	Jordan	Kuwait	Lebanon	Iraq	Saudi Arabia	Oman	UAE	Qatar
Fiscal Expansion	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Disruption in Economic Activity	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		
Change in Government	X	X	X	X	X	X	X	X	X	X	X						
Conduct Elections	X	X	X	X	X	X	X	X	X	X	X						
Change in the Constitution	X	X	X	X	X				X	X							
Removal of Head of State	X	X	X	X													

Demands for “different” have taken various forms as the diverse groups envision various types of futures. In some case, moreover, groups demanding “different” have articulated a rejection of the status quo but without a clear sense of their preferred alternative. While some push towards a civic state, individual rights, and freedoms; others push for autocratic/ religious authority over the individual. And while some emphasize equal rights of citizenship and protection of minorities, others emphasize confessional, ethnic, or tribal based sharing of power/resources. In the absence of democratic institutions which mediate transformative demands, there is a risk that transformative voice descends into violent confrontation and ultimately disintegration into civil war. The trajectory of outcomes is far from certain, and processes of national reconciliation are likely to be determining factors. The process can be superficial, papering over deeply engrained fears, suspicion, and prejudice; or it can be genuine and participative, confronting fissures which had been fermented by regimes and working towards win-win scenarios rather than zero sum games.

Aside from the political identity of the state, its economic role is also being questioned. This coincides with a global paradigm flux in the aftermath of the global economic crisis. The crisis culminated the gradual erosion of conventional wisdom represented by the Washington Consensus (low corporate tax, tight fiscal policy, deregulation, privatization, and flexible labor laws), and has given rise to a vibrant debate on the role of the State, market regulation, and social welfare. The prescriptions of “getting the State out” and relying on the private sector as the engine of growth have proven particularly unrealistic in the case of Arab countries. They ignored the reality of the Arab rentier state whose main function is to allocate privileges rather than tax productive activity; and a private sector dominated by clientelistic behavior. As a result, much of the liberalization and privatization suffered the lack of transparency accountability, thus benefiting largely the traditional

political and economic elite rather than leading to a dynamic, competitive, and innovative private sector.¹⁷

The paradigm flux reflects also a clear shift in priorities brought by the Arab Spring. The public is less impressed by rates of GDP growth, FDI, exports, or reserves if they don't translate into direct benefits. As a result issues of unemployment, corruption, and perceptions of increased inequality (relative wealth) have taken center stage and can no longer be ignored.

What will the changes bring? Lessons from International Experience

How will the Arab economies be different in the future as a result of the Arab Spring? Although every political movement in every region and even every country has its own specificities, the broad outlines of the Arab Spring are not unique. Because there are important fundamental similarities, lessons can be learned from international experience. Several general messages emerge from the literature.¹⁸

First, establishment of democracy is generally not simple or quick. In particular, popular movements which succeed in toppling dictators do not automatically lead to democracy. However, several factors are generally associated with the establishment of a sustained democratic system: (i) The election process itself is important for consolidation of democracy. Countries that have held elections that include diverse voices – including controversial parties – are more likely to remain democratic. And, the more elections a country has, the less vulnerable it is to experience a coup. (ii) Undesirable aspects of the previous regime need to be changed, not only the individual who led the system. In many cases, constitutions need to be revised. (iii) Although changing the fundamental problems of the system is important, some degree of continuity can be useful to keep the economy operating (as in Chile).

Second, democracy is not a magic bullet to resolve economic problems such as increasing growth or reducing inequality. Statistically, democracies do not grow faster than dictatorships. Nor do democracies have greater equality, on average. Democracies do, however, have the advantage of lower volatility in economic activity, possibly due to elections as an opportunity to correct bad policies. And, of course, people may value participatory democracy for its own sake.

Finally, political transitions are not costless. Major political transitions generally involve short term disruptions to the economy. And institutional development is generally a slow process requiring significant investment. Although transitions have costs, international experience shows that transitions to democracy can withstand periods of economic difficulty. In most cases, people are willing to be patient for dramatic change especially if they can see incremental process and if there is a credible timetable for further advancement of the transition.¹⁹

¹⁷ As the protests in Tunisia were gearing up, Wikileaks was releasing documents showing that insider deals were enriching the elites of the private sector and governments were getting rich from uncompetitive access to contracts and from inappropriate use of public money. Accusations of corruption against specific individuals abounded. And a general sense that the private sector reforms and privatizations of the past decade were simply means for the elite to get rich became common.

¹⁸ The following paragraphs are based on Adam Przeworski 1991, *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America* (Cambridge University Press, New York); Thomas Carothers and Nathan J. Brown, "The Real Danger for Egyptian Democracy" November 12, 2012, Carnegie Endowment for International Peace, and Rand National Defense Research Institute, 2012. *Democratization in the Arab World: Prospects and Lessons from Around the Globe*.

¹⁹ See Laurel E. Miller et al 2012 *Democratization in the Arab world: prospects and lessons from around the globe* for examples of painful economic restructuring during nonetheless successful transitions, including Mongolia, Spain, and Argentina.

4. Implications for the Policy Research Community

In this section, the paper explores the implications of the Arab Spring and the ensuing voice in terms of change in: i) the composition and relative power of stakeholders in the development process; ii) the substance or prominence of public policy issues; and iii) implications for research approaches. It might indeed be too early to examine such an impact in any conclusive sense as the process is still in its early days and at various stages in different countries in the region. The purpose is not to “predict” specific outcomes, but to better understand the implications of broad political economy changes for policy research.

1. Change in Voice/ Bargaining Power of Stakeholders:

It is no longer feasible to think of a few “men” in high office as the exclusive players involved in proposing and making policy choices. The configuration and relative power of stakeholders has changed, bringing in new organized stakeholders such as unions and political parties, loosely organized stakeholders such as youth groups, and reconfigured stakeholders such as chambers of commerce and industries. These newly vocal stakeholders may influence policy either by moving into decision making positions or less directly, through applying pressure on government. Significantly, newly empowered stakeholders include those with little previous experience with policy issues or with engaging in constructive debate and consensus building.

The poor and middle class: With most of their basic needs met, with higher levels of education, and higher aspirations, the middle class is likely to be the main beneficiary of voice from the Arab Spring. As such, it is not obvious that it would give up food fuel subsidies from which it benefits in return for targeted subsidies that benefit mainly the poor, especially if its own aspirations of further social protection from risk (health, old age, unemployment) are not addressed. The poor could also gain tremendous voice in an inclusive democracy. But they could also be easily manipulated in a superficial democracy in which they are remembered only on an election day or in which the poor and the middle class are played against each other. Arab governments will find it very difficult to remove or substantially reduce food and fuel subsidies and replace them with targeted subsidies in the content of an empowered middle class which has been largely left out and disenfranchised in the past. The lack of public expenditure transparency adds to the mistrust of public proclamations on fiscal constraints. Whatever the final outcome, it is clear that the poor and middle class have staked a claim on policy decisions that were previously influenced primarily by the wealthy elite.

Labor: The Arab Spring has introduced new voices, muffled existing ones, and changed the relative power of the various stakeholders in the development process. In labor markets, new voices have been introduced into the political arena: those of the unemployed and underemployed youth. Organized labor has also found a new voice in the form of more independent trade unions. And a shift in the bargaining power between employers and employees in favor of employees can be detected throughout the region. The likely implications of the change in balance of power are i) a reversal of the long term decline wages compared to profits as a share of value added in the region (UNCTAD, 2010); ii) increase of governments’ current expenditure on wages resulting in higher deficits, reductions in other spending categories or need for increased taxes; and iii) higher minimum wages/wage bills with potential negative impacts in terms of informalization of jobs and reduced external competitiveness but also positive impact on domestic purchasing power.

The private sector: Within the private sector, the Arab Spring is likely to widen the circle of voice beyond the elite which had been the main beneficiary of the status quo. Chambers of Industry and Commerce are likely to become more representative and more vocal. SMEs are likely to exercise more influence given their numbers. Foreign investors are likely to feel uncertain as they maneuver through uncharted terrain of politics and fluid regulatory environment. The change in the political landscape is likely to bring added scrutiny to all previous high profile brown field privatization deals and green field foreign investments. Concessions and royalties, privatized monopolies, and exclusive agencies are likely to receive the bulk of public attention. The benefits of future investments in terms of job creation, tax revenue, linkages with the rest of the economy cannot be assumed and have to be identified explicitly. Any tax holidays, exclusivity clauses, exemptions from regulations have to be strongly justified and the rationale communicated. Trade might be affected by countervailing forces, some pushing for more protectionism, while others for stronger regional free trade. Reforms aimed at leveling the playing field for businesses are likely to face stiff resistance from the previous elites who will lose their special treatment. The greatest source of uncertainty, however, is the lack of clarity as to the role of markets and the private sector. Islamist governments seem to be following inconsistent policies, on the one hand increasing the involvement of the State while on the other hand calling for more market oriented policies.

Ideological/communitarian associations: The ideological winners in terms of have largely been Islamist groups, benefiting from mature organization and a public sentiment which viewed them as the victims of the status quo. But the Arab Spring has provided the arena for leftist and liberal groups as well to influence the discourse and agenda going forward. Also, communitarian voice, representing sectarian, ethnic, or tribal affiliations has emerged stronger than before. The changing balance of power between horizontal associations (political parties, unions, businesses, etc.) and vertical associations (sectarian, ethnic, tribal, etc.) will have a huge role to play in how voice will impact growth, inclusion, and distribution: while the former would prepare the ground for political pluralism, whereby programs compete with each other; the latter would prepare the ground for a zero-sum game distributional war among various sects, tribes, or ethnicities. In most cases, the two forms of associations will coexist in the political arena. Future constitutions, election laws, and decentralization laws can have major implications for which forms will dominate.

Women: The effect of the Arab Spring on women voice so far is ambiguous at best. Indeed, much of the “voice” expressed by Salafi and traditional groups expresses animosity to women’s rights discourse. Women’s voice itself is being contested between progressive women’s rights groups and religious groups. There is justifiable concern among the first that the limited gains in legislation made so far in Tunis and Egypt be rolled back. It remains to be seen whether Islamic movements themselves will witness internal transformations giving women more of a role than the tradition “wife, mother, sister” discourse. Early indications from Egypt suggest that while Islamist female participation in political life might increase, the discourse will remain within very traditional bounds.²⁰ In either case, it is clear that it is no longer feasible to rely on top down reforms à la Bourguiba’s period. Changing the hearts and minds of the Arab public opinion is the means to changing the status of women.

Because of the changes in the bargaining power of stakeholders, researchers who aim to inform policy decisions need to start addressing a different, larger and more diverse audience. In many

²⁰ Egyptian female members of the Brotherhood have not even been willing to condemn female genital mutilation, known as female “circumcision.” See Maggie Fick, November 11, 2012 “Egypt Muslim Sisters Rise with Conservative Vision,” The Associated Press.

cases, new audiences have a different mindset than researchers or their traditional audiences. In particular, many of the new stakeholders speak in terms of justice, fairness and religious morality. Many new stakeholders also communicate primarily through media – television, the internet and social media – rather than through reports, memos or even newspapers.

2. Change in Focus/Prominence of Policies:

As a new set of stakeholders has come to the fore in policy decision making, the issues of focus have changed correspondingly. Most of the issues that new stakeholders have emphasized are not entirely new: these issues have been among those addressed by the research community all along. However, the priorities have been reordered as a result of the Arab Spring. In general terms, growth, private sector development and trade are no longer unchallenged focuses of policy. Instead, inclusivity of growth and redistribution are the issues of popular concern.²¹ Macroeconomic stability largely fell off the radar screen in the early days of the Arab Spring, though it has returned as several new regimes have had to deal with urgent issues of international reserves, exchange rates and fiscal deficits.

Social Protection and Poverty: Public policy in Arab countries has focused on universal fuel and food subsidies and social protection programs tied to formal employment. Although the social contract may appear to treat everyone equally, in fact subsidies accrued more to the rich than to the poor and social protection programs largely excluded the informal sector. Tax structures, while they vary across the region, failed to be an instrument to redistribute income.

Events of the Arab Spring have brought the issue of social justice to the forefront of the political debate. For oil rich countries, vastly increasing public expenditure and job creation seems to be the instrument of choice. For resource poor countries, the political economy challenge will be to manage the difficult dynamics of replacing regressive subsidies and taxes with ones that are more progressive as part of an overall package of social protection. But rather than “replacing” old instruments with new ones, the public “loss aversion” sentiments leads to demands for more of the same old subsidies *topped up* with new forms of social protection— often with severe fiscal implications.

Going forward, the questions of “*what social protection should be universally provided?*”, and “*who should be eligible for targeted programs?*” should be at the heart of political debate. Future schemes can be categorized in terms of providing protective, preventive, promotive, and transformative social protection.²² An informed debate and political process on the above requires better understanding of the incidence of different subsidy programs and the effectiveness, reach and sustainability of social security, health insurance, and other protection programs. The communications challenge is to demonstrate the distributional effects and fiscal impacts of various policies in ways that clarify the issues and are understandable by all. Most importantly, this can only be done within a well understood resource envelop, i.e. in the context of transparent budgets and monitored public spending, and not in the current opaque fiscal environments.

²¹ Inclusivity of growth refers to the extent to which segments of the population benefit from increased economic activity (through increased wages, salaries and business profits). Redistribution of output, on the other hand, refers to state policies to reduce inequality through taxation, subsidies, and other means.

²² Stephen Devereux and Rachel Sabates-Wheeler 2004 “Transformative Social Protection,” Institute of Development Studies (IDS), Working Paper 232

Labor markets: Labor market anomalies in the region, whether in terms of the large relative size of the public sector, weak female participation, low productivity, or high unemployment among youth, have all been the subject of policy analysis for decades. There is little doubt that job creation, especially for youth has gained prominence and is no longer be seen as a byproduct of macroeconomic policy. In the short term, it is being relieved by the conventional reliance on public sector hiring and wage differentials in favor of the public sector – job and wage guarantees as part of the social contract. Although protesters have largely succeeded in winning promises of more jobs and higher wages, the ability of government to meet those promises is uncertain and the fiscal cost of the public sector as guarantor of jobs will emerge as an important issue to be resolved.²³ If public sector jobs fall short of demands, the question of who has priority for those jobs will emerge. Whereas the emphasis in the past has been on guaranteed outcomes, there is increasing emphasis on equality of opportunity. Meritocracy in hiring and promotion is the labor market equivalent to preventing corruption in awarding of government contracts and concessions. Workers’ rights will also figure strongly on the agenda.²⁴

The set of policy options addressed by researchers can be expanded beyond the typical short term responses (expanding public sector hiring and increasing minimum wages) to include labor demand side issues such as industrial policy and financing for SMEs; supply side issues such as education, vocational training, and Active Labor Market Programs (ALMPs); and institutional reforms aimed at reducing labor market segmentation (such as gender, geographic, and foreign labor-based segmentation).

Growth, Economic Diversification, and FDI: Attaining higher levels of growth, FDI, improving the business environment, and attempts to diversify the economy have all been official policy objectives. The outcomes of the past few decades leave a lot to be desired, however: a poor overall record of GDP per capita growth rates, FDI concentrated in natural resources and real estate; poor innovation and productivity; a limited product and export base; and a widespread perception that growth and privatization programs have benefitted only an elite of individuals with close connections to the state. One of the most visible issues in the media over the past two years has been corruption scandals and trials accusing high ranking officials of violating regulations. Perhaps even more importantly, protesters are also questioning whether the rules themselves (including economic policy reforms of the past decade) have been responsible for the stagnating incomes of the middle class and the surging incomes of the elite. Specific systemic concerns are that (i) the high degree of discretion allowed in decision making by government (in all aspects of the business environment, including but not limited to awarding of concessions, privatization, licensing, etc.) has made the system vulnerable to the influence of personal connections and that (ii) the system itself discourages competition and innovation.

The opportunity presented by the Arab Spring and the expanded set of actors is for a strategic approach to economic restructuring and industrial development, an approach that i) is rule based, transparent, and leaves less room for discretion; ii) addresses the Dutch Disease issue prevalent in most countries of the region which make tradables uncompetitive in favor of systems that encourage

²³ The Tunisian Ennahdha Party which campaigned on the promise of creating 590,000 new jobs by 2016 now has to meet that promise.

²⁴ Legislation ensuring freedom for unions was prepared in Egypt in 2011 but concern that strikes could cripple the struggling economy has meant that the legislation has remained in draft form. As recently as September 2012, striking public and private sector unions have claimed that they were attacked by police.

entry, innovation and job creation; iii) emphasizes reforms and economic linkages across the economic sectors and geography as opposed to special delinked zones; and iv) invests in quality education human resources to attain higher value added. We have already seen an increasing emphasis on leveling the playing field, to support a broader business community including SMEs not just the elite. An example of this is the newly established Egyptian Business Development Association lobby for the entrepreneurial middle-class which is challenging the older, elite business class. Going forward, we can expect increased scrutiny of previous and all new regulations and state business dealings (including allocation of public land, granting of concessions, and privatization projects).²⁵ We can also expect debates about the benefits of foreign investment (which can bring innovation and add to domestically mobilized investments) and of large businesses (which bring economies of scale but also may unfairly reward those who were able to become established thanks to unfair privileges under past regimes.)

Political and Economic Governance: Prior to the Arab Spring, political reform was cosmetic: rigged elections and weak Parliaments, shy Shura councils, or limited experiments with elections/decentralization at the municipal level. Economic governance reform tended to be limited to administrative reform by Arab regimes (Doing Business type reforms). The Arab Spring has opened wide the realm of political reforms and governance (constitutional changes, freedoms, elections, etc.) such that most Arab countries have had to move, ever so reluctantly, down the path of political reform.

Economic governance reform, however, remains loosely articulated by both regimes and the opposition. “Fighting corruption” seems to be its dominant slogan, crudely translated into putting a few of the most notorious culprits of corruption behind bars. The underlying causes of corruption, i.e. the institutional environment which makes it possible, have yet to take center stage. And, although there is an increased sense that natural resources and their rents belong to the population as a whole and that the population has a right to be involved in decision making on use of these rents, the question of economic restructuring and the transformation of rentier economies to productive economies is largely absent in the public debate. Despite the general desire for the population to play a role in decision making, the practical aspects of bringing natural resources, public land, and public finance under public scrutiny has not been addressed. More fundamental questions of how to isolate the productive economy from the damaging effects of rent based capital flows (known as the Dutch Disease) and how to pursue industrial policies which could dynamically transform the comparative advantage of Arab economies are almost entirely missing from the public debate.

Some might argue that reforming political governance needs to precede economic governance, i.e. it is a matter of sequencing. The risk is, however, is that of agency of change: it is not obvious why any dominant group, once in power, will want to subject its unfettered access to public resources, on and off budget, to more public scrutiny. The dangerous implication is that the public resources which had sustained despotic regimes for decades will still be at the disposal of Arab regimes post Arab Spring, and off budget resources will continue to finance military and security apparatus outside the public purview. In the absence of a parallel approach to political and economic reform, the potential for using political money to finance candidates, buy up media sources, corrupt the judiciary, finance thugs and rogue groups , and totally undermine political reform remains substantial.

²⁵ An example of increased transparency in economic contracts is that the Prime Minister of Morocco elected in late 2011, Benkirane, published bus companies granted prime intercity routes.

3. Implications for Research Approaches

As described above, there has been an important shift in the audience interested in economic policy research: as a result, the priority issues have changed as well. To effectively communicate, policy researchers will need to find ways to present their work in terms and formats used by this new audience. Moreover, given the importance being given to decision making processes, researchers are increasingly called upon to provide analysis of the implications of a full range of options (including identifying winners and losers) but to stop short of making recommendations. Instead of recommendations, researchers are being called upon to provide analysis as an input into an explicitly (and unapologetically) political debate among multiple players.

As a broad range of stakeholders have found their voice, their influence over policies is increasing. Although the population at large cannot be expected to engage directly on technical policy issues, stakeholders have expressed an increased desire to understand policy issue well enough to make informed choices about who to represent them in government and to understand the decisions and actions (e.g. budget priorities and execution) enough to hold representatives accountable. Those who serve in the legislature and executives – many of whom may be new to policy making – will need to understand technical aspects of economic policies if they are to make good decisions.

Not only are there new audiences for policy research – the population at large and new legislators and executives – but the new audiences have new needs and expectations that are relevant for policy research. Stakeholders want to be involved in the choice of policies and are skeptical of receiving specific “recommendations” from experts. Researchers can usefully provide analysis of the full range of options that are on the table, including those the researchers may disagree with. In this analysis, increased attention should be paid to the winners and losers from each policy option, and including stakeholder’s own definitions and perceptions of winning and losing in this analysis (which could include financial, economic, as well as cultural and political valuations). Stakeholders also need tools to be able to hold governments accountable, such as analysis of government actions and the extent to which these are consistent with the priorities and platforms they had articulated. Finally, the new audiences need to have policy research communicated in a way they can understand. This means that research needs to be articulated in the vocabulary of the various groups and in formats (e.g. social media) that are accessible of the various groups. Some researchers may be able to communicate their research directly to stakeholders. In other cases, think tanks or civil society organizations will be important to translate research into vocabulary and formats that are accessible.

Never before have Arab countries been truly engaged in internal dialogues about the kind of government, economic systems, and the level of solidarity and redistribution. Some of the debates are technocratic in nature, such monetary policy and industrial policy. But others are at the heart of the social contract and merit broad participation. Only such a broad based dialogue will reflect public choice and public preference on distributional issues such as how progressive a tax rate should be, what level of social welfare is desirable, what level of investment in universal health and education is acceptable, etc.? These issues are already being debated, but often in the absence of facts and figures, and in the absence of an understanding of policy implications and tradeoffs among various options. Never before has the need been so strong for policy research to contribute to higher public awareness.

5. Conclusion

This paper posed the question “What has changed?” as a result of the Arab Spring. The short answer is “voice”. What started as civic voice, expressed in street demonstrations and social media is evolving along various trajectories, including i) attempts to stifle (through patronage and/or repression) expressions of civic voice and a returning to the status quo ante; ii) capturing of civic voice by one dominant group which then re-introduces forms of patronage and repression, perhaps with religious connotations, relying on uninformed populism rather than plural democratic participation; iii) fragmenting voice through sectarian, tribal, and ethnic loyalties, thus raising the prospects for a protracted civil war and the dismemberment of the state; and iv) institutionalizing voice within a plural and contestable democratic framework. Arab countries have muddled through and across these trajectories. But only the moving towards the fourth trajectory of institutionalizing plural voice holds the promise for political and economic transformation towards inclusive and sustainable development.

The eruption of voice and ensuing reaction of regimes has direct implications on the cost of maintaining the social contract and prospects for its transformation:

First, the eruption of voice has resulted in disruptions in economic activity for various durations; loss of life and assets; and uncertainty about the future. This has to varying degrees affected short term macroeconomic indicators such as deficits, balance of payments, reserves as well as local investment and FDI. Short term disruptions in economic activity can be overcome in the medium term. But protracted conflict can take a huge toll on human resources, infrastructure, with long term implications and risks of state failure.

Second, voice has expressed “demands for more:” more subsidies, more wages, and more pensions. Regimes eager to limit the transformational implications of voice have been eager to meet such demands. The implications for resource poor countries are in increasing fiscal deficit and spiraling debt. For resource rich countries, the implications are distributional: it is current expenditure taking place at the expense of future generation.

Third, voice has also expressed “demands for different,” essentially calling for transforming the “rules of the game:” the constitutions, laws and regulations, and the underlying public discourse on political and economic freedoms, social and economic justice, and the future role of the state. The strongest manifestations of transformative demands so far have been about political freedoms, corruption, and inequality. Less attention has been paid to reducing institutional vulnerability to corruption, still less to options for overcoming the region’s fundamental problems related to the “resource curse.”

How does the ascendance of voice and its various manifestations impact the policy research agenda? This paper suggests three factors that researchers need to consider going forward: First, the eruption of voice has changed the composition and relative power of stakeholders in the development process, hence the audience of policy research. Second, the focus/prominence of various public policies has changed, giving new twists and emphasis to issues of job creation, income distribution, social protection, and political and economic governance. Third, and as a result of the changing audience and policy primacy, the research community can usefully contribute to the institutionalization of voice by exploring the full set of options which reflect the interests of stakeholders, identify winners and losers of various policy options, help improve the public’s understanding of tradeoffs, and make available information to hold governments accountable to their commitments.