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*A NORTH AFRICAN QUARTET*

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## **Tunisians set off on the road from serfdom**

By Saifedean Ammous and Edmund Phelps

When Mohamed Bouazizi set himself on fire on December 17, his act of protest resonated across Tunisia. Thousands spent the next month in the streets demonstrating against the regime of Zein al-Abidine Ben Ali until its fall on January 14. It was the first time in decades that an Arab people had toppled their dictator, providing fresh hope for millions living under regimes similar to Mr Ben Ali's.

In western minds, Arab states operate rudimentary free-market economies. When a ruler, becoming too greedy, sets so high a tax rate on producers as to cause wide resentment, a regime change is negotiated. Clever rulers make hidden additions to their income through bribe-taking and salaries for family members. Still, it is thought, these economies operate pretty efficiently with the poor cards they have been dealt. So, as Bouazizi enters Tunisian and Arab folklore, the western world is puzzled: why the self-immolation and why did it spark mass demonstrations?

Bouazizi was selling vegetables in the streets of Sidi Bouzid when police confiscated his stand on the grounds that he lacked the required permits. Unable to afford the permits and a new stand, Bouazizi's livelihood was destroyed. He had no other way to support himself.

In Mr Ben Ali's Tunisia, nearly all business activities, not just selling vegetables on city streets, were placed under the supervision of the regime. Permits were sold to poor people to raise the revenue that increases in income and sales taxes might not. Among the middle class, those awarded privileged positions were selected for loyalty to the regime more than for business acumen. Worse, under this system, rulers played a direct part in the control of many big enterprises.

Thus state agencies and state-run corporations had a stranglehold on virtually all the economy.

The losses of inclusion into the market economy suffered by poor people were a grave injustice. Millions of Bouazizis, unable to find a job in a state-controlled labour market and powerless to start a business without the proper connections, found it impossible to be productive members of society. "It was peaceful," a young woman told a reporter, "but poor people didn't have any chance to live."

The protection of sclerotic state-backed enterprises from the entry of new ideas and new people has closed off many better ways to operate. The dearth of innovation, in turn, has had a chilling effect on job creation and the growth of incomes.

There are many problems in the Arab world, and they vary from country to country. But the grip of the state on the economy is extensive in many Arab countries – and non-Arab ones too. Decades of socialist-leaning centralisation gave way to decades of "free market reforms". But

these reforms have not, on the whole, loosened central control over people's careers. The only change was that under socialist-leaning systems, this control was exercised by governmental agencies, while in the recent systems it is exercised by "private" companies run by the ruling regimes.

Last week, Hillary Clinton, US secretary of state, remarked to a group of Arab leaders that many Arabs had "grown tired of corrupt institutions and a stagnant political order". She seemed to miss, though, an important lesson of the events in Tunisia when she said: "If leaders don't offer a positive vision and give young people meaningful ways to contribute, others will fill this vacuum." Tunisia was failing not because it neglected to "offer" its people opportunities; it was failing because it denied them opportunities, as in the case of Bouazizi. This is the simmering volcano with which many Arab regimes must contend. Regimes that stifle their people's chances for prosperity and personal development do not deserve to survive, nor should they expect to.

What to do? Arab states must continue to create enabling institutions, including better education. But education is not sufficient. In Tunisia, an Arab leader in this area, there is huge unemployment among the educated. The first step must be to cease propping up sclerotic state-backed businesses and to cease blocking people's initiative in pursuing even the humblest enterprise.

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## **Now For An Arab Economic Revolution**

By Saifedean Ammous

BEIRUT – Revolution across the Arab world has forced the region’s peoples and governments to grapple with the need for change. Years of sclerosis have given way to a frantic push for reforms to match the aspirations and discontent of millions.

But reform momentum is tugging in two, quite opposite, directions. One push is for governments to provide for their people; the other calls for governments to stop restricting their people’s freedom, particularly their economic liberty. The first type of reform will likely only exacerbate the Arab world’s grave problems; the second offers hope for positive and sustainable change.

In several Arab countries, most notably Saudi Arabia, rulers have sought to quell popular discontent by providing a combination of cash, subsidies, guaranteed jobs, and free goods and services. Such largesse betrays a fundamental misunderstanding of the causes of today’s discontent, because it assumes that these causes are purely material.

But any examination of the protesters’ slogans and demands clearly indicates otherwise. The protests are much more about political and economic freedom than about material needs, reflecting a keen awareness that such needs are merely a symptom and consequence of the absence of political and economic freedom.

The dominant “handout approach” is not sustainable, and, if continued, would likely exacerbate the Arab world’s current economic malaise. Economic wealth cannot be created by government decree; it comes from productive jobs that create goods and services that people value.

Governments that hand out benefits are not making their citizens richer by generating new wealth; they are simply redistributing existing wealth. This also applies to government-created and guaranteed jobs: if a job is indeed productive, its output would be rewarded by other members of society who benefit from it, without the need for government subsidies and guarantees. The fact that government guarantees a job implies that its output is not wanted. Such jobs are a liability for society, not an asset.

As citizens start relying on redistribution, productive work is discouraged, and real wealth creation suffers. Economic rot sets in as the ranks of dependent citizens grow, productive citizens dwindle in number, and society eventually runs out of other people’s money.

But the popularity of the handout option raises an important and instructive question: just how did the ruling classes in these countries amass fortunes so large that people are clamoring for them to be redistributed?

Government officials and their cronies did not necessarily engage in straightforward theft or pillaging. Through innocuous-sounding government “supervision” and “regulation” – and under the guidance of the major international financial institutions – ruling elites managed to run entire sectors of the economy as personal fiefdoms. While this pattern of official behavior is reprehensible, the real disaster is that it destroyed Arabs’ economic productivity and initiative.

This economic totalitarianism has been legitimated by government charity. Arab elites have been engaged in a false embrace of economic reforms for decades, with countless ministerial shuffles, five-year plans, and elaborate World Bank and International Monetary Fund programs. But all these reforms involve government handouts or government-created jobs and opportunities; rarely do they involve removing the government’s grip over people’s lives. By framing the debate on reform as being about the type of handouts, governments evade tackling the real problem: their control of economic activity.

State handouts can be reliably financed only by controlling the economy’s productive sectors. But in the Arab world, as everywhere else, this leads to theft, corruption, uncompetitive monopolies, a stifling of enterprise, and, eventually and inevitably, to decline and decay. The toppled Tunisian and Egyptian regimes spent decades providing handouts while denying citizens economic freedom.

As Arabs confront far-reaching change, they must not be distracted into fruitless debates about the right types of government support for citizens. What is needed is a root and branch transformation of the way that economic activity is carried out in all Arab nations.

Arab countries need to become places where people can create their own productive jobs, pursue their own opportunities, provide for themselves, and determine their own future. This freedom obviates the need for the charity of those in power, and more importantly, takes away from them the excuse for maintaining their iron grip over the economic lives of their citizens.

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## The Corporatist Threat to the Arab Spring

By Edmund Phelps

NEW YORK – The young protesters of the Jasmine Revolutions of Tunisia and Egypt, many of them university graduates, overthrew the old regime because it impeded or blocked them from careers that would offer engaging work and the chance for personal growth. The protesters did not demand more creature comforts or better infrastructure; they demanded opportunities to make something of themselves.

These young Arabs were being stymied in two ways. To get any good job required connections with insiders, something that ordinary young people could not acquire. And securing some type of self-employment, such as selling fruit and other goods on the street, required licenses, which were limited.

These restrictions resulted in widespread over-qualification, or under-employment, but most of all unemployment. The struggling fruit and vegetable vendor Mohamed Bouazizi in Tunisia set himself on fire – triggering the country’s popular uprising – because he could not get anywhere in this system.

Obviously, some changes in the economic system are needed. An open letter by mostly European economists proposed to G-8 leaders an economic “plan” for Tunisia. Their diagnosis is that Tunisia suffers from a “closed” economy, “authoritarian” governance, and “poor infrastructures.” Their prescription is immediate “food and energy subsidies,” a five-year plan for “investment” in transport infrastructure and the technology sector, and the creation of special “industrial zones.”

This is a terrible diagnosis. The wrong committed by Zine el Abidine Ben Ali’s regime was not that it did not subsidize food or invest in infrastructure (in fact, the regime did both). The wrong was that it deprived masses of citizens of the opportunity to achieve their potential.

The prescription, then, is pointless. Handouts of food and fuel in lieu of jobs, and investments to raise the productivity of work to which only the privileged have access, would do nothing to enable outsiders to compete for good jobs, or to remove the barriers, such as licenses, to self-employment.

In fact, the prescription may even do harm. Prescribing handouts alongside the existing barriers to inclusion yields a noxious mixture that could undermine Tunisians’ work ethic, which is so precious at this crucial time. And the vast investment plan, by offering projects for Tunisia’s elite, might actually *widen* the gulf between insiders and outsiders – thus worsening oppression.

The needed restructuring in Tunisia and Egypt must begin with two critical steps. The first is to end political control of the business sector by the privileged elite. In Tunisia, they are the

relatives and friends of Leila Trabelsi, Ben Ali's wife; in Egypt, they are the army's upper echelons, appointed by former President Hosni Mubarak. The second step is to end bureaucratic control of self-employment through licenses and other barriers. Only then could modernization of the economic system proceed.

The system that would be most appropriate for Tunisia and Egypt is basic capitalism – capitalism 1.0 – such as Britain and America developed in the first half of the nineteenth century on their way to having highly successful economies. The bedrock of this system are civil liberties, property rights, secure contracts, courts empowered to uphold the rule of law, local banks linked with local entrepreneurs, financial firms that supply venture capital, ease of market entry by new companies, and so forth.

Unfortunately, Tunisia and Egypt will face serious hazards as they rely on democratic forces and mechanisms to mitigate the oppressive features of the rightist corporatism under which they suffered. One hazard is a leftist corporatism, in which labor unions and well-placed cronies replace the ruling families and army officials, but political control of the economy and bureaucratic control of entrepreneurship are maintained. After all, parts of Europe in the late 1960's began to construct a leftist corporatism to replace the rightist corporatism that ruled, with some interruption, from the 1880's to the 1940's.

This hazard should trouble reformers. Under Ben Ali and Mubarak, a company run by insiders had to worry only that the president might someday demand a cut of their profits or assets. But, in a democracy lacking the safeguards of a strong culture of individual rights and a constitution to protect them, companies might be even more fearful of a predatory state. If so, business investment and job creation will remain quite weak.

Success for these countries will depend on respect for individual rights and the rule of law – including rights to one's property and one's profits. It will also depend on a popular willingness to tolerate differences and accept competition – you could lose your job to someone judged more promising.

The religious intolerance that has flared up in Egypt is a warning flag that the spirit of toleration – of “so be it” and “mind your own business” – is underdeveloped in the country. Violence and discrimination against minorities and competitors could distract the region from what should be its main priority: economic rebirth.

It is not clear that Tunisia and Egypt can carry out the economic transformation that they need. For that reason, it is all the more important that foreign help for the region be technical and aimed at removing barriers to jobs and rewarding careers.

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## **Too much aid will hobble Arab spring**

By Saifedean Ammous

Within months of toppling their dictatorships, Egyptians and Tunisians have been promised significant financial help from the international community, with the Group of Eight leading economies most recently pledging £12bn in aid, loans and debt relief. The wisdom of heaping cash upon these countries has been taken for granted. In fact, it may do more harm than good.

The record of development assistance leaves much to be desired. In the past six decades donors have often sought to bring about growth by funding infrastructure, agriculture and social services, with little success. Development organisations too often follow a discredited central planning model when history is testament to the way in which the grand plans of the few rarely work, while the freedom of the many succeeds in lifting one society after another from poverty to prosperity.

The billions already pledged to help Egypt and Tunisia will again see well-connected officials dictate spending. They will doubtless embark on large investments, such as the plan presented to the G8 by a group of Tunisian technocrats aiming to spend \$20-\$30bn on transport, infrastructure and industrial zones to “open up and connect the regions of the country”. Yet it is not clear why Egyptians and Tunisians would want go down this road again, given the miserable record of similar initiatives, not least in Egypt and Tunisia themselves.

Worse will follow if they do, as the debt burden from loans weighs down already-strained budgets. The likely outcome will be increased taxes and tariffs, along with fiscal and currency crises, as governments devalue their peoples’ wealth to pay off international creditors. Sovereignty is quickly compromised on the altar of repayment schedules, as some richer governments are also now discovering.

Perhaps most important, aid has a political impact too. Those calling for new support seem to forget that the deposed regimes already received plenty of international aid finance. Under the aegis of the International Monetary Fund and the World Bank, they presided over elaborate privatisation and reform programmes, which benefited those close to power but did little to help the wider population. In truth the regimes tended to use this support to strengthen their rule, building state security apparatuses and creating kleptocratic governments accountable only to their foreign bankrollers.

Today, with both Tunisia and Egypt led by provisional caretaker governments, the risk is that the power granted by control of this spending will subvert their precarious democratic transitions. Generous aid programmes mean leaders do not need to please their citizens, or gain their trust to secure power; they can instead use donor money to build a security state and buy off their opposition. Without aid, however, governments find it harder to build corrupt client networks, and must instead be responsive to the demands of their people.

A better approach would be for assistance to wait until elections are completed, and elected governments are formed. Even better, donors should be willing to put the question of funding to the public in a referendum, allowing the people to choose whether they really want projects today and then debt tomorrow. Indeed, given the strong relationship between donors and the deposed regimes, it is not impossible to imagine free elections producing new leaderships that reject new funding, aiming instead to reduce or eliminate foreign aid and debt.

Without this, a dysfunctional body politic and a large debt burden may be all that Tunisia and Egypt are left with following the distribution of donors' money. Yet the people of Tunisia and Egypt rose up against unaccountable dictators aided by just this largesse. Now they deserve the chance to decide for themselves whether they want the same foisted on their ruling classes again.

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