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The Origin of the Governance Gap in the Middle East

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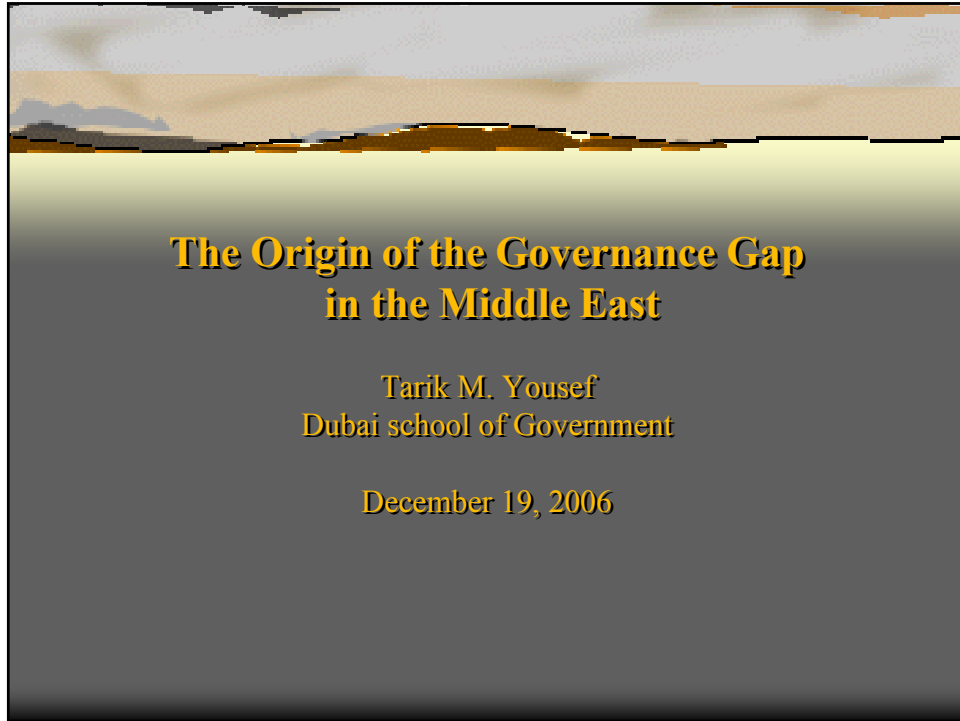
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The Conceptual Problem

Problem:

- The region exhibits a governance gap: without exception, governance is weaker than would be predicted by income and standard explanatory variables.
- The region's governance gap covers a wide set of indicators including bureaucratic performance, rule of law, political participation, accountability, etc.

Questions:

- What is the source of the governance gap?
- Why can be done to address it in the future?

Issues To Consider in Explaining the Governance Gap

Is the governance gap a recent phenomena or a long-term feature of the Middle East?

Is the governance gap in institutional quality related to the governance gap in democracy?

Are the determinants of institutional quality the same as the determinants of democracy?

Do policymakers face a tradeoff in dealing with one source of the gap versus the other?

What role if any can/should the outside world play in overcoming either governance gap?

Focus on the Political Economy Since WWII

Between the 1940s and 1970s, the region saw the emergence and consolidation of redistributive and interventionist policies:

Principle features included:

- A preference for redistribution and equity in economic and social policy .
- A preference for states over markets in managing national economies .
- The adoption of import substitution industrialization and the protection of local industry.
- An encompassing vision of the role of the state in the provision of welfare and social services.
- A vision of the political arena as an expression of the “organic unity of the nation.”

These preferences were expressed in post-independence constitutions, laws and public policies.

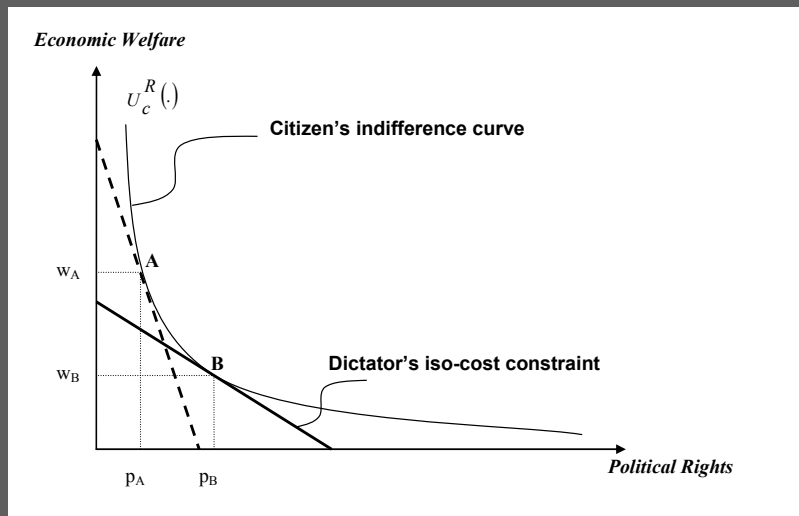
The Consolidation of Intervention and Redistribution

Institutionally, these elements were consolidated through broadly similar strategies in a number of states:

- The rise of dominant single-party or ruling-party governments.
- A wave of agrarian reform and nationalizations programs of industry, banking, insurance, and trade.
- The centralization of trade unions and professional associations.
- The consolidation of import-substitution industrialization as a strategy for establishing domestic industrial sectors.
- Programs for state provision of social services, including education, housing, healthcare, food subsidies, and other benefits.

The Governance Gaps Became Increasingly Linked

The welfare gains of the 1960s and 1970s helped cement an “authoritarian bargain,” with citizens effectively trading restrictions on political participation in exchange for economic security and the public provision of social services and welfare.



The Origin of Intervention and Redistribution

- State of underdevelopment: poverty, inequality and other socioeconomic conditions.
- The perceived failure of liberal economic policies and their reflection on nascent democratic experiments.
- The Great Depression and the collapse of the international economic order in the 1930s.
- The complex process of nation-building, mass-politics, and de-colonization.
- The rise of the military, foreign intervention, and the escalation of the Arab-Israeli conflict.

- Rents in the form of oil revenues, remittances and strategic aid played a pivotal role in motivating and sustaining the role of the state in the political economy.

Two Caveats:

- (1) The impact of these factors and the country-specific frameworks that emerged was far from linear and nowhere near uniform in the details of its design. Jordan, Morocco, and Lebanon, as well as the GCC states, did not embrace populist and redistributive policies to the same degree as the secular, single-party republican governments.
- (2) The spread and consolidation of these frameworks should not be seen as overdetermined. In a large number of newly independent states—including Egypt, Iraq, Lebanon, Morocco, Syria, and Tunisia—postcolonial politics initially took the form of intense struggles to determine which attributes would or would not provide basic frameworks for the management of local political economies.

Egypt Exhibited These Conditions Before 1952

- The country had one of the most open and Laissez-faire economies in the world between 1850 and 1950.
- The liberal political experiment of the 1920s and 1930s proved incapable of addressing decades of inequality and stagnation.



Middle Eastern Exceptionalism

- Together, these factors make the region exceptional in its development trajectory.
- The region is distinctive outside of the Communist bloc in the scope of state intervention and redistribution.
- This distinction is related to the political, social and economic changes that reshaped the political economies.
- Consider the impact of high military expenditures and conflict and the antagonistic relations between states and private sectors.
- Thus, the region's exceptionalism is a recent phenomenon in the region's history and not a permanent condition.

What About the Role of Culture? Religion?

- Specifically, could the region's exceptionalism be due to a set of intrinsic norms, beliefs, values or religion?
- Most formulations of this rely on an essentialist conception of culture that is both historically inaccurate and analytically misleading.
- They also overstate the role of culture as a source of institutional stability and underestimate the pace and degree of institutional change.
- In the Middle East, this view cannot easily accommodate the variation in governance frameworks before and after WWII.

An Alternative View of Culture

Consider a strategic-instrumentalist view in which culture is compatible with a wide spectrum of behaviors, actions, and thus institutional trajectories:

- Before WWII, Egypt was among a few countries with a vibrant mortgage industry, stock market, commodity exchange and minimal government intervention.
- The strong interventionist-redistributive tradition after 1950 has created norms, expectations and preferences about the role of the state that have proved deeply resilient.
- The unemployed today are essentially those who would have had a chance at a job in the public sector in the past and continue to have expectations of acquiring such a job.

The Post 9/11 Conventional Wisdom

Recent policy proposals suggest the region needs to address a set of longstanding policy and institutional challenges to complete three fundamental and interrelated realignments in their economies:

From public sector dominated to private sector dominated, by reducing the barriers to private activity while creating regulatory frameworks to ensure that private and social interests are mutually reinforcing.

From closed to more open, by facilitating the integration into global goods, services, and factor markets while putting in place safeguards for financial stability and social protection.

From oil dominated and volatile to more stable and diversified, by making fundamental changes in institutions managing oil resources and their intermediation to economic agents.

For the region to complete this long-standing transition, rapid progress is needed in **educational reform**, **gender equality** and **better governance**.

Comprehensive Reforms Require Better Institutions

- If states no longer serve as employers of first resort, they can be more engaged in creating and sustaining opportunities for employment. The government's role needs to be redefined.
- A vigorous state role in improving social services, especially health, education, and social security, is essential to establishing conditions that permit citizens to thrive and economies to grow.
- Governments need the institutional and regulatory instruments to manage the difficult process of economic transition under conditions of economic volatility and social vulnerability.
- To move forward, governments themselves must link economic performance to the quality of governance. They must create rule-of-law mechanisms to ensure accountability and transparency.

How Far Should the Region Go?

How far can you accomplish by top-down management of reform processes?

- The big lesson from the 1990s was that reform by decree had its limits.
- Reform efforts were reversible, hesitant, partial, and incomplete.

Is there an instrumental connection between economic and political reform?

- Reforms were blocked also because crisis has eroded but not eliminated preferences for redistribution, equity, and security.
- In fact, governments in the 1980s made efforts to generate support for economic reform by opening the political arena.

Obstacles to Political Reform

Soft budget constraints: External revenues flowing directly to the state through aid, oil exports, and strategic rents cushioned the impact of economic stagnation and permitted governments to adopt limited reforms while postponing difficult decisions.

Political challenge from radical movements meant that economic and political reforms were decoupled entirely, as governments responded to the appeal of opposition movements and, in some cases, the violence of extremist groups by reviving strategies of political control.

As a result, top-down management of **reform by decree** replaced earlier efforts to generate support for economic reform by opening the political arena. Engagement with reform remained selective and limited. Efforts to advance structural adjustment programs coincided with the erosion of political space.

The Prospects Post 9/11 Seemed Good Initially

- With oil prices forecast in 2003 to remain at or below 25 \$US/b, most governments lost their ability to coast along on a cushion of oil revenues and foreign aid, while undertaking only partial, incremental and reversible reforms.
- On the political side, public opinion in many Middle East countries remains supportive of electoral reform, good governance, and the integration of responsible opposition parties in the political mainstream.
- External partners, as vigorous proponents of reform, can help establish regional security and stability, thereby undermining the use of conflicts to justify the status quo.

Things Look Uncertain Post 2003

- High oil prices could postpone the adoption of policy reforms yet for another decade.
- Political reform could also suffer as the demands for change are absorbed.
- External pressures have been severely undermined by regional instability.
- How far can the focus on narrow institutional reforms accomplish? Who will emerge as the winners a decade from now?