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MESSAGE

ECONOMIC IMPERATIVES AND POLITICAL SYSTEMS

Alan Richards

CAN democracy find a home in the Middle East?[1] Many analysts find phrases like "Arab democracy" and "Islamic democracy" oxymoronic. Neo-orientalists assert that the absence of a tradition of civil society, the weakness of the middle classes, and Islamic conceptions of the state all doom any hope of the region's participating in the current world-wide upsurge of democratic politics.

Such arguments are hardly absurd. Only a very foolish analyst would predict a major thrust toward democracy in the political environment of the late-twentieth-century Middle East. Yet, the glimmerings of civil society undeniably glow rather more brightly in the region these days. Turkey is returning to parliamentary democracy, the Egyptian judiciary asserts its prerogatives more forcefully than at any other time since Nasir's revolution, Jordan and Kuwait have held reasonably fair elections, and the *intifada* has stimulated a flowering of Palestinian civil society. Could these be harbingers of still better things to come?

The answer could be yes, simply because economic imperatives dictate heightened political participation in the region. Since Middle Eastern states began attaining independence, industrial technologies and development strategies have fundamentally favored centralization and autocracy. Today the opposite is true. Although the legacy of past decades will not be overcome easily, in the modern international economy of information technologies, discriminating consumers, and intense competition, only economies that are less centralized than those of

1. See, for example, Elie Kedourie, *Democracy and Arab Political Culture* (Washington, DC: Washington Institute for Near East Policy, 1992).

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Arab countries stand a chance of survival. Turkey recognized this more than a decade ago, and has made important (although still inadequate) strides toward creating a modern economy. Arab countries are further behind, as are the Iranians, who actually increased the role of the state in the economy until the end of their war with Iraq in 1988.[2] Increasingly, however, national leaders recognize the necessity for change. Structural adjustment and economic liberalization are on the agenda of nearly all regional states.

Successful economic liberalization will require increased political participation in some form. One can make an "instrumentalist" case for greater citizen political activity. Such an argument has the advantage of avoiding metaphysical questions such as the compatibility of "democracy" and "Islam." The argument here is far simpler: Coping with the challenges of food, jobs, and investment will require greater integration into the international economy. Such economic changes imply enlarging the role of the private sector, widening the scope of the rule of law, and, more generally, restructuring the state's relations with its citizens. In short, expanded political participation will be a necessary tool in the struggle to forge a successful "Arab," "Iranian," or "Turkish" capitalism in the information age.

Before outlining the core argument in more detail, a word of warning is in order: Just because economic imperatives require wider political participation does not mean that it will happen. Failure is possible, even likely for many countries. Socioeconomic suicide is a real alternative; challenges may not be met, and explosions are real dangers. Lebanon, Bosnia, and Somalia constitute all-too-vivid alternatives to economic progress. Economic determinism will serve poorly but, equally, ignoring economic forces will deceive as to the consequences of policy choices. The negative model of repression, violence, and chaos is feasible. The only positive alternative is broader participation and the rule of law.

ECONOMIC HISTORY ON A POSTAGE STAMP: CENTRALIZING AND DECENTRALIZING ERAS

The economic history of the Middle East and North Africa since independence may be usefully divided into three eras: the state-led, import-subsitution era (ISI)—roughly, 1930/1950–1973; the era of the oil boom—mid-1970s to mid-1980s; and the current era of structural adjustment—mid-1980s to date.[3] The first two eras fundamentally were centralizing epochs during which the role of the state expanded. By contrast, the current era is one of decentralization, for reasons of

2. See Jahangir Amuzegar, "The Iranian Economy before and after the Revolution," *Middle East Journal* 46, no. 3 (Summer 1992).

3. Of course, the exactness of dates will vary from one country to another. In particular, Turkey pioneered both ISI and liberalization in the region. Space permits only the roughest sketch here. For more detail, see Alan Richards and John Waterbury, *A Political Economy of the Middle East* (Boulder, CO: Westview Press, 1990), chapters 7–9.

both market structure and technology. The political challenge is to build decentralized political economies atop the institutional sediment of earlier, centralizing foundations.

During the ISI period, regional states assumed primary responsibility for economic management, extending their control to the micro level through state-owned enterprises and detailed price controls. Reasons for such actions ranged from the absence of a "majority ethnic" bourgoisie—for example, Turkey, where many or most of this class were from minority groups like Greeks or Armenians—to the accepted wisdom of economic development specialists, to more specific ideological commitments, such as the Baath in Syria and Iraq. In some cases, such as Egypt, the vagaries of international conflict also played a role in the widespread nationalization of industry: British and French firms were nationalized because of the 1956 Suez War, as were Belgian companies during the Congo Crisis of 1960. Political and social factors pushed regional states to expand their control of the economy. State autonomy was reinforced by the "social contract" of the Nasirists, whereby in exchange for expanded opportunities in housing, employment, and education, the mass of the population acquiesced in authoritarian rule. The ISI era was the age of centralization of power par excellence.

Industrial technologies of the time facilitated this trend. Although centralization almost certainly went too far even by the standards of the day, industries with substantial economies of scale—such as heavy metals, cement, and canning—or with restricted domestic markets in relatively small, poor countries—for example, consumer goods like textiles—could be centrally managed, at least initially, without economic collapse. Technological change was also somewhat less rapid than today, especially in the "mature" industries of consumer and intermediate goods upon which ISI drives focused. Slower technological change further concealed the inefficiencies of central planning. The example of Soviet industrialization and post-World War II recovery and the wider intellectual climate that it engendered also facilitated the centralization of the industrial economies of the region. In the short run, the deleterious implications of ISI for international competitiveness could be avoided, whether through foreign aid, or, for states blessed by geology, by oil exports.

The second period, the oil-boom era, was, if anything, even more strongly centralizing. Everywhere outside of the United States, subsoil mineral rights belong to the state. The massive infusion of revenue that accompanied the quadrupling in 1974, and doubling in 1979, of oil prices, therefore, flowed directly into government coffers. Oil revenues were almost uniquely centralizing because they constituted almost a pure economic and political asset for the government, generating no corresponding political liability, such as miners to placate. Very few workers are needed to produce and market oil; contrast, for example, copper and its role in the political economy of Chile.[4]

Oil revenues also obviated the need to tax the citizenry, thus avoiding the "Boston Tea Party problem" of coping with the demands for political participation by those taxed. Even states that were closely allied with the United States and ideologically committed to the private sector, like Saudi Arabia, found themselves creating state-owned enterprises; rather despite themselves, the Saudis emulated their Arab socialist cousins. Oil rents were a strong force for centralization in all oil-exporting countries.

The oil boom shaped all regional economies, including those of countries without significant oil deposits, through the mechanism of labor migration. In sharp contrast to oil exports, however, labor emigration and remittances were decentralizing because scarce foreign exchange accrued to individuals, not states. Governments, which hoped that such foreign exchange would enter the formal banking system, were forced to offer realistic exchange rates. In a sense, this marked the beginning of structural adjustment in the region. At the same time, labor migration from Yemen, Jordan, Gaza and the West Bank, and Egypt widened the horizons—in Egypt for the first time in modern history—of young, poor rural and urban men. No country in the region any longer has a peasantry in the old, classical sense of rural people whose horizons extend no farther than the next village. This phenomenon, combined with spreading education, bodes ill for rigidly authoritarian, isolationist political systems.

The Middle East is now fully into the structural adjustment era. In the wake of the mid-1980s' collapse of oil prices, every state in the region, including Saudi Arabia, has had to practice budgetary stringency. Structural adjustment, however, must go well beyond mere austerity; fundamental institutional reform is needed to overcome the pernicious problems inherited from the previous two eras. Fundamentally, the contradictions of over-centralization have strangled growth even as the numbers and wants of consumers continue to multiply; population growth remains high in the region, and, as noted in the preceding paragraph, horizons have been expanded. As a result, expectations have risen dramatically. Adjusting economies to overcome the baleful legacy of the past while stimulating growth to satisfy the expanding wants of a growing population is—after the related problem of maintaining order—the challenge facing Middle Eastern economies and polities in the 1990s.

The catalogue of ISI ills is all too familiar to students of development policy: biases against traded goods, especially exports; excessive capital intensity and, therefore, inadequate job creation; discrimination against agriculture; and accumulating international debt. Such difficulties were exacerbated by the "Dutch

4. See, Theodore Moran, *Multinational Corporations and the Politics of Dependence: Copper in Chile* (Princeton, NJ: Princeton University Press, 1974).

Disease" of the oil-boom era.[5] These problems are part of the transition to the structural adjustment era. Unfortunately, however, the centralizing legacy of the past, institutionalized throughout the political economy, is ill-suited for coping with the demands of the present.

The imperatives are evident. Countries must be able to compete in today's information-based, highly competitive international economy. Decoupling, always chimerical, is not a realistic option: Middle Eastern states must export and must accelerate job creation. Only aggressive export drives, with an expanded role for the private sector, have a chance of accomplishing this. Private sector organizations can respond far more quickly than those of the public sector, not only because of their superior incentives, but also because of their ability to focus on a single goal. Greater efficiency, however, is not the sole imperative to dictate decentralization. Modern technologies are inherently decentralizing; computers, faxes, and other information technologies cannot be controlled centrally. The increasingly integrated world simply has too much information. International competition is so keen that only specialists can keep up with developments, and only those with information can respond successfully.

Both the importance and logic of the acquisition of information and the greater and more rapid responsiveness of private economic actors suggest that there is a powerful economic imperative to the decentralization of political economies. There is no reason why the Middle East should be exempt from this trend. Indeed, there are three specific regional economic problems that strongly suggest that the economic imperative is as great in this region as anywhere in the world.

THE CORE CHALLENGES

Three core problems dominate the current structural adjustment era: jobs, food, and money. The solution to each problem implies greater citizen participation.

Jobs

There is a demographic time-bomb ticking in the Middle East: the growing supply of labor. Because population growth accelerated after the 1950s, the labor force in most countries is growing by well over 3 percent per year. Further, in few countries will the rate of economic growth markedly decelerate during the 1990s. When combined with the anti-employment bias of ISI and the collapse of growth

5. "Dutch Disease" afflicts countries with a fixed nominal exchange rate that experience a sudden influx of foreign exchange. Without very careful (and politically difficult) management, the real exchange rate quickly becomes overvalued, biasing price signals against traded goods production in industry and agriculture.

of the late 1980s,[6] it is little wonder that unemployment is rising while real wages are either stagnant or falling. In Egypt, for example, some 6 million jobs must be created during the 1990s simply to provide jobs for new workers—that is, with no reduction in employment, increase in real wages, or expanded female labor force participation. In an economy whose total labor force in 1990 was perhaps 14 million, this is a daunting challenge. During the past seven years, unskilled real wages have fallen by more than 40 percent.[7]

Everywhere the burden falls most heavily on the young. In Jordan, Morocco, and Tunisia, roughly one of five urban young men is unemployed; the official unemployment rate in Yemen is 25 percent. Some believe that 35 percent of young Algerians may never have a job.[8] The concept of "unemployment" breaks down at such high levels, as young men scrounge whatever living they can from the informal sector and from the grey or black economy of semi- or illegal activity. In some countries there is evidence that the educated have higher unemployment rates than the illiterate, who are so poor that they must take whatever job they can find.

The definitions may be in doubt, but not the frustrations. Many of these young men have had some basic education, but the quality of their training has ill-equipped them for modern economic activity.[9] These underemployed, semi-educated young men constitute a critical source of support for extremist Islamist groups throughout the region.[10] The greatest single social challenge facing regional leaders is providing jobs for the expanding, very young labor force.

The public sector cannot provide these jobs. Government payrolls cannot continue to expand; indeed, the imperatives of structural adjustment are already shrinking them. Nor can the other safety valve of the past, emigration abroad, be counted upon any longer. Neither the European Community nor the Persian Gulf states are likely to generate employment opportunities for young Egyptians, Maghribis, Turks, and Yemenis as they did in past decades. If only by default, the sole hope of coping with the rising demographic tide is a flexible, rapidly growing private sector pursuing comparative-advantage-generated niches in the international economy. Entrepreneurs, if left alone, will find such niches (although governments can and must assist them with information and other logistical

6. According to the World Bank, per capita income for the region as a whole was approximately 30 percent lower in 1990 than in 1980, when the annual rate of per capita income growth was -2.6 percent. Caio Koch-Weser, "Reform and Regional Cooperation: A Development Agenda for the Middle East and North Africa" (Paper presented at the Middle East Institute's Forty-sixth Annual Conference, Washington, DC, October 16-17, 1992.

7. See, for example, the essays in Heba Handoussa and Gillian Potter, eds., *Employment and Structural Adjustment: Egypt in the 1990s* (Cairo: American University in Cairo Press, for the International Labor Organization, 1991).

8. Ibid.

9. See, for example, "Health and Education," in Richards and Waterbury, *A Political Economy of the Middle East*, chapter 5.

10. See, for example, Mark Tessler, "The Origins of Popular Support for Islamist Movements: A Political Economy Analysis" (Paper presented at the Seminar on Political and Economic Islam, Washington, DC, May 19, 1992).

support). Investors, however, need, above all, to feel secure that their illiquid investments will not be confiscated. Only if governments can succeed in creating a suitable investment climate will Middle Eastern nations have a chance to solve the problem of job creation in the years ahead.

Food

Much nonsense is written about "food security" in the region. Food security is an insurance concept. Ensuring food security means guaranteeing that consumers are reasonably certain of being able to eat properly. All too often, however, students of the region confuse food security with food self-sufficiency. Politicians, in particular, seem unable to resist the siren song of alimentary autarchy. Food self-sufficiency for most countries in the region is, however, impossible. This is not a bad thing.

Consider the Arab states. It is true that during the 1980s, cereal self-sufficiency ratios—the percentage of consumption that is imported—remained roughly stable.[11] In comparison with the rapid deterioration of such ratios during the oil-boom era, the food sector's performance appears quite respectable. Nevertheless, there is little cause for complacency. Despite increases in land, water, fertilizer, labor, and machine inputs—and despite a more favorable policy environment—food production in the Arab countries managed simply to keep pace with population growth during the 1980s. When one realizes that the Arab world "added another Egypt"—some 53 million people—during the decade, this was no mean achievement. Not only population growth, however, but also increases in per capita income, fuel the growth rate of the demand for food. Income growth in the structural adjustment era of the 1980s was slow, reducing the rate of growth of the demand for food. Seen in this light, stable food self-sufficiency ratios during the past decade are the fruit of economic stagnation.

Fundamentally, the region cannot escape its geography: water is, and will be, very scarce in the region. So long as water is needed for photosynthesis, there will be serious barriers to the achievement of self-sufficiency in food or agriculture anywhere outside of Turkey or, potentially, Sudan. Even in those more geographically favored areas, attaining self-sufficiency extracts a heavy price in foregone incomes and wasted resources. The ecological dimension also should not be neglected: Saudi Arabia's vaunted self-sufficiency in wheat, achieved by heavy financial subsidies and unsustainable exploitation of ground water, has been aptly described as "paying money the Kingdom can no longer afford, to grow wheat

11. All statements in this section are taken from Alan Richards, "Arab Food Security in the 1980s: Stylized Facts and Lessons for the Future," in Ibrahim Oweiss, ed., *Arab Integration* (Washington, DC: Georgetown University, forthcoming). Data are from the *Production Yearbooks*, 1982-1992, of the Food and Agriculture Organization of the United Nations.

surpluses it doesn't need, while consuming water it can't replace."[12] Food self-sufficiency is an expensive, wasteful, and ultimately doomed food security strategy.

This hardly means that attention to agricultural development is misplaced. Certainly, more sophisticated production and marketing technologies must be developed and diffused throughout the region. As the water constraint binds more tightly in the years ahead, continued agricultural growth will require increasingly sophisticated irrigation technologies and management systems, which in turn will necessitate more effective collective action at the local level and heightened political participation. Fundamentally, irrigation systems must change from being supply driven—that is, centrally planned—as they are currently, to being more demand driven—that is, responsive to the needs of small groups of farmers. Water pricing can help, but, for administrative reasons, prices will probably have to be charged to small groups of farmers rather than to individuals in most gravity-flow (for example, river-based) irrigation systems. The formation and heightened effectiveness of "water users associations" is a necessary condition for promoting food security in the years ahead. Put bluntly, the expansion of political participation is a necessary condition for more efficient allocation of the region's scarcest resource, water.

Even with the most sophisticated of irrigation systems, growing populations and (one hopes) rising per capita incomes will doom inefficient food self-sufficiency schemes. Fortunately, food security can be obtained in another way, through trade. Few would argue that Singapore or South Korea fail to enjoy food security. Middle Eastern political economies will have to emulate other economically successful, but agricultural-resource poor nations to achieve food security in the 1990s and beyond. Increasingly, Middle Eastern nations must export in order to eat.

Money

The shortage of capital is the final critical challenge facing the region. Given the vast financial resources of the gulf, it may seem odd to posit such a shortage. The 1991 Persian Gulf War, however, has made it clear that the capital-rich states will invest their money only where it earns the highest return. Appeals for "Arab unity," always hollow, are now especially ineffective. Calls by analysts to "share the oil wealth" are equally misplaced. Instead, the call should be to create a climate that will enable existing savings to be allocated properly.

Many countries of the region have a debt problem. The combined debt of Arab countries is now about $115 billion. Egypt skillfully used its participation in the Persian Gulf War coalition to reduce its debt by roughly 50 percent,

12. Douglas F. Graham, *Saudi Arabia Unveiled* (Dubuque, IA: Kendall/Hunt Publishing, 1991), p. 152.

staunching some $2 billion of yearly debt-service outflows. In Morocco and Jordan, however, debt service payments consume nearly one-third of exports. All countries of the region compete with Eastern Europe and the countries of the former Soviet Union for capital investment. The need, furthermore, for investment in more sophisticated technologies for production and distribution, for cities and farms, for communications and educational facilities, is tremendous. To take only one example, Palestinian economists estimate that a future Palestinian state in the West Bank and Gaza—with perhaps 3 million inhabitants—would require some $50 billion of investment over 5–10 years.[13] The needs in Egypt of 55 million inhabitants and the Maghrib of 58 million inhabitants are far larger.

International indebtedness, however, is not the root of regional capital scarcity. Neither can one blame deficient savings' propensities: There is no evidence that Middle Easterners do not save. Egypt offers a useful illustration. It has been estimated that the off-shore holdings of hard currency by Egyptians is some $40–50 billion, roughly equal to Egypt's pre-Persian Gulf War international debt. In 1988, gross investment in Egypt was about LE 8.4 billion, or some $3 billion at 1988 official exchange rates.[14] Middle Eastern savings seemingly are abundant.

The capital problem in the Middle East is fundamentally institutional. Savers and investors fear and distrust national governments (with good reason). Specifically, they fear that their savings will be expropriated either directly by state decree, or by stealth via rampant inflation and overvalued exchange rates. Unsurprisingly, they hold their savings off-shore or in highly liquid form. Only if genuine political reform creates secure private property rights and an independent judicial system to enforce those rights will the savings of Middle Easterners be placed inside their own countries. Still more difficult to induce will be the kind of illiquid, fixed capital investment—like factories—that the region needs to produce the goods to sell abroad to buy food and to create jobs.

From an instrumentalist, economic point of view, it makes little difference whether the legal system that protects property is based on Anglo-Saxon common law, the French Napoleonic Code, or the Islamic *sharia*. Far more important than any of the details of the relative efficiencies of these different systems is the need for some predictable legal system to replace the arbitrary, confiscatory state power that has dominated regional political economies since the 1950s.

POLITICAL IMPLICATIONS

In summary, the region must export in order to eat and in order to create jobs. The capital needed for such a massive push must largely come from its own

13. See, for example, George T. Abed, *The Economic Viability of a Palestinian State* (Washington, DC: Institute for Palestine Studies, 1990).

14. World Bank, *Arab Republic of Egypt: County Economic Memorandum: Economic Readjustment with Growth*, vol. 2, February 2, 1990, page 1.

citizens. They, and foreign investors, will only take the risks associated with tying up money in illiquid industrial investments if political systems cease to be arbitrary and capricious. At the same time, only the private sector can meet the challenge of increasingly sharp international competition in the age of information technologies. The conclusion is inescapable: Only a more decentralized political economy with greater reliance on contract and the rule of law has even a chance of coping with the problems of the end of the twentieth century and beyond.

The legacies of geography and history admittedly are baleful. The natural resource base, with its mix of abundant oil and scarce water, makes adjustment imperative, but also makes it difficult. The habits of the past will die hard. Entrenched interest groups, engendered over nearly a half-century of state centralization, will not be persuaded easily to abandon their privileges. With the exception of the Mashriq, the level of human capital in the region, although far higher than formerly, is very low in comparison with the competition in East and Southeast Asia and in Eastern Europe. The road ahead will be difficult; but there are few alternatives to starting down it.

The old Nasirist social contract, the exchange of welfare for political quiescence, is dead because the state can no longer fulfill its side of the bargain. There are really only two alternatives: repression or participation. Repression, with its violation of human rights, which most people find repugnant, is likely to be ineffective, especially in the long run. Middle Eastern rulers may conclude, with Lord Keynes, that in the long-run—which may mean six months hence—they are well and truly dead, and so clamp down. "*Après moi le déluge*" seems to be the rallying cry of Algeria's National Liberation Front, and other senescent (not to say senile) regimes may emulate them. The path of repression is very slippery, however, not least because of the maelstrom of violence into which it leads. Repression also impedes constructing the set of institutions that alone afford a chance of coping with the economic challenges of the immediate future.

The alternative is expanded participation. This need not mean democracy in the current Western sense. Even the West is unsure about the proper design of political systems, and Western countries have plenty of problems of their own. Doubtless Middle Eastern nations will have to find their own, culturally authentic paths to expanded participation. Whatever the precise forms, expanded participation will be essential for three reasons: First, the age of structural adjustment is the age of subsidy cuts. Economically, a subsidy cut is equivalent to a tax increase, and political participation is necessary to "share the pain"; if the cry in 1776 was "No taxation without representation!" that of the era of structural adjustment may be "No subsidy cuts without participation!" Second, a stable legal environment is a necessary condition for a functioning market economy. Since there is no alternative to markets for many allocative purposes, the only alternative to the rule of law is economic stagnation, poverty, and ultimately, chaos. Third, modern information technology supports market functioning, and properly functioning markets require widely available information as well as secure property rights. The faxes that carry this morning's price data, however, also may convey the latest statement of the exiled political opposition. A regime may outlaw faxes outside of its control—as does Syria—but such a regime cannot effectively compete in international markets. Accordingly, it cannot solve the problems of food, jobs, and money.

Middle Eastern governments have much adjusting to do if they hope to cope with the economic imperatives of the last decade of the twentieth century. They will have to stop doing some things—such as, protecting state monopolies and flouting the rule of law—start doing other things—for example, assisting their private exporters in foreign markets—and do some things much better—such as, educating their young. Some countries may rise to the challenge. Some will likely fail. The costs of failure will be very high, and will affect not only their own peoples and their neighbors, but also the international community. The alternative road of repression, civil war, economic stagnation, food insecurity, poverty, and chaos is all too familiar to people of the region. The fact that there is an economic imperative does not mean that polities will rise to the occasion. The stark choice, however, needs to be placed before policymakers, both within and without the region. All should recall the dictum of Sir Winston Churchill: "Democracy is the worst form of government, except for all the others."