

# “Fire in Cairo”: Authoritarian–Redistributive Social Contracts, Structural Change, and the Arab Spring

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**Summary.** — Around 2011, several Middle-East and North-African (MENA) previously stable regimes have been challenged, sometimes violently, by unprecedented waves of civil protests. The so-called “Arab Springs” have generally been motivated by the growing gap between young adults’ aspirations to climb up the social ladder and the dearth of socioeconomic opportunities consecutive to the slow pace of structural change featured by the economies of the region. The present paper argues that this slow pace of structural change, measured by export sophistication and diversification, may well be the consequence of the authoritarian–redistributive social contracts that were established after the Independence and were subsequently only marginally reformed. MENA social contracts are generally described as political bargains by which socioeconomic security, based on high levels of redistribution and state control of the economy, were traded against the absence of political freedom. We show in this paper that although redistribution and political authoritarianism have an impact on structural change, by their own, their combination certainly explains the deficit of structural transformation of MENA economies. More specifically, we provide cross-sectional and dynamic-panel evidence that the positive impact of redistribution on structural change, measured by export diversification and sophistication, vanishes for the very high levels of authoritarianism characterizing the MENA region. Our results hold for different specifications of the estimated equations and of the social contract variable, as well as when endogeneity issues are addressed. The paper finally describes the political economy that sustained, over the last three decades, this combination of political authoritarianism and slow productive diversification and sophistication throughout the region, before explaining how these features could well have inhibited the political capacities and willingness of most MENA incumbent regimes to reform the social contract in a radical and timely manner.  
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## 1. INTRODUCTION

During 2011–13, various countries of the Middle East and North African (MENA) region were hit by an unprecedented eruption of revolutionary protest and civil violence. Conflict intensities varied considerably across Arab countries according to the political regime, the intensity of ethno-religious fragmentation, and the importance of rents supporting the ruling coalitions.<sup>1</sup> Beyond these country singularities, however, all these protests were motivated by a common factor. Since the 1970s, MENA populations have been exposed to a growing gap between their socioeconomic aspirations and the opportunities that could be provided by a slow pace of structural change (Aysan, Nabli, & Vezanzones-Varoudakis, 2007; Noland & Pack, 2007; Ross, 2012; World Bank, 2004). By shifting productive resources toward the most productive activities and firms, structural change improves allocative efficiency and spurs growth (McMillan, Rodrik, & Verduzco-Gallo, 2014).<sup>2</sup> As a consequence, the workers performing more productive tasks in modern industries enjoy higher wages and durably improve their living standard, whereas the others remain underemployed in traditional industries, or even unemployed. The distribution of the private benefits and costs of structural change therefore tends to be highly uneven in developing countries. As underlined by Ray (2010, p. 46), such unevenness can be tolerated or even welcomed if it raises expectations of all social groups, but it will be tolerated for only so long. In the absence of redistribution, failed expectations will therefore set peaceful or violent forces in motion to restore a greater degree of balance. As the Arab Spring protests showed, the frustration felt by young, educated adults facing a dearth of employment opportunities had probably gone so critical in the middle-income countries

of the MENA region that rejecting the whole political-economic system appeared as a credible issue for many.<sup>3</sup>

Significant political challenges are therefore associated to structural change in developing countries since the dynamic distribution of the economic benefits and costs of creative destruction will condition the socio-political acceptability of this process (Ray, 2010).<sup>4</sup> A series of recent works has for example found evidence that the probability of political violence increases when economic structural transformation and productive modernization is too slow.<sup>5</sup> Campante and Chor (2012) find panel data evidence that the risk of political violence increases when high unemployment coexists with an increasing proportion of educated people in the population. This result is confirmed by Campante and Chor (2014) who show that rising education levels coupled with macroeconomic weakness are associated with increased incumbent turnover and subsequent pressures toward democratization. They also provide micro-level evidence that individuals whose income outcomes fall short of that predicted by their education level have a greater propensity to engage in protest activities, explaining this result by the fact that the opportunity costs of being involved in political activism rather than working decreases with unemployment. Focusing on the production structure, Cox, North, and Weingast (2015) find that greater economic complexity measured by higher export

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sophistication reduces the probability of coups and political violence by encouraging more complex organizations (e.g., industrial businesses) and inter-group social ties (e.g., salaried employment).

Over the past five decades, MENA structural transformation has significantly lagged behind that observed for other developing regions (Diop, Marotta, & de Mello, 2013).<sup>6</sup> Since the liberalizing reforms of the 1980s, inefficient industries and counter-innovative governance have constantly made it difficult for the resource-poor countries of the region to develop competitive and sophisticated exports. The political economy literature has put forward various explanations for the structural change deficit of the MENA economies. Initial conditions like culture (Kuran, 2004), natural resource availability (Ross, 2012), religion (Platteau, 2011; Pryor, 2007), and colonization (Henry & Springborg, 2001, chap. 1) have been postulated as structural hindrances to economic modernization. However, there is no consensus about these explanations and they also tend to neglect the impact of post-independence policy choices on MENA productive features. The oversized and coercive state apparatus that were set up throughout the MENA region in the 1950s have certainly hampered structural transformation by discouraging private sector modernization (Bellin, 2004; Henry & Springborg, 2001; Heydemann, 2004; Owen, 2002). Later, partial liberalization reforms have strengthened cronyism by generalizing politically oriented co-optation and patronage, thereby establishing economies that are strongly adverse to innovative behavior (Cammatt *et al.*, 2015; Malik & Awadallah, 2013).

In our opinion, all these explanations point to one crucial aspect of MENA political economies, i.e., the authoritarian-redistributive social contract adopted by most of the region's countries from the 1950s onward. Economists generally define the social contract as the optimum level of inequality-redistribution collectively chosen by a society.<sup>7</sup> Since aspirations to social improvement and political emancipation increase with income and education levels (Ingelhart, 1997; Lipset, 1959), inequality and redistribution in middle-income countries not only concern income, but also socioeconomic opportunities like jobs in the modern sector or political participation. In the context of developing economies, the definition of the social contract can therefore be extended to a vast set of allocation and redistribution policies (Desai, Olofsgård, & Yousef, 2009) – including taxes and subsidies that support specific sectors or companies, regulatory protection that generate rents to producers, social transfers, and public employment provision that support household incomes<sup>8</sup> – defining the set of socioeconomic opportunities accessible to the different sociopolitical groups.<sup>9</sup>

MENA social contracts were negotiated by the revolutionary or monarchical elites of the region's newly independent states and their citizenries. Since they basically meant trading socioeconomic security, via low taxes, high redistribution and patronage, for political authoritarianism and low levels of pluralism, they have also been called authoritarian bargains (Brumberg, 1990; Desai, Olofsgård, & Yousef, 2014; Noland & Pack, 2007; Richards & Waterbury, 1990; Vanderwall, 2003; Vitalis & Heydemann, 2000).<sup>10</sup>

In this paper, these typical authoritarian-redistributive social contracts are accordingly defined by the proportion of GDP in state transfers and subsidies to the economy multiplied by the degree of political authoritarianism. The highest values of this multiplicative term therefore correspond to the most strongly authoritarian-redistributive patterns. By using this social contract measure, we provide cross-sectional and panel data evidence to support the assumption that

higher levels of authoritarianism reduce the positive effect of redistribution on export diversification and sophistication. Our empirical analysis shows that the lack of structural transformation, and, indirectly, the subsequent rejection of the formerly stable political economic equilibrium, may well be explained by the authoritarian-redistributive social contract that, although not specific to the MENA region, was adopted by most Arab countries after WWII. We also argue that the persistence of eroded authoritarian-redistributive social contracts have certainly increased the probability of political violence in the region by restricting the set of socioeconomic opportunities accessible to the population, but also by delaying any substantial reform of the social contract and of the supportive political economy it has promoted.

Although the effect of redistribution and democracy on growth has received sustained attention for the last two decades, their impact on structural change has been far less studied. The positive effect of democracy on output and export diversification was recently demonstrated by Cuberes and Jerzmanowski (2009) supporting the assumption that, since weakly-accountable governments tend to abuse regulation in order to limit market entry and protect incumbent firms, non-democracies tend to be less diversified than democracies. To date, however, no study has empirically tested the cumulative impact of the combination of high redistribution and strong authoritarianism on economic transformation. The adverse impact of the MENA authoritarian-redistributive social contracts on structural transformation has been extensively described by the political science literature (Cammatt *et al.*, 2015; King, 2003; Moore, 2004; Noland & Pack, 2007). However, since their detailed and informed analyses generally hinge on case studies, their conclusions about the effect of authoritarian-redistributive social contracts cannot be generalized. Thus, to our knowledge, this paper is the first to conduct an empirical analysis of the impact of social contracts on economic transformation, and to provide sound empirical support for the assumption of an adverse effect of authoritarian-redistributive social contracts on structural transformation. Since the extent and style of redistribution, the nature of the political economy and the degree of economic complexity may be simultaneously determined, the present paper instruments the political and redistributive components of the social contract, and discusses the complex linkages between these three components in the specific context of MENA countries' political economies.

The remainder of the paper is organized as follows. Section 2 describes the authoritarian-redistributive social contract as well as the resulting low diversification-low democracy features that pervade the MENA region. Our core assumption – that this authoritarian-redistributive social contract may have imposed a drag on structural transformation – is empirically tested in Sections 3 and 4. Section 5 then describes the specific political economy that has durably inhibited structural reforms in most MENA countries and underpinned the survival of the social contract in the long run. Section 6 concludes.

## 2. AUTHORITARIAN-REDISTRIBUTIVE SOCIAL CONTRACTS, STRUCTURAL CHANGE, AND MISSED OPPORTUNITIES: STYLIZED FACTS

In the wake of their independence, high levels of socioeconomic inequality combined with the spread of the welfare state and developmental state models in developing nations led to the establishment of highly typical social contracts by which

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