

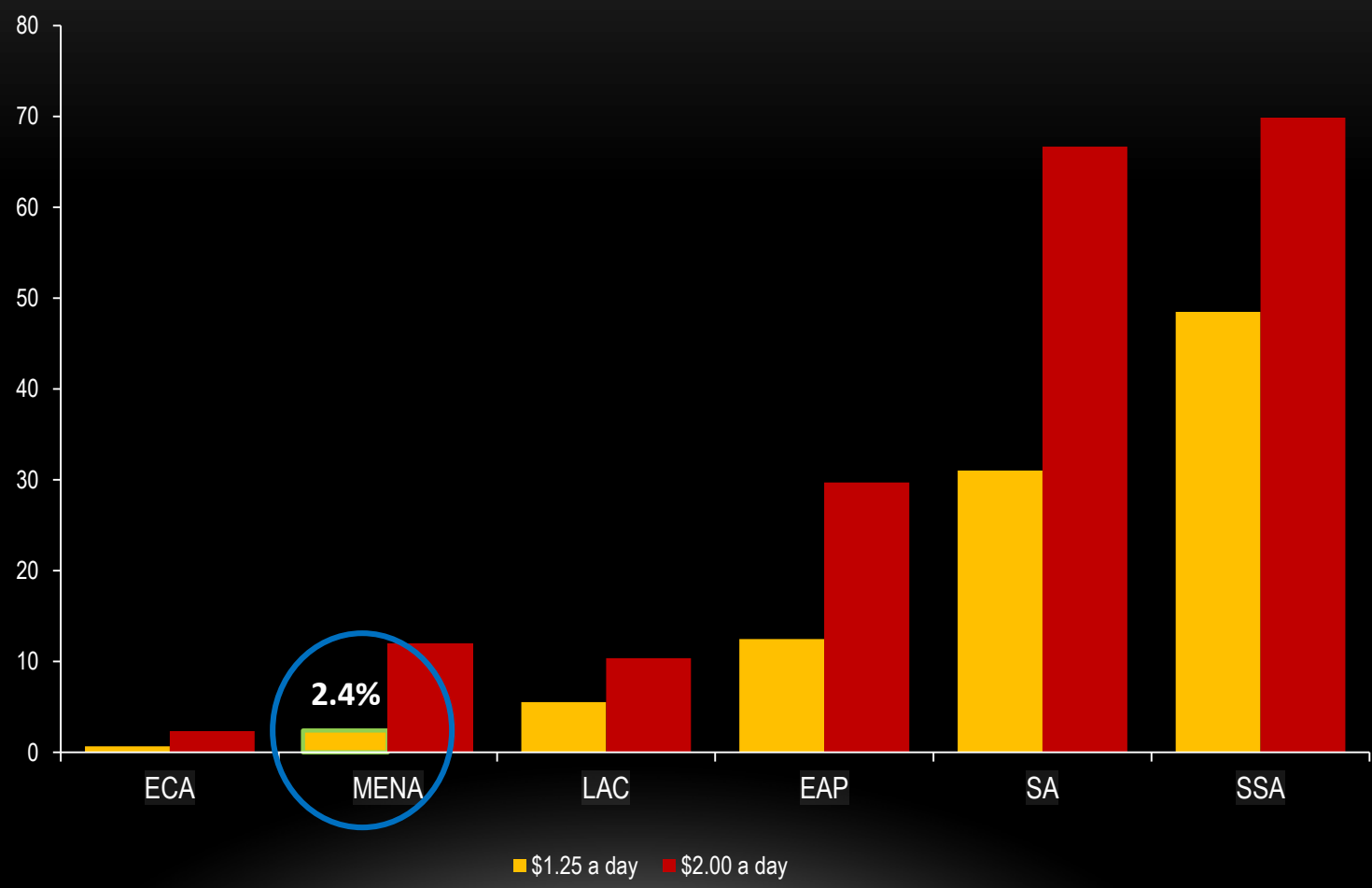
A broken social contract, not inequality, triggered the Arab Spring

Shanta Devarajan and Elena Ianchovichina

World Bank

www.brookings.edu/futuredevelopment

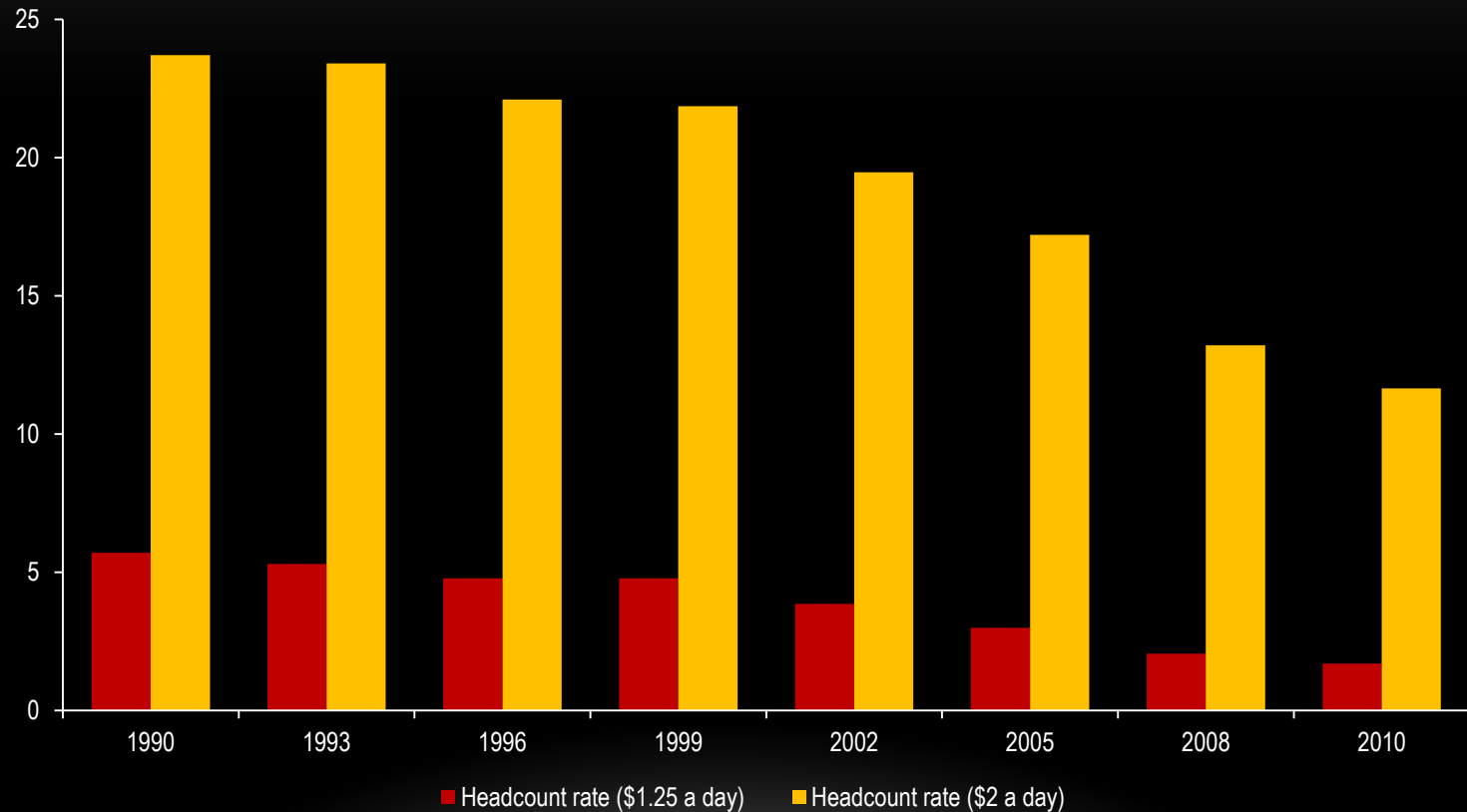
Before 2011, poverty rates in MENA were low



Source: PovcalNet, World Bank.

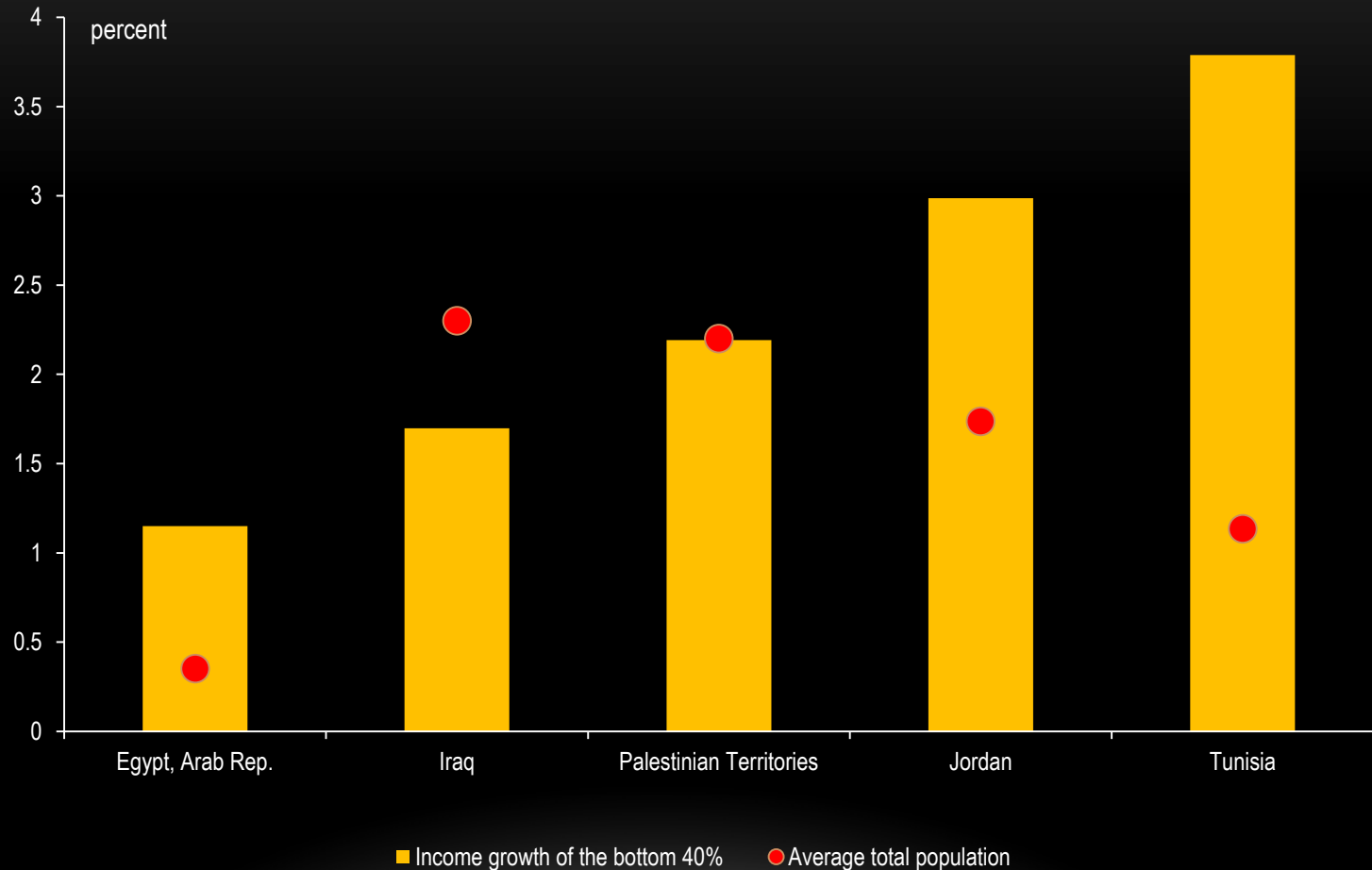
and declining

Poverty rates in MENA (% of population)



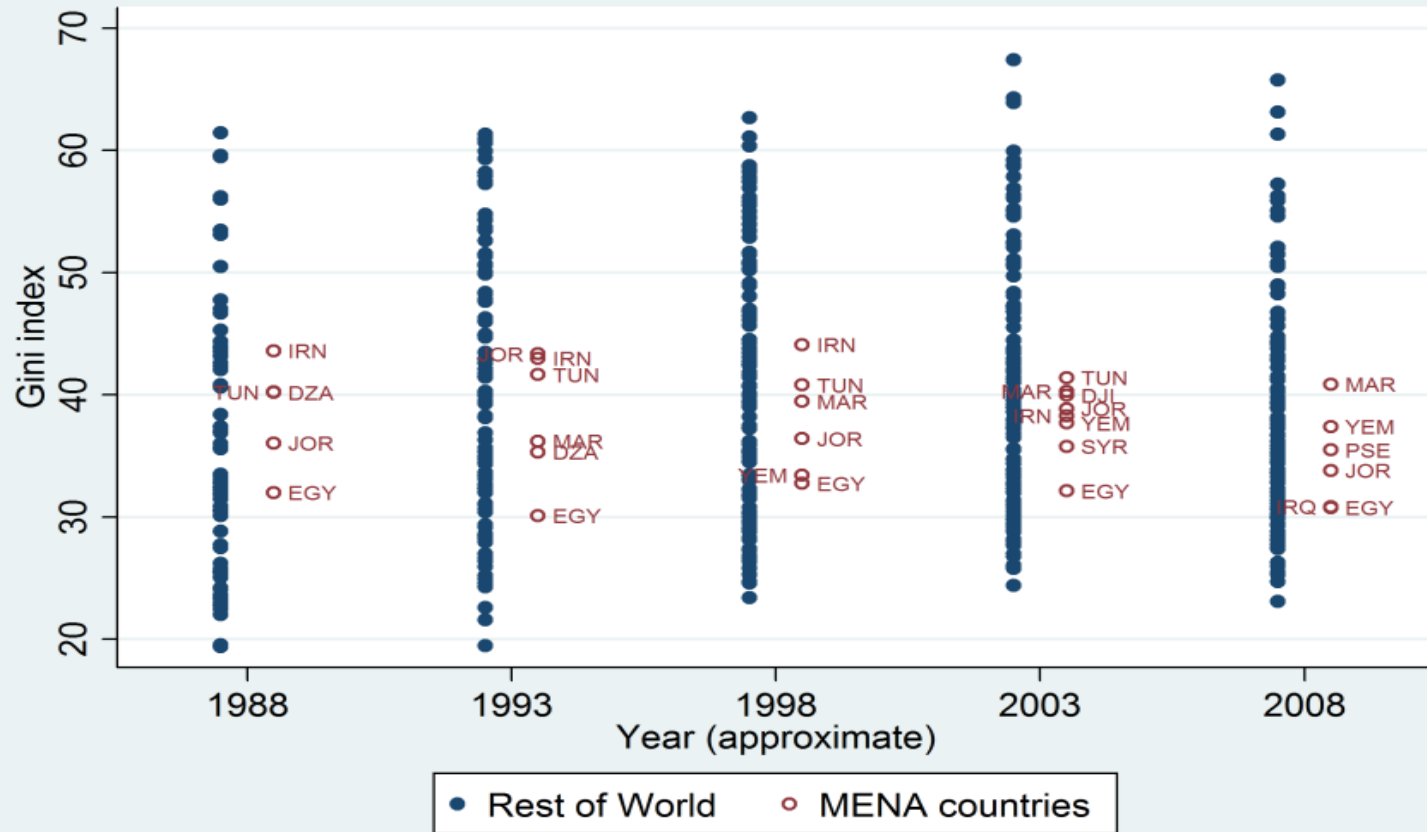
Source: PovcalNet, World Bank.

Income of the bottom 40 percent grew faster than average



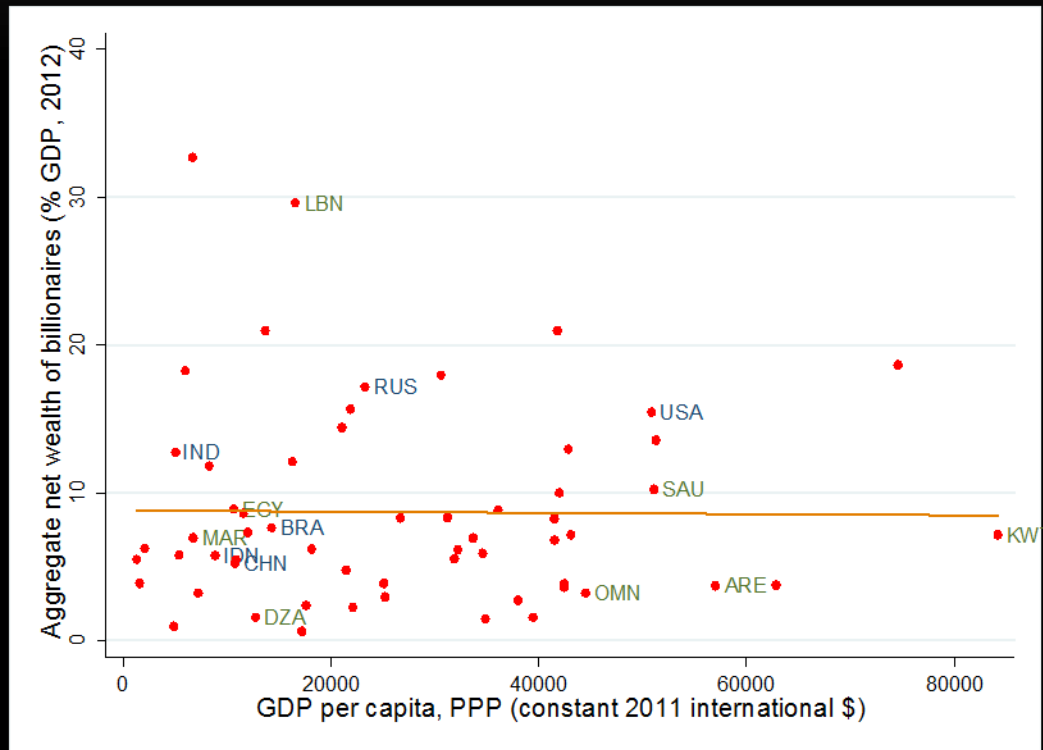
Source: World Development Indicators, World Bank.

Inequality was low and declining



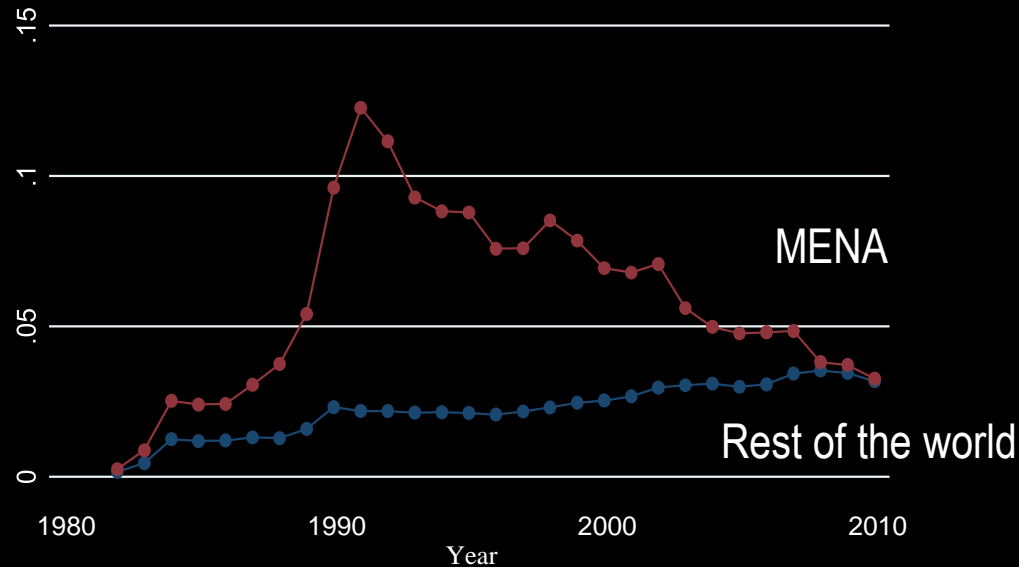
Source: Data used in Lakner and Milanovic (2013, PRWP 6719)

Wealth concentration in the hands of billionaires



Source: Ianchovichina et al. (2015) based on Forbes database of billionaires and World Bank data on GDP.

Offshore hidden deposits as a share of GDP

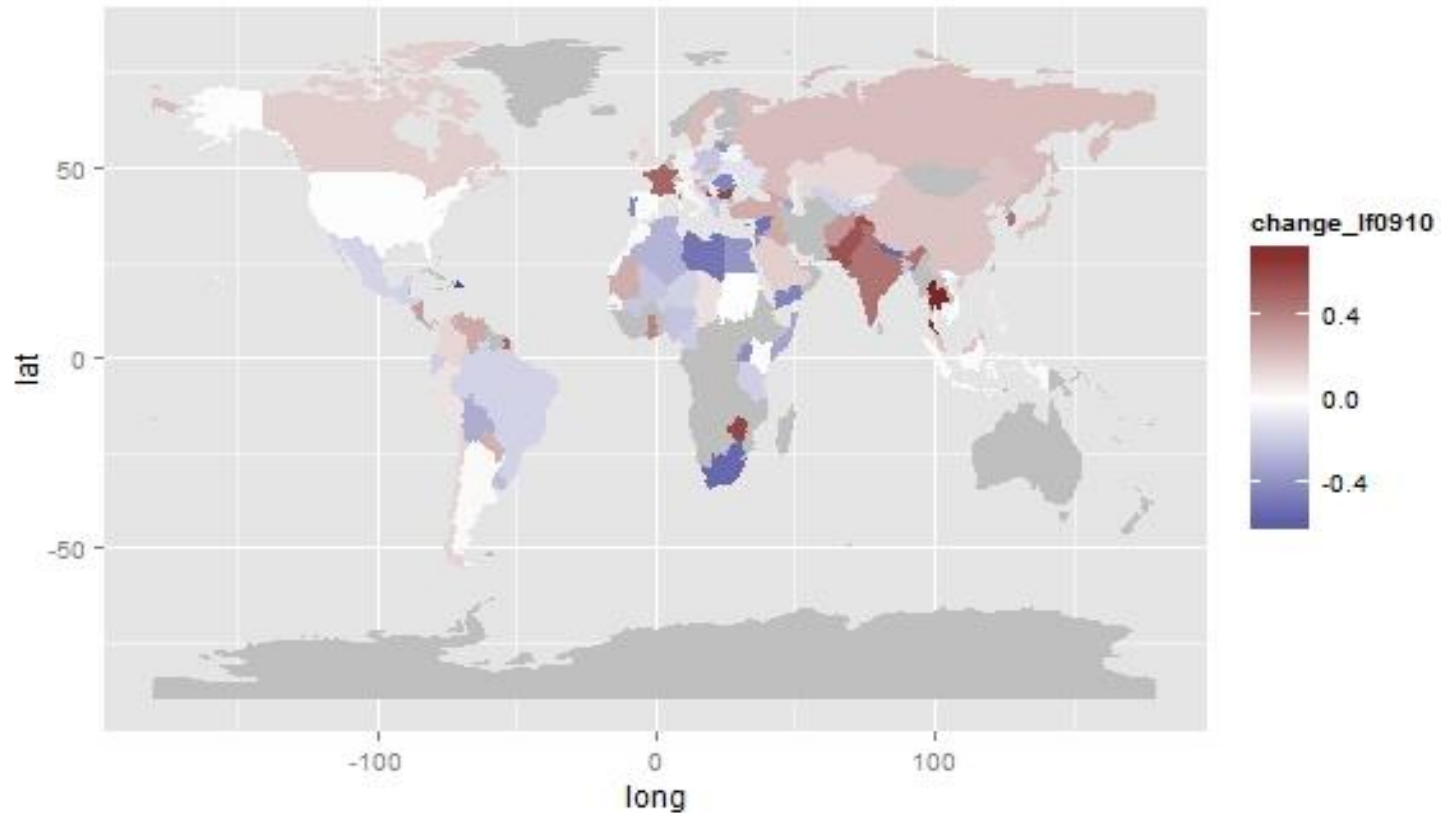


Yet, there were revolutions in 4 countries and protests in several others



Perceptions of wellbeing were plummeting

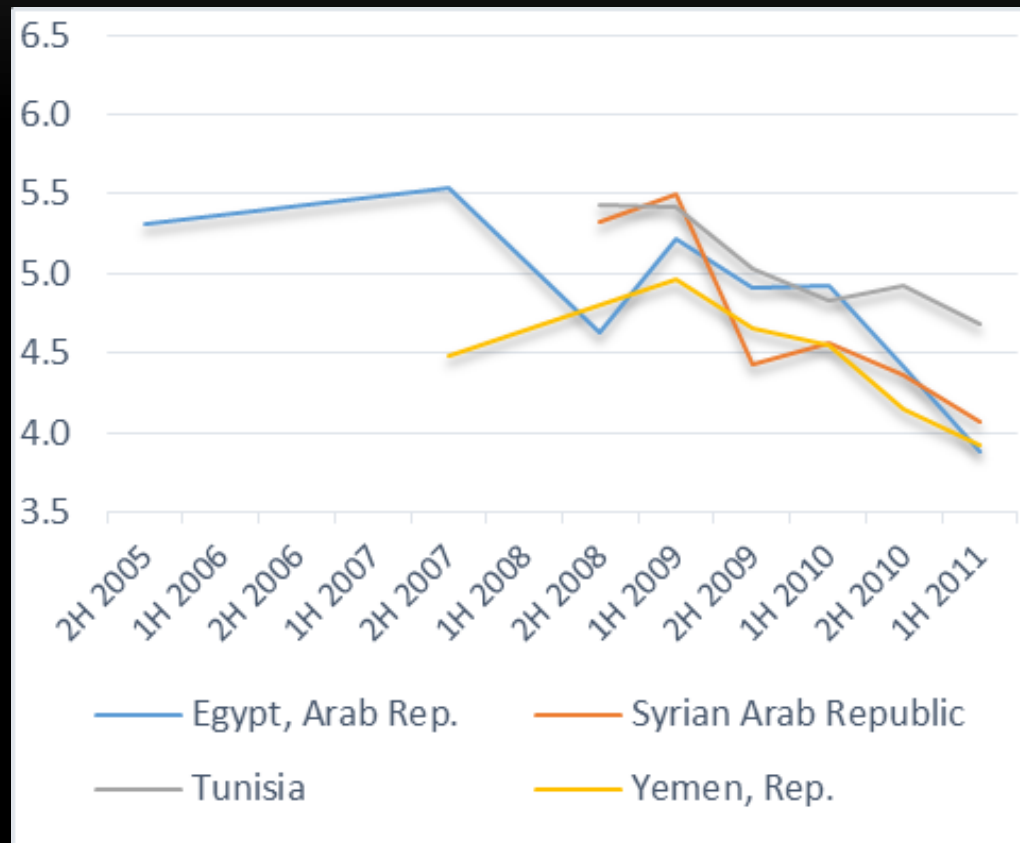
Change in average life satisfaction levels, 2009-10



Source: Ianchovichina et al. (2015) based on Gallup World Poll data.

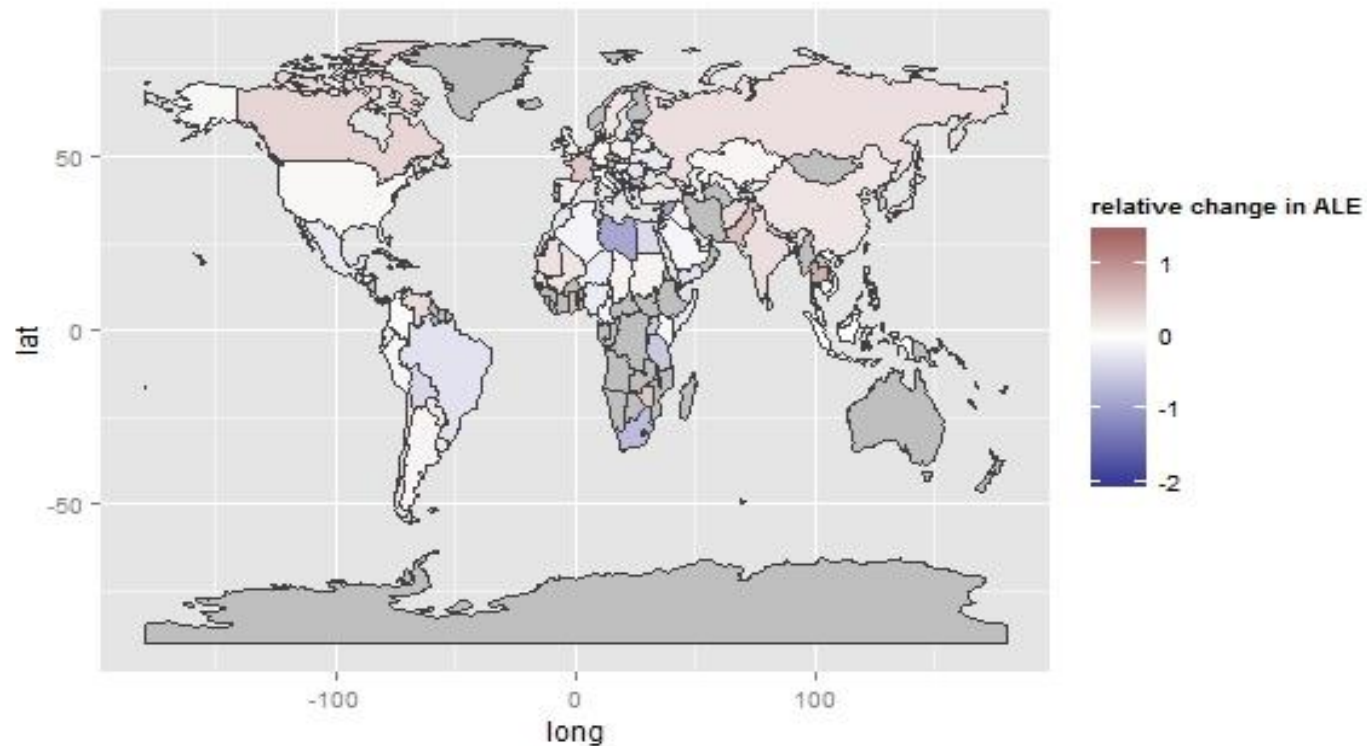
especially in the Arab Spring countries

Evolution of life satisfaction during the second half of the 2000s



Declines were larger for the middle class than the poor

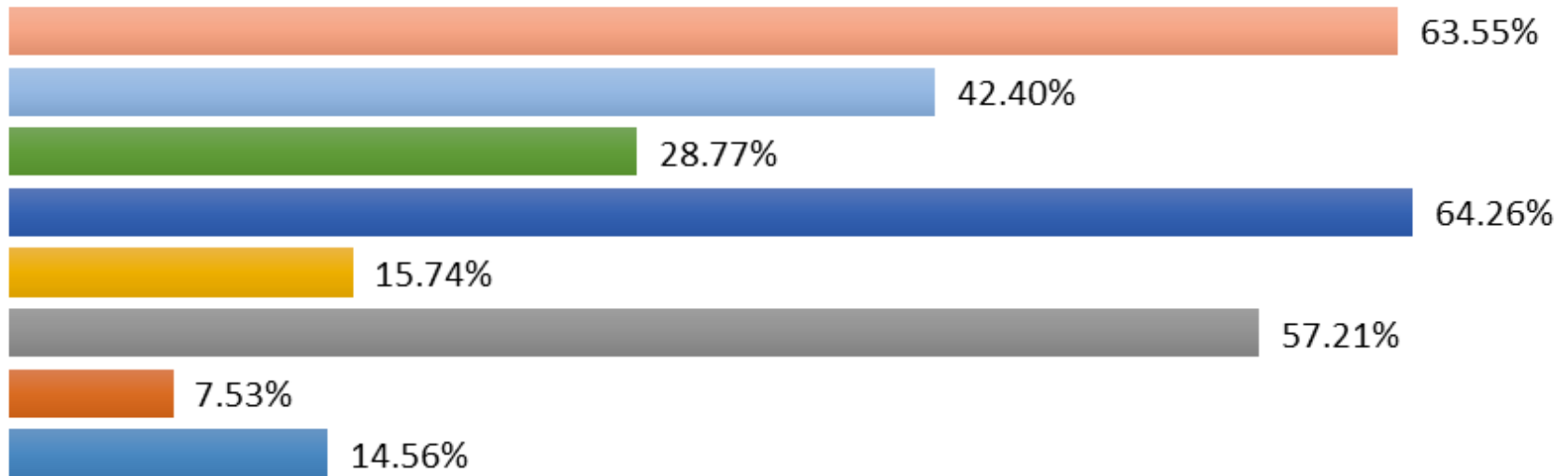
Change in average life satisfaction levels of the top 60 percent relative to the bottom 40 percent, 2009-10



Source: Ianchovichina et al. (2015) based on Gallup World Poll data.

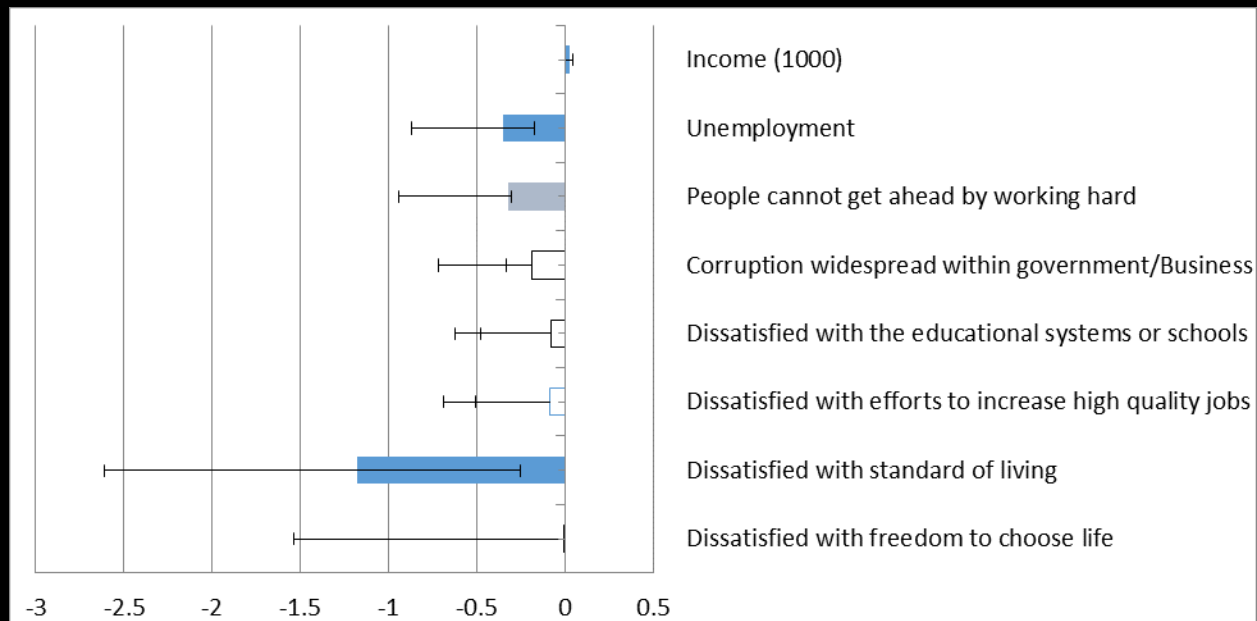
Main reasons for the Arab uprisings...

(percent of surveyed who were asked to identify three main reasons for Arab Spring)



- Betterment of the economic situation
- Civil and political freedoms, and emancipation from oppression
- Dignity
- Fighting corruption
- Rule of law
- Social and economic justice
- Weakening the political and economic relations with the West
- Weakening the political and economic relations with Israel

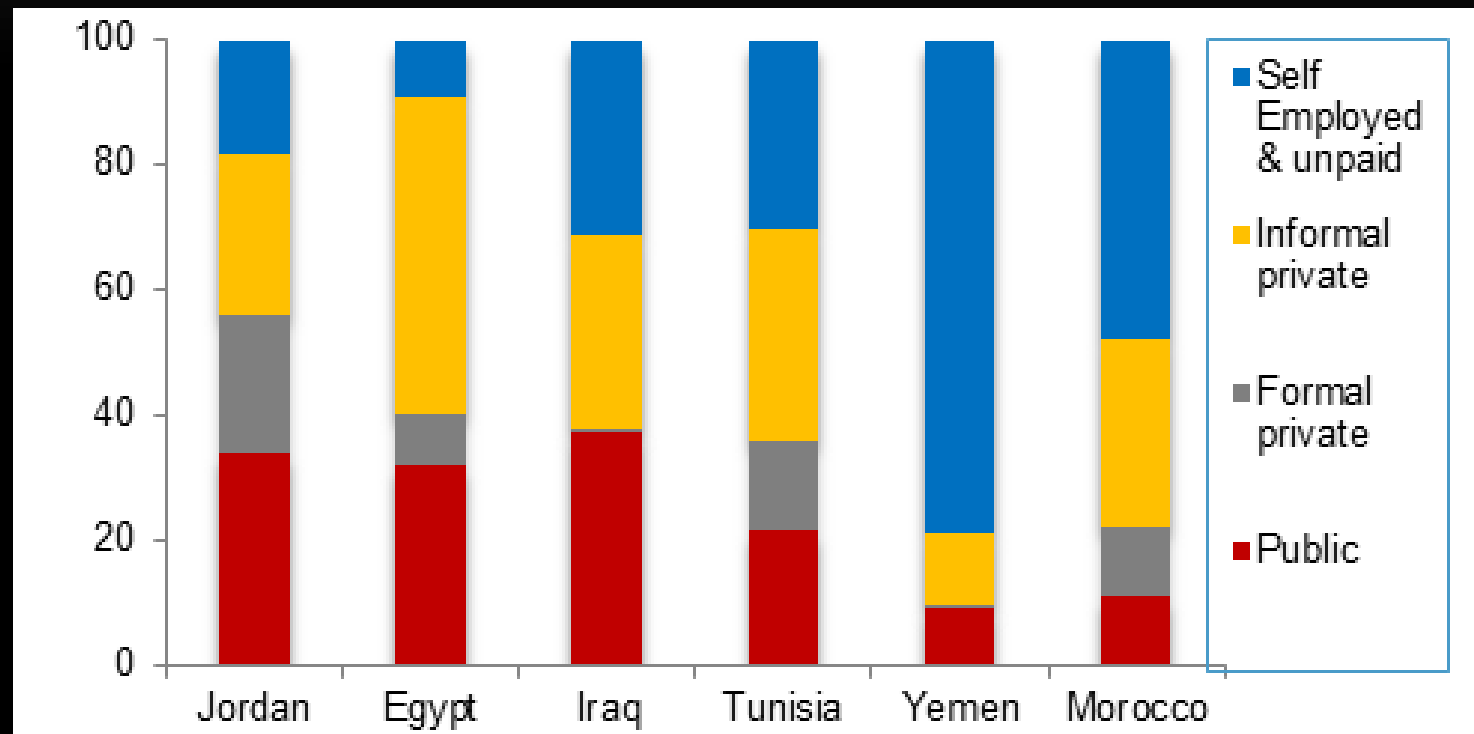
...also associated with life dissatisfaction



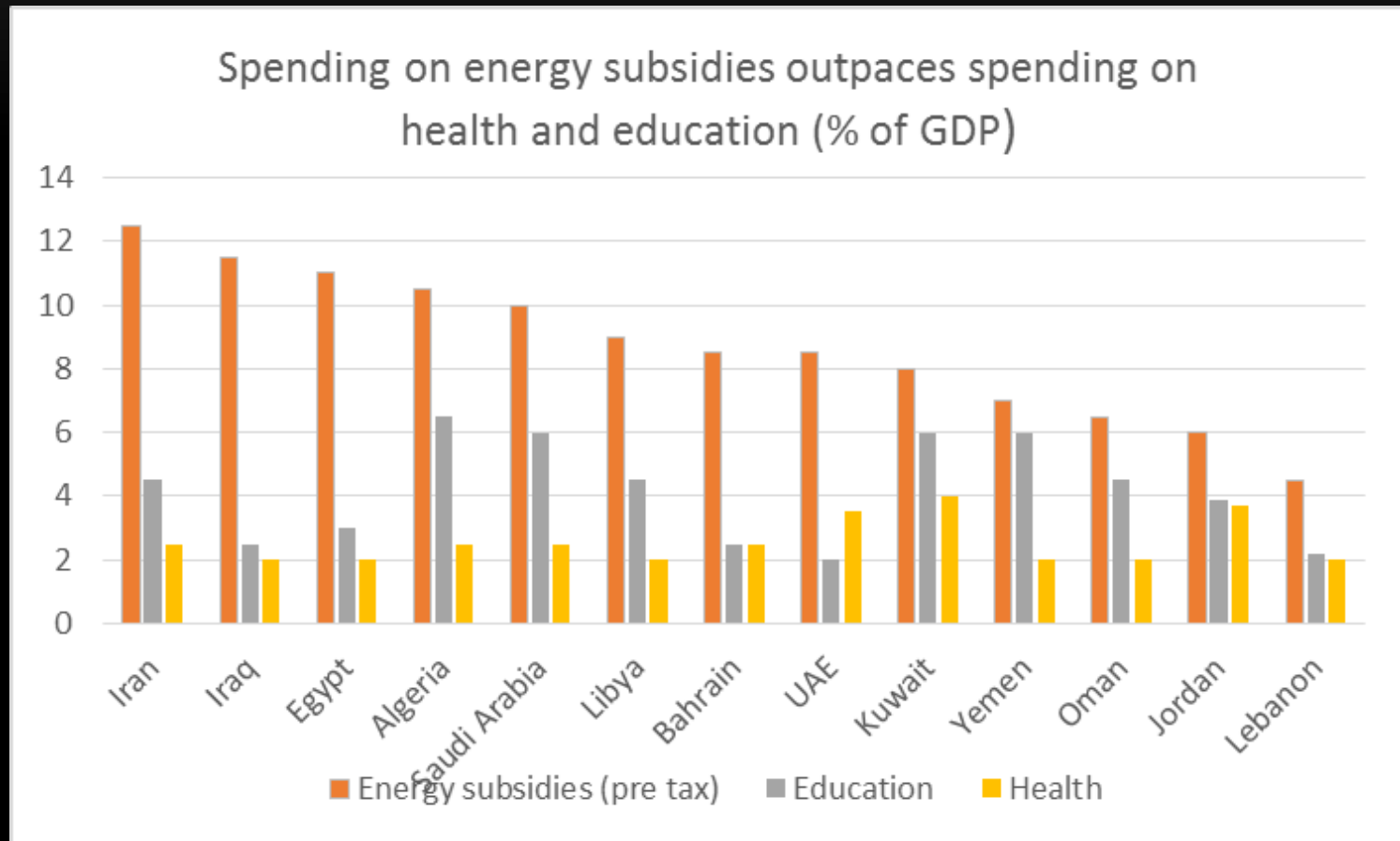
Source: Arampatzi et al. (2015). Note: Dark blue, light blue and white denote 1 percent significance level, 5 percent significance level, and no significance, respectively.

The old social contract:

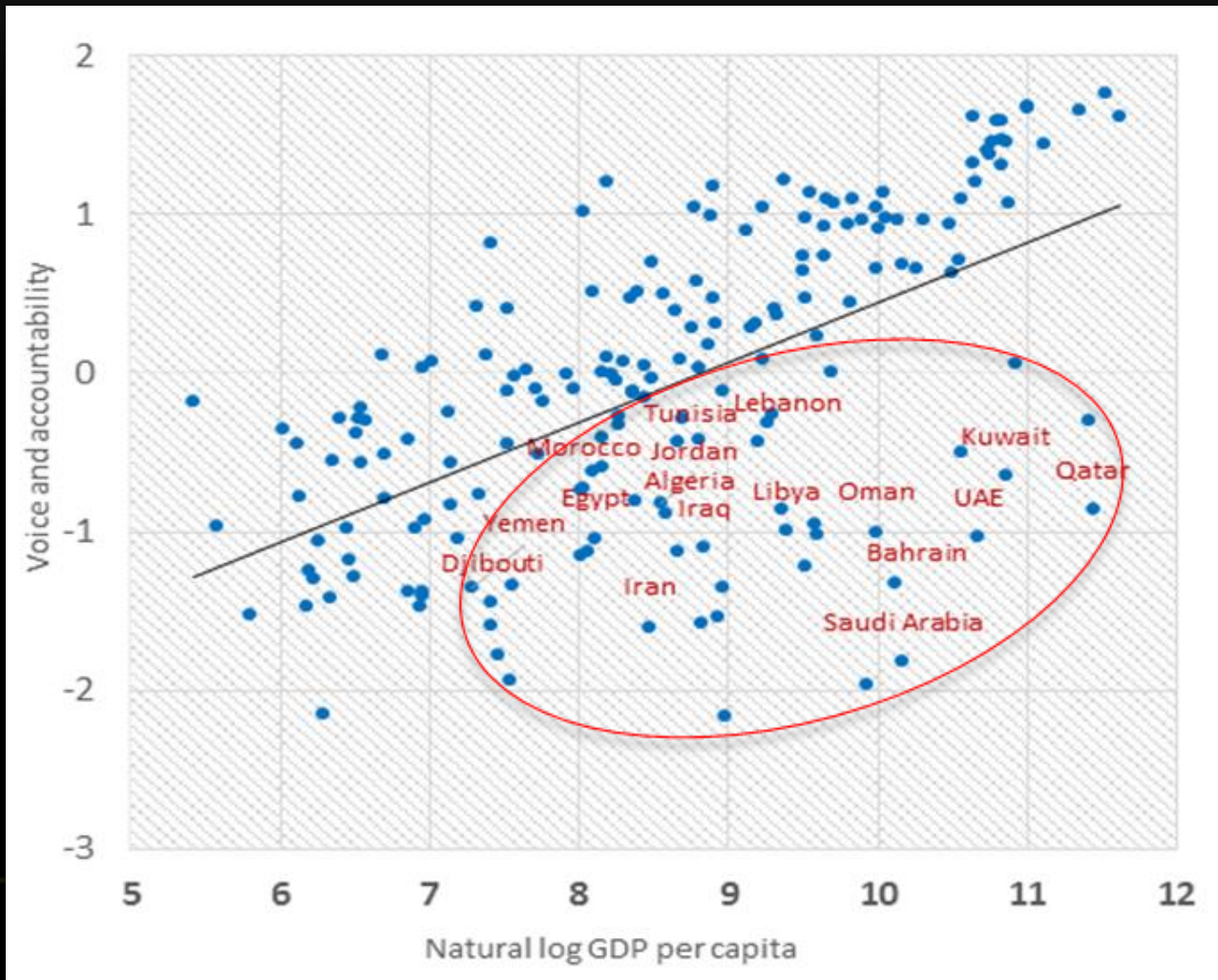
(1) Jobs in the public sector



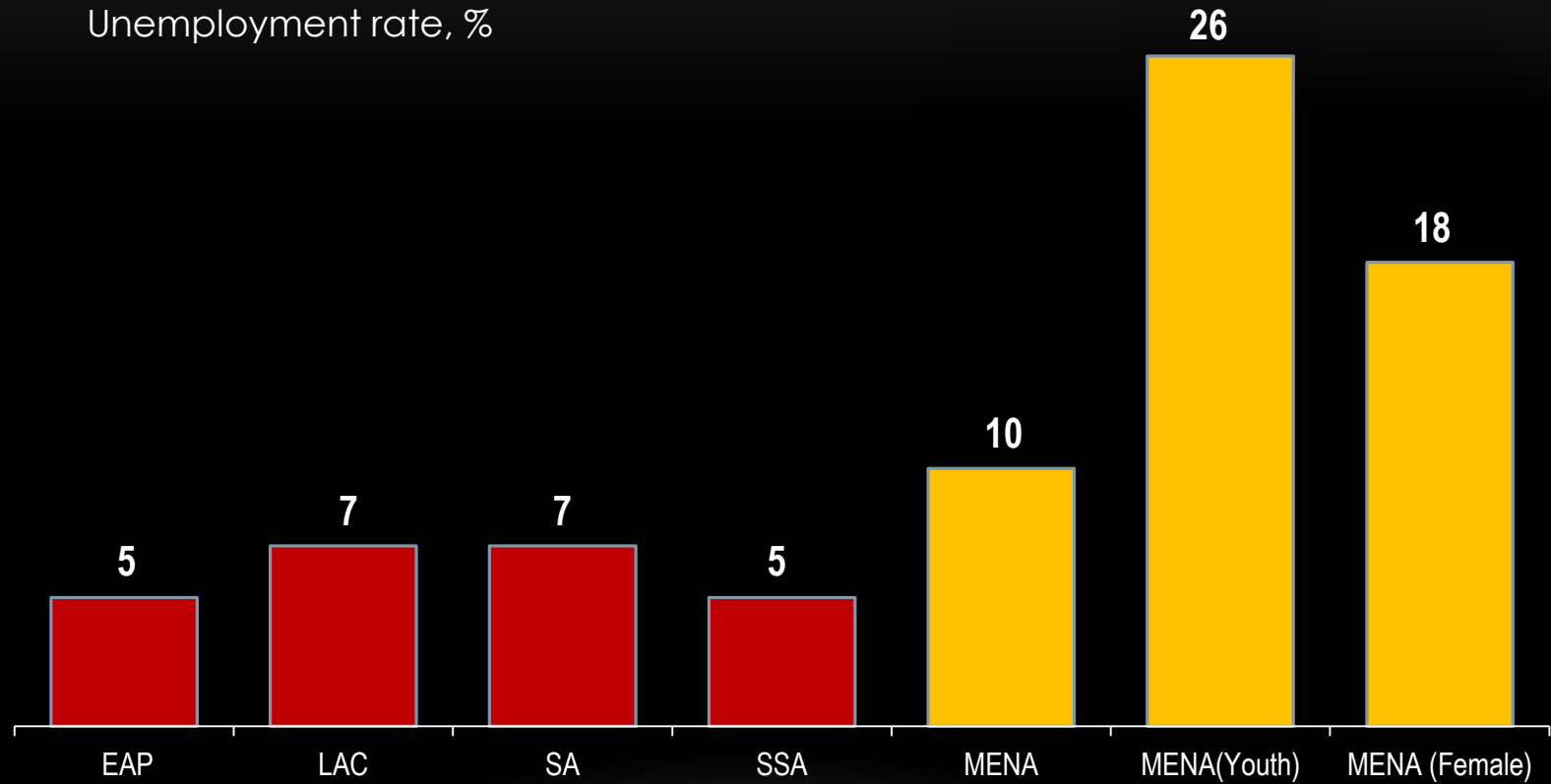
The old social contract: (2) Subsidized energy, free education and health



The old social contract: (3) Limited voice and accountability



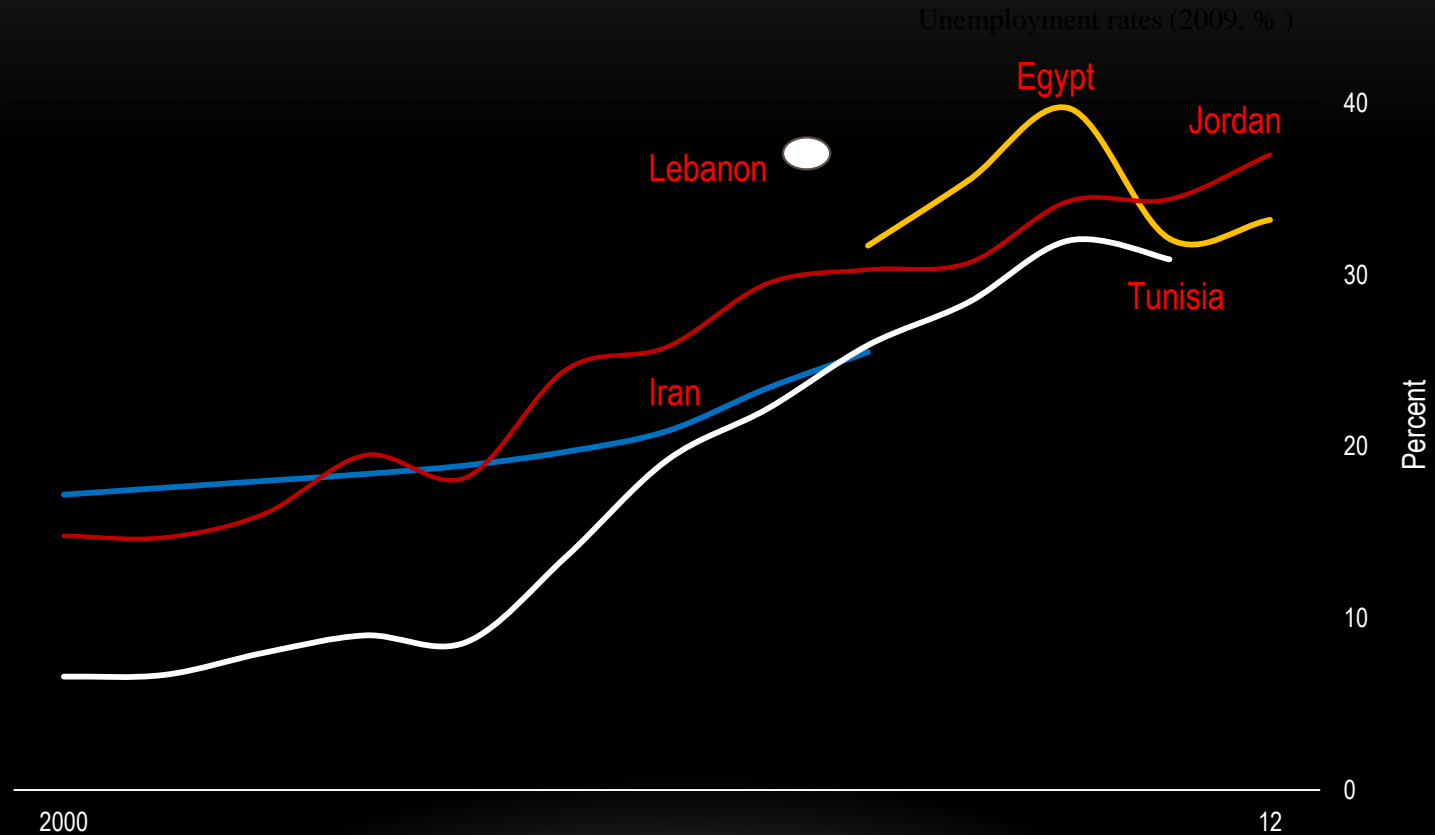
Broken social contract: (1) Unemployment



Source: World Development Indicators, World Bank.

especially among highly educated people

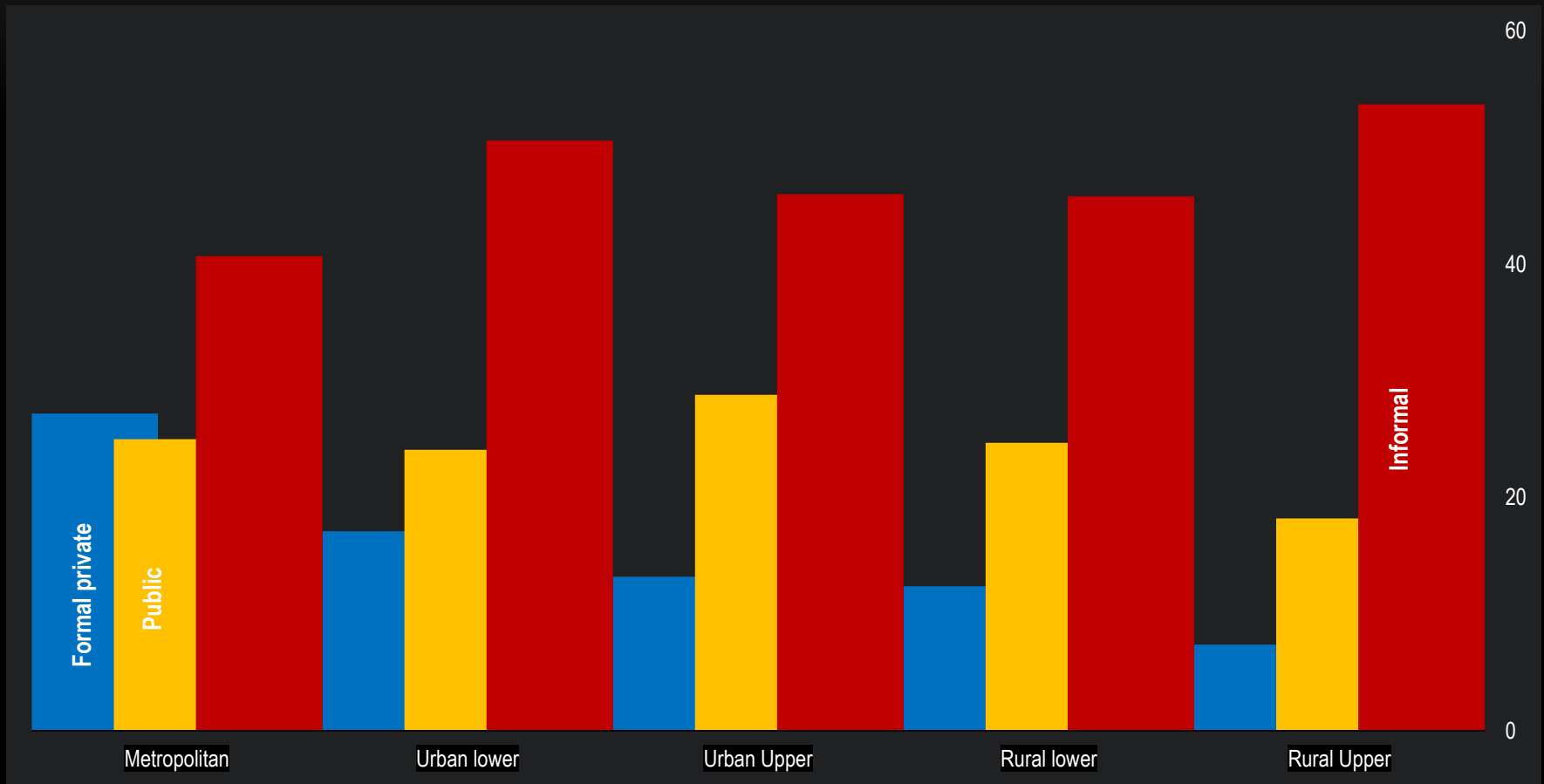
Unemployed with tertiary education (% of total unemployment)



Source: World Bank, latest available year.

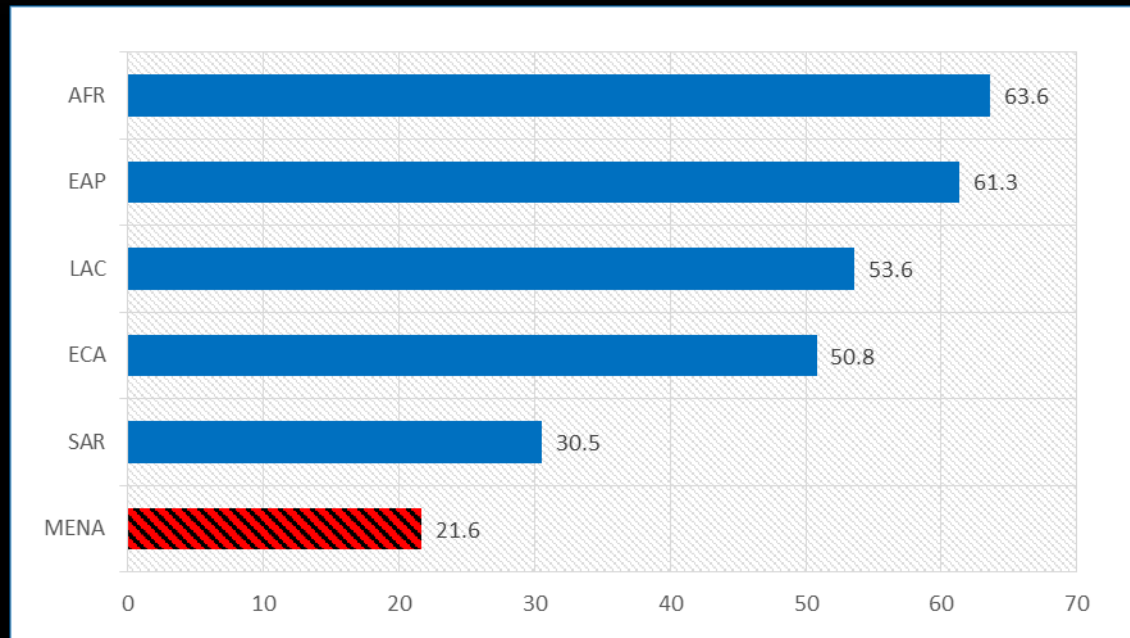
Most of the male labor force is engaged in the informal sector

Egypt: job status by region, male labor force participation aged 15-24, %



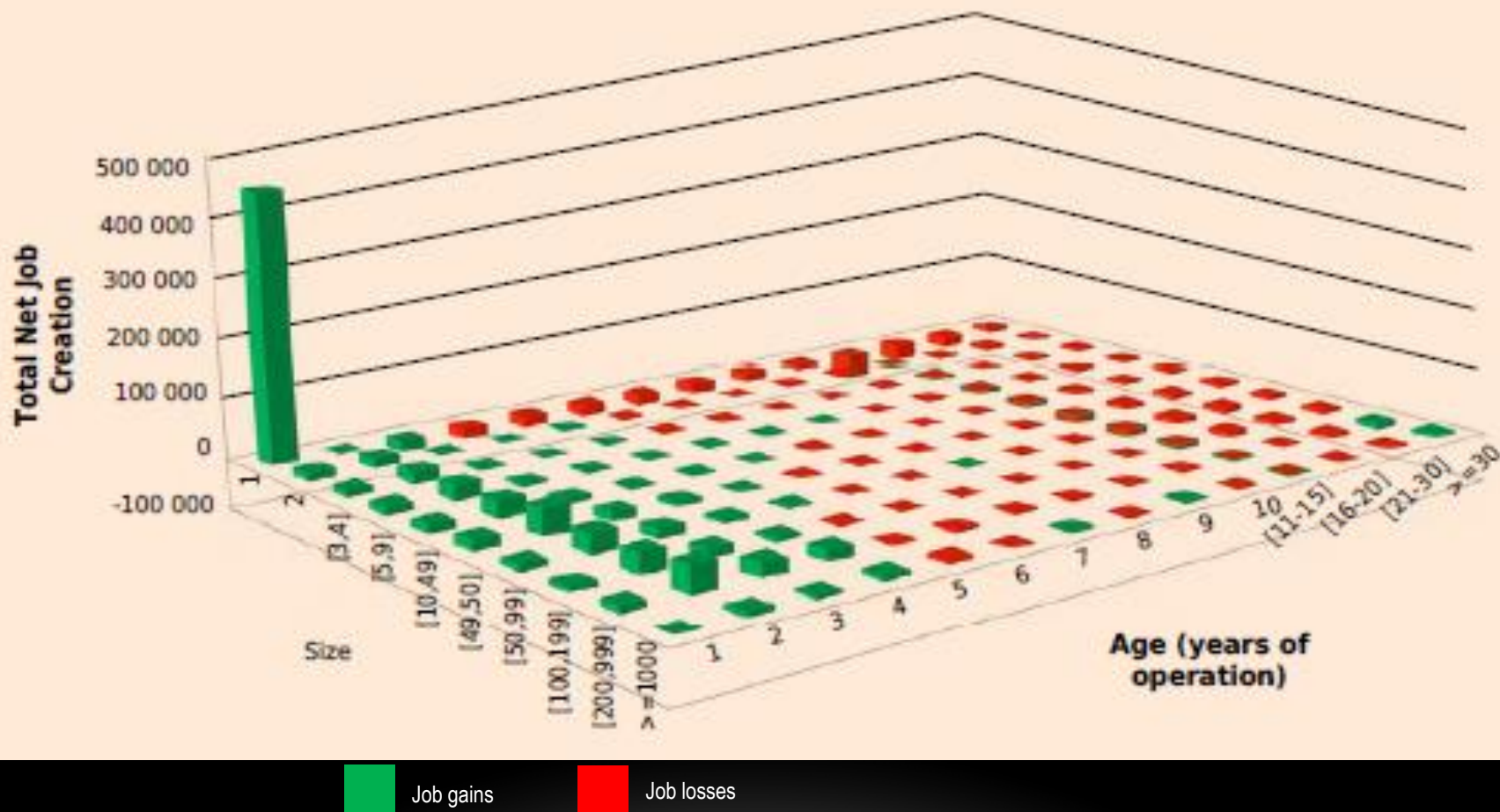
Source: World Bank.

Lowest female labor force participation rate in the world



Why is unemployment so high?

Net employment creation in Tunisia, 1997-2010



Source: World Bank, The Unfinished Revolution, Tunisia Development Policy Review, September 2014.

Sluggish private sector connected to privilege

Squatting on tasty chunks of Tunisia's economy

Business interests of the Ben Ali family



Regulations favored connected firms in Tunisia

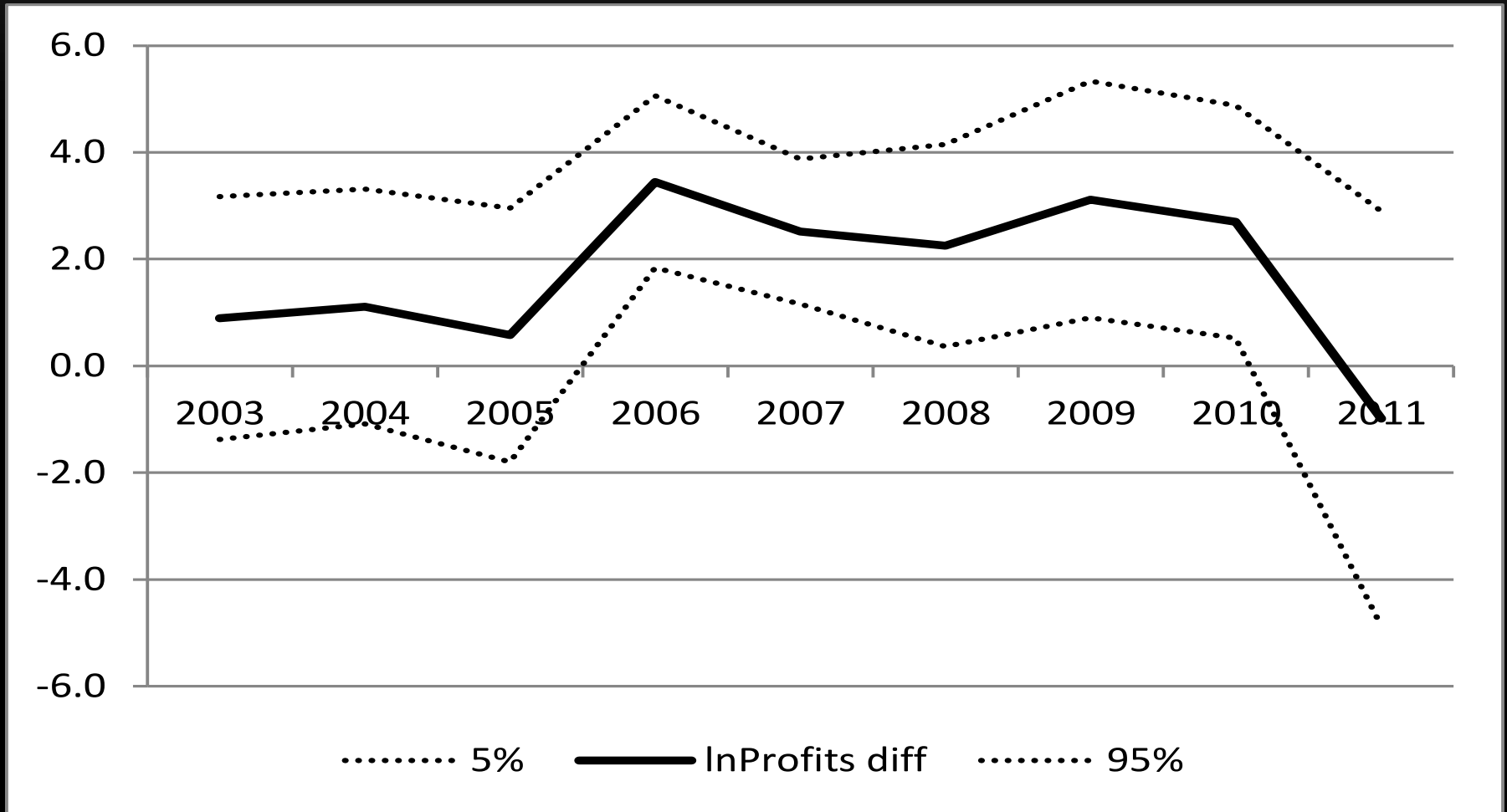
	Ben Ali firms			Other firms			
	N	Mean	Sum (USD)	N	Mean	Sum (USD)	Ben Ali Share of Total
L	127	66	8,392	112309	9	1,036,610	0.80%
Y	122	16,980,822	2,071,660,240	307430	225,300	62,512,270,119	3.20%
Net Profits	122	1,908,925	232,888,796	96859	11,090	1,074,153,638	21.30%
Gross Profits	122	2,811,035	342,946,258	96859	54,320	5,261,372,574	6.80%
Gross Losses	122	-902,110	-110,057,441	96859	-43,230	-4,187,219,068	2.70%

Note: USD:TND exchange rate 1:1.5146, data for 2010, L=wage workers, Y=output, Net profits=pre-tax profits declared to the tax authorities (all firms), gross profits=pre-tax profits declared to the tax-authorities only for firms for whom this is positive. Gross losses=tax profits declared to the tax authorities only for firms for whom this is negative.

Source: Rijkers, Freund and Nucifora, "All in the family: State capture in Tunisia," 2014.

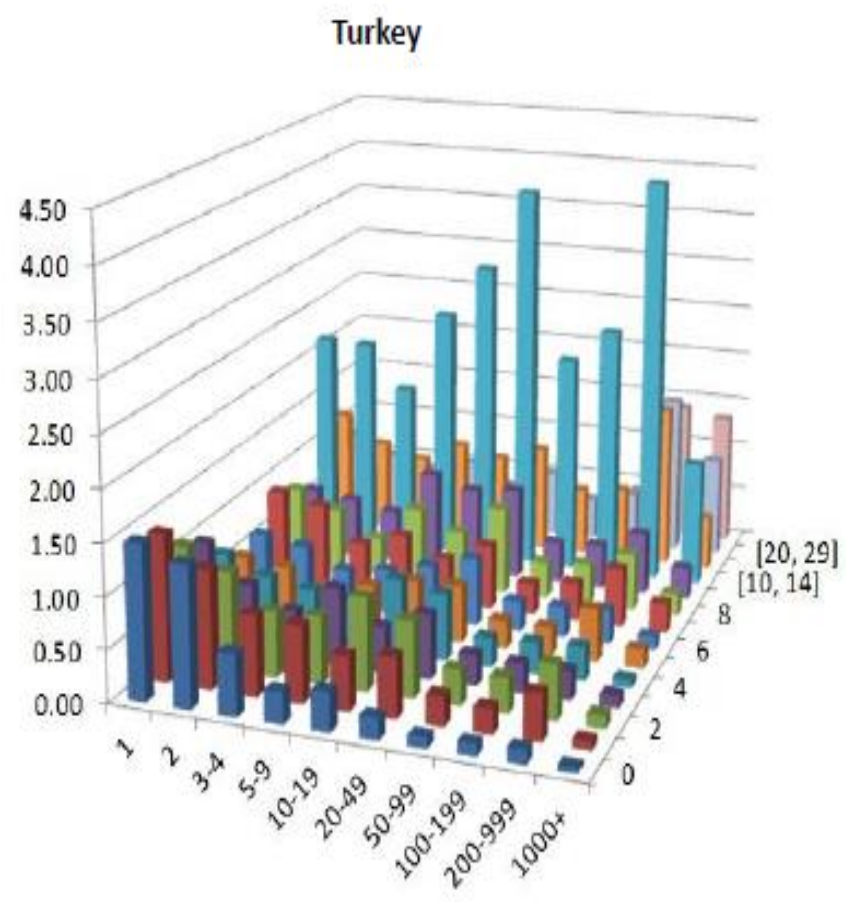
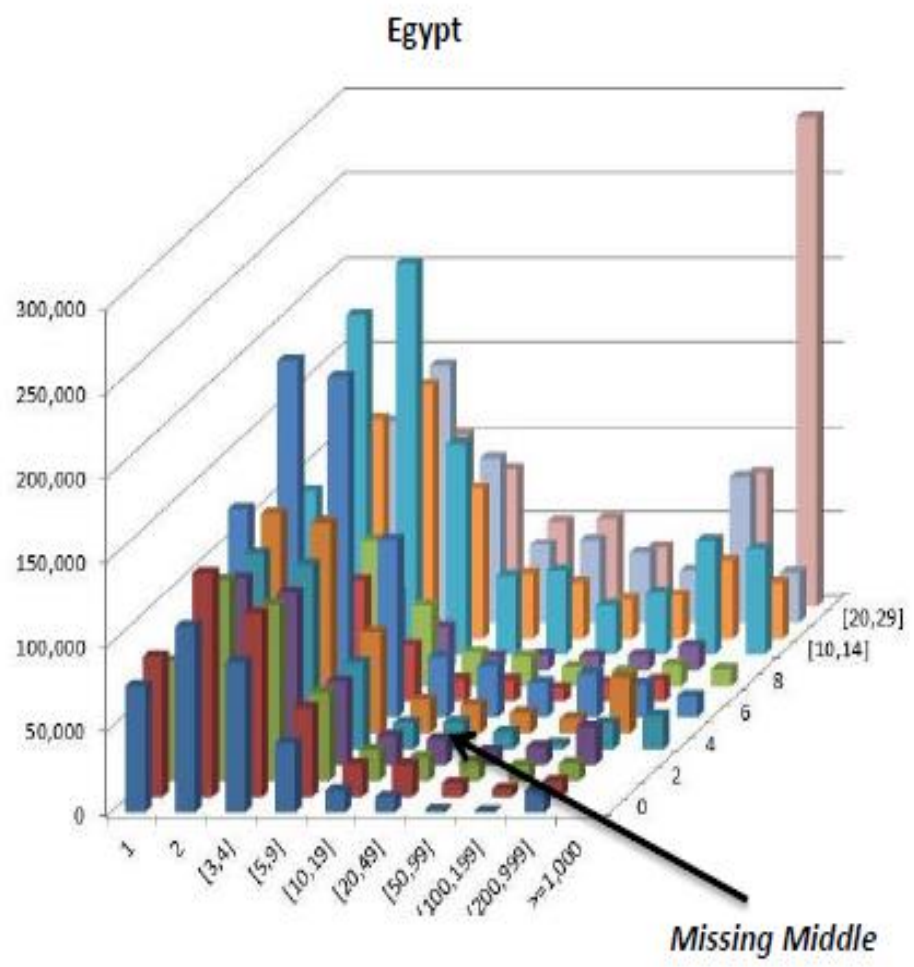
Regulations favored connected firms in Egypt

Net profits of PC firms relative to other (Orbis) firms



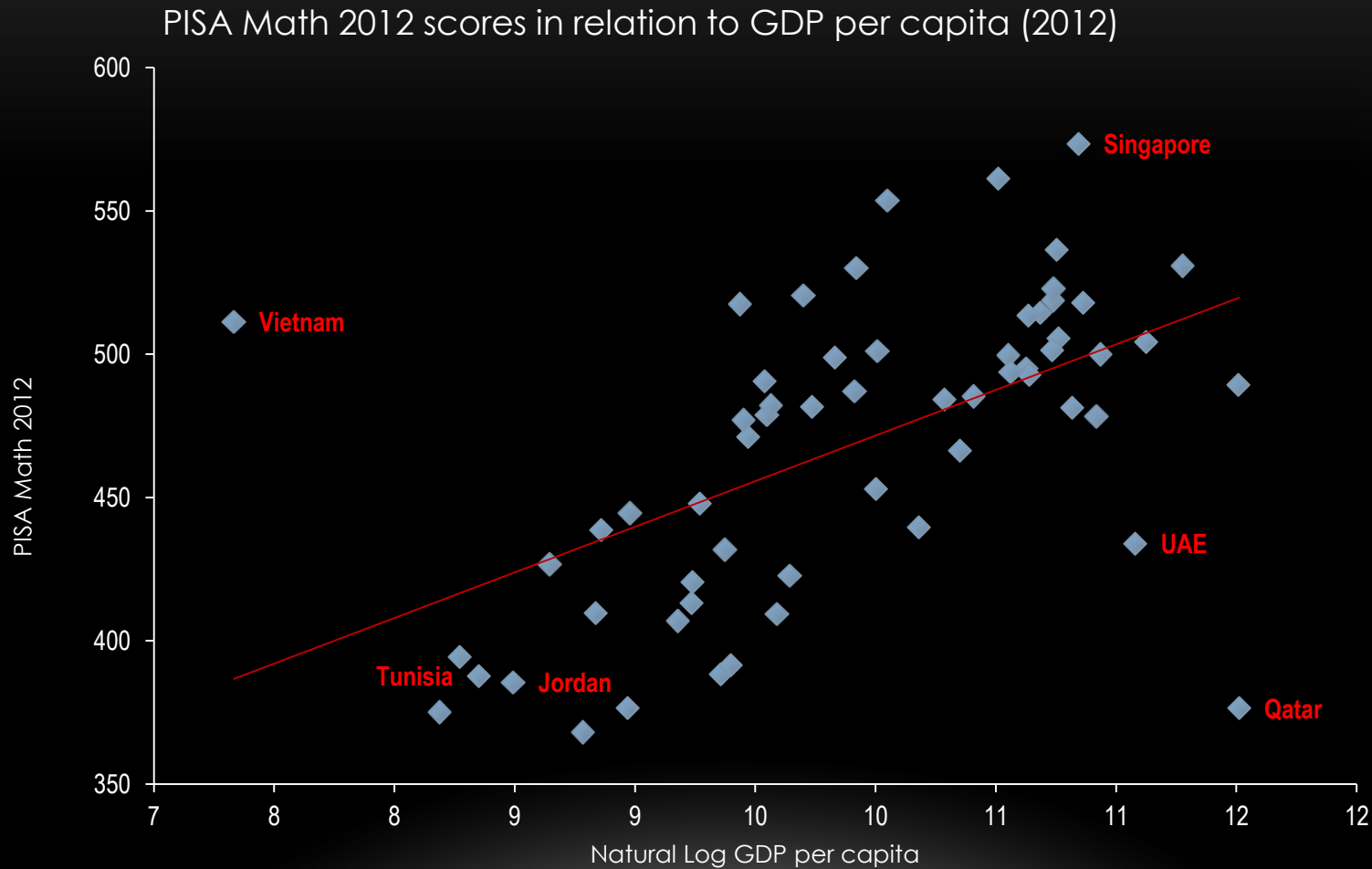
Private sector lacks dynamism

Distribution of employment by firm size and age



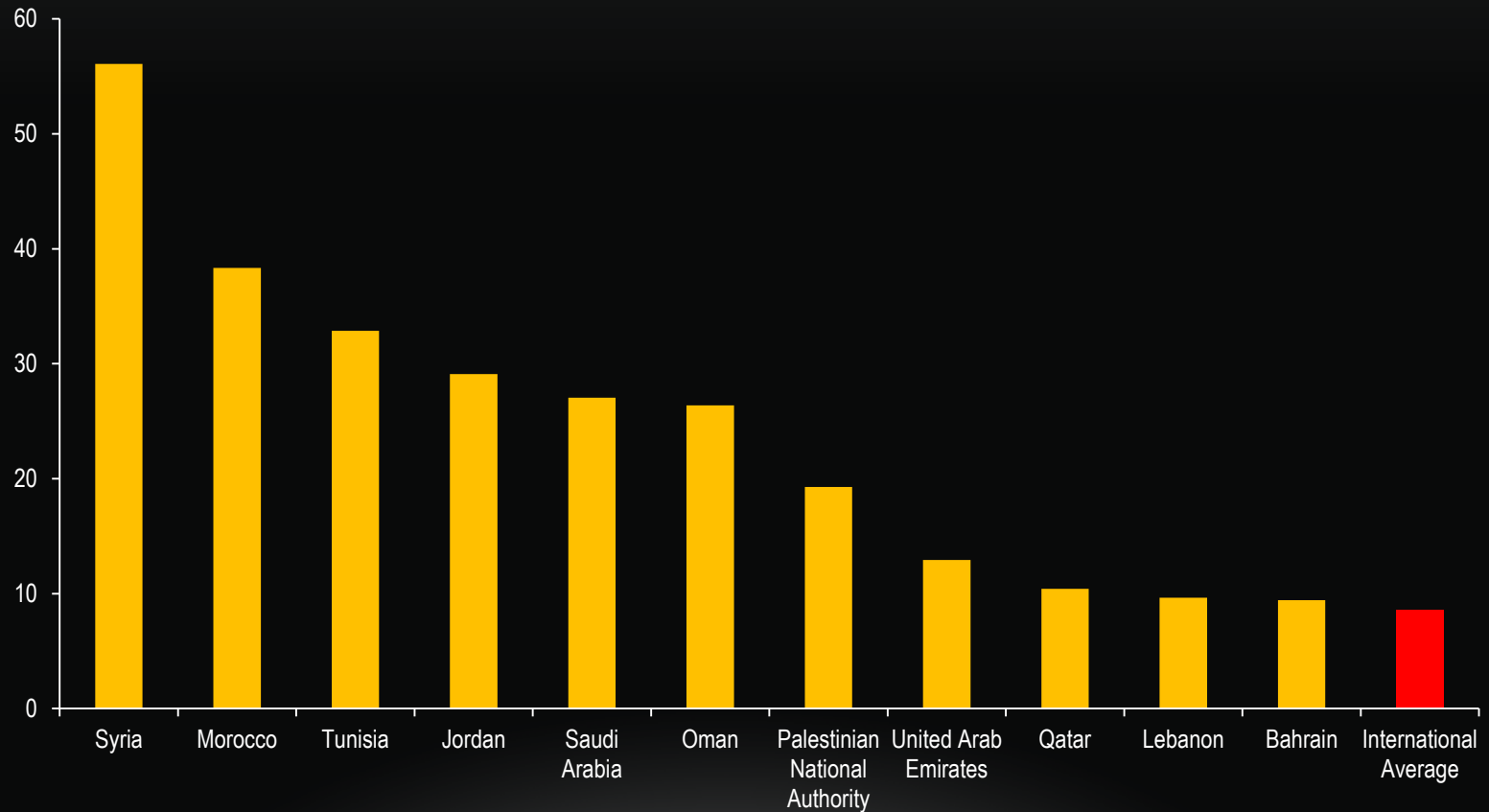
Source: Cronyism and Private Sector Growth in Egypt, Ishac Diwan, Philip Keefer and Marc Schiffbauer, 2013.

Broken social contract: (2) Poor quality public services



Why are learning outcomes poor?

% of students whose principals report that teacher absenteeism is a serious problem in their school (TIMSS 2011)



Source: TIMSS 2011.

Absenteeism in public clinics

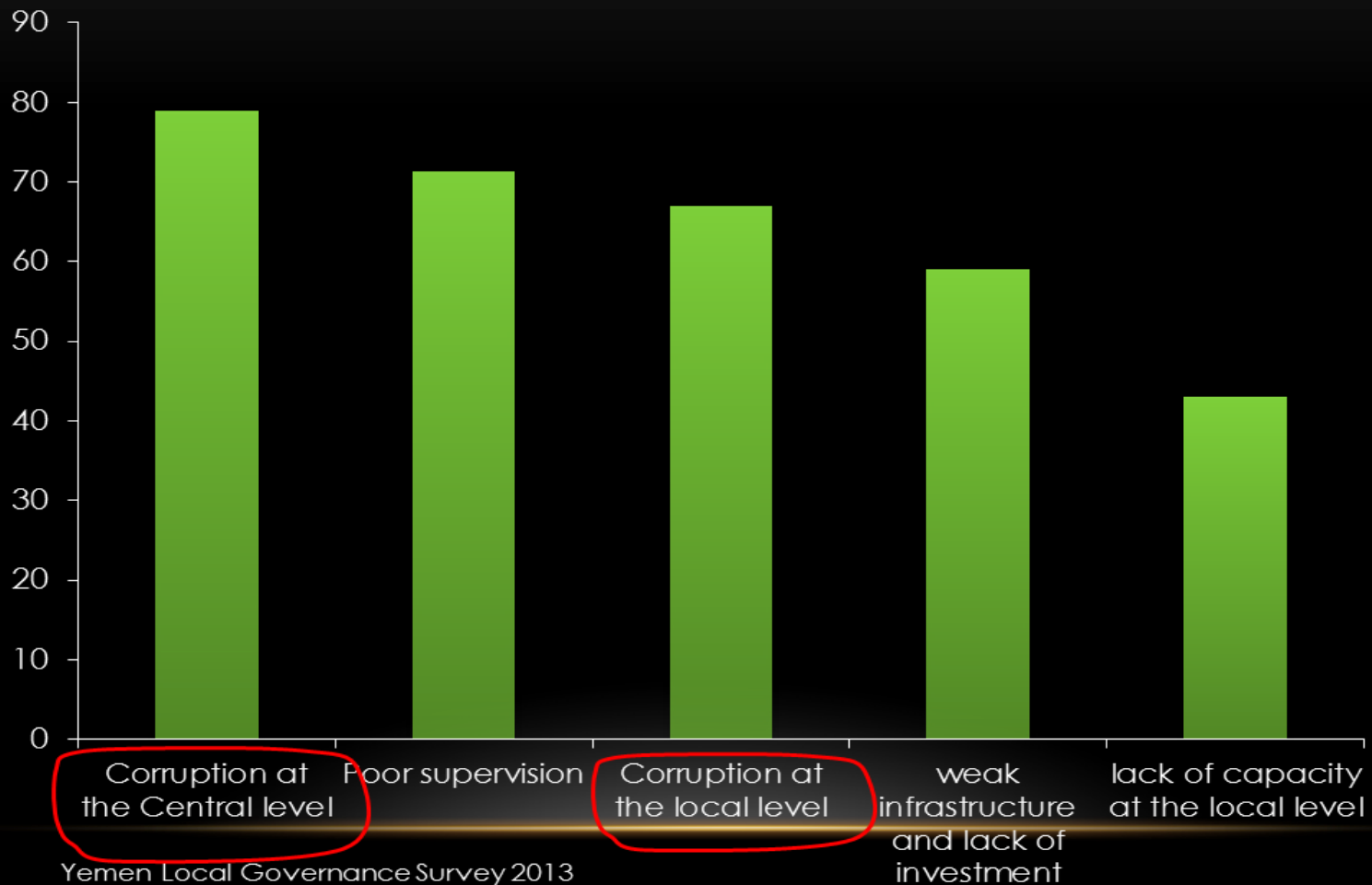


Woman in Egypt: "You can go to the private clinic and lose your money, or to the public clinic and lose your life."



Lack of trust

Why are services poor?



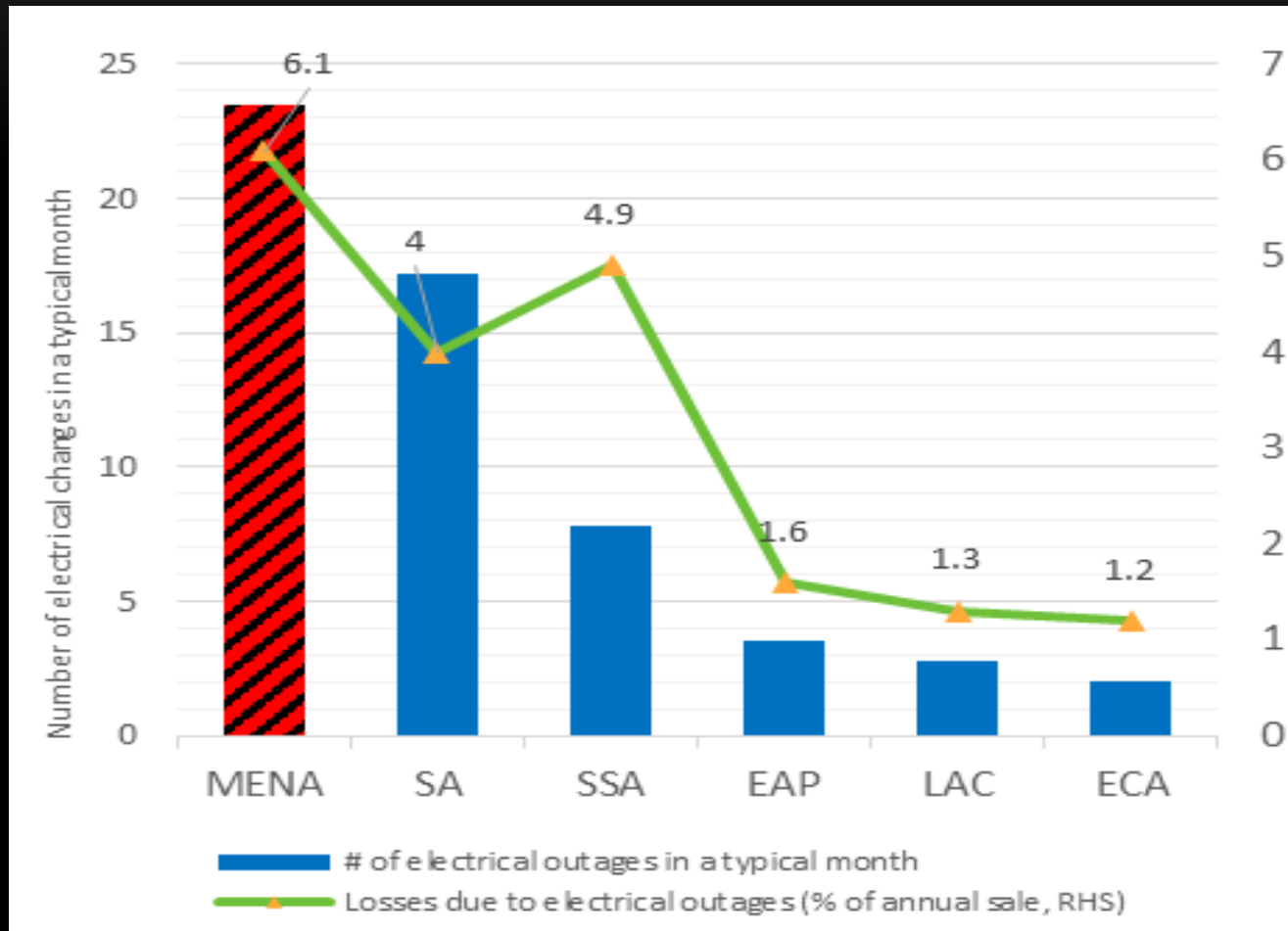
Broken social contract:

(3) Energy and water subsidies backfired

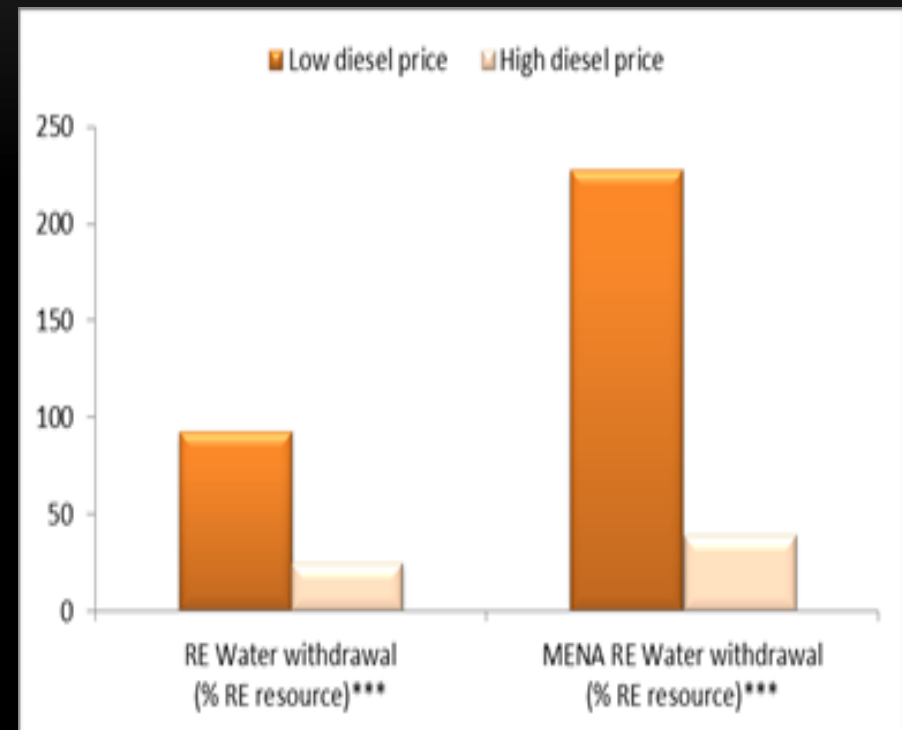
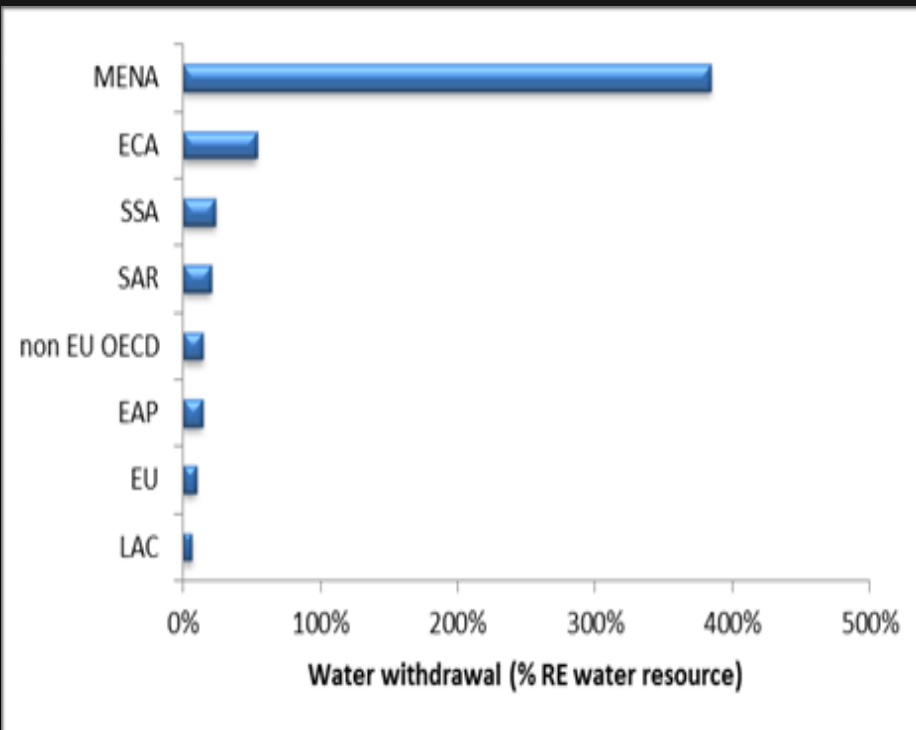
- Allocated mostly to the rich



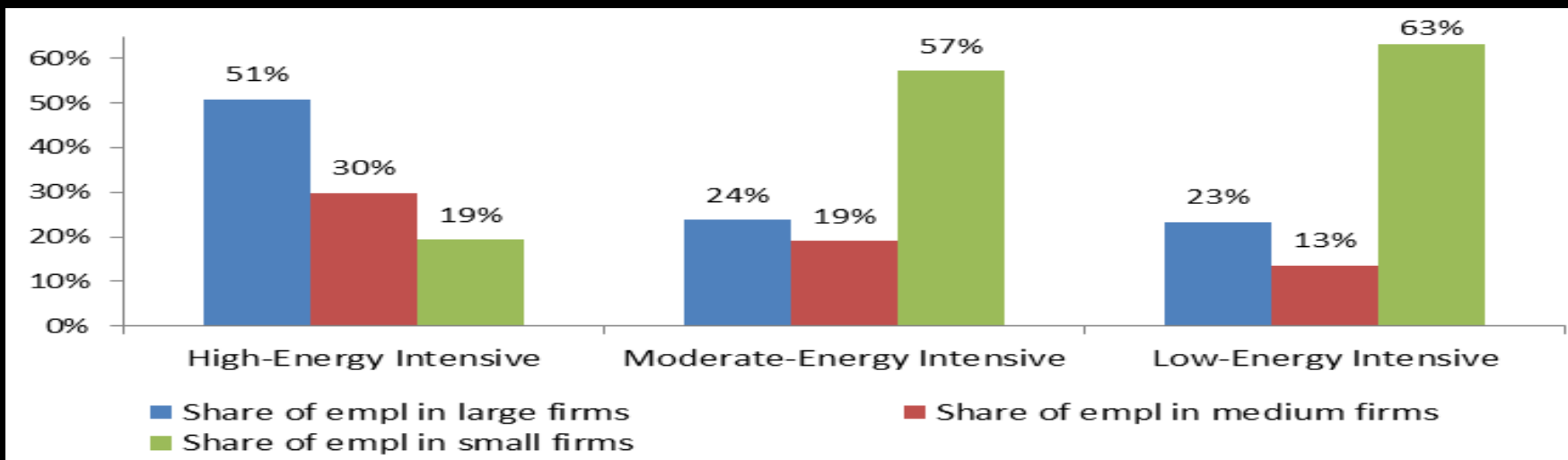
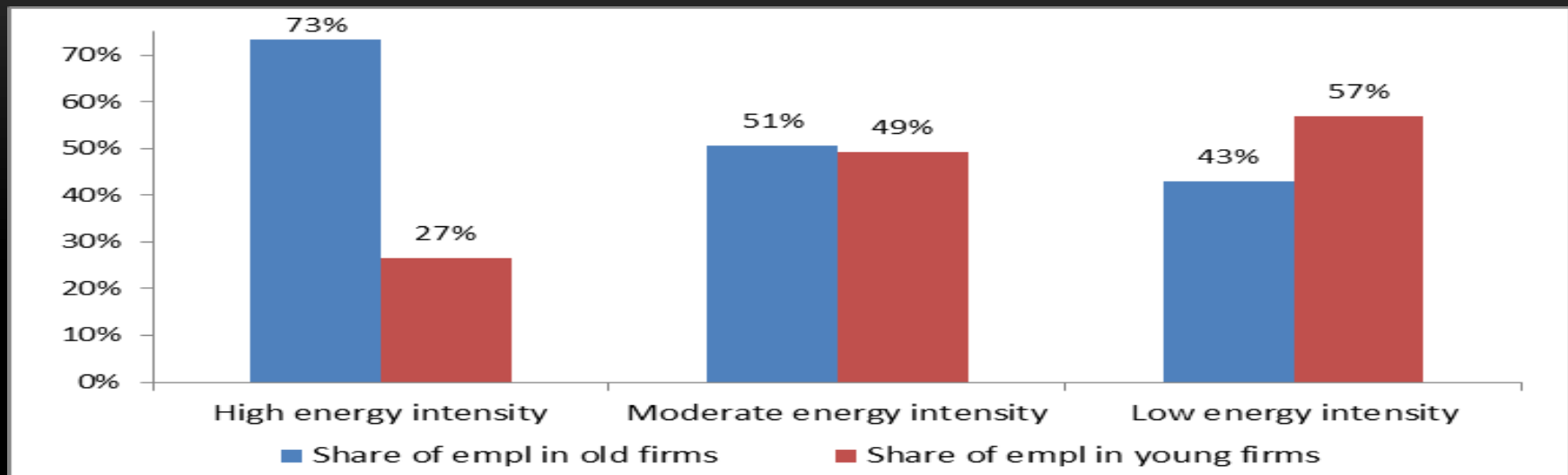
- Poor service quality



- Linked to water depletion



Contributed to unemployment: bias against small, young (job creating) firms



Elements of a new social contract

- State provides
 - Level playing field for business
 - Accountability in service delivery
 - Cash transfers
- Citizens
 - Pay market prices for private goods
 - Active participants in economy and service delivery

How to get there?

- Use diagnosis to identify tradeoffs between
 - Employment and cronyism
 - Service quality and subsidies
 - Water availability and fuel and water subsidies
 - Poor learning outcomes and accountability in service delivery



How to get there?

- Build on local successes that reflect the new social contract
 - Kufor Quod Girls' Secondary School in the West Bank
 - Zeid Ben Haritha Secondary School in Jordan
 - Morocco's "Concours Qualité" program in health
 - Community-driven agriculture in Yemen and Tunisia



How to get there?

- Differentiated by country types
 - Transition countries (Egypt, Tunisia, Morocco, Jordan, Lebanon)
 - Dialogue on new social contract now
 - Important for managing refugees
 - Contributes to social stability
 - Civil war countries (Syria, Iraq, Yemen, Libya)
 - Stabilize conflict first
 - New social contract essential to post-conflict reconstruction
 - Others (Algeria, Iran, GCC)
 - Start introducing new social contract to address unemployment, service delivery problems
 - May avoid disruptive conflict

