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

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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

Source: Johannesen (2015)
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)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Betterment of the economic situation</td>
<td>63.55%</td>
</tr>
<tr>
<td>Civil and political freedoms, and emancipation from oppression</td>
<td>42.40%</td>
</tr>
<tr>
<td>Dignity</td>
<td>28.77%</td>
</tr>
<tr>
<td>Fighting corruption</td>
<td>64.26%</td>
</tr>
<tr>
<td>Rule of law</td>
<td>57.21%</td>
</tr>
<tr>
<td>Social and economic justice</td>
<td>15.74%</td>
</tr>
<tr>
<td>Weakening the political and economic relations with the West</td>
<td>14.56%</td>
</tr>
<tr>
<td>Weakening the political and economic relations with Israel</td>
<td>7.53%</td>
</tr>
</tbody>
</table>

Source: Arab Barometer.
...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

Spending on energy subsidies outpaces spending on health and education (% of GDP)
The old social contract:
(3) Limited voice and accountability
Broken social contract: (1) Unemployment

Unemployment rate, %

Source: World Development Indicators, World Bank.
especially among highly educated people

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, %
Lowest female labor force participation rate in the world
Why is unemployment so high?
Net employment creation in Tunisia, 1997-2010

Sluggish private sector connected to privilege
### Regulations favored connected firms in Tunisia

<table>
<thead>
<tr>
<th></th>
<th>Ben Ali firms</th>
<th>Other firms</th>
<th>Ben Ali Share of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>Mean</td>
<td>Sum (USD)</td>
</tr>
<tr>
<td>L</td>
<td>127</td>
<td>66</td>
<td>8,392</td>
</tr>
<tr>
<td>Y</td>
<td>122</td>
<td>16,980,822</td>
<td>2,071,660,240</td>
</tr>
<tr>
<td>Net Profits</td>
<td>122</td>
<td>1,908,925</td>
<td>232,888,796</td>
</tr>
<tr>
<td>Gross Profits</td>
<td>122</td>
<td>2,811,035</td>
<td>342,946,258</td>
</tr>
<tr>
<td>Gross Losses</td>
<td>122</td>
<td>-902,110</td>
<td>-110,057,441</td>
</tr>
</tbody>
</table>

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.

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

PISA Math 2012 scores in relation to GDP per capita (2012)

Source: PISA Math 2012.
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.
Absenteism 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?

- Corruption at the Central level
- Poor supervision
- Corruption at the local level
- Weak infrastructure and lack of investment
- Lack of capacity at the local level

Yemen Local Governance Survey 2013
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