

# Governance in the Southern Mediterranean after the Arab Spring: Drawing Up a New Social Contract

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There has been much concern in the recent past regarding instability in the Southern Mediterranean region and its implications for Europe. There is good reason for this concern and for a sense of responsibility for violations of human rights that were tolerated for decades – so long as they were committed by people like Ben Ali, who was called “the West’s favourite dictator.” The democratic transition being attempted in the Southern Mediterranean can provide Europe with a genuinely stable partner that would have to be treated as an equal and given an opportunity to develop its own democratic culture. Understanding the origins of the contestation movement in the Arab region and the demands for social justice and accountable governance would better equip Europe to avoid repeating past behaviours, which appear to have been short-sighted and inconsistent with core values of human rights.

This article draws heavily on the work done in preparation for the recently released *Arab Development Challenges Report 2011*. The reader can refer to that report for further elaboration of most of the points made in this article.

## The Arab Social Contract

The political economy regime that has dominated the Arab region is one of rentier states in which there is no mutual accountability between citizens and the State and the State is free to shape political life as it sees fit. The State has maintained its power by directly accessing resources, be it through economic or political rents. Oil has played an important role in

this equation, as has state control over environmental assets, including urban land and politically conditioned aid. The State has engaged in patronage politics through buying the allegiance of key traditional and modern power brokers by distributing part of the rent it collects to its power base, typically a mixture of tribes, clans and the military that forms the nucleus of a crony capitalist class. The population has tolerated the loss of political freedom in exchange for the provision of certain services and exemption from taxation.

The citizens who have lived under this social contract have had no institutional means of expressing discontent with the system or of holding their governments accountable. With very few exceptions, elections, where they have taken place at all, have been neither free nor fair. Voter turnout has generally been low, and those parliamentarians elected through this process have had little incentive to represent the interests of their constituencies.

Vehicles for citizen participation in the political process, such as genuine political parties, civil society organisations, media, trade unions and professional associations, have been either tightly regulated or banned altogether.

In essence, this typical social contract has enabled many Arab States to ignore the aspirations of their citizens by following a *non-developmental path*, in sharp contrast to the practice of benevolent authoritarian regimes in East Asia. This has been reflected in a power structure that concentrates authority in a small circle and prevents the rotation of power.

## Political Economy of Rent

Arab States have typically maintained their power through direct access to funds needed to finance the state machinery, thanks to economic or political

rents. While oil has played an important role in this equation for the major oil exporting countries, even the diversified economies in the Arab region have not been immune to this rentier approach. The State has been able to enjoy rents because of its control over assets, including urban and agricultural land and economic opportunities. In some cases, this has been supplemented by state control of and access to politically conditioned aid, the bulk of it military- and security-related.

The State has bought the allegiance of key traditional and modern power brokers by distributing part of the rent it collects to them. The State has seen no need to raise resources through taxation, as reflected by the low share of direct taxes in public revenues in the region.

With some notable exceptions, States in the region have also had dependency relationships with external powers. This has allowed them to justify the curtailment of basic freedoms and violations of human rights in the interest of stability. Given the region's geostrategic location, external powers have been concerned with having assured access to resources that are produced and or pass through the region. A vibrant political structure in this context would have risked opening debates about the terms on which such resources and strategic positions are used by external actors, and, hence, totalitarian systems proved convenient to the powers that be.

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The above-noted features of the political economy of Arab development have led to two mutually reinforcing processes: the lack of public accountability of the State and an ever-increasing concentration of political and economic power in the hands of a small politically connected elite. This situation has led to the co-existence of certain outward appearances of a modern State with a convoluted tribal/feudal struc-

ture in which traditional forms of authority and justice are allowed to co-exist with and as extensions of a modern State.

### **Drivers and Manifestations of Exclusion**

The economic structure that underpins this political system is based on extractive industries that generate few jobs directly and a bloated and non-productive tertiary sector, dominated in many cases by a public sector through which rents collected by the State are distributed to certain population segments. The typically large public sectors in many Arab countries, rather than being instruments of a capable and responsible State to deliver essential productive and social services needed to support socio-economic development, are used to repay certain elements of society for their allegiance to the system. They are thus characterised by unclear functions and non-transparent selection and promotion criteria, which lead to insufficient quality and quantity of staff at the service-delivery stage, combined with excess capacity in administrative support functions and multiple security services. The service sectors also typically include a large trade sector, which is heavily dependent on imports and controlled by a few politically well-connected major traders who enjoy monopoly rents and large numbers of small traders who eke out a living in an overcrowded retail sector.

The lack of accountability for the use of public assets extends to the way environmental assets are utilised in the Arab region. When taken into account in calculating actual wealth creation in the region, the resulting mining of environmental assets means that the region is mortgaging the prosperity of its future generations, in particular by allowing unsustainable levels of water offtake. These practices, in addition to generating problems for future generations, deprive the poorer segments of society of regular access to safe water and basic food items. They also threaten the livelihoods of population groups that depend on maintaining a symbiotic relationship with their natural environment, notably nomadic groups.

The political establishment in the Arab region, in addition to subverting the normal evolution process of traditional structures such as tribes and clans, has engineered conditions that militate against the emergence and consolidation of genuine labour unions and professional associations. Such entities are typically infiltrated by the political elite and turned into tools of op-

pression. They have thus been unable to act as part of a larger civil society and hold authorities to account for their actions. Hence, normal modes of social contestation have not been effective, and grievances, rather than being resolved early on, thereby solidifying social cohesion, are allowed to simmer, placing extra stress on the stability of social structures.

The extent to which the economic and power structures in the region exclude people is evident in the size of the informal sector – which perpetuates the double vicious cycles of poverty and denial of socio-economic and political rights. The vast majority of the poor in the Arab region make their living in the informal sector, with limited security of access to land and other resources. They run unregistered businesses and often occupy land to which they have no formal title.

### Origins and Evolution of Socio-economic Strains

This social contract has come under pressure ever since the late 1970s due to the increasing inability of the State to co-opt the educated youth into what used to be, in the 1950s and 1960s, a well-paid civil service that acted as a mechanism for upward social mobility. Since 1980, the public service in many countries has not been able to absorb the ever-increasing numbers of graduates produced by the educational system. In addition, those lucky enough to still have public sector jobs have seen their real incomes decline. The system of large-scale subsidies offered on a range of essential goods has also become difficult to maintain, leading to bread riots in a number of countries in the 1970s and 1980s.

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The lack of universal social protection coverage and equitable access to property and justice has exacerbated the social and economic exclusion of wide segments of the region's population. Even the generous fuel subsidies, which account for the bulk of

what passes as social assistance in many countries, tend to disproportionately benefit the better-off segments of the population.

While many of the countries in the region have appeared stable, with long-serving rulers, that stability has largely relied on patronage and oppression, rather than on a healthy social contract between the State and citizens. The system has reinforced the drive for quick returns on private sector investments (such as in up-scale real estate), rather than on the longer-term and job-creating investments required to absorb a more educated labour force. This process has led to a premature deindustrialisation of the region without a compensating move to high-value-added services.

### Key Socio-economic and Governance Challenges

Social exclusion has clearly risen over the past two decades in most Arab countries, and inequality in wealth is certain to have grown significantly, too. An increasingly visible concentration of wealth, notably in terms of land, has intensified the sense of exclusion, despite the reduction in the rate of absolute poverty. Meanwhile, many urban poor cluster in areas without sanitation, recreational facilities, reliable electricity and other services. This phenomenon is reflected in the alarmingly high rate of slum dwellers in urban areas of the region.

The continuous rise and persistence of *unemployment, particularly among youth*, driven in large part by the demographic transition, *with its unprecedented increase in the working-age population, is a key challenge facing Arab countries*. Youth are the largest demographic category in the Arab region, with those under twenty-five years of age accounting for half the area's population.

The youth-led contestation movement in the region is partially due to the realisation that existing systems have failed to address the ever more long-term and persistent problem of youth unemployment. Economic and social policies have not provided acceptable minimum standards of economic and social rights. States have seriously limited civil and political *rights*, in particular the rights of assembly, organisation and collective bargaining. This has left both the employed and unemployed without sufficient legal and social protection.

The governance failures that prevent the operation of genuine labour unions create a situation whereby

the benefits of any investments made are disproportionately appropriated by politically well-connected businessmen. In addition, the reality of a fragile stability built on patronage and oppression, as opposed to a healthy social contract between the State and citizens, means that businesses are not interested in long-term investments that can create quality jobs for an ever more educated labour force. The investments that take place are mostly of a speculative nature and aim to obtain quick returns. The sense of insecurity that is created by the acute awareness of the business community of the potentially explosive social context generated by rising inequality leads to capital flight. This capital flight is further aggravated by the high share of ill-gotten wealth in many Arab countries, as evidenced by reports of huge assets owned by former Presidents Ben Ali and Mubarak and their families, most of which are held in known safe heavens for black money.

### **Move Towards Capable and Responsive States**

The Arab region has come to a fork in the path. It is increasingly clear that business and development as usual have proven themselves incapable of dealing with the many socio-economic, political and environmental challenges facing the region.

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The region's problems have resulted from the interplay of political and socio-economic factors, with non-representative or non-inclusive and participatory polities reinforcing and being reinforced by rentier and semi-rentier economies. Hence, any solution has to simultaneously operate on political and socio-economic factors and their interplay.

The Arab street is demanding a new societal bargain based on: (i) legitimate leadership through free and fair elections in an environment of freedom of ex-

pression and organisation; (ii) policies of inclusion and equity that are informed by partnerships between the State and society; (iii) social monitoring of policies and strict control of corruption, buttressed by freedom of information; and (iv) redress of violations of fundamental human rights under the vigilant eye of an independent judiciary and an unbiased and professional media.

A new developmental compact in the Arab region should build on the symbiotic relationship between truly representative political and economic systems that promote productive investment and set in motion a virtuous cycle of inclusive markets and political systems. The negative effects of corruption on the optimal use of public resources and productive private investment need to be redressed through a system of checks and balances that ensures societal control over the use of public assets, including their use to facilitate legitimate private sector activities. As the voiceless regain their voice, social stability and cohesion will be reinforced, thereby strengthening national identity and security. The funds currently allocated to internal security can thus be diverted to investments in human capabilities.

### **Conclusion**

The tough developmental choices needed in the Arab region can only be made by a responsive and accountable government that represents the needs and aspirations of the many, not the few. Accountability of government makes policies more transparent and effective. However, no policy pleases everyone all the time. Hence, minimising social conflict around tough choices is important for the effective implementation of policies. The inclusive participation of social and political institutions that mobilise and articulate collective interests (be they political parties, labour unions, professional associations, or civil society advocacy groups) ultimately enhances the ability of States to defuse social conflict.

A transformed region that invests more in its people and uses its natural resources more wisely would be able to regain its central place at the crossroads of humanity as a beacon of hope and progress. It would also deal more effectively with its fragile environment and situation of water scarcity, which have already disrupted the livelihoods of many in some of the poorer parts of the region and threaten others if no urgent action is taken to resolve them.