

A stylized world map composed of a grid of dots in various shades of gray, with several dots highlighted in red. The map is centered behind the title and author information.

# Towards a New Social Contract

## Social Justice in North Africa and Middle East

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- Since most observers based their judgment of the political situation of the MENA region on determinants that ignored the importance of social factors, the revolutionary events unfolding in Tunisia since December 2010 took many by surprise.
- The emphasis on economic growth has been doubly prejudicial to the situation in the Arab region. Not only has that approach ignored the pressing needs of the poorest and most vulnerable, it has also ignored the fact that the success of these economic measures is highly dependent on a transparent and accountable legislative and regulatory environment, which itself relies on a democratic and participative political system.
- Models of growth and development will have to be adjusted to facilitate social and economic change beyond a mere replacement of ruling elites and clans and the reform of political systems. These adjustments will have to take place in agreement with external actors, such as the EU and international financial institutions, which have played a role in sustaining the old regimes for a long time.
- The upheavals in the MENA region have created a window of opportunity to drive a policy debate into the core of the different international institutions. The priorities of this debate should be youth employment, job creation, and alternative industrial policies to generate equitable and sustainable growth.

## The Failure to Predict the Arab Spring

What has become known as the »Arab Spring« – a series of popular uprisings against the rulers in almost all countries of the Middle East and North Africa – took many observers and experts by surprise. External actors, such as Western donor countries and international organizations, had well established relations with most of the countries now in transition. The relative stability of the political and economic systems relied to a large extent on the domestic elites in power. The main factors behind the revolutionary events were given little concern. Most observers based their judgment of the political situation on determinants that ignored the importance of social factors. The modus operandi of these systems and their stabilizers have to be analyzed to be able to develop social and economic policies that meet the most urgent demands and provide mid- and long-term solutions. Progress towards a new social contract and social justice in the MENA region is only possible when accompanied by a fundamental rethinking of development models.

The different modes of how power elites have operated in the political and economic context and how they have shaped these systems to their benefit throughout the MENA region have been analyzed with different scientific approaches, such as the model of the rentier state. The policies of Western donor countries and international organizations have played an important role in artificially stabilizing these systems for the last decades. They were motivated by strategic objectives, such as the ability to maintain military bases in geopolitically important areas, and a relative certainty about and influence on the behavior of key actors in different regional conflicts. A factor less considered in the analysis so far is the underlying rationale that dominated the development model of international actors and that has been shared by the regimes in power in order to sustain their rentier systems. This rationale can be labeled as »growth for growth's« sake. Therefore, the flawed weighing of factors like inequality and injustice had also caught domestic political and economic elites by surprise.

## Social Injustice as a Root Cause for the Jasmine Revolution and the Arab Spring

Tunisia has often been presented as a »role model« for the rest of the region in terms of unemployment rates,

the educational system, the development of the middle class, and the efficiency of the public sector. A closer look at the structural problems and roots of the »Jasmine Revolution« shows that growing tensions between the elite and the middle class originated in the 1990s and extended slowly to all components of civil society, manifested in regional disparities, and finally led to the collapse of any working development model.

The political repression of authoritarian regimes, growing economic misery of increasing parts of the population, and social injustice were the driving forces for protests and demonstrations. In particular, the lack of both access to basic services and opportunities to escape poverty have severely impacted the living conditions of a large part of the population. Young people with higher education degrees have been the victims of the phenomenon of jobless economic growth. While the elder generation has often invested heavily in order to facilitate better education for the younger generation, the hopes for a better standard of living for the next generation have been disappointed, resulting in anger and humiliation. This disappointment, among other factors, led to the uprisings that began in Tunisia and many other countries of the region in December 2010.

The rates of participation in the labor market in the MENA region are among the lowest worldwide; they have stagnated for years in most countries and even declined dramatically in some. Beside the young and well educated, women are especially affected. The quality of employment has also declined: jobs that were formerly part of the formal sector and subject to regulated labor relations were converted to informal labor. Particularly in the urban private sector, informal employment rates are high.

The general situation in the MENA region is quite similar and dominated by high income disparity, high unemployment rates and informal labor activity, large-scale absence of or dysfunctional social protection mechanisms, and the overwhelming presence of corruption in daily routines. Economic development for the last three decades has relied on the increased export of natural resources, mainly oil and natural gas. Most Arab regimes have been built on a colonial heritage of artificial states encompassing different cultures, as well as ethnic and religious groups. Ruling elites, whose legitimacy has been questionable, maintained power through brute

force. Over time, the capacity to balance the demands and needs of domestic constituent groups has become one of their main sources of legitimacy. Whereas the transformation processes in Tunisia and Egypt led to the relatively quick fall of their former leaders, dictators in countries such as Syria, Yemen, and Libya have chosen to continue these patterns and fight the demonstrations of their people.

In the short run, the upheavals have challenged the political and economic elites. In the long run, models of growth and development will have to be adjusted to create opportunities for real social and economic change beyond the reform of political systems or a mere replacement of ruling elites and clans. These adjustments will have to take place in agreement with external actors, such as the EU and international financial institutions, which have played a long-term role in sustaining the old regimes.

## Changing Paradigms of Growth and Development

Since the 1980s, when structural adjustment policies were promoted by the World Bank and IMF, countries in the MENA region have been on a path of economic liberalization and fiscal rigor. The policy priority has been mainly to create a »free« or »good investment environment« in the region. The approach of favoring market-oriented policy and deregulation, decreasing the role of the state, and shrinking public expenditure has repeatedly shown its limits. While the Arab region did not experience as brutal a backlash from these policies as Latin America in the 1990s, countries in the region settled into a prolonged period of slow growth and deteriorating living standards. Official Development Assistance (ODA) has been used by the rulers to support their unsustainable rentier economies. Maybe even worse in the long-term, the enforcement of international prescriptions through sustained aid and lending conditionality has chronically undermined the ability of countries in the region to formulate development strategies based on their national priorities.

These problems have led to some of the slowest growth rates among developing countries in the region. When there was »growth«, it did not generate a commensurate rise in jobs in the formal economy, because it was

to a larger extent fueled by rentier and speculative activities – in the banking, real estate, and construction sector. Even the jobs that have been created by those activities were mostly low productivity, low return jobs for unskilled labor and contribute to the gap between rich and poor and the persistent unemployment of educated youth.

Another contributing factor is the fact that privatization in most countries, conducted through opaque and discretionary processes, did not produce the supposed benefits in improving services and lowering costs, but even led to a further deterioration of services while prices hike to the consumer. In essence, privatization policies transformed a state monopoly into a private monopoly controlled by a few politically connected individuals, in the absence of appropriate competition laws and diligent regulatory authorities. These effects are directly felt by citizens in deteriorating living standards, while privatization is celebrated as an indicator of reform by outsiders.

The paradigms of growth and development underlying international and domestic politics for several decades have to be reassessed in light of the Arab spring. Within the many facets of international cooperation, the GDP per capita has served as the main indicator for judging economic performance, while at the same time growth in GDP has been defined as a priority objective of domestic and international policies. In terms of wealth distribution, the average wage income has barely moved ahead for the last twenty-five years. Income inequality has therefore increased immensely over the last decades: in industrialized countries, the share of wage income has declined from 75 % at the end of 1980 to 65 % today. The top 2 % of incomes shared 80 % of all increases over that period of time. Financial profits on assets have accounted for a large extent of GDP growth. The failure of the market fundamentalist model of growth in the last two-and-a-half years has shown that inequality is not just a normative question, but that it has profound effects on the performance of the real economy. The rise in inequality has increased both the demand for and the supply of credit. In order to maintain a certain level of consumption, people with low and middle incomes had to incur more and more debt. The top 2 % of incomes have a large number of liquid funds to lend, which becomes an unsustainable economic model.

The OECD Social Affairs Ministers came at their meeting in the beginning of May 2011 to the conclusion that inequality is driven mainly by deregulation and the weakening of labor market institution, which has been the policy of the economic departments of the OECD, IMF and World Bank for the last twenty-five years. These steps may be interpreted as a first sign of a paradigm change in international politics. Coherent policies in different fields have to address the issue of injustice more closely while the main drivers and causes of growing inequalities have to be identified and bargaining rights to balance out the distribution between middle and high incomes have to be restored.

### Rethinking EU Policies towards the Region

The Arab Spring has launched a lively debate in Europe about the region, but this debate needs to include voices of the countries and new actors in the region. In the past, vast commitments have been made by undemocratic governments, which have put their people in extremely vulnerable situations; these commitments need to be renegotiated. Debt, trade agreements, and private contracts remain in force from decades of oppression, but they need to be openly challenged if the EU is to play a positive role in the renewal of economic and political life in the region. While many officials seem to herald a new era of cooperation, there must be assurances that an increase in investment and trade also takes into consideration the possibility of negative impacts on the economies in certain countries. As paradigms of growth and development have to be reconsidered, it is not enough to set priorities on economic growth without explicitly mentioning at the same time the quality of growth and its implications.

All of the recent EU proposals show an increasing awareness of the importance of the socioeconomic dimension. Unfortunately, it seems like this development is mainly the result of the fear of a »demographic ticking time bomb« in the MENA region, which might either lead to a vast immigration pressure on the EU or play into the hands of Islamic fundamentalists through related economic and social frustrations. Recent proposals show an unwillingness to fundamentally rethink the EU engagement with the MENA region in general, and the South Mediterranean in particular. In the »age of austerity«,

which the EU is facing in the midst of a continuing financial crisis, the allocation of extra resources towards the region within the next Multi-Annual Financial Framework (2014-2020) is doubtful.

Despite encouraging points in the beginning, the Barcelona process has to be described as a disappointment, especially with regard to the favoring of economic and security aspects through pushing trade liberalization and privatization of government assets to the forefront, while issues of democracy and human rights proved relatively unimportant in the implementation. These shortcomings seem to follow to a large extent the aforementioned paradigms and need to be addressed when redefining priorities for European Neighborhood Policy (ENP). The national action plans as its main instrument have been formulated with very little participation from civil society, parliamentarians or even all concerned government agencies. Therefore it is questionable that they reflect national priorities and it should be considered to renegotiate them.

### Social Policy as an Instrument to Achieve Social Justice?

The revolution in Tunisia has unveiled the reality of a social security system that was allegedly among the most advanced in the MENA region. Among the deficits of the system are the long-lasting marginalization of many groups, as well as the inability to close the gaps in regional and social disparities. The growing phenomenon of employment in the informal sector as well as the agricultural sector in rural areas pose both a great challenge. Informal workers suffer from low income and lack a minimum of social protection and social coverage, such as healthcare and retirement pensions.

Over the past few decades, social policy has been seen as a way of alleviating the allegedly temporary deterioration in living conditions. The belief prevailed that the adopted market-oriented policies would have a positive impact on human development indicators, while in the short term, installing some safety nets and social protection policies would alleviate the negative effects of such policies and lead to poverty reduction. In recent years, the emphasis for social policy has been in targeting vulnerable groups through, among other instruments, cash transfers. However, these programs mark a very narrow

vision of social policy, as it restricts the target only to the very poor, and limits the nature of the assistance to supplementing their income.

Measuring poverty, unemployment, inequality, and injustice should include structural factors. The food, fuel, and financial crises have shed a light on the extent of the affected categories beyond the simple statistical measurement of poverty. Poverty should not only be measured in money-metric terms – which is neither significant, nor particularly relevant in most Arab countries – but be assessed within a broader concept of human poverty based on access to capacities. In this sense, access to education, to health services, to housing, and to employment need to be accounted for. Beyond individual or household vulnerabilities, it is important to account for national, systemic vulnerabilities that might exacerbate the already difficult situation of marginalized categories. This would not only cover macroeconomic fundamentals, but also the quality of institutions – ranging from integrity and good governance to political stability and representativeness. In addition, the resilience of a country to outside shocks would be established by gauging its dependence on both imports and exports, the diversification of sources, and products.

On the international level, the realization of the right to social protection has gained prominence in recent years, especially after G20 governments acknowledged the importance of social protection for economic recovery in emerging and developed countries. A global debate on the UN Social Protection Floor Initiative has taken place at the 100<sup>th</sup> ILO conference in Geneva (June 2011). Accordingly, the new momentum for reform of social protection should be made use of. Governments have to assume their responsibility in providing social protection acknowledging that the implementation requires the participation of all stakeholders – employers, employees, international organizations, and government experts.

## Conclusion

Purely economic reforms cannot be effectively implemented without institutional and even constitutional reforms enforcing the separation of powers, and securing the independence of the judicial system grounded in a democratic political process. The latter would enhance political participation and civic engagement, promoting

transparency and accountability. For this reason, the emphasis on economic growth has been doubly prejudicial to the situation in the Arab region. Not only has that approach ignored the pressing needs of the poorest and most vulnerable, it has also ignored the fact that the success of these economic measures in achieving their strictest objectives is highly dependent on a transparent and accountable legislative and regulatory environment, which itself relies on a democratic and participative political system.

As the developments in the MENA region show, there is a great need to rethink the overall framework of cooperation and theories of growth and development. The upheavals in the MENA region have created a window of opportunity to drive a policy debate into the core of the different international institutions. The priorities of this debate should be youth employment, job creation, and alternative industrial policies to generate equitable and sustainable growth.

In the mid- and long-term the international system needs to be rebalanced in multiple ways: Firstly, a new balance between the financial markets and the real economy, securitization and globalization is needed. Secondly, a balance between the market and the state has to be established, where governments failed to function as a regulator in the past. Thirdly, a new balance between the different regions of the world is essential, and it should feature a growth and development model that does not rely upon debt-driven consumption as its main motor. Fourthly, a balance between short- and long-term activities by investors and companies that moves away from flawed economic models like the »Casino capitalism« is crucial. Finally, a balance between capital and labor and balanced income-distribution should be sought.



### About the author

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