Time for a ‘New New Social Contract’ in the Arab World

Lecture and Discussion by Zafiris Tzannatos

Summary by Rayan Fahme and Sarah El Jamal

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The Issam Fares Institute for Public Policy and International Affairs hosted a lecture and discussion by Dr. Zafiris Tzannatos, who argued that the 2011 uprisings were foreseeable if we had looked at the right indicators, which were showing the collapse of the middle class, increased discrepancies between poor and rich, and rising discontent that authoritarian regimes kept suppressing. He proposed a “New New Social Contract” that would replace the libertarian social contract that was introduced in the 1990s and replaced the previous Statist Contract that came into force in the 1950s/1960s and survived till the late 1980s. The “New New Social Contract” goes beyond the “either/or” paradigm of growth vs. distribution, and private sector vs. public sector.

Tzannatos pointed out the difficulty to summarize the situation in the Arab region as the countries are very heterogeneous. As a compromise, he proposed using unweighted country averages, rather than population-weighted averages that is the norm among researchers and international organizations. For example, according to World Bank data population weighted economic growth in non-oil Arab countries after 2010 has been 0.8%, but the country average has been 2.9%. In other words, the region has not fared as bad as the heavyweight case of Egypt would have suggested.

He provided an overview of the last thirty years of economic reforms in the Arab region, which can be divided into three phases, starting with the so-called “lost decade” in the 1980s, characterized by low oil prices, fiscal imbalances and unemployment, arising from the old “paternalistic” social contract. This period was followed by the so-called “Arab renaissance” following the neoliberal economic reforms initiated around the late 1980s/early 1990s under a New Social Contract. However, that contract introduced “partially articulated” pro-market reforms under the philosophy of “Economic Reforms First, Political Reforms Later”. This contract has come to an end since the uprisings in 2011. According to Tzannatos, the neoliberal reforms constituted a case of “partial economic articulation” whereby sectoral reforms (such as trade liberalization, financial deregulation, and privatization, as well as fiscal consolidation, through the rolling back of social

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1 Zafiris Tzannatos is a Fellow at the Lebanese Center for Policy Studies, Beirut. He has held senior academic and research appointments in Europe, leadership and managerial posts at international organizations, and advisory positions in Arab governments. He previously served as the Senior Advisor for the Arab States at the International Labour Organization (ILO) Regional Office in Beirut and the Managing Director of the World Bank, where he was also manager in the Middle East and North Africa Department and Leader of the Global Child Labor Program. He was the Chairman and Professor of Economics at the American University of Beirut. His publications include 14 books and monographs, and more than 180 reports and papers in the areas of labor economics, social policy, and development strategy. He holds a PhD in Economics from the University of London.

2 The ‘New Social Contract’ refers to the agreement between the state and citizens during the 1990s, when “partially articulated” pro-market economic reforms were implemented at the expense of equitable political and social development. The “New New Social Contract” is the agreement that needs to be designed following the 2011 uprisings.
protection and reduction in public services) have been expected by their proponents to lead to a systemic change leading to fast economic growth and reduction in poverty and inequality.

While the mainstream view is that the 2010-11 uprisings are a puzzle that could not have been foreseen, Tzannatos argued that the signs have always been there were we to look at the right indicators. Per capita incomes in MENA grew after 1990 but much less than in other developing regions. The usual social welfare indicators, such as extreme poverty at $1/day or conventional inequality indices that are not well measured, have overestimated reductions in poverty and inequality. What is more relevant is that the Arab middle class has been negatively affected by the economic reform policies. Leaving aside money metric indicators, informality in the labor market has been increasing and the wage share in GDP has been declining. Household consumption as percentage of GDP also declined by as much as one-quarter since the 1990s.

All in all, the Arab middle class, even if it has not collapsed, has been disenchanted as the gap between the poorest and the richest increased in the last twenty years. Pessimism among the middle class has increased as social protection has been compromised by privatization of public services. The advancement of political and social rights, as well as human development, have lagged behind what the dry numbers of economic growth would have suggested. Moreover, the citizens’ voice and their ability to hold rulers accountable have been very weak.

According to a Gallup poll in the late 2000s, MENA citizens had become increasingly pessimistic, and their expectations about their standard of living were not being met. Repeated protests in the Arab countries were regularly suppressed and diffused. However, they kept coming back with added force, until the situation finally exploded in mass rebellion and protest in the 2010-11 uprisings. The future is not very promising either, argued Tzannatos, as the region is witnessing exceptional decline in per capita incomes and has among the highest rate of skilled emigration and inequality of education opportunity.

Tzannatos argued that the commonly prescribed solution for changing the social contract, i.e., downsizing and privatizing public institutions, is misguided, and the common perception that the public sector is inefficient and provides low quality services is not always backed by evidence. Alternatively, he proposed that we move away from the State-led development model that initially worked, but then proved insufficient to make the economies internationally competitive and, at the same time, move away from simplistic liberalization approaches, and explore public/private synergies.

He proposed that, in addition to a new social contract in the form of a vertical agreement between rulers and citizens that ensures fair distribution of public goods and services, we need a social covenant, a horizontal moral agreement between citizens, businesses, and government. We also need a new definition of social justice, wherein we choose (a) whether social justice should be based on structural and rights-based changes or elite favors from political patronage, and (b) whether it should be negative, i.e., based on rights that oblige inaction, or positive, i.e., based on rights that oblige action.

Tzannatos concluded with the following questions that are crucial for designing a “New New Social Contract”:

- Are the Nation, the State and the Government one entity?
- Can decentralized politics (democracy) flourish in “non-decentralized” markets, and vice versa?
- What is the role of external factors and geopolitics?
• Can we at last accept that the choice between growth and distribution is a false dilemma, as the quality of growth (cronyism) affects the distribution of resources, which in turn affects the distribution of incomes?

• How long will it take to see the results of the implemented changes, and is the wait politically feasible at the macro level or worth it from the point of view of citizens?

• Can we avoid fighting ghosts (the public sector) and praising chimeras (the private sector)?

• Can we, at a minimum, get the relevant facts right by rectifying the data gap and discrepancies in measurement methodology?

• How do we write a social contract during a period of recession, how do we manage the local when all else is globalized, and how do we manage international agencies that are too driven by their own mandates and concerns emphasizing the formal and ignoring the informal local?

• How do we bypass the millennia-long “sexual contract” based on patriarchy when writing the future social contract?