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The Treacherous Path Towards a New Arab Social Contract

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The Treacherous Path Towards a New Arab Social Contract

By Omar Munif al-Razzaz

Executive Summary

In early 2012, the author of this paper published a paper in Arabic titled “From Rentier to Productive State: The Difficult Road Towards a New Arab Social Contract.” The paper, which was otherwise well received, came as a disappointment to many for its emphasis on the “difficulty” of transition. The paper argued that the path was difficult, though not impossible, and that the difficulty emanated from the unique traditional marriage between rentierism and authoritarianism/paternalism which had come to characterise not just the political sphere, but the economic and social as well.

More than three years after the first spark of the Arab Spring, the path which seemed “difficult” back then now seems “treacherous.” The term “Spring” itself has since been revisited by many commentators, with terms such as “autumn” and “winter”, becoming increasingly prevalent. More realistically, the mass uprisings and the changes they ushered can be better characterised as labor pains, with all the hopes, risks, and transformations entailed. Whether it ends up in a healthy or stillbirth, there is no turning back to the status quo ante. It therefore behoves all those concerned to search for a path which allows the region to exit the restrictive historic dualistic choice of despotism or chaos towards an enlightened third option of an inclusive democracy and sustainable development.

The events of the last three years seemed to first open, then close, the realm for such a third enlightened option. Parties to the various conflicts have shown little or no signs of the basic democratic values of tolerating opposition or dissent, and have often resolved for “winner takes all” strategies by trying to eliminate each other. It might very well be, however, their inability to cancel each other out, which will lead grudgingly to a process of reconciliation and agreements on a lowest common denominator of vision and values and rules of the political game for going forward. Moving towards a productive, sustainable, and democratic Arab State is a treacherous road, but one that is still possible!

The combination of authoritarianism and economic rent is at the heart of why the road is treacherous, and why incumbents, from whichever party they come, will tend to use economic rent to obtain loyalty through non-democratic means. The challenge, therefore, is the transformation of a generic authoritarian/rentier state into a generic democratic/productive state under a new social contract between the rulers and the ruled. This paper holds that in order to guarantee a genuine and sustainable transformation into a productive state, it is necessary for society, through its elected representatives, to establish control over economic rent, which has historically been the source of power for despotic authority. This includes

control over the sources of economic rent, over how it is spent to develop a productive economy and to employ citizens, over determining its beneficiaries within a just social context, and over subjecting it to close scrutiny that is unprecedented under rentier Arab regimes.

The challenge stems from the fact that rentierism is no longer a “super structure” represented by a governing regime, but has become a system of relationships and incentives that have developed and spread throughout the economy and society, influencing practices, minds, culture and morality; hence the difficulty of transformation. Economic rent has developed from the traditional definition formulated by the pioneers of rentier economic theory, who described it as a phenomenon based on an “external” source such as oil and foreign aid, etc., into an integrated institutional system that is capable of extracting rent from any economic process, whether it relates to investment, production or trade. This is affected by public expenditure from extracting natural resources or from unsustainable public debt as well as extracting larger portions of the value added by production processes in the shape of rents, fees, commissions, guarantees and profit percentages.

This paper also questions the depth and extent of change that the Arab Spring will bring about with regard to control of economic rent: Does the dispute centre on who is in power; how to apportion economic rent; or the social contract itself, hence the underlying power relations within the state. ? The possible answers to this question are wide open, and are likely to remain so for years to come, as the powers and counter-powers wrestle over the future of states. It is in the interest of the powers seeking to alter the rentier social contract to broaden the common denominator among the various perspectives to the extent possible and to formulate alternatives and future choices without resorting to exclusion and branding the others, otherwise the status quo is likely to remain with superficial changes in names and forms but not in substance of power relations.

This paper attempts to identify the path towards a cumulative process to establish a new Arab social contract comprising seven elements that will form a basis for national dialogue about the future. It is cumulative because the way in which its elements are ordered allows the achievement of consensus regarding parts of it, but not regarding subsequent parts. The first element is “democratic transformation” and it is the first necessary requirement for any transformation leading to a new Arab social contract. The second element is “national wealth and governance of public money”, which is necessary to secure control over the sources of economic rent and the ways in which democratic institutions spend it.

The above two requirements are necessary and sufficient to manage economic rent as society deems fit through its representatives and its regulatory and executive instruments. However, they are not sufficient for moving from a rentier economy to a productive model that fully employs available human potential, because it is possible to forge democratic consensus on a different model of apportioning economic rent while preserving existing rentier channels. This gives rise to the role of the elements that transform economic rent into production. They include the third element that relates to economic policies and the role of each of the state and the private sector, and the fourth element relates to the employment of human resources. **The above four elements represent the basic minimum requirements for a productive state.**

The fifth element, “from a subservient human resource to a creative human resource”, encapsulates the changes required in educational and cultural systems that will render **the productive state sustainable** by employing the creative and innovative capabilities of its citizens.

The sixth element, “income distribution and social protection”, encapsulates social justice and is the basis of governance that takes us to **a sustainable and just productive state** that is also perceived as such by its citizens.

The seventh element adds an Arab and regional dimension through the establishment of an Arab regional grouping, based on the legitimacy of the national Arab democratic state, to defend common political and economic interests. Belonging to such a regional grouping will make for **a sustainable, just and strong productive state**.

The sequence of these seven elements does not impose a temporal order, with the exception of establishing democratic control over the sources of economic rent and over the governance of public money. Once that is achieved, work towards achieving each of the remaining elements, which represent spending choices, can proceed in a parallel manner. These seven elements combined enable the establishment of a sustainable, just and strong productive state.

There is no such thing as an ideal social contract, or one size to fit all Arab countries. But arriving at a lowest common denominator among the various parties is critical to lay the ground for a national dialogue on the desired future. In contrast, a rush to the ballot box in the absence of such common ground rules is likely to result in zero sum games, exclusion of one group by another, and prolonged periods of instability.

The Nexus of Economic Rent and Authoritarianism

This paper employs the term “transformation” rather than the term “reform” to describe the path to a productive state. The model that the Arab rentier state represents is the antithesis of production. Hence, it is incapable of reforming state policies and redirecting them towards productive employment without revising its very economic structures and the social contract that binds it to society. Economic rent and political despotism go hand in hand and are mutually reinforcing. Hence, it is insufficient to exchange the old political elite with a new one that employs similar means, because that will simply rebuild a despotic state that is once again based on economic rent.

The desired transformation requires a change in the state as an institution, how it uses its resources and how it attains its legitimacy: does it use economic rents to build despotic structures and pacify its people? Or does it use economic rents to build democratic structures which give voice to its people?

The link between economic rent and authoritarianism is straight forward: the rentier state depends on natural resources (oil or minerals) aid, and/or concessional debt, for a large part of its revenues. This obviates the need to collect local taxes or to employ a large workforce within the domestic economy. The inflow of external economic rent gives the state substantial material independence, exempting it from the need to earn its legitimacy through the ballot box, or through its performance and allowing it instead to earn its legitimacy through direct spending on individuals, projects and public services. This blurs the lines

between the state, authority and the persona of the ruler, and the latter takes on a paternal image: the generous donor to his loyal citizens.

Hence, economic rent fundamentally alters the nature and role of the “state” from a productive state to an allocative state, responsible for distributing, utilising, and/or plundering resources without the need for tax collection systems or legislative monitoring institutions that represent taxpayers.

At the individual level, economic rent destroys the link between effort and reward, because income and wealth are not earned through work, innovation or risk. Rather, they are gained through individuals positioning themselves, through one of the apportioning channels (that take the form of public sector jobs, favours from the ruler, tenders to the private sector, etc.), in the highest possible ranks in order to receive the largest shares of economic rent. The rentier system also affects the private sector, since competition to produce and innovate better quality, better-priced goods and services is replaced by competition to foster clientelism with the symbols of state in order to gain a higher share of economic rent.

The rentier state prefers to deal with patriarchal, vertically structured social establishments, such as tribes, sects and ethnic groups, through their leaderships. By contrast, horizontally structured civil society institutions (labor and professional unions, non-governmental organizations, etc.) are regarded with suspicion and apprehension, unless they are linked in with economic rent and are integrated into the fabric of the rentier system.

All the above impacts society’s system of morality and values, encouraging subservience and hypocrisy towards authority and antipathy towards others, since anything that anyone acquires diminishes what the others can get because the process is viewed as a zero sum game. Moreover, it fosters conspicuous consumption and renders most forms of corruption socially acceptable.

Hence, rentierism is no longer a phenomenon of the governing regime, but a constellation of relationships and incentives that have evolved and spread throughout society, influencing values, morality, culture, and practices; hence the difficulty of transformation.

The above does not mean that all countries that are rich with natural resources become rentier states. Norway is a prominent example of a resource rich country that does not have the attributes of a rentier state, nor does it exhibit the symptoms of rentierism, although oil constitutes 65% of its exports and although Norwegian government spending equals or exceeds that of the oil-rich Arab countries as a percentage of GDP (Norway’s government spending is 35.9% of GDP; Kuwait’s is 21.9% of GDP and Qatar’s is 19.3% of GDP).

Therefore, while a rentier state has been traditionally defined in terms of sources of revenue and their percentages (natural resources, aid, etc.) it is more appropriate to view it in terms of institutional arrangements: specifically, the arrangements that govern public revenues, public spending and the monitoring and accountability of both. These arrangements reflect directly on the structure of the economy: is it structured to maximize profit from production or rent? Most Arab economies, especially Gulf economies, are structured to maximize rent. This is done through large infrastructure projects which increase the speculative value of land, granting exclusive agencies, requiring a national guarantor “kafeel” for importing of foreign labor, etc. All these, whether investments or policies, constitute privileges which allocate rent, as opposed to productive profits to beneficiaries of the rentier state.

Does a social contract exist in the rentier state?

The concept of a social contract under which a society delegates its public affairs to a chosen contestable central authority until very recently was foreign to the Arab world. In fact, that relationship is inverted. The relationship between the state and society is much closer to a contract of submission along the lines: “Accept the status quo in exchange for privileges and largess, or else . . .”

Rentierism has proven to be the elixir of life for Arab regimes during the past five decades. The Arab Spring was really the culmination, on the one hand, of an inability of many states to keep up the perks and privileges with the growing demands of the middle class, and, on the other, the spread of social communication and media and breaking the barrier of fear from “or else.” Thus, the contract was cracked or loosened in some states, while it collapsed in others. Some regimes in the region are attempting to restore the traditional contract by committing crimes against their peoples and by restoring the sway of “or else . . .”. Others are attempting to open their treasuries to spend generously on their subjects as never before. Others yet realize that there can be no return to the past, and are proceeding with reluctant steps towards a new social contract in which subjects turn into citizens.

The Arab Spring: a reading into the possibilities

Over the last few years, Arab masses have certainly mastered the art of making their voices heard, thus breaking a main tenet of the conventional Arab social contract. But they have yet to master, or even engage, the art of listening to each other or finding common ground to move forward. Through million people marches, sit-ins, and the social media their voices became loud and clear. But beyond the general slogans, the ability to find lowest common denominators, or establish rules of the game going forward proved difficult if not impossible. This is not surprising, in fact is typical of most previous revolutionary transformations, starting with the French revolution of 1848, the Russian Revolution, and the Iranian Revolution. The more recent revolutions of Eastern Europe witnessed a more orderly transition thanks to the West which held the carrot of aid and investment in return for transition countries playing by democratic rules.

The road to democracy has proven not just long and difficult but indeed treacherous. Clearly, old habits die hard, and the various political actors have tended to revert to their old tactics: liberal opposition reaffirming that they are more of economic liberals than political/democratic liberals; Islamists reverting to excluding the “others” every time the opportunity for stepping into power arises; the military being accountable only to the military and showing most concern about maintaining its hegemony/autonomy; the old guard financing its way to returning to power; and the newly emerging youth-led civic groups proving too disorganized to make a measurable impact on the course of transition. In terms of regional and international politics, old habits die hard as well: Arab Spring countries are again the arenas for the wars and conflicts of others: Gulf countries vying to outdo each other; Turkey and Iran for expanding their regional influence; and the US and Europe versus Russia and China for global geo-political control. The lack of a strong external “pull”, or an internal “push” towards democratization, leaves all options wide open, including the collapse

of central power combined with civil war, acts of genocide and ethnic cleansing; the rise of new military dictatorships; the election of Islamist governments with little or no tolerance for pluralism; or the emergence of fragile and nascent alliances among political actors which represent a step away from old authoritarian regimes but a far cry from the slogans for freedom raised during the early days of the Arab Spring.

The above political lay of the land clearly suggests that agents of democratic change are too weak and disorganized at best, and non-existent at worst: clearly no decisive political force has emerged as an agent of democratic change and a guardian of it. The question becomes thus, how a process of democratic transformation might come about in the absence of “agency”. It might very well be that things have to get worse, by various parties coming to the hard realization that they cannot cancel each other out, before things start to get better. In other words, given the absence of democratic values and institutions for resolving conflicts, parties will come to the negotiating table only when they each come to the conclusion that a “winner takes all” scenario is not possible. Of course, parties might never come to such a conclusion, even after a country and its people are decimated, as we see happening in Syria. But the question remains as to whether feuding factions can realize before it’s too late that the benefits of finding common ground exceed those of fighting it out.

South Africa offers the most relevant example of a successful, though by no means perfect, process.¹ Indeed its many ups and downs, failures and re-starts, represent a reminder that there hardly ever is a smooth transition to democracy. The South African process was divided into two parts. The first was a convention of all South African parties (Convention for a Democratic South Africa, CODESA) in which the main principles of the Constitution and the structure of a transitional government are agreed upon. The second was elections of a transitional government and a committee to draft the Constitution. The CODESA process was fraught with conflicts, withdrawals, and eventually abandonment. But it was replaced by a Multi-Party Negotiation Process (MPNP) which survived and led to successful elections. The process for drafting the Constitution took almost two years, and relied on 34 principles agreed upon previously. The Constitution had to pass with a two-thirds majority vote in Parliament, otherwise if it got half the votes, it would be put to a national referendum in which it would be ratified with 60 percent of the voter turnout.

What distinguished the process was not its harmony – as all aspects of the Constitution were contested throughout the process. It was rather the commitment to agreed-upon basic principles, broad participation, and transparency which made the South African process so unique: the process produced 34 principles, took two years, involved 1000 workshops, 95,000 participants, and 1.7 million proposals made by different parties. The final draft was translated into 11 languages and simplified with illustrations and printed in 7 million copies for distribution before it was voted into the Constitution!

In the absence of the South African model of leadership in the Arab World, it is more likely, perhaps with the partial exception of Tunisia, Morocco, and Jordan, that contending parties will continue to seek a “winner takes all” scenario, and only reach an inclusive, participatory process the hard way, when all else fails. If and when that happens, contending parties will need to initiate a process which identifies (i) a lowest common denominator of what all

¹ See excellent review of South Africa’s deliberation over the constitution in ESCWA, 2013, “The Promises of Spring: Citizenship and Civic Engagement in Democratic Transition, forthcoming.

parties can agree to as a vision of the future; and (ii) a modality for resolving all the many remaining issues

In the absence of such processes, the path is likely to experience all the dangers that have been manifested so far. These include: brutal repression, sudden unsustainable generosity by regimes to buy time, exploiting sub-identities to split popular movements into conflicting factions with narrow agendas, changing members of the ruling regime without genuinely changing the institutional system, or riding the movement for change and hijacking it through undemocratic traditional opposition forces by means of elections, and then suspending the democratic institution by excluding the other opposition forces or declaring them as traitors or infidels.

The seven elements of a new Arab social contract for a productive state:

What are the features of the desired state and social contract?

The state we desire is one that derives its legitimacy and authority from the people and complies with democratic principles of representation, alternation of power and separation of powers. It is a state that protects national wealth and maximizes its value for future generations. It is a state that employs sources of economic rent from oil or aid to build and restructure the economy into a sustainable, diversified and productive economy. It promotes a culture of work, productivity and innovation amongst its citizens; offers them advanced services and social protection; distributes income fairly and at a time of economic-political blocs is active at the Arab, Islamic and international levels to protect the interests of its people and to achieve their aspirations.

Achieving a state that conforms to the above model requires seven transformation factors along the following political, economic and social lines to shape a new integrated social contract:

- 1- From authoritarian to democratic transformation and the separation of powers
- 2- From hegemony through economic rent to good governance of national wealth and public finance.
- 3- From a rentier economy to a productive economy
- 4- From marginalisation of labor to employment
- 5- From submissive human resources to creative human resources
- 6- From privilege-based allocation to rights-based income distribution and social protection
- 7- From Arab fragmentation to an Arab bloc

1- From authoritarian to democratic transformation and the separation of powers:

Arab democratic transformation will not occur by means of municipal or parliamentary elections, even if they are uncharacteristically free and fair, but by means of an awareness by the state and society of the requirements for building institutions and cultural and democratic practices. Not all democracies are equally democratic! Some are almost devoid of their true meaning, because political money and corruption dominate the political process and its results, turning elections into pro forma procedures with pre-determined outcomes. To distinguish between comprehensive democracy and nominal democracy, I refer to three principles that are essential to complete democracy: the separation of powers, political pluralism and acceptance of the other.

The separation of powers

In the rentier state, the security apparatus usually dominates the executive authority, and the latter dominates the legislative and judicial authority, as well as the media (the fourth authority!). The regime and the ruler become synonymous and the citizen loses his/her voice except when it comes to competing over the extent of loyalty and obedience. The security institution assumes the highest importance because it is the most capable of monitoring the degree of loyalty or disloyalty throughout the state. This gives it an inflated role that might exceed the ability of the ruler himself to subsequently rein it in and cut it down to size. The media becomes a mouthpiece that praises the ruler and his achievements and castigates anyone who might express criticism. The state and its security become one and the same thing, as do the regime and its security and the ruler and his security. Thus, the citizen faces a choice between despotism and unrest, instead of a choice between despotism and freedom.

In a democratic state, by contrast, the people are the source of power, which they exercise through secret ballot to choose their representatives to the legislative power, or through a direct referendum. The formats for democracy vary, but its basic requirement is that there is no single head of state powers. Each power fulfils the role assigned to it by the constitution, and the government governs in accordance with the constitution. In constitutional monarchies, the monarch reigns, guarantees the protection of the constitution and imparts legitimacy to constitutional practices. However, he/she does not govern, and is hence above accountability, unlike all other officials of the state.

Political pluralism (not factionalism) and acceptance of the other

The second pillar of democratic transformation is the development of political pluralism, which provides the citizen with alternatives so that he/she can choose those with programs and principles that are consistent with his/her interests and aspirations. Such political pluralism in no way resembles the factional pluralism that stems from sectarian, ethnic or tribal ties.

The danger of substituting political pluralism with factional pluralism is that this deprives citizens from choosing their representatives on political or civil grounds. At worst, sub-identities compete with the national identity, threatening the collapse of the state into ethnic statelets, or threatening to apportion the state in a manner that renders it weaker than its factional components (Iraq, Lebanon).

The Arab political landscape is extremely poor for pluralism. Its domination by the polarity between authoritarian regimes and Islamist groups, interrupted with “noise” from

nationalism/liberal/leftist groups, and pervaded by sectarian/tribal factions makes for a stagnant landscape on the surface. The “wild card” here is the youth. With increasing access to information through social media, and increasing access to voice, the question is whether they would develop participatory forms of civic associations, which could become the kernels of political parties leading to an active and participatory democracy, or whether they would retrench into parochial structures. The answer itself is linked to other factors of the transformation, the social and economic avenues through which youth are empowered and their values are formed: social media contributing to volunteerism, acceptance of others, and dialogue skills will contribute to civic development and a plural landscape. But unless new opportunities for social and economic participation are available, youth are likely to continue to reproduce traditional institutions or be further alienated.

2- From hegemony through economic rent to good governance of national wealth and public finance.

The rentier Arab regimes have emptied the concept of “national wealth” of its national content as the property of the people and of future generations, turning it into one of the regime’s secrets, particularly as regards oil. By contrast, the duty of the democratic state is to protect and maximise national wealth within a framework of accountability and transparency.

The rent accruing from the sale of oil and other natural resources is often misconceived as income, when in reality it is merely a conversion of fixed assets into liquid assets (i.e., cash). A true measure of the growth of national income must take into consideration the depletion/exhaustion of natural resources. There is no problem in principle with selling resources and assets such as oil and public land if the returns of such sales are invested in other assets that bring in higher income, have a higher future value or provide a greater sustainable income. The problem in the Arab countries is that a large portion of the returns is spent on consumption (35-65 % of returns in the Gulf countries) which means that the assets are being continually depleted.

The other problem relates to the way in which the non-consumed portion is invested: abroad or domestically, and in what fields? In fact, investment has taken place abroad and domestically, but at a level that exceeded absorptive capacity domestically. This has led to higher inflation at times, and fostered a preference for investment in the financial and real estate sectors of the advanced economies over investment in the productive sectors of those economies, exposing the sovereign wealth funds of the oil countries to large losses with every financial crisis that has hit global markets.

Is there a different investment model?

In recent years, the governance criteria of national wealth via sovereign wealth funds – based on transparency, the independence of the funds’ managing bodies, and the existence of clear indicators to evaluate performance – have become clear and accepted. In 2011, the sovereign wealth funds of the UAE, Kuwait, Qatar, Bahrain and Libya received the lowest ratings. The Norwegian sovereign wealth fund exemplifies a high degree of transparency, and we see no reason that prevents the Arabs from adopting such transparency by regularly disclosing how

much of their oil revenues are used to fund their sovereign wealth funds and how those funds are managed.

Paradoxically, some private wealth funds in the Gulf have earned the highest ratings, similar to the ratings earned by their counterparts in the economically advanced countries. This means that circumstances and means are conducive to good governance once the will exists. Why do the oil-producing rentier states in the Gulf deplete their resources? Moreover, why are the non-oil producing countries overwhelmed by debt? The short answer is not that this is because of the “nature” of economic rent, but because of institutional failures that allows such a situation.

3 - From a rentier economy to a productive, competitive economy

The Arab region has fallen behind other parts of the world (with the exception of Africa) with regard to many indicators of economic development over the past four decades. The UNDP’s reports on human development paint a grim picture of the state of development in the Arab region and its effects on growth, investment, productivity, trade, etc.

Sober scholarly research has shown that when states are incapable of properly managing the revenues accruing from their resources (oil, foreign aid and even remittances), the impact on the real economy can be negative, including its productive sectors, investment incentives, and employment. This has given rise to expressions such as “the resource curse” and “Dutch Disease”.

Such research has noted that economic rent (whether it is provided by oil revenues or foreign aid) that is not earned from employing productive domestic resources causes several imbalances, the most notable of which are: inflated prices of goods that are not internationally traded such as real estate and services at the expense of the goods produced by sectors such as industry and agriculture and which are globally traded. Another is the over-valuation of the local currency against foreign currencies. A third is reduced investment in export sectors and concentrated investment in the real estate and services sectors. This weakens productive sectors like agriculture and manufacturing (since their exports become less competitive), inflates the value of fixed assets such as real estate, and reduces the economy’s ability to create job opportunities.

Dealing with the resource curse and Dutch Disease is not impossible. It entails self-control on the part of the regime, so that it only extracts enough of the country’s natural resources to be utilised in investments that provide lucrative returns, avoiding the use of such returns to finance conspicuous consumption that leads to inflation, and establishing an appropriate regulatory framework to monitor, oversee and ensure the transparency of long-term implementation. In the case of foreign aid, it entails working to channel such aid to finance capital spending, rather than to meet deficits in the budget’s current account.

The role of the state and of the private sector:

Determining and defining the role of the private sector is perhaps the most important economic issue concerning transforming the rentier state into a productive state. During the past two decades, concepts and policies have emerged that view the private sector as the only engine of economic growth and the saviour of the developing countries from backwardness and poverty, while the role of the state is to be confined to preserving the overall stability of

the economy, liberalising external trade and privatising the public sector's productive institutions.

However, these concepts and policies paid no heed to economic rent and the manner in which it is allocated, or to the importance of the source of the legitimacy of ruling regimes and the separation of powers. Hence, in many instances relating to privatisation, the focus on the need to expedite the privatisation of productive public institutions overshadowed the need for controls to ensure integrity, transparency and good governance in that process. The result – as was the case in Russia and several other countries lacking in transparency – was that a small group of influential individuals (oligarchs) gained exclusive control of huge assets and concessions at low prices.

A study on the private sector in the Arab region, prepared by the World Bank in 2008 and entitled “*From Privilege to Competition*”, concludes that the prevalent private sector – which is a beneficiary of previous policies and existing imbalances – is rarely a force for change, and in fact is a force that defends the status quo. This comes as no surprise, particularly given the business and commercial activities of those in power and the clientelistic structure of the private sector, which survives on economic rent, in the form of acquiring property and other assets, and receiving lucrative public sector contracts, concessions, exclusive agencies, exemptions and other forms of economic rent. The same study concluded that democratic control over national wealth, regulation of the governance of public funds, curtailment of corruption, and introducing fairness to competition would greatly contribute to the growth of a productive economy.

Lastly comes the role of the state in the economic sphere. In all countries of the world that have achieved advanced stages of development and prosperity, the state has played a leading developmental role. The vital question here is: what role? How can it change in accordance with the needs of each developmental phase? How can the state be immunised against a return to developmental policies that are governed by a particular group of interests that seek to make gains through economic rent? There is never a recipe for the role of the state in economic development. But the emergence of a coalition of forces that seeks a productive economy is critical for countering the influence of clientelistic groups.

The UNDP's “Arab Development Challenges Report” summarises well the negative role of oil, by saying, “Oil resources have delayed the normal process of economic transformation in the Arab region. This led to retarded productive capacities and to a more rudimentary economic structure relative to what one would expect for the Arab countries level of GDP per capita.” Hence, the oil-rich-rentier Arab states and the Arab states that are subject to the effects of oil price volatility must assume a long-term developmental role based on neutralising the negative effects of economic rent and on using it to build a productive base in each of their countries, enabling the private sector to focus on competition and innovation instead of on client relations with the state apparatus.

4 - The Labor market: from marginalisation to employment

The rentier Arab countries have been subject to unemployment to varying degrees, which fluctuated during economic cycles, mostly in reaction to changes in the price of oil.

This has had devastating effects on economic stability and on the sustainability of development and employment. Ultimately, not a single Arab country has succeeded in developing its economy in a way that maximises the benefits of its human potential. This is a blatant contradiction, given the huge disparities amongst Arab countries when it comes to national income and human resources. Naturally, the exact circumstances of oil exporting/labor importing countries differ from those of oil importing/labor exporting countries. In the Gulf countries, economic growth in the past decade has been accompanied by a substantial growth in employment. However, that growth in employment was mainly driven by a substantial increase in the employment of citizens in the public sector, while increasing the rate of importing migrant labor in the productive sectors, particularly labor-intensive sectors. Despite achieving strong growth rates, the oil-importing/labor-exporting countries have been unable to create sufficient job opportunities to stop the unemployment rate from rising amongst young people.

In that regard, the role of the demographic factor (a population growth rate of 3%, with more than half the population below the age of 25) should not be overlooked. Such a large percentage of human power capable of work can be a “blessing” or a gift to those countries able to employ it to contribute to boosting production, and hence to save for subsequent phases when the rates of dependency climb. However, it is certainly a curse for the countries that are unable to create suitable opportunities for it, which means that those sectors of the population have to be supported not only in old age, but during youth as well. Unemployment and employment ratios in the Arab countries indicate that the demographic surge remains a “curse” and that it has not been properly exploited. A regional unemployment rate of 10.9% is the highest in the world and the employment ratio relative to the population is the lowest (45% in the Arab region, compared to 60% globally and 69% in East Asia). Unemployment affects young men and young women in particular.

The main problem is not of a technical or technocratic nature, nor can it be rectified by improving educational systems so that they match market needs. It stems from a failure to restructure the economy and from the economy’s inability to create enough work opportunities that require higher levels of specialisation and skills.

Several factors exacerbate the challenges of employment, and turn a “single employment market” within an economy into “fragmented employment markets”. This limits a labor market’s capacity to employ the most qualified of the unemployed. The Arab countries have relied on the public sector to employ their citizens to solve the problem of unemployment as part of a rentier system that distributes benefits. Such public employment usually entails better salaries and benefits (insurance, working hours, etc.) than those offered by the private sector. This has enhanced a culture that minimises the value of productive work and emphasises social connections and favouritism as criteria that improve hiring opportunities at the expense of merit based on knowledge and professional qualifications. Institutional and social barriers limit women’s participation in the employment market, making their unemployment rate double that of men.

Moreover, the near total dependence of several Arab countries – mostly in the Gulf – on foreign labor, particularly cheap labor, leads to economic and social distortions that have

serious medium-term and long-term ramifications, most notably a weakening of the private sector's incentives to employ those citizens that the public sector is unable to employ, while also disincentivizing citizens from seeking private sector employment.

Arab countries that export labor benefit from a reduction in unemployment as well as from migrant remittances, but they also experience negative results such as a "brain drain" and some aspects of Dutch Disease, such as conspicuous consumption, an over-investment in real estate and negative social effects on families. Studies have shown that even if all the positive effects of labor migration are taken into account, the migration of skilled and professional labor is ultimately costly to the exporting countries in the Middle East and North Africa.

To resolve this conundrum, the oil-rich countries that import labor should invest in productive projects in the Arab countries that export qualified labor and reform their labor markets so that incoming labor can **complement** the domestic labor force rather than **replace** it as part of a drive to maximise added value.

A focus on productive economy and employment represents the minimum elements required for a "productive state" that allows the citizen to contribute to production. These requirements are a minimum because they do not deal with releasing the Arab citizen's creative energies (to guarantee sustainability), nor do they impart to that citizen a sense of justice in the distribution of the fruits of development (hence in the achievement of justice), nor do they deepen such gains and maximise their benefits at the regional Arab level (leading to a strong state). Achieving a fully "sustainable, just, strong productive state" requires the three remaining elements: a creative human element, social justice and a regional Arab bloc.

5 - From submissive human resources to creative human resources

The human element is the means and the end, and there can be no development or growth without an educated, empowered and creative human element. This requires the training of a human element that is educated about public issues, that is qualified with the skills required by the labor market, that takes initiatives to create innovative solutions and that is incentivised to contribute to collective work.

The Arab region is experiencing a unique historic opportunity. While the population of Europe is aging, the Arab World is entering the "demographic surge" phase, with one-third of its population below the age of 15, compared to less than one-fifth of Europeans below that age. The problem is that the Arab countries have been unable to benefit from this surge, and some regimes consider it a "curse", and face dilemmas on how to rid themselves of it by exporting it as migrant labor or by piling it up in the public sector.

Despite the marked improvement in the quantitative indicators of education during the past four decades (enrollment numbers, illiteracy rates, female education, etc.), the impact on quality of education, productivity levels, creativity and contributions to human civilisation are not only unimpressive, but also embarrassing. Naturally, this reflects on the economy, politics, administration, patterns of thought, perceptions of the self and of the world, and all aspects of life.

The transformation from producing a submissive human element to producing a creative human element requires a reconsideration of our understanding of the philosophy or of the goals of education in the life of a human being, ensuring continued education, educational content, and the governance of education.

The philosophy of education: Educational systems differ from one part of the world to another. Some emphasise the importance of disciplining a child's natural tendencies and changing them so that they fit in with the nature and behaviour of society. Others emphasise the child's individuality and developing his or her critical thinking skills, and even build the values of challenging authority if practiced unjustly. Arab systems of education emphasise the first approach and neglect the second, contributing to the reinforcement of unhealthy values produced by despotism, backwardness and economic rent. Educational methods are based on rote learning, memorization, and obedient, conformist thinking. A culture of experimentation, questioning, initiative and free thought that is not bound by a long list of taboos has been combated and replaced with a style of preaching and guidance that are unrelated to the thoughts and questions that preoccupy a child. In addition, the public space has been "sanitized", doing away with anything that increases human awareness or civic involvement.

Such tight control of public spaces was not as effective in controlling social media. This has allowed communication tools such as Facebook and Twitter to host the vast reservoir of voices yearning to be heard and translate it into a shared discourse that rejects the current situation and points towards a desired future, even if expressed in general terms.

Building a creative human element within a new social contract requires a redefinition of the individual, society, the relationship between them and the relationship of each of them to the state. It would require reinstating the dignity and role of the citizen and hence of citizenship by considering the individual citizen, rather than the group, as the basic unit of the nation. It would also reaffirm the role of traditional social units such as the family, the clan, the sect and the ethnic group socially and culturally, but not in a manner that contradicts the freedom of the individual or above the rule of law of the state. This would strengthen the building of a national cultural identity that encompasses the whole of society along clear principles that call for resorting to a state of law and institutions regarding issues that are in dispute.

Continuing education throughout life: This concept is completely absent from Arab countries and societies. The idea of returning to education or training during employment is not encouraged by the state or the private sector, and society views it somewhat negatively, poking fun at those who do so. Comparative studies show that the level of private sector investment in training in the Arab countries is below levels in other regions, particularly in the countries that depend on foreign migrant labor (this gives rise to an economic vicious circle of low productivity and low wages).

What do children in countries undergoing development learn? Employees and consultants at Arab ministries of education revise their curricula (schoolbooks) by adding a chapter here and a subject there as they try to keep up with the vast development in sciences and knowledge. By contrast, the European countries are heading towards turning the concept of "curricula" upside down because they realise that the development of knowledge is accelerating and that it is impossible to develop curricula that will catch up. The revolution is taking place along three axes: The **first** is to abandon schoolbooks as the basic means of conveying knowledge and to depend on the internet and build the abilities of students to "sift" the millions of references to access the required information. The **second** axis

complements the first and involves deeply implanting a culture of critical thinking about all the knowledge that students acquire through reading. The **third** involves building a culture of team work in which each individual has a role that complements the roles of others. In tandem with this, a culture of freedom of opinion and respect for the opinions of others is fostered.

The governance of education (incentives, transparency, and accountability): Raising the standard of educational output requires a transformation in the governance of educational systems from closed systems that are not subject to evaluation and accountability into open systems that provide accurate information about the performance of their students in order to improve such a performance. Such open systems should also incentivise their managements and teachers in the light of that performance, and enable the parents of students to hold the state, the education ministry and the school accountable through channels that operate at state and school levels.

6 - Social justice: From privilege-based allocation to right-based income distribution and social protection

The state shoulders an important role in the achievement of social justice. The practical experience of the past four decades refutes the “trickle down” theory, which holds that the state must focus on economic growth and must not devote attention to the eradication of poverty. The global financial crisis has given renewed credence to the literature calling for a fair distribution of income, employment, combating poverty and enhancing social protection as an integral part of long-term growth strategies. But how is progress towards social justice to be measured?

Income poverty

The most widely used criterion is income, in particular the absolute poverty index, which is calculated on the basis of the cost of obtaining the calories that a person needs (\$1.25 - \$2 per person per day). That measure is an insufficient measure of income poverty as it does not take relative poverty into account. The latter is as important, if not more, than absolute poverty as it refers to the relative disparities between the rich, middle-income earners and the poor. Relative poverty becomes especially important in rapidly growing economies where economic growth is taking place but the gains are not necessarily being felt across regions or income groups.

Beyond income, the range of the concept of social justice must be widened to include poverty of capabilities (not only material poverty) and protection from various risks (such as illness, incapacity and unemployment). All these are related and mutually reinforcing concepts, and cannot be reduced to a single dimension.

Poverty of capabilities

Poverty of capabilities refers not only to the disparities in material income, but also to the disparities in opportunities available to some categories of society, but not to others (discrimination in educational, health and employment opportunities, political participation,

freedoms, etc.). It is a poverty of opportunities that a citizen faces to express himself/herself and to use his/her abilities in the best possible manner. Such disparities are extremely important because they not only affect a citizen's income, but also his/her feeling of dignity and humanity. Protection against risks refers to the ability to avoid, withstand, or transcend the adversities that befall people. Illness, incapacity and unemployment might be temporary, but they are devastating in the absence of the ability to bear their costs and the absence of the necessary rehabilitation. Old age requires protection against want, a social security program and health insurance that helps the old live in dignity after retirement.

Income distribution

Ali bin Abi Taleb says, "I have never seen extreme wealth without injustice nearby." Where do the Arab countries stand when viewed from such a perspective of social justice? The existing Arab social contract deepens the discrepancies amongst social categories (wealth or relative poverty) and strengthens dependence on the state. Awareness of the risks inherent in the problem of income disparities (poverty or relative wealth) has come belatedly and hesitantly in the majority of rentier states.

Unlike productive states, the rentier state does not have efficient tools for the distribution of income, which requires a just tax system mainly based on direct and escalating income tax, particularly income from capital gains and speculation in real estate or financial markets. Taxation systems are either primitive, as they are in the Gulf countries; or if they exist, as they do in the states of the *Mashreq* (Levant) and the *Maghreb* (North Africa), the state tends to levy easily collectable indirect regressive taxes (sales tax and customs tariffs) that burden citizens with limited incomes, while it avoids taxing income, or taxes it very lightly, and almost completely avoids taxing capital gains.

Although the rentier social contract, through its allocative function, contributes to limiting extreme poverty, it exacerbates income disparities and dependency on hand-outs. The main means of redistributing income/economic rent in countries that earn high oil revenues is to subsidise fuel and food, employ people in the public sector, offer free education and healthcare and a generous system of grants, gifts and favours to particular groups to strengthen loyalty to the regime.

The further political or economic stability deteriorate, the weaker the state perceives its legitimacy to be, and the more it feels the need to increase the money it pumps into the veins of its contract with society. Despite the seemingly infinite ability of some states to do so, it has become clear that this takes place at the expense of future generations and future stability, and that any increase can be cut back in future, simply exacerbating the problem of sustainability. What, then, of the countries where the economy is not based on oil revenues, such as Egypt, Morocco, Tunisia, Jordan, Syria and Yemen? The inability of these states to continue to pay for subsidies has led them to a dead end that called into question the social contract in its entirety. Paradoxically, those states believed that they could abolish or reduce subsidies without reconsidering the political and economic elements that had put the rentier state in such a position in the first place.

Specialised studies show that the institutional framework for combatting poverty and for the redistribution of income is weak or near absent in the Arab countries. The framework for equalizing capabilities is weak and limits its focus to the quantity of services, not to their quality. Moreover, it is almost absent in relation to freedoms and democratic participation,

and limited both horizontally (with regard to the social segments it includes) and vertically (with regard to the risks it covers) in relation to social protection.

The issue of social justice is likely to be one of the hardest to deal with when transforming a rentier regime, because groups benefiting from the apportioning of economic rent will not easily give up their shares. Moreover, even the politically and economically marginalised groups that are only receiving crumbs will not sacrifice those crumbs in the absence of credible promises of better future alternatives. Hence, any call to withdraw or reduce subsidies must be preceded by tangible steps along the five preceding axes and by measures to establish the basic building blocks of a social protection system.

Initiating employment programs along aforementioned lines, providing various insurance services to those included in those programs, widening the range of aid offered to poor workers by aid funds, and increasing micro-loans will all establish a new ethos that does not consider social protection a necessary evil, but as complementary to a socio-economic structure that fosters a sense of citizenship and of work and productivity values for all.

The basic building blocks of social security and social insurance systems are already in place in all the Arab countries. It is necessary to ensure their financial sustainability and to extend them horizontally to include employees in small establishments, the self-employed, part-time workers and those working in unofficial sectors or working from home.

7 – From Arab fragmentation to an Arab Bloc:

No single Arab state will be able to deal with the imbalances resulting from dependence on economic rent and its ramifications in isolation from the other Arab countries. Whether in relation to political issues (the impact of the Arab Spring and democratic transformation, the Arab-Israeli conflict, international politics); or economic issues (the movement of capital, fields of investment, the exchange of goods and services, communications and transport, the movement of migrant labor, external aid and loans, etc.) what occurs in one country has an effect on neighbouring countries.

Arab popular protests have given rise to two phenomena which appear to be contradictory, but which are actually consistent: The first is that the slogans on the Arab street have not demanded the removal of national (state) borders and the achievement of unity, and have strengthened national (state) identity and established it as the context within which to work towards building democracy. The second is that those slogans displayed a great deal of sympathy amongst the various Arab streets and a shared consciousness that encompasses pan-Arab preoccupations and aspirations. Hence, any pan-Arab undertaking must be legitimately established through national (state) democracy.

It has become a fact taken for granted that the Arab countries will enjoy a higher degree of economic prosperity if they were to remove the obstacles to forming joint markets and production that would benefit from a large purchasing force. The Asian, European and Latin American experiences are good examples of this, given that the efforts of the countries in

those regions to export and achieve global competitiveness are accompanied by regional coordination.

Since more inter-Arab integration entails benefits, the question arises as to why this has not already occurred, except within the Gulf Cooperation Council (GCC) and at a very slow pace. Given the limited scope of this paper, a passing reference can be made to the previously mentioned independence of the rentier regimes from their peoples and their interests. Inter-Arab policies are dictated mostly by considerations relating to the external links of those regimes and by personal and temporary alliances amongst Arab leaders, rather than by a national strategic vision of the region's future. The peoples of the oil-rich Arab countries have paid for this through non-viable investments, and the peoples of the poor Arab countries have paid for it through changeable and whimsical investment and migrant labor policies. As a result, everyone has lost out.

Increased popular awareness, democratic participation and control over economic rent will improve the chances of forming an Arab bloc that is capable of maximising collective benefits and of defending Arab interests and rights regionally and globally vis-à-vis other global blocs.

The axes of such a transformation are well known. Much has been written about them, but little has been implemented. The following are the most important:

First, harmonisation of the laws, regulations, and standards of trade to reduce the cost of inter-Arab trade.

Second, the establishment of a world-class regional infrastructure network (roads, electricity, water, gas, etc.) linking the Arab countries to one another.

Third, the establishment of regional funds to invest in joint projects and to finance exports and the process of economic transformation in the Arab countries.

Making progress towards establishing those axes requires a rebuilding of regional institutions, starting with the Arab League itself and drawing on the GCC experience. The development of the EU institutional system provides a good example, but is not necessarily a model to be followed in every detail.

In that context, the feasibility of previous patterns of regional investment and employment must be reconsidered, including the production model, which heavily depends on imported labor in the Gulf states. Domestic investments in industries that have no competitive advantage in the Gulf countries have created intractable economic, and possibly demographic and political imbalances. Although the remittances of migrant workers to their home countries benefit those countries that export unskilled labor, this phenomenon also entails severe disadvantages, particularly a brain drain and the loss of the skills needed to build a productive base and a knowledge-based economy in those countries. The alternative is not a complete abandonment of domestic investment in productive industries in the oil-producing countries. Rather, the alternative is to focus on investments that enjoy a competitive advantage based on the availability of petroleum products and services and that provide employment for the citizens of oil-producing countries. In addition, a social security umbrella for foreign workers should be provided in partnership with the home countries of those workers, enabling them to return home to employ the skills they have acquired and to invest

their savings in domestic projects without interruption to their social protection and old-age pensions, creating a brain gain instead of brain drain

Oil-based economies can be diversified through direct investments in developing countries that have a workforce competitive advantage to produce goods and services and to create markets that provide demand for those goods and services. In other words, inter-Arab investment and common markets are in the interest of all parties, but they are contingent on the manner in which competitive advantages are utilised and on the creation of an environment conducive to investment, and cannot become the duty of an Arab investor, whether at individual or state level.

At the global level, Arab fragmentation weakens the ability to negotiate in all economic and political forums, whereas strengthening inter-Arab economic links aids the establishment of alliances with other powers regarding issues of common interest.

Towards a new Arab social contract:

What is the Arab social contract that we seek? It is a contract that renders the citizen dignified, free, proud, open to other cultures, enlightened by human culture and the experiences of others, productively contributing to building his/her country and to expanding human knowledge, thought, culture and civilisation.

It is a contract that leads to a strong country that protects itself and its citizens wherever they may be, and provides them with the means of prosperity, such as healthcare, education and protection, and builds a strong base to which citizens and future generations can add. It is based on fairness amongst citizens, and supports just causes wherever they may be.

Under such a contract, citizens choose their system of government – whether monarchical or presidential – through their representatives and the constitution, which defines the state, its source of legitimacy and rights and duties within society.

It is an Arab social contract under which the citizen is the “first party” and the governing regime is the “second party”; the citizen is the principal and the governing regime is the agent; the citizen freely chooses through the ballot box amongst representatives and parties that hold differing principles, programs and ideas; the governing regime commits to implementing the ideas endorsed by the electoral majority and is subject to monitoring by independent authorities and the power of the media; the rights of the electoral minority and of those with opposing views are safeguarded and not excluded or branded as treason; the governing regime periodically seeks its legitimacy from the citizen, who is the source of powers, through the ballot box.

Such a contract requires the governing regime to maximise national wealth and not waste it; to administer it transparently by means of sovereign wealth funds in the interest of future generations; to publicise all government revenue sources and spending, both within the budget and outside it, together with the principles that govern this; and to subject such processes to monitoring and accountability according to those principles.

Such a contract puts all forms of economic rent at the service of building a productive state and does not consider the sale of assets as “production”, but as a drain, unless such a sale is used to build infrastructure and continuous human capital that allows economic diversification, lowers the risks inherent in oil price volatility, and boosts exports and global competitiveness. Such a contract prohibits those in government from practising commerce, clientelism and monopoly, opening the way instead for small-scale producers to enter the market under a system that fosters fair competition to provide the best goods and services.

Such a contract employs the human potential of its citizens to the utmost extent, not by piling it up in the public sector, but in all sectors and fields of work to boost productivity, innovation and creativity. It provides equal employment opportunities for men and women, and protects the rights of the incoming expatriate labor force, which complements but does not replace the local workforce. It requires the governing regime to narrow the urban-rural gap by investing in regions and minor cities. It strengthens protection for those working in unregulated sectors, providing them with the opportunity for gradual promotion.

It is a contract that invests in the human element, paying qualitative, not merely quantitative attention to education, strengthening a culture of critical, pro-active independent thinking; the specialisations demanded by the labor market; work skills through team and voluntary work and continuing education from early years throughout work and until retirement. Such a contract guarantees equal opportunities to quality education irrespective of income disparities.

Such a contract seeks to further social justice, fighting extreme poverty and going beyond that to offer wide-ranging and in-depth social protection against risk for workers and their families. It tackles large disparities in wealth and income, which is relative poverty, through a progressive tax system that reflects society’s understanding of justice.

Such a contract is the basis for a national democratic state capable of moving into a wider Arab space that establishes joint markets for the movement of capital, workers, goods and services and that protects joint political and economic interests and enhances negotiating power at the global level.

The scholar Ibn Khaldun says in his *Prolegomena (Muqaddimah)* “Sovereignty is attained through soldiery, soldiery is attained through money, money is attained through taxation, taxation is attained through economic prosperity, and economic prosperity is attained through justice.”

That formula has not changed much over the years. The road remains treacherous, yet possible.