



The Arab world needs credible reformers

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June 5, 2013

Egypt is facing its deepest political crisis since February 2011. On Sunday, the Supreme Constitutional Court ruled that both the election to the Shura council, the country's upper house, and the appointment of a panel charged with drafting the new constitution were unconstitutional. Although no one can predict the exact reverberations of these decisions, they are a reminder of the threat dysfunctional politics represents to the future of the Arab world.

Egypt is staring into a deep economic abyss. The heavily indebted government uses one third of its spending to subsidize prices of fuels and foodstuffs. Most of the benefits of subsidies accrue to wealthier households and big businesses. The imports of subsidized commodities are draining away the country's foreign reserves, which are at historically low levels.

The political elites have done little to fix the wasteful subsidy programs. Instead, "the Egyptian government has done a good job of confusing us by announcing a multitude of different measures that have mostly evaporated into thin air," says Farah Halime, a Cairo-based journalist and author of *Rebel Economy*, a blog focused on economic problems of Arab countries.

The Middle East and North Africa is the region with the highest youth unemployment in the world. In Egypt alone, 77 per cent of all unemployed are between the ages of 15 and 29. To prevent the brewing economic and social catastrophe, Egyptian reformers need to reduce the existing barriers to private entrepreneurship – including its complicated system of taxation, lax enforcement of contracts and a byzantine system of construction permits. According to the World Bank's *Doing Business* project, it takes Egyptians 218 days to obtain a permit, placing the country in 165th position worldwide on this measure. The Nobel Prize-winning economist Joseph Stiglitz proposes the creation of an Arab Development Bank, which would stimulate investment spending, not unlike the Marshall Plan in post-war western Europe. However, Arab Spring countries are not being held back by a lack of spending. Quite the contrary – the urgently needed reforms include a reduction of bloated civil services and cuts to wasteful subsidies.

More fundamentally, during the four years of the Marshall Plan, West Germany received cumulatively some 2 per cent of its GDP in aid – a pittance compared to the amount of financial aid Egypt has received from the United States since 1979, most of which was

directed at the military. In 2012 alone, Egypt received \$1.56bn in US aid, or 0.7 per cent of the country's annual GDP.

The difference between post-war Europe and present day Egypt lies neither in the amount of aid – copious amounts are flowing in every year – nor necessarily in its militarization – after all, Egypt's military is active in many civilian sectors of the economy. What made the European economic miracle possible was not foreign aid but the fact that western Europe had credible politicians, like the German chancellor Ludwig Erhard or the Italian president Luigi Einaudi, who had a mandate to put in place economic reforms that were needed to restore economic prosperity on the war-torn continent.

The predicament of Arab countries is political. The countries simply lack leaders who would be in a position to pursue the far-reaching economic reforms the region needs. Painful economic reforms are unlikely to be popular on their own – to materialize at all, they usually require persuasive, credible policy makers with a democratic mandate. And the contested legitimacy of the political systems in countries the region – of which Egypt's current constitutional crisis is just one example – makes it very difficult for such leaders to emerge.

It gets worse. In Egypt, discussions about economic policy are muddled and plagued with lazy, unimaginative thinking. Yet, as Anders Åslund, an economist at the Washington-based Peterson Institute for International Economics and expert on economic reforms and transitions in Eastern Europe, puts it, fundamental reforms need a shift in ideas, favoring markets and private initiative: “Rethinking requires a new ideology, and after one country has shown the right direction, neighbors often follow.”

There is a silver lining, however. As the economic situation in the region worsens, the pressure the reform will grow. As Åslund wrote about economic reforms in Europe, “without severe crisis, no significant reform was likely.” Westerners who care about the future of Egypt and other emerging Arab democracies should therefore be busy nurturing a next generation of Arab leaders with an appreciation of the role that markets and entrepreneurs play in the process of economic development.

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