

The Arab Spring Needs Economic Freedom

The Middle East won't have democracy soon, but economic liberalization can help

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For most Egyptians, the revolution that overthrew Hosni Mubarak was driven as much by poverty and lack of economic opportunity as it was by anger over unaccountable and authoritarian government. Unfortunately, the country's newly elected government under President Mohamed Morsi failed to tackle wasteful spending, overregulation, or the omnipresent grabbing hand of the government. In the months leading up to the recent military coup, the country had its lowest growth rates in two decades, rising unemployment, and a soaring budget deficit.

Strangely enough, among politicians and Middle East experts, economic issues seem to be on the back burner, overshadowed by concerns about the region's political future. In Cairo and in Washington, most of the attention is devoted to the arcane power struggles, loyalties, and ideologies animating Arab political life. Maybe it is time to accept that it will probably take years until standard, Western-style democratic institutions emerge in Arab countries. In the meantime, however, radical economic reforms could go a long way in improving the lives of ordinary Arabs — and laying the groundwork for political stability.

After sub-Saharan Africa, the Middle East is the most rapidly growing region in the world. Although fertility rates are now falling, the number of young people entering the labor markets in Arab countries is rising rapidly and will continue to grow for at least another decade. Unless they're able to find jobs, start businesses, and provide for their families, the Middle East will have to brace for a prolonged period of unrest.

Youth unemployment throughout the region consistently tops 20 percent — and many more young people are outside of the labor force, not captured by unemployment statistics. In the region, contrary to conventional wisdom, education often makes the problem worse. In Morocco, for example, those with the highest level of educational achievement face an unemployment rate of 19.4 percent, compared with only 4 percent for individuals with no degrees.

The lack of economic freedom is the single most important factor limiting job creation and economic growth in the region. According to the World Bank, to register a claim on a piece of real estate in Algeria it takes ten procedures, 63 days, and 7.1 percent of the value of the property. It takes 29 payments and 451 hours to prepare, file, and pay Algerian corporate income tax — which imposes an average effective rate of 72 percent on corporate profits. In Egypt, the situation is better, but not by much: Entrepreneurs end up paying 42.6 percent of their total profits to the government, after making 29 tax payments each year and spending 392 hours preparing, filing, and paying them.

In the past two years, despite the area's political revolutions, Arab governments have done little to liberate their citizens economically. If anything, the situation has been made worse in some places by new populist demands on governments, which have fueled unsustainable growth in spending on subsidies and public-sector jobs. As a result, for instance, Egypt's fiscal deficit for 2013 is currently running at 15 percent of GDP, and its public debt is well above 80 percent of GDP.

Egypt's fiscal problems are largely driven by the cost of subsidies for various consumer goods, ranging from bread and tea to gasoline, diesel oil, and liquefied petroleum gas, which is used for cooking. One-third of the government's budget is spent on subsidies, which disproportionately benefit large companies and the wealthier segments of the population, which tend to purchase more of the subsidized commodities. The government's subsidies for commodities Egypt has to import help explain the rapid outflow of the country's foreign-exchange reserves, which currently sit at \$14.9 billion, less than half of their level in January 2011.

The Middle East is reaching a point at which economic reforms are becoming unavoidable. Regardless of political ideology, the region's governments need bold reformers who can rein in public spending, open up their economies to competition, and remove the most egregious obstacles to economic activity. In some cases, such as Egypt's, this means a simple return to the economic liberalization and privatization that had been gradually occurring in the years before the Arab Spring and has sadly stalled in its aftermath.

The 18th-century British landscape architect Lancelot "Capability" Brown was famous for designing gardens around English country houses. Instead of laying a direct path to the house, his designs would make visitors take long, winding paths throughout the gardens before arriving at the destination — a way he considered superior to alternative forms of landscaping. Similarly, shifting the focus away from building democratic institutions *now* to creating space for economic opportunity does not mean giving up on democratic governance in the Arab world. It simply means recognizing that, in order to become stable democracies, Arab nations will have to take a roundabout route — one that involves expanding economic freedom and prosperity to all.

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