Put Tunisians Back to Work

Post-revolutionary Tunisia has made great strides toward democracy. Now it needs to deliver on promises of economic growth. The second in our series of Lab Reports on Tunisia.

By Emmanuel Martin , Dalibor Rohac

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In January, Tunisia's National Constituent Assembly approved a new, democratic constitution for the country. Months earlier, the former government leaders from the Islamist party Ennahda, agreed to step down and transfer power, peacefully, to a new prime minister and caretaker government and to engage in a new National Dialogue. More recently, the government approved a new electoral law and is making preparations for general elections in November. While the situation on the ground is not idyllic, most would agree that Tunisia's post-Arab Spring governments have made a concerted and commendable effort to establish democracy. But, as in other countries in the region, Tunisia's 2011 uprising was just as much about jobs and economic growth as it was about political representation. Yet three years later, successive governments have made only modest progress on the economic front.

The challenges Tunisia's leaders face aren't quite as daunting as those that plague other countries in the region, such as Egypt or Algeria. State ownership of the economy, for example, is much smaller in Tunisia than elsewhere: Only 15 percent of total fixed capital investment spending comes from the government, compared to over 60 percent in Algeria, and 40 percent in Egypt and Yemen. Yet the legacy of Arab socialism, which has plagued the region since the late 1950s, is still very much alive. Since 1959, the government has financed nearly all of Tunisia's industrial sectors either through equity participation or bank lending. In the late 1980s, Tunisia turned over the bulk of its manufacturing and service sectors to private owners, and in the 1990s and 2000s, it partially privatized Tunisie Télécom (its telecom operator), large parts of the banking sector, as well as its large cement companies, such as Société Les Ciments de Jbel Oust and Société Les Ciments d'Enfidha. But privatization itself was not enough to generate new economic opportunities. Unless Tunisia embraces bold economic reforms, the recent political achievements may be reversed.

As in other North African countries, unemployment is a major problem in Tunisia, with the official unemployment rate at 17 percent. The situation is even worse among young university graduates, 30 percent of whom are unemployed. The Tunisian economy offers few opportunities for skilled young workers, and many bright Tunisians with college degrees compete for a small number of public sector jobs -- and very often end up disappointed. In February, unsuccessful job candidates in the Gafsa region, in the country's south, set the local police station on fire to protest the results of recruitment in a government company. Earlier in the year, in Menzel Bouzayene, in the central region of Sidi Bouzid, young unemployed graduates were symbolically auctioning away their university diplomas -- not necessarily to make money but rather to attract the attention of authorities to their plight.

Strikes continue to cripple Tunisia's fragile economy and contribute to the image problem deterring foreign investors. Tunisia saw 399 strikes in 2013 by customs officers, magistrates, airport workers, doctors, and many others. Many of these were violent strikes, intended to pressure state-owned companies to hire people. In early January, the whole city of Kasserine was shut down by a general strike protesting against poverty and underdevelopment in central Tunisia. The strike took a violent turn when protesters started throwing rocks at a local police posts and the police responded with tear gas. (The photo above shows protesters in front of Ennahda's offices during the Kasserine protests.) Local outposts of the Tunisian labor union the Union Générale Tunisienne du Travail (UGTT) typically pursue a more ruthless strategy and are more inclined to organize local strikes than its central office in Tunis, which is amenable to political dialogue.

If the status quo makes Tunisians unhappy, attempts at reform are met with even greater resistance. Under pressure from international lenders to balance the budget and put its financial house in order, the 2014 budget introduced tax increases, especially on motor vehicles, raising the vehicle tax by 25 percent and imposing a new tax on larger vehicles. This led to angry demonstrations and road blockades, resulting in a suspension of the transportation tax increase. The former government was also planning cuts to price subsidies on basic foodstuff and energy. There is a strong case for reforming the byzantine and hugely inefficient system of price controls and subsidies, yet reform attempts are likely to generate popular discontent in the short term because of concerns over the cost of living.

For poor Tunisians, price inflation is a serious problem. Although the official inflation rate is 6 percent, poorer Tunisians are skeptical and feel that the prices of their own consumption baskets have been growing more rapidly. In fact, a new "kafteji index" was introduced to capture the changes in purchasing power of the dinar, named after the famous fried vegetable and egg dish, the ubiquitous street food found throughout Tunisia. The index captures changes in prices of kafteji ingredients such as potatoes, tomatoes, capsicums, squash, eggs, vegetable oil, and bread. Between January 2013 and January 2014, the index grew by 23.6 percent, suggesting a substantial growth in the cost of living, particularly for poorer households.

What's more, the falling value of the dinar is contributing to high import prices, adding to costs for business. According to Habib Sayah, the director of the Kheireddine Institute, a pro-market think tank in Tunis, the ongoing depreciation is a burden on entrepreneurs who tend to buy their capital abroad -- usually without access to financial instruments that could help them mitigate foreign exchange risks.

Tunisia needs broad economic reforms, beyond cuts to subsidies, price liberalization, and more prudent monetary policy. It also needs a better environment for its businesses, especially for small and very small companies. Close to 95 percent of the country's economic landscape consists of micro-enterprises, and these face formidable barriers to entry and growth. According to the World Bank's Doing Business report, starting a business has become more difficult compared to previous years. Obtaining a simple construction permit requires 94 days and costs close to 256 percent of average annual income in the country. Tunisia also ranks 109th in the world in terms of the ability of its entrepreneurs to access credit.

It is no coincidence Mohamed Bouazizi, whose self-immolation set off the Tunisian revolution, was a street vendor who was harassed by local authorities. Bouazizi, who could find no other job opportunities, was trying to make a living by selling fruits and vegetables on streets. The lack of economic freedom was a major cause of its revolts, but successive Tunisian governments have not seriously addressed that fundamental problem, focusing instead on political issues.

Under the presidency of Zine el-Abidine Ben Ali, Tunisia was characterized by a system of cronyism and clientelism, benefitting only his personal circle of friends and family. In 2008, Robert F. Godec, U.S. Ambassador to Tunisia, cabled that "President Ben Ali's extended family is often cited as the nexus of Tunisian corruption. Often referred to as a quasi-mafia, an oblique mention of 'the Family' is enough to indicate which family you mean." In the eyes of the general public, the president was often given a pass, but the stories of corruption of his wife, Leila Ben Ali -- and her extended family -- have become legendary and culminated in the rumor the she escaped to Saudi Arabia after the revolution, taking some $60 million in gold bullion with her.

The high-level corruption of the Ben Ali family and its cronies was simply an offshoot of the widespread corrupt practices of the public administration, driven by excessive red tape and discretion among government officials. On that front, the revolution has not changed things dramatically. While there have not been high-profile corruption scandals, some argue that petty corruption may have increased. On Transparency International's Corruption Perception Index, Tunisia now ranks 77th out of 177 countries, compared to 65th in 2009. Many Tunisians say that the people in charge may be different today, but the underlying logic of an elite living at the expense of the general public remains unchanged.

Many of these issues were raised when the National Constituent Assembly discussed Article 48 of the new Tunisian constitution, which deals with individual rights and freedoms. An amendment proposed by the former Ennahda member Fattoum Attia, and supported by members of the assembly from various political backgrounds, stated that "the State shall guarantee the freedom to work and the freedom of economic initiative." This would embed the protection of economic freedom in the constitution and prevent instances of arbitrary harassment -- which motivated Bouazizi's desperate act -- while also curbing rampant overregulation, which in turn fuels unchecked corruption by government officials.

As Habib Bribech, a member of the Constituent Assembly from the Ennahda party, noted, the proposed amendment "could have been the most revolutionary article of the constitution." Abdel Monem Krir, of the Nida Tounes party, added that "the government cannot do more.... Businessmen are the ones creating wealth." This amendment would have indeed given constitutional protection to the very freedom that Bouazizi was fighting for, with potentially far-reaching consequences for the country's economic development.

Alas, the amendment was rejected in a vote held in January, winning just 93 of the 109 needed "yea" votes. For its opponents, such as the member of the assembly Samia Abou of the Democratic Movement, this amendment would have "impose[d] an economic orientation of savage neoliberalism" on the country. Mourad Amdouni, another assembly member, warned that "if you pass this article, it would be the greatest betrayal made to the Tunisian people and the revolution." The rhetoric is indicative of the extent to which the political left in Tunisia is still drawing on the "class struggle" mentality and has not grasped the economic roots of the revolution.

Of course, this setback is not fatal. With the constitution in place, and facing pressure from foreign investors, the government can act to unleash the potential of the country's small and medium-sized enterprises. After all, the adoption of the new constitution on Jan. 26 has already enabled the country to access $506 million in loans from the IMF and over $347 million from the European Union. By themselves, these injections of cash do not mean much, but one hopes that they could be followed by larger inflows of private capital if the government pursues a course of bold economic reforms.

The new prime minister, Mehdi Jomaa, faces enormous challenges. Young and with experience in the private sector, he recognized in his first speech as prime minister at the assembly that structural reforms were needed. He noted that the new public sector jobs and populist spending of the past three years had worsened the financial situation of the country while doing little to improve productivity or standards of living. It is high time, he said, for Tunisians to stop the "financial hemorrhage," take a "break from social conflicts," and, finally, go to work. Indeed, there would be no better way to honor the memory of Mohamed Bouazizi than if this young prime minister, untainted by the country's authoritarian past, were successful in "letting Tunisians go to work" creating and running their own businesses.