

# FINANCIAL TIMES

## Guest post: Egypt's biggest problem is economic

By Dalibor Rohac - September 13, 2013

In Egypt, violent Islam is on the rise. This week, two bomb blasts in Sinai killed six military officers. Last week, the convoy of the interior minister was hit by a bomb attack in Cairo. Besides political violence by fringe Islamist groups, Egyptians are bracing for more repression from the government. Two and half years since the Arab Spring, Egypt's 'deep state' is back in full form, arresting the opposition and cracking down on independent media.

Although many competing accounts exist of why Egypt's transition has failed – ranging from the country's religious divisions to its authoritarian legacies – one should not underestimate the power of the simplest one. What if it's all about the economy?

In their influential book about the drivers of prosperity, *Why Nations Fail*, economists Daron Acemoglu and James Robinson argue that, historically, the combination of inclusive political institutions (granting people influence over the conduct of public affairs) and extractive economic institutions (denying access to economic opportunity to most of the population) tends to be unstable and fragile. A representative government that keeps its citizens poor will either cease to be representative or it will have to change the rules of the economic game to allow for mass prosperity.

Looking through this prism, the fragility of new Arab democracies was to be expected. Egypt's precocious political liberalisation occurred at a time when the country's economy suffered under rampant cronyism, corruption, and byzantine regulations. As a result, in 2010-2011, one quarter of Egyptians were living under the poverty line at an income of \$444 a year or less. In the area that was historically known as [Upper Egypt](#), it was more than half of the population.

The upside of Acemoglu and Robinson's framework is that there is nothing permanent about authoritarianism. Even the most oppressive regimes can relinquish their hold to political power, especially after a period of economic liberalisation and growth. The reason is simple: politically repressing an economically empowered citizenry is difficult.

In Chile, the democratically elected President Allende was overthrown by Augusto Pinochet, whose regime committed human rights abuses against thousands when it took power. After 1975 the military regime also put in place radical economic reforms, including deep budget cuts and a privatisation of social security.

These contained in themselves the seeds of the regime's demise. Between 1975 and 1988, average income in Chile increased from around \$2,000 to almost \$3,000. In 1987, Pinochet legalised political parties and in 1988 he was voted out of power in a referendum, marking Chile's return to democracy.

South Korea's example is even more startling. In 1960, popular protests brought down the autocratic regime of Syngman Rhee, giving an opportunity to the military – much like in Egypt – to step in and seize power. In 1961, when General Park Chung-hee installed a military dictatorship in the country, the average annual income in the country was \$1,180, slightly less than in present-day Yemen.

The successive regimes of Generals Park and Chun Doo-hwan oversaw Korea's astounding rise from a backwater to a major export-led economy of east Asia. As in Chile, the great economic success empowered the people to express political discontent at home and call for political freedom. In 1987, Koreans, then enjoying average incomes over \$5,500, finally got to vote in a free election.

The economic successes of Chile or Korea under authoritarian rule should by no means be read as a justification for any kind of oppression. However, their successful transitions can provide Arab nations with a lesson of how economic liberalisation and economic growth can be an oblique way of achieving democratic accountability and representative government.

In Egypt as elsewhere in the Arab world, economies that create wealth, generate employment, and give the opportunity to succeed to ordinary people would make the prospects of an inclusive political system much more promising. Alas, there are few signals that this will be the path taken by the current Egypt's government. After all, the finance minister Ahmed Galal has announced a further stimulus binge, financed through short-term borrowing and aid from the Gulf countries.

Egypt's tragedy lies not just in the unwillingness of the military to allow for a peaceful transfer of power to a democratically elected government, but also in the reluctance of its elites to pursue economic reforms that Egypt needs. Ultimately, that means that in Egypt things might still get worse before they get any better.

