

Free Markets Can Transform the Middle East

by Daniel Doron

As the high hopes for a brave new Middle East fade rapidly, Western policymakers must recognize that promoting market economics and its inevitable cultural changes are far more critical to the region's well-being than encouraging free elections or resolving the Arab-Israeli conflict. In addition to producing material prosperity, diffusing power, and curbing tyranny, economic freedom promotes social, cultural, and religious changes conducive to democracy and tolerance. It enhances personal responsibility and social involvement and instills good work habits and accountability. It builds a civil society with a stake in peace. If there is to be any hope of lasting peace and stability in the Middle East, nothing less will do.

BACKGROUND

Traditional Muslim monarchs and revolutionary military officers differed in the particulars of governance, but all established nearly total (if often indirect) government domination of the economy. Economic opportunities were seen as privileges to be dispensed by the ruler, not by the invisible hand of the market. In more "modern" Arab states, such as Egypt, bloated public sectors and inefficient welfare policies created quiescent constituencies. Bureaucratic red tape and selectively enforced regulations stymied entrepreneurship, but they added value politically for the ruler by ensuring that administrative connections were necessary to accumulate wealth and power. No dictator wanted properly functioning credit markets, a dynamic educational system, or foreign investment if it meant that his control over his subjects would be weakened. Although the human

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rights abuses of Arab regimes are legendary, co-optation was no less important than coercion in dissuading citizens from attempting regime changes, peacefully or by force.

Historically, future "Third World" leaders became enamored with radical Fabian socialism in the post-World War II era as were many Western elites. Upon coming to power in their home countries, these leaders nationalized the means of production, creating government-dominated, politicized economies with huge concentrations of political and economic power in the hands of the rulers, the bureaucracy, and a few well-connected oligarchs. This killed competition and efficiency and increased nepotism, waste, and corruption. It also led to intensified political strife with an ever increasing struggle over government handouts.

In Egypt, for example, when the young officers led by Gamal Abdel Nasser seized power in 1952 from King Farouk, they looked for a Third World model to emulate and chose socialism. Egypt's economy quickly deteriorated, and the state became dysfunctional. Heavy taxation and overwhelming bureaucratic interference decimated the Egyptian middle class that had been in the forefront of commerce and entrepreneurship, of mod-

eration and tolerance. This reached critical dimensions after Egyptian Jews and most foreigners, English, French, and Italians, who had been the backbone of Egyptian entrepreneurship, were expelled.

In many Arab states, huge amounts of foreign aid were channeled through the ruling classes who stole much of it. Competition for government handouts radicalized and fragmented politics, often making them violent and corrupt. The legal system became discriminatory and ineffectual, so that citizens lost respect for government and the law.

As the middle class declined, so did civil society. The ruling class could no longer rely on support from a more stable and usually less radical middle class and its mediating institutions. It had to face an increasingly restive “street,” composed of students and their hangers-on, the unemployables, who were full of grievances and frustration and tempted by the siren songs of various radical groups. The young were constantly incited to riot, and they often did so on Friday after their prayers at the mosques where they were riled up by radical imams, many of them members of the Muslim Brotherhood. The intellectual class and its organizations, such as the academic, media,

writers’ and lawyers’ associations became captive to radicals, too. They became dominated by jingoists, communists, socialists, or Islamists, who were far more extreme than their Western counterparts because the Arab world lacked a classic, liberal tradition that could mitigate radicalism.

The wealth gap between the ruling classes, their cronies, and most of the population widened into a deep chasm. The dysfunctional state failed to adequately provide even the most elementary services. The blessings inherited from colonial rule—law and order, respect for property rights, functioning health and educational services, networks of commerce—also fell apart with time. The discontent and opposition, bred by dysfunctional governments, were suppressed by ever growing security services—witness the re-

cent carnage in Syria, Bahrain, Libya, and Yemen.

Lack of economic growth and increased impoverishment also required growing reliance on welfare systems, which in turn became a constant drain on governments’ budgets. Governments resorted to more and more deficit spending, generating high inflation. Higher prices further impoverished the poor and provoked an intensifying cycle of frustrations and rage as the regimes could not afford the punishing costs and political divisions a welfare state exacts. Socialism turned out to be an unmitigated disaster for the Arabs.

According to the U.N.’s 2009 *Arab Human Development Report*, Arab countries are less industrialized today than they were in 1970.¹ This combination of oversized governments and underperforming economies was sustainable only through the infusion of vast oil revenues and foreign aid from great powers attracted to the region’s enormous strategic value. Vast income from oil and plentiful foreign aid gave Arab states little incentive to support the growth of vibrant private sectors, whatever the cost to their constituents. Economic reform very often served to tilt the playing field, not level it. Beneath a veneer of propriety, the economic liberalization launched by Egyptian president Hosni Mubarak was a mechanism to enrich his clan and cronies and for ensuring the succession of his son, Gamal. Privatized assets were sold to cronies by way of rubber stamp loans from state-controlled financial markets and banks.

Likewise, Arab dictatorships exploited the Israeli-Palestinian dispute to legitimize their severe curtailment of civil liberties and justify their massive military budgets, which devoured resources that could have been better used to promote economic growth. Incessant anti-Zionist indoctrination and ugly anti-Semitic calumnies also served to deflect public anger away from their repressive governments and provide an outlet for citizens to safely blow off steam, yet ultimately failed to blind the Arabs to their own economic and social misery.

Some impediments to representative government in the Arab world, however, are no less cul-

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¹ *Arab Human Development Report 2009* (New York: United Nations Development Program, 2009). p. 103.

tural than political. Islamic strictures concerning divine sovereignty, women's rights, and other religions are inimical to democracy as are traditional, patriarchal social norms prevalent in Arab society. However, the democratization of Indonesia, the world's most populous majority Muslim country, suggests that Islam is not necessarily an insurmountable barrier to gradual political freedom. Indonesian democracy evolved in the wake of growing economic prosperity, generated mostly by a large Chinese Buddhist minority. This mollified the country's conflict ridden politics and helped produce a peace-oriented civil society. Islam may not entirely rule out democratic evolution, but it certainly makes economic growth and prosperity all the more essential.

THE YOUTH BULGE

While the precise causes of the 2011 uprisings are a matter of some debate, demography played a major role. Two to three decades ago, a rapid reduction in child-mortality rates outpaced the decline in birth rates, creating a demographic bubble that makes today's young adults the Arab equivalent of American baby boomers. About 60 percent of the population in the Arab world is below the age of thirty,² nearly double the figure for the Group of Seven developed industrial countries.³

A youth bulge can promote growth and prosperity. According to the World Bank, large youth populations create "a demographic window of opportunity in which economies can benefit from a majority of individuals entering their productive peak, while the share of the population that is very young and elderly still remains fairly small."⁴

2 *The New York Times*, Mar. 18, 2011.

3 *Ibid.*, Feb. 3, 2011.



Chronically under- or unemployed 20 to 30-somethings are fueling social and political upheaval across the Middle East. The youth unemployment rate is 24 percent in the Middle East compared to a world average of 13 percent. Most youth are too educated to consider working in manual labor, so they remain dependent on their parents.

However, as Americans came to realize in the 1960s, a disproportionately large population of young adults can cause civil unrest since even a growing economy cannot easily accommodate too large a cohort of youngsters. Diminishing opportunities for satisfactory employment often cause growing disaffection among the young. Researchers have found a strong correlation between large youth populations and civil conflict. According to one study, countries where youths aged fifteen to twenty-nine made up at least 40 percent of the adult population were more than twice as likely to experience a major domestic conflict as other countries.⁵ If the economy is unable to provide a minimal threshold of employment for them, some form of unrest is nearly inevitable.

UNEMPLOYMENT

The Arab uprisings erupted amid record high levels of unemployment in the region, particularly

4 *Youth—An Undervalued Asset: Towards a New Agenda in the Middle East and North Africa* (Washington, D.C.: The World Bank, Sept. 2007), p. i.

5 Richard P. Cincotta, Robert Engelman and Daniele Anastasion, *The Security Demographic: Population and Civil Conflict after the Cold War* (Washington, D.C.: Population Action International, 2003).

for young adults. According to the International Labor Organization (ILO), the youth unemployment rate is 24 percent in the Middle East and 30 percent in the Arab states of North Africa, against a world average of 13 percent.⁶ This is an outgrowth of deep structural problems, not a temporary spike due to economic downturns. Despite the fact that many Arab countries experienced an

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economic boom from 2003 to 2008, this barely put a dent in the unemployment rate.

Consequently, many Arab men are unemployed or underemployed well into their mid-thirties. This forces them to put off marriage as they cannot afford housing and the obligatory dowry

traditionally paid to the bride.⁷ The financial burden on young men is compounded by their traditional duty to support their parents and siblings in extended families, by hyper-urbanization, soaring real estate prices, and the fact that so few women enter the work force. According to the ILO, the Middle East and North Africa have the world's lowest female employment-to-population rate, at 19 percent and 21 percent, against an international average of 49 percent.⁸

Growing unemployment is preventing a generation of youth from maturing with dignity. Most are too educated to consider working in manual labor, so they remain dependent on their parents. "Youth are marginalized from an opportunity to graduate into adulthood and to become independent, self-respecting human beings who are just able to do the normal things in life, like getting married and having a home," explained Soraya Salti, regional director of the Amman-based non-governmental organization Injaz al-Arab, in a 2009 interview.⁹

Because marriage is the only legitimate outlet for sexual gratification in Arab Muslim societies (with few exceptions, the sexes are strictly separated), the humiliation of joblessness is compounded by intense sexual frustration. "In the Muslim world, casual sex, Western-style, doesn't exist," notes historian Bernard Lewis. "If a young man wants sex, there are only two possibilities—marriage and the brothel. You have these vast numbers of young men growing up without the money either for the brothel or the bride-price, with raging sexual desire."¹⁰

The inferior status and mistreatment of women, their lack of education and limited contact with the outside world, the practice of polygamy, which allows men to easily divorce their wives and have four wives and additional concubines, cannot make for happy relationships between married couples. So even when an Arab man finally gets married, this does not secure contentment or happiness. This situation has grave consequences for society and the body politics.

The combination of social alienation, sexual frustration, and idleness makes Arab youth extraordinarily susceptible to political mobilization, especially by Islamists (who can at least offer sexual gratification in the afterlife) but also by various private armies and terrorist groups. Waging war can be an attractive outlet for frustrations of all kinds.

COMMUNICATIONS

Popular demonstrations and labor strikes erupted occasionally in the past in the Arab states, especially Egypt. Though Mubarak was intent on preserving his family's grip on power, he tolerated such displays of discontent because the relatively secular and educated activists had little support from, or even contact with, the more traditional masses. Cracking down with force from time to time when the opposition—especially Islamist groups—breached certain red lines and adding

6 *Global Employment Trends 2011* (Geneva: International Labor Office, 2011), p. 62.

7 Hoda Rashad, Magued Osman, and Farzaneh Roudi-Fahimi, "Marriage in the Arab World," The Population Reference Bureau, Washington, D.C., 2005.

8 *Global Employment Trends 2011*, pp. 63-4, 66.

9 "Extended Interview: Soraya Salti," *Frontline*, Public Broadcasting Service, June 23, 2009.

10 David Horowitz, interview with Bernard Lewis, "A Mass Expression of Outrage against Injustice," *The Jerusalem Post*, Feb. 25, 2011.

palliative concessions as needed were usually sufficient to thwart serious political challenges. In 2011, however, the demonstrators exhibited an unusual fearlessness in the face of government reprisals, first in Tunisia, then across the Arab world.

Technology played a major role in the Arab uprisings. Al-Jazeera's television coverage of the Tunisian uprising that followed the "martyrdom" of Muhammad Bouazizi, the street vendor who set himself on fire sparking the upheavals, had a riveting effect on Arab youth. Atypically, various groups from cosmopolitan feminists to radical Islamists and doctrinaire socialists began organizing around a united set of demands, often employing the same slogans. The rapid spread of cell phones in recent years enabled protestors everywhere to film and publicize abuses. While news of the late Syrian president Hafez Assad's brutal 1982 mass murder in Hama took weeks to reach regional and international media outlets, video footage of the same regime shooting protestors in 2011 spread across the globe within hours. With fellow Arabs and the outside world transfixed by televised images of unspeakable brutality, activists quickly came to understand that their rulers could no longer retaliate with impunity.

ISLAMISTS

The fact that these agitated youngsters confined themselves initially to nonviolent methods raised many hopes in the West that the collapse of Arab dictatorships would trigger peaceful transitions to democracy. However, the liberal activists who played the lead role in organizing the uprisings have since been marginalized. Though their bravery inspired the masses to rise up, the masses were soon embracing more traditional saviors.

All of the major Arab uprisings have bolstered the position of Islamists. In Tunisia, Islamists won roughly 40 percent of the vote in parliamentary elections following the overthrow of Ben Ali. In Morocco, where the monarchy defused unrest by introducing political reforms, the Islamist Justice and Development Party won a plurality of parliamentary seats and captured the post of prime minister. In Egypt, the Muslim Brotherhood and more radical Salafi Islamists won over two-thirds of the

seats in parliament. Abdelhakim Belhadj, chairman of the Tripoli Military Council, is head of the Libyan Islamic Fighting Group. The Syrian National Council opposed to President Bashar al-Assad is dominated by Islamists. All of them have been welcomed by Western officials despite the Islamists' long-standing bitter animosity to the West and its values and their open declarations that they would like to rid their countries of any Western influence.

EGYPT AS BELLWETHER

Egypt, the most populous and culturally influential Arab country, is both a harbinger and catalyst of regional political trends. One of the few Arab states with a cohesive national identity and a civil society of sorts, the overthrow of Mubarak should have been an ideal setting for the Arab world's first successful transition to democracy. Instead, it may well prove to be a cautionary tale about the obstacles to democratization likely to surface if and when other Arab regimes fall.

As in Tunisia and Libya, the breakdown of Egypt's regime was facilitated by a split in the ruling elite. Though nominally a democratic republic, real power in Egypt was shared by the Supreme Council of the Armed Forces (SCAF) and the National Democratic Party of President Mubarak and his cronies.

Mubarak's so-called economic liberalization initiatives greatly strained his relations with the military, which opposed a hereditary presidential succession. Moreover, Field Marshal Hussein Tantawi and most other senior Egyptian military leaders were trained in Soviet military academies during the reign of President Gamal Abdel Nasser when Egypt was a loyal client of the USSR. They have a fundamentally statist view of government and little affinity for free markets and the private sector. The military controls a sprawling conglomerate of commercial enterprises estimated

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to comprise at least 10 percent of the economy, dominating industry and tourism in particular. These quasi-governmental companies paid no taxes under Mubarak, and their operations were not subject to parliamentary oversight, enabling senior military officers to amass enormous personal fortunes and build loyal patronage networks. The generals would have opposed any liberalization, but Mubarak's reforms were particularly intolerable as they were empowering a rival, civilian elite beholden to the president's family.

This is partly why SCAF ultimately abandoned Mubarak—first by refusing to suppress the demonstrations that erupted in January 2011, then by conspiring to remove him and green-lighting his trial for murder. The revolution in Tahrir Square simply reestablished the military as the sole authority in Egypt, albeit ostensibly for a transitional period.

SCAF has been primarily concerned with preserving the institutional autonomy of the armed forces and the vast personal holdings of current and retired senior officers. Toward this end, it quickly came to an understanding with the political force on track to win the most seats in transitional elections—the Muslim Brotherhood. Ominously, it consented to a transitional election timetable that benefited well-organized Islamists, who had been slow to embrace the uprising against Mubarak, over the embryonic political parties of secular, liberal activists who spearheaded the demonstrations. The latter reflected the basic weakness and fragmentation of Egypt's putative civil society.

Thousands who objected to SCAF's counterrevolution were arrested or beaten. "The army did not stand by the people's side, not even once during this revolution... it was protecting its own interests," wrote Egyptian blogger Maikel Nabil Sanad in March 2011.¹¹ For his pains, the army threw him in jail with a 3-year sentence. The Egyptian public has grown less responsive to protests by liberal opponents of the regime. "They still take to city squares, but the race for power has moved

beyond them," the *Los Angeles Times* observed.¹²

For all of its apparent might and widespread respect in Egypt, the military will not prove to be a reliable bulwark against Islamization. Indeed, insofar as its stewardship of Egypt is allaying Western fears of an Islamist takeover, it may prove to be an enabler.

The military is far from being the cohesive, stable institution that many Westerners imagine. Senior officers are split by inter-branch rivalries and bureaucratic infighting. Many in the mid-level officer corps deeply resent the corruption and incompetence of senior military leaders.¹³ Because of universal conscription, the rank and file of the army is comparable in socioeconomic status and outlook to the masses of Egyptians who voted for the Brotherhood. Lower ranks tend to sympathize with the Islamists, which was evident when they assassinated Sadat for making peace with Israel and attempted several times to assassinate Mubarak.

However, the relationship between SCAF and the Brotherhood plays out, the new government is sure to exacerbate the malfunction of the country's economy. In June 2011, Egypt's military rulers rejected a \$3 billion emergency loan from the International Monetary Fund (IMF) on the grounds that the conditions—mostly pro-market reforms—violated Egyptian sovereignty. On this, they have found strong support from the Brotherhood. "There is no objection to borrowing, but it must be without conditions... [and] in accordance with national priorities," declared Ashraf Badr al-Din, head of the Brotherhood's economic policy committee, ahead of resumed talks with the IMF in January 2012.¹⁴ Instead, the transitional government has increased public wages, extended subsidies on food and energy, and taken myriad other populist measures that reflect statist thinking.

The government will encounter little public opposition to its domination of economic affairs as the corruption and duplicity of Mubarak and his cronies produced an enduring public backlash

11 Maikel Nabil Sanad, "The army and the people wasn't [sic] ever one hand," Sanad blog, Mar. 7, 2011.

12 *Los Angeles Times*, Dec. 30, 2011.

13 "Academics See the Military in Decline, but Retaining Strong Influence," U.S. Embassy, Cairo, diplomatic cable, Sept. 23, 2008, in *The Guardian* (London), Feb. 3, 2011.

14 Reuters, Jan. 13, 2012.

against economic liberalization. “Every party, from the Muslim Brotherhood to self-described liberals, puts the need for ‘social justice’ atop its list of economic priorities. Privatization and liberalization are dirty words,” observed Matthew Kaminski of *The Wall Street Journal*. “A series of strikes... demanded not just better pay, but the nationalization of industry,”¹⁵ which is bound to cause economic decline. Many protestors want handouts from the state, not economic freedom. This was evident at a protest outside the Ministry of Petroleum led by unemployed engineering graduate students. “We have a ministry that’s supposed to employ them and they [sic] don’t,” one activist explained to MSNBC.¹⁶ Indeed, in the past, many university graduates were assured a government job, making the notorious Egyptian bureaucracy even more intractable and wasteful. The government will exploit such sentiments to solidify its control over the economy, under the guise of fighting corruption and social injustice.

The new regime may prove unable to alleviate the immediate economic conditions fueling civil unrest. Growing lawlessness, intercommunal strife such as increasing attacks on the Christian Copts, and labor unrest have devastated the tourism industry—a chief source of employment and income in Egypt—and scared away foreign investment. The Egyptian economy grew at just 1.2 percent in 2011, down from 5.1 percent in 2010.¹⁷ Egypt has seen its currency depreciate to its lowest value in seven years, despite spending billions of dollars from its foreign reserves to prop it up.

Even if the government manages to stabilize the country, the socioeconomic malaise that brought down one of the Arab world’s most stable regimes will likely remain or get worse, ensuring future cycles of civil unrest. The most likely sce-



Field Marshal Mohamed Hussein Tantawi (left), who heads Egypt’s Supreme Council of the Armed Forces, did not support the protestors of Tahrir Square out of a feeling of solidarity with those craving greater liberty. Tantawi threw President Mubarak “under the bus” because economic liberalization policies that the latter initiated would have transferred massive portions of the economy away from the generals to a new elite composed of the president’s son Gamal and his cronies.

nario, then, is that whichever political coalition captures power in the transitional elections will be inclined to defend that power in much the same way as previous regimes. With the strong showing of the Muslim Brotherhood’s Freedom and Justice Party and Salafis in the 2011 parliamentary elections, few doubt that Islamists will take a “by all means necessary” approach to fending off challengers. They have all the time in the world to ease the military back into the barracks.

If the Brotherhood has its way, social and cultural values inimical to democracy will become more entrenched in Egypt. Even such “moderates” as former mufti of Egypt Nasr Farid and lawyer Montasser al-Zayat have called for the establishment of a Saudi-style “Committee for Promotion of Virtue,” or morality police, charged with punishing violations of Shari‘a (Islamic law).¹⁸

15 Matthew Kaminski, “Searching for Hayek in Cairo,” *The Wall Street Journal*, Apr. 22, 2011.

16 MSNBC, Mar. 1, 2011.

17 *The Washington Post*, Dec. 14, 2011.

18 *Egypt.com*, Jan. 7, 2012; *Al-Ahram Weekly* (Cairo), Jan. 13, 2012.

As is the modern tradition in Arab politics, Egypt's new regime will likely resort to distraction through foreign adventurism. Though conscious of the need to maintain the flow of U.S. military and economic aid as long as possible, the Brotherhood is eager to raise the anti-Zionist banner whenever practical. On his first appearance in Tahrir Square after returning from exile, the spiritual head of the Muslim Brotherhood, Sheikh Yousef Qaradawi, called for the "liberation" of Jerusalem, a code phrase for the destruction of Israel. The post-rebellion Egyptian government has already begun a closer rapprochement with Hamas, sparking fears that Egypt may one day rejoin the battle against Israel. This harkens back to Nasser but also to Mubarak, who benefitted from billions in foreign, mostly U.S., aid while fomenting a culture of anti-Semitism, using Hamas as a weapon to gradually bleed Israel, and winking at massive smuggling of weapons from Iran through the Egyptian-controlled Sinai into the Gaza strip.

CONCLUSION

Western policymakers must refocus their attention on combating the root causes of Arab authoritarianism: Holding free elections in the region is less important than the advent of market economies. Free enterprise not only empowers citizens vis-à-vis the government but also facilitates crucial cultural, social, religious, and psychological changes conducive to democracy. Moreover, sustained economic growth and prosperity is the only proven method of bringing about true reconciliation between hated enemies (just look at Europe in the latter half of the twentieth century).

The collapse of autocratic regimes in the Arab world will not necessarily promote economic freedom. "There will be many pressures to maintain corrupt, anti-market practices, and those who hold monopolies and other economic advantages will seek to keep them," warns Elliott Abrams, a deputy national security advisor under the Bush administration.¹⁹ Abrams and others have argued that the

provision of foreign aid and free trade agreements to Arab regimes must be conditioned on the dismantling of state control over economic affairs, but it remains to be seen whether this will lead these governments to renounce destructive state control of economic activity.

Though the oil-rich Persian Gulf monarchies may temporarily weather the storm, albeit at great cost to their future evolution (one can anticipate a very difficult succession period in Saudi Arabia), it appears unlikely that Egypt and other resource-poor Arab countries will be able to absorb enough of their unemployed youth to ward off even worse social unrest in the years ahead. In countries that are fragmented by ethno-sectarian divisions, such as Yemen and Syria, violent conflict appears inevitable.

The 2011 Arab uprisings may thus turn out to be the opening salvo in a long period of political turmoil and violence. "From the Prophet Muhammad to the Ottomans, the story of Islam has been the story of the rise and fall of an often-astonishing imperial aggressiveness and, no less important, of never quiescent imperial dreams and repeated fantasies of revenge and restoration," wrote historian Efraim Karsh. "These fantasies gained rapid momentum during the last phases of the Ottoman Empire, culminating in its disastrous decision to enter World War I on the losing side, as well as in the creation of an imperialist dream that would survive the Ottoman era to haunt Islamic and Middle Eastern politics into the 21st century."²⁰

One can expect such issues as the vainglorious dream of the restoration of a worldwide caliphate, the still tribal underpinnings of Arab society, its autocratic family structure, the miserable status of women and children, and more generally the attitude toward "the other" (or *dhimmis*) in Muslim societies, to create great upheavals and even violent eruptions. They will most likely resemble the prolonged wars of religion that Europe experienced for centuries.

Free markets can mitigate much of these conflicts.



19 Elliott Abrams, "FTAs for Tunisia and Egypt," Council on Foreign Relations, Washington, D.C., Oct. 17, 2011.

20 Efraim Karsh, "Islam's Imperial Dreams," *Commentary*, Apr. 2006, pp. 37-41.