

## For a Successful Arab Revolution

The young protesters in the Jasmine Revolution of Tunisia and Egypt, many of them university graduates, overthrew the old regime because it impeded or blocked them from embarking on careers that would offer engaging work and the chance for personal growth. The protesters did not demand more creature comforts or better infrastructure. They demanded opportunities to make something of themselves.

The young Arabs were being blocked from that in two ways. To get good jobs required connections to insiders, which ordinary young people could not acquire. To get self-employment in fallback jobs, such as selling on the street, required licenses, which were limited. This resulted in widespread over-qualification, or under-employment; and it resulted in massive unemployment. The struggling mobile fruit and vegetable seller Mohamed Bouazizi set himself on fire because he could not get anywhere in this system.

Obviously some changes in the economic system are needed. Now, an open letter of March 18 by mostly European economists proposes to the G8 leaders meeting in Deauville an economic “plan” for Tunisia.<sup>1</sup> Their *diagnosis* is that Tunisia suffers from a “closed” economy, “authoritarian” governance and “poor infrastructures.” Their *prescriptions* are immediate “food and energy subsidies” and a 5-year plan

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<sup>1</sup> Philippe Aghion et al., “Un Plan Économique pour Soutenir la Transition Démocratique en Tunisie,” *Le Monde* 18 mai 2011.

for “investment” in transportation in the interior, the technological sector and some “industrial zones.”

This is a terrible diagnosis. The wrong committed by the Ben Ali regime was not its toleration of free-market prices for food and energy and its failure to invest in infrastructure. The wrong was to deprive masses of citizens of their human development by proactively blocking the less advantaged from access to jobs and the opportunity to start businesses and win jobs that would compete with the insiders.

The prescription is pointless, even harmful. Hand-outs of food and fuel in lieu of jobs, and investments to raise the productivity of work in jobs that only the privileged have access would do nothing to allow and facilitate outsiders to compete for good jobs and nothing to remove barriers, such as licenses, to self-employment in fallback work. Prescribing hand-outs alongside the existing barriers to inclusion is a dangerous mixture that could undermine the Tunisians’ work ethic, which is so precious at this crucial time. And the vast investment plan, in offering projects for Tunisia’s elite, might actually *widen* the gulf between insiders and outsiders – thus worsening the oppression.

The needed restructuring in Tunisia and Egypt must begin with the two critical steps. The first is to end the *political control* of the business sector by the privileged set – in Tunisia they are the relatives and friends of Leila Trabelsi, wife of the former president Ben Ali; in Egypt they are the

upper echelons of the army appointed by Hosni Mubarak. The second is to end the *bureaucratic control* of self-employment through licenses and other barriers. Then modernization of the economic system can proceed.

The system that would be most appropriate to Tunisia and Egypt is the basic capitalism – capitalism 1.0 – such as Britain and America developed in the first half of the 19<sup>th</sup> century on their way to highly successful economies: rights against the government, property rights, rights of contract, rule of law, local banks in touch with local entrepreneurs, financial firms supplying venture capital, free entry of new companies into industries and so forth.

As readers well know, the economic system installed in Tunisia and Egypt is termed corporatism, more precisely, rightist corporatism. Unfortunately, Tunisia and Egypt will face serious hazards as those nations rely – as they must – on democratic forces and mechanisms to oppressive features of the rightist corporatism they suffered under. One hazard is that these generally well-meaning forces may create a leftist corporatism in which labor unions and well-placed cronies replace the ruling families but the requirements of connections and licenses continue or revive. After all, parts of Europe in the late 1960s began the construction of a leftist corporatism to replace the rightist corporatism that ruled, with some interruption, from the 1880s to the 1940s.

This hazard should worry reformers. Under the autocracy of Ben Ali and Mubarak, a company run by insiders had to worry only that Ben Ali would someday require some of their profits or assets. But under a democracy lacking the safeguards of a strong culture of individual rights and a constitution to protect them, companies may be more afraid of seeing their profits or assets taken from them than they were under Ben Ali and Mubarak. Business investment and job creation will then remain quite weak.

Success will depend on respect for individual rights and the rule of law – including rights to one’s property and one’s profits. Success will also depend on a popular willingness to tolerate differences and the acceptance of competition – you could lose your job to someone judged more promising. The religious intolerance that has flared up in Egypt is a warning flag that the spirit of toleration – of “so be it” and “mind your own business” – is under-developed in the country. Violence and discrimination against minorities and competitors could distract the region from the economic rebirth.

So it is not clear that Tunisia and Egypt can pull off the needed economic transformation. It is therefore all the more important that foreign help for the region be technical and aimed at removing barriers to jobs and rewarding careers.

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