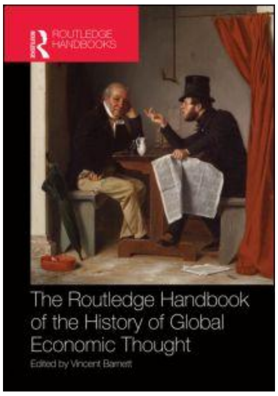

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North Africa

From boom to bust to revolution

Hamed El-Said

North Africa (NA) includes the six Arab states of Algeria, Egypt, Libya, Morocco, Tunisia and Sudan. In recent years, NA has attracted a great deal of attention. First, it was the birthplace of Arab nationalism and state-led development in the post-independence period. NA has also been the pioneer of market-oriented reforms in the Arab world after 1980. Finally, NA is the birthplace of the Arab Spring, which erupted first in Tunisia in late 2010 before spreading to the rest of the Arab world. This chapter focuses on factors affecting the choice of economic ideologies in relation to the evolution of economic policy, and the individuals/institutions behind such choices, throughout North African history.

NA is not a homogenous region. Although NA is overwhelmingly Muslim, diversities exist in terms of geographic and demographic size, per capita income, natural endowments, political systems and ethnic backgrounds. Libya and Algeria are rich in hydrocarbons (exporters), while Morocco and Tunisia are classified as oil-gas-importers. Although Sudan is endowed with water, large fertile land and other natural resources, it lost its oil resources to the South after 2010 but continues to access rents from oil transportation through its territories. Prolonged conflict has turned Sudan into one of the poorest states in the world. Egypt is the largest NA country, with more than 75 million people in 2005, followed by Algeria whose population grew to 32 million in 2005. Taken together, NA makes more than 60 per cent of the Arab world. Events and attitudes in NA therefore, as has been seen since the Arab Spring, can be representative of the wider Arab world.

The Ottoman Empire

At the beginning of the twentieth century, much of the Arab world was still subjected to the control of the Ottoman Empire, an Empire that dominated the world for almost 400 years prior to the First World War. Although the Empire's main centre of gravity (population, revenue, land and army) was its European provinces, it controlled large segments of land in the Arab world, including what is today known as Jordan, Syria, Palestine, Iraq, Lebanon and North Yemen. In North Africa, the Ottomans held strong presence in Tripoli and Benghazi in Libya, Algeria, Egypt and Tunisia. Morocco was the only North African country that managed to resist direct Ottoman control, and was ruled instead by the Alaouite Dynasty (Owen, 1992, 8).

The Alaouite Dynasty succeeded the Saadi Dynasty in Morocco in 1631. It has been ruling the country since then. It is therefore the oldest ruling family in the world. Both the Saadi and the Alaouite Dynasties are believed to be descended from the Prophet Muhammad through his daughter Fatima and her husband the fourth Caliph Ali. This longevity, and religious authenticity, has added a sense of continuity and legitimacy, enabling the royal family to endure through the Ottoman Empire and through European colonial rule. It was not before the second half of the eighteenth century that the Alaouite Dynasty was able to unify the country and reorganize its administration, as the Berbers and local tribes opposed their rule. The Alaouite Dynasty created a very centralized government system known as the *Makhzan*, and ruled as an absolute monarchy for most of its period. Despite the weakness of its authority, the Alaouite Dynasty distinguished itself in the eighteenth and nineteenth centuries by maintaining Morocco's independence while other states in the region succumbed to Turkish, French or British domination.

Little is known about the economic thinking of the centralized Alaouite state, apart from its monarchial absolutism. In 1777, however, Morocco was the very first state to recognize the sovereignty of a newly independent USA. The consolidation of the power of the ruling dynasty in the second half of the eighteenth century led to more attention being paid to economic policies. Following the recognition of US sovereignty in 1777, the Moroccan *Makhzan* began relying less on mercantilist policies and promoted instead an open trade policy, particularly with the US and European countries. It also worked to modernize the army and administrative infrastructure to control Berber and Bedouin tribes. However, in the latter part of the nineteenth century, Morocco's weakness and instability invited European intervention to protect threatened investments and to demand economic concessions. This led to Morocco falling into European control (French and Spanish) in 1912 until 1956 (Library of Congress, 2006).

With regard to other NA countries, their importance to the Ottoman Empire varied, with Egypt, Tunisia and Algeria occupying special significance. This was due to their geo-strategic location, trade and sources of revenue. In general, the Ottomans ruled NA through 'governors who owed their ultimate allegiance to Istanbul' (Owen, 1992, 8). At the head of the system of government was the sultan, who maintained his rule through a grand Vizir, regarded as having absolute power beneath the ruler (Sultan). Under the grand Vizir there were a number of Vizirs, who controlled the provisional governments and key state positions, including finance and economy. The grand Vizir and his Vizirs met regularly in the palace's *diwan* (council) to decide economic policy in coordination with Istanbul. They made all decisions regarding economic policy, and were supported by a bureaucracy of two groups; the secretaries who drew up documents – orders, regulations and replies to petitions – and those who kept the financial records, the assessment of taxable assets and how much was collected/used and surpluses/deficits (Hourani, 1991, 261–7).

Most of the Vizirs came from the Empire's centre, and Istanbul also provided most of the economic and political input for the rest of the Empire. In fact, most appointments to key state positions were based on personal relations rather than merit. Loyalty to Istanbul was a key criterion in those appointments, and most appointees came from the family of the governor or his close circle. NA received most of its economic input from Istanbul and became so dependent on policy input from the centre to a point where it became 'difficult for them [Arabs] to imagine a world without the Ottoman Sultan as their political and . . . religious leader' (Owen, 1992, 9).

The Ottoman Empire followed a mixture of Keynesian-style and liberal economic policies. On the one hand, it encouraged free trade with the rest of the world and left interest rates to be determined by supply and demand factors. It also introduced a new land registry and property rights system to improve private investment and boost the role of the private sector, and broadened the existing tax system in former Muslim states. In addition, the Ottoman Empire improved documentation, recording and tax assessment and expenditure systems. On the other hand, the state was encouraged to invest in public works and provide jobs to the local population through such projects as roads, railways, irrigation, dams and technology transfer. In each large city, a provincial government was created and became a central one in miniature, the 'governor had his elaborate household, his secretaries and accountants, and his council of high officials meeting regularly' (Hourani, 1991, 217).

In NA, only 'modern Egypt was built up from the beginning (starting with Viceroy Mohamed Ali) by its aristocracy, which gradually became aristocratic bourgeoisie (or a capitalist aristocracy)' (Amin, 2012, 6). Ali had conceived and undertaken a huge programme of renovation and modernization for Egypt. That experience took two-thirds of the nineteenth century and ran out of steam in the 1870s. Its failure culminated in Britain's military occupation of Egypt in 1882 (ibid., 16). During the last hundred years of their reign, the Ottomans devoted more resources and energy towards defending their Empire and possessions in the Arab world from increased European threat. During the second half of the eighteenth century, the Ottoman Empire introduced various reforms (*tanzimat*). The political reforms aimed at upgrading its military and power structure. Economically, several important legal and administrative practices, which endured in the Arab world long after the end of the Ottoman Empire, were introduced. This did little to preserve the Empire.

Long before the First World War, most North African countries were under European domination. Egypt and Sudan were under British control between 1882 and 1952, and 1899 and 1956 respectively. Algeria was the first North African country to be subjected to French control from 1830 to 1956. Tunisia and Morocco followed suit in 1882–1956 and 1912–56 respectively. Libya was colonized by Italy from 1912 to 1943, before falling under British control from 1943 to 1952. Autonomous economic policy was prevented from emerging in NA by the colonial authorities. Except in Egypt, where the British authorities were forced to grant qualified political independence in 1922 following a revolt in 1919, North Africans played a minimum role in running their own affairs. The colonial authorities blocked the emergence of other institutions with potential economic clout and policy influence.

This colonial management style was best described by Owen (1992, 17–18) where he stated that the constraints of the colonial management style:

> left little money for development . . . colonies were also subject to a particular type of fiscal and monetary regime, with their currency tied to that of the colonial power and managed by a currency board in the metropolis . . . they were not allowed a central bank, which could have regulated the money supply or moved the rate of interest in such a way as to expand or dampen local demand. Meanwhile, throughout most of the Middle East the new states remained subject to 19th-century commercial treaties, which until they ran out round about 1930, prevented them from setting their own tariffs. The result was the creation of more or less an open economy, subject to influences stemming from the metropolis and the world at large, over which the state had little or no control.

To facilitate their grip on the countryside, the colonial authorities created alliances with large landowners, rich peasants and conservative tribal sheikhs, which controlled most rural areas (Amin, 2011). This not only led to the emergence of large landholdings, but also fostered what Richards and Waterbury (1996, 154, 172) described as 'bimodalism', which 'refers to a land tenure system that combines a small number of owners holding very large estates with a large number of owners holding very small farms'. In NA, the best agricultural land was seized by foreign conquerors.

This dispossessed millions of indigenous Arabs, forced them into more marginal land, and relegated them to subsistence farming or wage labour (Richards and Waterbury, 1996, 154–5; Smith, 1975; Abun-Nsr, 1971). Thus the colonial tenure system fostered poverty, social inequalities, and impeded human capital formation.

The rise and fall of socialism

NA emerged from colonization as poor, uneducated, underdeveloped and, in the case of Algeria radicalized socially and ideologically. The 'politics of decolonization' and the legacy of backwardness, poverty and underdevelopment played a key role in shaping the evolution of economic thinking in NA in the immediate post-independence period (Richards and Waterbury, 1996, 174). In almost every North African country, save perhaps Libya before 1969, nationalist leaders drawn either from the army or national liberation movements emerged to shape the post-colonial order.

Strong leaders emerged in Egypt (Gamal Abd al-Nasser, 1952–70), Algeria (Houari Boumediene, 1965–78), Tunisia (Habib Bourguiba, 1956–88), Morocco (Mohammed V, 1956–61) and Libya (Colonel Muamer Gaddafi, 1969–2011). These nationalist leaders, except Nimiri and Gaddafi in Sudan and Libya, not only architected their countries' political independence, but also the economic/social revolutions that followed. All NA leaders shared a vision of autonomous, equal, prosperous and strong states. They were determined to change the status of their nations and to rid them of the legacies of underdevelopment. It was against this background that a new model of development, specific to the Arab world, emerged after independence first in NA, before spreading to the rest of Arab Middle East. The literature refers to this new model of development as 'Arab Socialism', the 'Arab socialist model' or ASM (Kadri, 2012, 1).

The ASM first emerged in Egypt and was shaped by the ideas of its president, Gamal Abd al-Nasser, before spreading to NA and other Arab states. As Ayubi (1996, 289, 310) noted, the policies that emerged in the Arab world after independence were influenced 'by the Egyptian transfer of their own experience to the rest of the Arab World . . . the impact of the Egyptian model . . . as an exemplar' model of development was imitated in the entire Arab world, 'regardless of size, politico-institutional history, wealth or socio-political doctrine'. In fact, the Egyptian model of Arab Socialism (AS), it can reasonably be argued, shaped the evolution of economic thinking, not only in the Arab world, but also in other emerging economies in Asia and Africa. As Hayashi (2007, 81) wrote: 'In 1954, at Bandung, leaders of the Egyptian revolution were encouraged to talk with the leaders of the Afro-Asian countries who were struggling against the same conditions'.

Nasser was born on 15 January 1918 in Alexandria, Egypt. He was one of the key army officers who led the military Junta, known as the Free Officers, that deposed King Farouk and terminated British control in 1952. His main ambition was to modernize Egypt and create a secular Arab Empire in North Africa and the Middle East. He put his ideas into a book in 1954 entitled *The Philosophy of Revolution* (Cairo, Information Department). Here Nasser distinguished between AS and other forms of socialism, including nineteenth-century European socialism, in several ways. Nasser based AS on the Arabs' own history and experience, and it was not simply an attempt to imitate the experiences of others. Since nations' history and circumstances varied tremendously, Nasser asserted, it was not suitable to import models of development from other regions.

There were important differences, of course, in the models of governing that emerged after independence in NA. But all NA countries followed similar policies, and created/used a single party as a mechanism to oversee economic strategies and to mobilize support. Regardless of size, wealth, form of governing, history or political doctrine, all Arab states embraced strong government intervention in the economy, state-led development and a large public sector. As Ayubi (1996, 290) wrote:

> In the economic sphere the expansion of state policies has been most remarkable and has included practically all Middle Eastern countries regardless of size, politico-institutional history, wealth or socio-political doctrine . . . all the Arab countries had a very large public sector.

Richards and Waterbury (1996, 174–5) elaborated on the rationale behind government intervention in the post-independence NA era:

> it is more the politics of decolonization and development than history and culture that account for the interventionist, organic state in the Middle East. The caretaker states of the colonial era . . . have logically evoked their opposites, states that impinge upon all aspects of their citizens' lives. Moreover, the postcolonial state has seen as its duty the reparation of all the economic damage resulting from colonial policies. It has had to mobilize human and material resources on an unprecedented scale . . . The leaders of the state saw the need for intervention in order to avoid wasting scare resources . . . A more equitable distribution of assets became a universal goal throughout the area.

In addition, the assumed weakness of the private sector and the bourgeoisie class in most North African countries on independence also encouraged state-led development and heavy state investment. The 'Private sector might be tolerated, but nowhere . . . did they enjoy legitimacy. Reliance on private entrepreneurs and on the law of supply and demand to allocate resources would be wasteful . . .' (Richards and Waterbury, 1996, 175).

NA's AS and developmental approach relied on several strategies to achieve its objectives. The first step was to elevate the state to the position of the only policy-making body and controller of natural resources. The aim was to harness the surplus to be redeployed in national development projects. 'Economic planning and government intervention in relative autarky represented the means by which the foremost binding constraint of underdevelopment, which is the financing needed to galvanise national resources, was to be overcome' (Kadri, 2012, 6). This was followed by nationalisation of large-scale financial and industrial institutions. Planning and intervention in the economy were implemented in tandem with large-scale land reform to redistribute wealth and to limit the power of the landlords, seen as collaborators with the colonial powers. Hostility towards the private sector was taken most radically in Algeria, Egypt after the 1956 Suez crisis, and Libya after 1969. The fourth strategy followed by NA to promote industrialization was based on the ideas of the English economist, John Maynard Keynes.

Keynes argued that, in order to overcome depression in an economy, state inducement was needed. This can take either the form of lowering interest rates or state investment in infrastructure, or both. This injection of state capital, Keynes argued, leads to more general spending in the economy, which in return stimulates more investment and production, generating even more income and spending (Keynes, 1936). In the immediate post-independence era, NA lowered its interest rates and its national currencies circulated without any intervention from or consultation with international financial institutions (IFIs). In fact, several interest and exchange rates were at play to attenuate the impact of foreign exchange shortages on the national issue of currency. Investing heavily in infrastructure and industry represented other important state inducements in NA in the post-independence era. The current account real and capital balances were also devised in order to promote industrialization (Kadri, 2012, 6; Ayubi, 1999; Richards and Waterbury, 1996; Owen, 1992; Hayashi, 2007).

Typically, North African regimes supported an import-substitution industrialization strategy (ISI) based on a large public sector and public sector enterprises. ISI is based on the premise that a country should reduce its dependency on foreign imports by 'replac[ing] commodities that are being imported, usually manufactured goods, with domestic sources of production and supply' (Todaro, 1989, 435). The strategy is first to erect tariff barriers or quotas on the importation of certain commodities, then to set up local industry to produce these goods. It is thus a state-induced strategy to achieve rapid industrialization. While the initial cost of production may be higher than the former imported prices, the rationale for ISI is that either the industry will be able to reap economies of scale and reduce costs of production (the infant industry argument), or that the balance of payments will improve as a result of fewer imports, or a combination of both.

It has been suggested that ISI was first advocated by the mercantilist school of economic thinking in Europe between the sixteenth and eighteenth centuries, which supported protection of the economy in order to industrialize, reduce imports and attain favourable terms of trade (ibid.). Ha-Joon Chang (2002, 1) argues that almost all of today's developed countries used such policies when they were developing. As Chang stated, policies associated with ISI based on government intervention:

> were used by the developed countries when they themselves were developing countries. Contrary to the conventional wisdom, the historical fact is that the rich countries did not develop on the basis of the policies and the institutions that they now recommend to, and often force upon, the developing countries . . . Almost all of today's rich countries used tariff protection and subsidies to develop their industries. Interestingly, Britain and the USA . . . are actually the ones that had most aggressively used protection and subsidies.

In the 1930s, 'ISI was initiated in many Latin American countries as a response to the disruption caused by World War I, the economic depression of the 1930s and World War II . . . but ISI became more widespread in the post-1945 world' (Colman and Nixon, 1986, 282).

From the 1950s onwards, ISI was incorporated in the works of such structuralist economists as Raul Prebisch and Hans Singer. The Prebisch-Singer thesis 'concerned the long-term deterioration of poor countries' terms of trade. It analysed why, in the long run, the price of primary products tended to decline relative to that of manufactured goods. [Their] conclusion was that the benefits of trade were distributed unequally between the countries that imported agricultural commodities and those that exported them, to the disadvantage of the exporters' (*The Economist*, 2006). The Prebisch-Singer thesis became the basis of dependency theory 'developed in the late 1950s under the guidance of the Director of the UN Economic Commission for Latin America, Raul Prebisch . . . and his colleagues [who] were troubled by the fact that economic growth in the advanced industrialized countries did not necessarily lead to growth in the poorer countries . . . Such a possibility was not predicted by neoclassical theory, which had assumed that economic growth was beneficial to all (Pareto optimal)' (Ferraro, 2008).

In NA, ISI started first in Egypt after the end of the Second World War and continued until at least 1974, when Sadat introduced his *infitah* (open door) policy. It was replicated in Algeria (1962–89), Tunisia (1962–86), and Morocco (after independence until 1983). Although ISI started after independence in Sudan, it was accelerated after Ga'afar Nimeri seized power in 1969 (1969–84). ISI fitted perfectly the objectives of AS, which sought political and economic liberation and de-linking of economic ties to former colonial power (Ayubi, 1999; Richards and Waterbury, 1996).

The transition to neo-liberalism

'Most observers agree that import substitution industrialisation in a large number of developing countries . . . has for the most part been unsuccessful' (Todaro, 1989, 439). Colman and Nixon (1989, 292) explained why:

> Perhaps the most crucial problem of the ISI process is its apparent inability in the long run to continue to reduce the import ratio and thus to sustain a growth rate of GNP in excess of the growth in the capacity to import. In other words, ISI generates a high rate of growth in its initial stages but such growth is short lived . . . And the economy experiences stagnation at a low level of development once ISI opportunities appear to have been exhausted and the foreign exchange constraint once again becomes dominant.

ISI in NA was no exception. All NA states came to face similar challenges associated with the internal contradictions of ISI. By the late 1970s, almost all NA countries were suffering major macroeconomic instabilities, including large trade and current account deficits, large fiscal deficits, a high volume of foreign debt, low level of foreign reserves, high unemployment, and high inflation (Harrigan and El-Said, 2009a, 2009b).

The call for reform, consistent with a tradition of centralized decision-making processes in the region, came from the leadership itself. North African leaders began publicly acknowledging the flaws of state-led development strategies. Egypt, the first Arab state to embark on state-led development, was also the first to begin dismantling its socialist policies. This came from Nasser himself, who began openly criticising his government's social policies by the mid-1960s. Nasser started a programme of economic liberalisation based on encouraging private and foreign investment. Following Nasser's death in 1970, his successor, Sadat, continued to open up the Egyptian economy and pioneered the *infitah* (open door) policy in 1974. *Infitah* continued Nasser's focus on reducing the role of the public sector and promoting the role of the private sector in the economy.

Similarly, Bourguiba in Tunisia began doubting his state-led development strategy as early as 1969. Similar processes also began in both Algeria and Morocco in the late 1970s, when the leadership embarked on similar reforms to Egypt, aimed at reducing the size of the public sector and boosting the private sector (Ayubi, 1999). Even Libya, despite the country's oil reserves, faced a balance of payments crisis in the early 1980s, emanating from both economic mismanagement coupled with a slump in the oil market. Nowhere, however, did reforms in NA go far enough, or were even sustainable to restore macroeconomic balance and obviate the need for resorting to the kind of conditionality associated with neo-liberal reforms promoted by the IFIs, particularly the International Monetary Fund (IMF) and the World Bank.

Criticism of state-led development came not only from the North African leadership, but from several economists too. One such Egyptian economist was Galal Amin, a Professor of Economics at the American University in Cairo. Amin received an undergraduate degree in economics from the Cairo University (1955) and an MSc (1961) and PhD (1964) from the London School of Economics. He is the author of many books in Arabic and English on economic developments in Egypt and the Arab world, including *Egypt's Economic Predicament* (London, 1995). While urging Arab regimes to carry out badly needed economic reforms, Amin was very critical of neo-liberal reforms promoted by IFIs, warning against the implementation 'of the

Structural Adjustment programme of reform, which constitutes modern conventional wisdom' (Amin, 1995). Amin argued:

> A liberalization policy is valid at a time of growing world economy, high flow of foreign investment, and relatively stable political climate. On the other hand, a higher degree of protection would make much more sense . . . when the country is faced with a depressed world economy, a sluggish flow of foreign investment, and highly volatile political climate.
>
> *(El-Naggar, 1987, 16)*

Amin neither adhered to unfettered free market economics nor to an autarkic intervention. His views were closer to Keynesianism, namely to guide an economy out of depression through careful government intervention.

Another prominent North African economist is the Moroccan Bachir Hamdouch, Professor of Economics at the Faculty of Law and Economics (Université Mohamed V Agdal, Raba). Like Amin, Hamdouch has also been very critical of neo-liberal free market reforms in the context of developing countries. Hamdouch completed his Diplôme in Economics and Finance in 1969 (de l'Institut d'Etudes Politiques de Paris), Master in Economics (1969, University of Paris I Panthéon – Sorbonne), and Doctorat d'Etat in Economics (1974). His best known work was 'The Open Door and Underdevelopment of Morocco' (University of Paris I Panthéon – Sorbonne). Hamdouch criticised the neglect of the social aspect of reform under IMF and World Bank lending, and the implementation of economic policies that failed to take into account the level of development and institutional capacity in reforming countries. He argued that reforms promoted by IFIs:

> suffer from certain limitations both with respect to design and implementation . . . excessive importance attached to external balance at the expense of growth and development. The economic and social cost involved cannot be underestimated . . . [IFIs'] policy has coincided with zero development, which means that there has been hardly any progression in the average standard of living . . . the lowest income groups have suffered in particular.
>
> *(El-Naggar, 1987, 22–3)*

Hamdouch wondered how long a developing country like Morocco could sustain adjustment without development.

However, and as *The Economist* (2011) once stated, 'being famous is not the same as being influential. Neither means that you are worthy'. The point is that, although some North African economists acquired the status of 'Prominent economist[s] and author[s]' in their respective countries, this does not mean that they were influential in shaping their countries' economic ideas (Saleh, 2013). As argued earlier, the kind, timing, pace and quality of reforms in NA were determined by the leaders of the region. These leaders, by the early/mid-1980s, found themselves with little choice but to resort to IMF/World Bank financial assistance, or policy-based lending. They could no longer postpone reforms as their foreign debt, fiscal and trade deficits, as well as inflationary pressures, all reached alarming levels. North African leaders were also alarmed by the overthrow in 1984 of the Numeri regime in Sudan, following a period of instability caused by the avoidance of reform.

Morocco was the first North African state to sign a Stabilisation Agreement (SBA) and Structural Adjustment Lending Programme (SAL) with the IMF and World Bank in 1981 and 1990, followed by Sudan. Tunisia followed suit in 1984, as well as Algeria. Since 1987, Egypt has also had four economic programmes that were supported financially by the IMF, totalling

SDR1.1558 billion ($1.850 billion) (Harrigan and El-Said, 2009a, 2009b). The IMF SBA is a sub-set of IMF and World Bank programmes aimed at assisting countries facing economic crises to respond to their balance of payments problems and external financial needs, and initiate structural change in the economy in favour of external markets and globalization (Mosely *et al.* 1991). SBA and SALs are the IMF's and World Bank's 'workhorse lending instrument' through which they are able to influence reforms and economic policies in 'emerging and advanced market countries'. SBA and SALs are thus financial and technical assistance in return for reforms; assistance is conditional upon reforms.

In the 1980s, the IMF and World Bank lending reforms were reorganized as a 'set of ideas' evolving around the so-called 'Washington Consensus', which is 'both the political Washington of Congress . . . and the technocratic Washington of the international financial institutions' (Williamson, 2004, 2). The Washington Consensus became a framework that the US government and the IFIs 'believed were necessary elements of first stage policy reform that all countries should adopt to increase economic growth. At its heart is an emphasis on macroeconomic stability and integration into the international economy – in other words a neo-liberal view of globalization' (WHO, 2014).

Williamson, who coined the term 'Washington Consensus' in 1989, listed ten key policies that were accepted by the 'Consensus' as necessary to solve developing countries' macroeconomic imbalances. They included: austerity and fiscal discipline aimed at controlling the money supply to reduce the fiscal deficit and rein in inflation; tax reform that combines a broader tax base with marginally higher tax rates to speed up reduction in fiscal deficit; reordering public expenditure through provision of a more targeted subsidy system and switching expenditure in a more pro-growth and pro-poor way; financial liberalization, particularly interest rates; reforming the exchange rate, meaning devaluations to boost exports; trade liberalization to increase domestic competition and opening up markets for foreign investors; privatization aimed at shifting the structure of ownership; and deregulation, which 'focused specifically on easing barriers to entry and exit, not on abolishing regulations designed for safety or environmental reasons' (Williamson, 2004, 3–4).

The performance of North African economies during the transition to neo-liberal policies since 1980 has arguably been disappointing. El-Said and Harrigan (2014) have recently shown how the social and economic performances of the socialist era outperformed the transition to neo-liberal policies after 1980. Not only did economic growth and per capita income during the socialist era outperform those achieved after 1980, but poverty reduction improved much faster than it did after 1980. In 2006 the World Bank acknowledged these shortcomings:

> By 2000, the region's average per capita output had . . . not fully recovered to its 1985 level . . . Very little progress was made on the poverty front. The region's average poverty rate fluctuated between 20 and 25 percent during the entire decade of the 1990s. By 2001, approximately 52 million people were poor, an increase in absolute numbers of approximately 11.5 million people, compared with the situation in 1987.
>
> *(Iqbal, 2006, xix)*

Pressure for neo-liberal reform in NA should be seen in light of the failure of ISI to achieve its original objectives. Neo-liberal policies did not come from the emergence of new regimes committed to a free market economy, or as a result of a newly found conviction in the superiority of neo-liberal approaches to economic growth. This led Richards and Waterbury (1996, 231) to interpret the reforms as a 'classic case of survival strategy', one aimed at restoring the legitimacy of the incumbent regimes by improving economic performance, and reducing the debt burden and the fiscal deficit. Jane Harrigan (2011, 11–12) has also explained these reforms in NA in a similar fashion: 'Despite the nuanced differences, a common assessment is that the reforms actually undertaken can be seen as a process whereby the state, rather than retreating from economic activity, simply repositions itself to safeguard the positions of its major interest groups'.

The Arab Spring

The social impact of the neo-liberal era was not favourable, with poverty and unemployment remaining relatively high and inequalities sharpening. Although the IMF and the World Bank provided a more positive picture, there was a widespread negative perception of the impact of neo-liberal reforms in the NA region by the majority of the population. But more than neo-liberal economics, the widespread nature of corruption, nepotism and rent seeking, as well as repression, have contributed most to negative perceptions. There was little open criticism of economic policies implemented by the incumbent regimes before the Arab Spring. What were criticized most openly were the perceived injustices, large inequalities, widespread corruption, nepotism, and rent seeking activities that failed to create a level playing field and benefited most the 'establishment's elite' and the 'establishment's' insiders' (UNDP, 2012).

Most Egyptians did not riot in 2011 against the IMF and the World Bank as they did in the mid-1970s. But they opposed and criticized openly 'The corruption of the Egyptian government', the fact that 'Mubarak's . . . younger son Gamal, a former investment banker had filled the cabinet with his inner circle of businessmen friends', that 'Mubarak's cronies were seen to be the beneficiaries' of neo-liberal reforms, and 'The wish of his wife to have her son succeed Mubarak is what really led to his downfall'. The fact that neo-liberal reforms 'failed to alleviate poverty' and that the growth rate 'widened the gap between rich and poor' did not help. All of this led 'Ultimately [to] a sense of economic injustice [that] helped create the conditions for the 18-day uprising that unseated Mubarak' (Knell, 2013). The neo-liberal reforms were also implemented undemocratically, following a long tradition of centralized economic activity and decision-making processes.

Islamists were a main beneficiary of the Arab Spring, although they played a small role in its initiation. In Tunisia, Morocco, and Egypt until President Mohammed Morsi, who won elections in June 2012, was removed from office in July 2013, Islamists went as far as winning elections and constituting governments for the first time in their history. The arrival of political Islam to power in Tunisia, Morocco, and Egypt led some to speculate regarding the emergence of an 'Islamic economy' in the region, which would place morality, equity, the well-being of society, an open trade system, and stability as key policy objectives (Arab News, 2014).

As one source explained, Islamic economics is 'that branch of knowledge which helps to realize human well-being through an allocation and distribution of scarce resources that is in conformity with Islamic teachings without unduly curbing individual freedom or creating continued macroeconomic and ecological imbalances' (Islamic Economics, 2013). Islam is a religion that was initially born in a territory with limited agricultural potential. This led to more emphasis on generating commercial possibilities, such as trade and finance. Commerce acquires a special significance in Islam and is considered a blessed activity. This is because the prophet himself, many of his companions, and several eminent Muslim scholars were successful businessmen. In many ways the Islamic economic system 'is very close to today's free market . . . or liberal economy' (Islamic Economics, 2013).

However, Islamic economic thought is different from neo-liberal economics in that Islam is not just a religion, but also a way of life. Islamist economists list five points which distinguishes their system from other economic ideologies: Forbidding interest (usury or *riba'* in Arabic);

forbidding earnings from gambling, lotteries, and the production, sale, and distribution of alcohol; forbidding hoarding food and other basic necessities; Muslims must pay *zakat* (alms-giving); and Muslims are encouraged to give constantly to charity. The arrival of political Islam after 2010 raised possibilities of introducing an Islamic economic system along these lines.

However, the outbreak of the Arab Spring did not usher in a new era of 'Islamic economics', one that could compete with or substitute neo-liberal economic policies. On the contrary, there has been a continuation of past pro-market policies. The Moroccan Justice and Development Islamic Party, the Tunisian al-Nahad Party and the Egyptian Muslim Brotherhood all continued collaboration with the IMF and World Bank, and did not sever relations with them, as some had predicted. Egypt had been negotiating with the IMF for three years over a proposed $4.8bn loan, and President Morsi continued to negotiate and held the Fund responsible for delays in implementation. These developments should not come as a surprise, as Islamists are not anti-free market economics in general. Islamist movements in the Arab world lacked a distinctive economic development ideology to promote in place of neo-liberalism. As Kadri (2012, 2) recently wrote: 'The neo-liberal phase of development has not ended with the beginning of the Arab Spring. If anything, many of the dispossessing policies of the past have gained momentum under newly elected Islamic governments'. However, all NA states have re-introduced some form of social protection since the eruption of the Arab Spring.

Conclusion

NA's economic decision-making is characterized by a long history of centralization and a top-down approach. During the Ottoman Empire, economic policy-making was interested to a grand Vizir, aided by a number of Vizirs who controlled all key state positions, received their policy input from Istanbul, and were loyal to the Sultan. This changed somewhat during European control, which followed a more free market approach but with little input from the colonies. NA began its post-dependence era with a heavy dose of nationalism and socialism, based on state-led development and public sector enterprises. In the early 1980s, NA had to abandon its state-led development and was forced by IFIs to return to the fold of countries dominated by the neo-liberal formula. The outbreak of the Arab Spring seemed to have caused a change of policies in some areas but without leading to alternative economic thinking or a new development paradigm.

The experience of the NA region suggests that the impact of economic ideas as pure theory has (at least in the short-run) been limited, and that changes in government economic policies are most often generated by factors outside the economics profession, even though the work produced by this profession is often used to bolster or negate certain existing tenets of belief. The impact of a single leader can be determinate on the economic policies selected, if not on the outcome of these policies, as can external bodies with sufficient power, but economic theory in itself is only moderately influential at best.

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