SQUARE PEGS IN ROUND HOLES: WHY IMF AND WORLD BANK STRUCTURAL ADJUSTMENT PRESCRIPTIONS HARM ARAB ECONOMIES

Will Nichols
M.A. Candidate
George Washington University's Elliott
School of International Affairs
Middle East Studies

Introduction

Arab development is not where it should be. Despite trends of liberalization in recent decades, the Middle East has continued to lag behind other developing regions, such as Latin America, when it comes to economic recovery and successfully integrating into the world market.[i] A common argument for Arab economic failures has been their reluctance to comply with structural adjustment prescriptions set by the International Monetary Fund (IMF), World Bank, and the United States government. While it is true that many Arab states have ignored this "Washington Consensus" of structural adjustment programs (SAP's), often due to endemic corruption and fear of political change, there is still no clear correlation between degree of SAP compliance and degree of economic success in the Arab states[ii].

To address the failings of SAPs, the IMF, World Bank, and U.S. government emerged with a "Post-Washington Consensus" in 2004, which argued that the previous structural adjustment prescriptions were not extreme enough in the speed and extent of liberalization and privatization[iii]. However, the Post-Washington Consensus structural adjustment prescriptions only exacerbate the flaws in the Washington Consensus model and will be even more destructive. IMF and World Bank structural adjustment programs harm Arab economies because they are a one-size-fits-all prescription that fails to take into account the peculiarities of Arab political economy and economic circumstances. Arab economic peculiarities include the private-public sector co-dependency of clientelism, a lack of adequate regional integration, often unfair access to foreign markets, and already dangerously high levels of unemployment and underemployment. The Washington Consensus is correct in spirit that import-substitution-industrialization (ISI) and protectionism must be replaced with liberalism in order for the Arab world to successfully adapt to globalization. Yet by ignoring the aforementioned region-specific factors in designing their prescriptions, the IMF and World Bank are shoving square pegs into round holes and the results are devastating.

This paper will begin with some background about the Washington and Post-Washington Consensus, structural adjustment, and methods of measuring economic success. Three fatal flaws of the Post-Washington Consensus with respect to the Arab world will then be detailed. The first fatal flaw in the Post-Washington Consensus is that it pushes for rapid change, despite overwhelming evidence for the benefits of gradualism, especially in giving the Arab world time to integrate more as a region. The second fatal flaw in the Post-Washington Consensus is that its prescribed simultaneous execution of trade liberalization with privatization and public sector downsizing will cause unbearably high unemployment given the region's already bleak employment climate. The third fatal flaw in the Post-Washington Consensus is that it fails to address the widespread Arab clientelism and public-private sector co-dependency that, when combined with liberalism and privatization, greatly increase poverty and inequality. The paper will then provide evidence that IMF and World Bank SAP's have so far failed the region as a whole with respect to growth and will then present two case studies in Morocco and Tunisia. The Moroccan case illustrates the damaging results of complying with Washington and Post-Washington Consensus prescriptions, while Tunisia is a shining example of how rejecting these same prescriptions can lead to becoming the most successful non-oil Arab economy. After some speculation on what the Arab Spring could mean for Tunisia's economic future, the paper will conclude with some policy prescriptions for the IMF and World Bank, as well as for Arab states.

Background

In the early 1990's, the IMF, the World Bank, and the U.S. government agreed upon a policy prescription designed to improve the economies of the developing world, or "Global South". It was agreed that economic aid given to these struggling states would become somewhat conditional on their compliance with this prescription.

Since these three organizations were all headquartered in Washington, D.C., economist John Williamson coined the term "Washington Consensus" to describe this policy plan. The plan had ten central points:

"1. Fiscal discipline
2. Reorientation of public expenditures
Tax reform
Interest rate liberalization
Unified and competitive exchange rates
Trade liberalization
Opening for direct foreign investment
Privatization
Deregulation
Securing property rights"[iv]

The ten points of this plan were designed to push developing economies first to "stabilization" and then to "structural adjustment". Paul Rivlin writes that the aim of IMF and World Bank stabilization programs is "to reduce large budget deficits and the expansion of inflationary credit used to finance them" and that they also involve "cutting public spending" and "the liberalization of foreign trade." Rivlin defines "structural adjustment" as "changes in relative prices and in institutions" and notes that it is "a longer term policy than stabilization and is designed to increase the efficiency of the economy so that it can attain sustained growth with less government prompting than in the past. It includes tax reforms; reforms in the ownership, control and operation of the financial sector; deregulation of the economy designed to encourage private-sector activity; and privatization."[v] Despite being grounded on structures and policies that proved successful in many Western liberal democracies, the Washington Consensus did not replicate this success in other regions, and especially not in the Middle East.

The most common barometer of overall economic success is growth, which is usually measured by gross domestic product (GDP). GDP is the total market value of all final goods and services produced within a country in a given period of time. GDP per capita, or per person, is often used as an indicator of overall social welfare. However, as Alan Richards and John Waterbury point out, total and per capita GDP can both be misleading in regards to living standards and overall economic health as they do not take distribution of income into account. In addition, failing to price negative externalities in calculating GDP overestimates social welfare by counting depleting capital as income.[vi] As a result, it is important to also consider levels of unemployment, poverty, and inequality in measuring economic success. By all of these measures, Washington Consensus structural adjustment prescriptions failed in the Middle East and elsewhere. Statistical evidence of these failures will be provided later in the paper.

To address the failures of the Washington Consensus, the IMF, the World Bank, and the U.S. government announced what would become known as the "Post-Washington Consensus" in 2004. This new economic policy prescription retained the original ten points of the Washington Consensus and added ten more:

"11. Corporate Governance
12. Anti-corruption
13. Flexible labor markets
Adherence to WTO disciplines
Adherence to international financial codes and standards
"Prudent" capital-account opening
Non-intermediate exchange rate regimes
Independent central bank/inflation targeting
Social safety nets
Targeted poverty reduction"[vii]

As Richards and Waterbury note, the Post-Washington Consensus posits that the previous prescription failed because it "did not go far enough" and therefore calls for a more extreme and rapid simultaneous liberalization and privatization.[viii] However, the Post-Washington Consensus is doomed to fail the Arab world because, like the Washington Consensus, it is a one-size-fits-all prescription with no regard given to the peculiarities of Arab economies and governments. Three fatal flaws in the way IMF and World Bank prescriptions interact with Arab economics will now be discussed in detail.

First Fatal Flaw: Too Rapid, Not Enough Time for Regional Integration

The IMF and the World Bank have a strange and problematic obsession with speed. While it is true that many corrupt and autocratic Arab regimes have dragged their feet on implementing liberalizing reforms for fear of losing power, [ix] forcing what Jane Harrington and Helen Tilley call "a laissez-faire free-for-all big bang liberalization"[x] is a huge mistake for two reasons. The first reason is that it has already been proven in other regions to be much less effective than gradualism. While Russia and many Eastern European states adopted the Washington Consensus rapid "big bang" approach to liberalization, China eschewed it for gradualism and soared ahead of them and is now even posing a serious threat to the United States' global economic dominance. Similarly, Mexico succeeded in staving off potentially devastating job losses by gradually phasing in liberalization of employment-heavy sectors such as automobiles and pharmaceuticals. Mexico also protected its farmers and agricultural industry from certain death by cheap imports through delaying the liberalization of maize markets for 10 years.[xi] The Middle East would be wise to follow their example.

The second reason the Post-Washington Consensus's rapid-fire liberalization is a mistake lies in the Middle East's current dearth of genuine regional economic integration. "Going it alone" in the global economy without a network of economic support from other regional states is usually disastrous. As Hassan Hakimian writes of the EU-Mediterranean Initiative, "In the absence of due integration between the MENA [Middle East North Africa] partners, this free trade initiative risks 'verticalizing' MENA trade with the EU and creating a 'hub and spokes' system in which the EU would be the 'hub' and the individual Mediterranean countries the 'spokes'." Hakimian goes on to detail such adverse consequences for the region as an inability to draw foreign direct investment (FDI) and the funneling of investment to the European Union at Arab expense. Another of Hakimian's reasons for the necessity of regional integration is the safeguard it can provide against external shocks,[xii] such as the Global Economic Crisis of 2008, which largely originated in the United States. Even the IMF and the World Bank, in two recent reports, argue that regional Arab financial integration may be the key to successful integration into the world market.[xiii] Yet, hypocritically, these same organizations demand that Arab economies liberalize in one fell swoop before given time to build sufficient regional economic cooperation and integration. By failing to take into account this key peculiarity of the Arab economic climate, the Post-Washington Consensus continues to fail the region.

Second Fatal Flaw: Unbearable Unemployment Costs

The IMF and the World Bank are persistent and stubborn with their demands for trade liberalization and privatization/downsizing of the public sector to occur simultaneously. As Richards and Waterbury note, the short-term effect of these structural adjustments in the general sense is to "put many firms out of business and many people out of work."[xiv] These job losses occur both from downsizing the government with privatization and from inefficient private firms failing in the new climate resulting from trade liberalization.[xv] While the IMF and the World Bank may argue this short-term setback is an inescapable part of setting the stage for long-term growth, they are ignoring the peculiarities of the Middle Eastern economic climate that would render such costs chronic and unbearable. As Massoud Karshenas and Valentine Moghadam reveal, the average unemployment rate in the Middle East is among the highest in the world.[xvi] Given the already dangerously high unemployment levels across Arab states and the lack of adequate social insurance, rendered even weaker from privatization, a supposedly short-term spike in unemployment could easily become catastrophic and long-term. Algeria represents one such example. In the early 1990's, Algeria combined trade liberalization simultaneously with massive privatization and downsizing of the public sector, which resulted in 10% of the labor force (approximately 500,000 people) losing their jobs.[xvii] According to a World Bank study, Algeria's unemployment rate then became the Arab world's highest, even topping 30% in 2001.[xviii]

Algeria's disaster stands in stark contrast to the case of Tunisia, which will be discussed in greater detail later in this paper. As Harrigan and Tilley note, Tunisia "avoided combining trade liberalization with a massive downsizing of state-owned enterprises and privatization" and, as a result, its "job losses were quite small and total employment remained buoyant." Harrigan and Tilley go on to note that these cases "clearly illustrate the need to properly sequence the reform process."[xix] Yet again, the Post-Washington Consensus has failed to learn from history. The other peculiarity with the Arab economic climate that makes unemployment spikes unbearable is the lack of adequate social insurance. The origins of social and welfare policies in the Middle East, as Karshenas and Moghadam note, always "had more to do with nation-building and state-building, and with creating a social base of support for the emerging nation-states or regimes, than with any concept of citizen rights."

As a result, social policy and insurance in the region continue to be "neither democratic nor socially inclusive" and "exemplify the opposite end of the spectrum to the experience of the Nordic countries."[xx] Therefore, the inherent weaknesses of Arab social insurance will make any spikes in unemployment more devastating in terms of poverty and decreases in living standards than regions with strong welfare and these weaknesses will also make it harder for Arab employment to bounce back. In addition, premature privatization is only exacerbating the existing flaws in Arab social insurance. While Arab non-governmental organizations (NGO's) are attempting to fill the void left from the downsizing state's withdrawal from the social sector, they are characterized by "fewer resources, poor coordination, or lack of continuity." In other words, Arab states' abilities to offset the negative effects of unemployment are only getting worse, thereby putting "the region at a comparative disadvantage vis-à-vis globalization."[xxi] Clearly, the rest of the Arab world should follow Tunisia's example and avoid the unemployment spikes inherent in simultaneous liberalization and privatization. The region is simply not equipped to handle it.

Third Fatal Flaw: Nothing to Combat Clientelism, Increase in Poverty and Inequality

While this paper has so far discussed policies promoted by the IMF and the World Bank that clash with Arab economic peculiarities, it is important to note that these organizations also lack policies to address and change certain Arab peculiarities. The most important Arab peculiarity not addressed by the Post-Washington Consensus is the culture of "clientelism" and the related "rentier state" model. In failing to address this peculiarity, IMF and World Bank liberalization and privatization only serve to increase inequality and poverty through "crony capitalism".[xxii]

Richards and Waterbury contend that the political economy of the Arab world "is dominated by three simple facts: little rain, much oil, and increasingly many (and therefore young) people."[xxiii] Indeed, it is the region's overreliance on oil and other natural resources such as gas and phosphates that has fostered a network of "rentier states" and "peripheral states". Beverley Milton-Edwards defines "rentier states" as those that derive their revenue from "rent", as opposed to most states, which derive their income from taxation. Milton-Edwards defines "rent" in this case as "the wealth generated from ownership of natural resources such as oil or gas." She goes on to explain that in such states, "benefits are distributed to citizens, and the state demands nothing in return in terms of economic revenue." While not all Arab states are rich in resources such as oil and natural gas, the remaining states have nevertheless become "peripheral states" to the rentiers in the sense that they depend a great deal on income derived from supplying the rentiers with migrant labor. In addition, the peripheral states have adopted similar corrupt economic cultures of "clientelism", or social orders defined by patronage.[xxiv]

The result of this Arab world peculiarity is a corrupt co-dependency between the public sector and the private sector that the one-size-fits-all IMF and World Bank prescriptions continue to ignore. Therefore, when Arab states liberalize in accordance with the Post-Washington Consensus, the private sector still sticks to resource extraction, rent-seeking, and immediate short-term return, thereby stifling any potential growth in private investment.[xxv] In addition, adding liberalization and privatization to this rentier foundation of clientelism exacerbates poverty and widens the gap between rich and poor in what Sadowski calls "crony capitalism". With this corrupt system already in place, privatization has not had the intended effect of extending the entrepreneurial class, but has instead shrunk it and further concentrated the capital into the hands of elites.[xxvi] Indeed, the burgeoning poverty and inequality in the Arab world since implementing IMF and World Bank SAP's is impossible to ignore. Milton-Edwards goes so far as to write that Washington Consensus structural adjustment programs "appear only to have succeeded in widening the gap between rich and poor in nearly every country throughout the region."[xxvii]

A World Bank study admits the Middle East has seen a 17% overall increase in absolute poverty in the years since IMF and World Bank liberalization began and the percentage of Algerians living below the poverty line has actually doubled.[xxviii] As this paper noted earlier, poverty, inequality, and unemployment can reveal important truths about overall economic success and health that growth and GDP alone distort. With no regard for distribution, and the common failure to price negative externalities thereby counting depleting capital as income, total and per capita GDP increases often belie a much bleaker reality. Yet even the GDP growth of the Arab world since Washington Consensus reforms has been disappointing and underwhelming. This paper will now move beyond the fatal flaws in IMF and World Bank theory and move into the glaring failures we have already seen in practice.

SAP Mission Failure: Stagnant Arab Growth

The most basic goal of IMF and World Bank structural adjustment programs has always been to achieve significant and sustainable GDP growth in developing economies.[xxix] At first glance, the Post-Washington Consensus reforms may appear to have gained some ground in this regard with respect to the Arab world. After all, a 2007 World Bank overview of the region reads, "During the last few years, MENA has turned in strong economic performances, driven to a large degree, by high oil prices and a favourable global environment, but also by reform policies that…are generally on the right track." The report goes on to note that Middle East GDP growth from 2002 until 2006 has actually exceeded that of East Asia and the Pacific, Europe and Central Asia, and Sub-Saharan Africa.[xxx]

However, this World Bank report is entirely misleading. The Middle East has been in a Second Oil Boom since 2000 that has seen the price of oil nearly triple from $24 per barrel in 2002 to $64 per barrel in 2006.[xxxi] Given the fleeting nature of oil booms, this growth is in no way sustainable. In addition, the report groups oil exporting states together with non-oil exporting states to demonstrate regional growth. Closer inspection reveals that only oil exporting Arab states have enjoyed considerable GDP growth in the 1990's and 2000's, while non-oil exporting Arab states have struggled with static or only slightly improving GDP's. Indeed, a World Bank study from 2007 actually shows a decrease in the total and per capita GDP growth of non-oil Arab states throughout the 1990's and early 2000's. In 1996, non-oil Arab states averaged a 4.7% increase in total GDP and a 2.7% increase in per capita GDP. In 2006, non-oil Arab total GDP growth had slowed to 3.8% and per capita growth was down to 2.1%.[xxxii]

Despite attempts by the World Bank to spin data in a positive light, Arab world growth remains bleak overall. The failures of Washington Consensus SAP's are made even clearer when comparing Washington Consensus reformers to non-reformers. Hakimian writes that there is "no clear dividing line" of growth between reformers and non-reformers and goes on to note that some of the least liberalized economies, such as Syria, have actually topped Arab GDP growth in the 1970's and 1990's.[xxxiii] When extraneous variables such as the recent oil boom are removed, what remains is sluggish and nearly stagnant GDP's, and what little success has occurred cannot be credibly linked to IMF and World Bank structural adjustment.

What makes the failures of Washington Consensus prescriptions to provide significant Arab economic growth even more pathetic is the "demographic gift" the region has enjoyed since the 1980's. Elementary economic theory holds that per capita income, savings, and GDP should increase greatly when the labor force grows faster than the population and when the female labor force grows faster than the overall labor force. Both of these demographic situations pervade the Arab world and have for some time, yet GDP growth has remained nearly stagnant.[xxxiv] Therefore, IMF and World Bank structural adjustment prescriptions have failed to encourage significant and sustainable GDP growth even where it would already be expected without them. These failures will now be examined more closely in a tale of two economies: Morocco and Tunisia.

Morocco: Washington's Model Victim

In the early 1990's, the IMF, the World Bank, and the U.S. government touted Morocco as their model reformer in the Arab world and as a shining vindication of the Washington Consensus economic prescriptions. In 1992, the World Bank's MENA director wrote, "Morocco is perhaps the only country in the world which has, at the same time, created a realistic hope for a durable solution to its foreign debt problem, put in place a basic program of structural adjustment, re-established a sound balance of payments situation, instituted monetary stability and stifled inflation while carrying through economic growth at about 4% a year."[xxxv] Encouraging results of Morocco's enthusiastic compliance with the Washington Consensus made the IMF and World Bank confident enough to stake their reputation on it.

Yet only a few years later, they would be eating their words. A March 2006 joint report from the World Bank and various U.S. and Moroccan universities admitted that Moroccan "growth has remained insufficient to reduce poverty and tackle unemployment in a significant way."[xxxvi] Despite early '90's optimism about Morocco's foreign debt crisis, Milton-Edwards notes that the last two decades have seen Morocco "tied even further to the diktats of their creditors in the IMF and World Bank."[xxxvii] As Richards and Waterbury astutely summarize, "Morocco provides a striking case of a country successfully overcoming political obstacles to reform, systematically implementing a wide array of Washington Consensus policies- and then having very little in the way of growth or employment creation to show for it."[xxxviii] What a difference a few years can make.

It should not be surprising, however, that the Washington Consensus has failed Morocco. In addition to the aforementioned theoretical fatal flaws in IMF and World Bank prescriptions with respect to the general Arab world, Morocco features another economic peculiarity ignored by Washington: a very unfavorable agricultural trade balance with the United States and the European Union. While the U.S. and EU use price supports for their own agricultural exports and practice protectionism against imports, their trade agreements hypocritically force Morocco to completely open its market to agricultural imports. The result is that Morocco's massive agrarian sector is unable to compete with cheap foreign imports and the country as a whole has lost agricultural self-sufficiency.[xxxix] As Rivlin explains, "When the IMF and the World Bank call on developing countries to make their economies more competitive both internally and externally, the assumption is that they will be given fair access to foreign markets, especially those that they do the vast majority of their trade with. This has not happened."[xl] By ignoring Morocco's lack of the fair trade prerequisite when pushing its reforms, the Washington Consensus is once again shoving a square peg into a round hole.

Morocco is also one of the clearest examples of how Washington's blind eye to rent-seeking and clientelism lets their reforms increase poverty and inequality and even discourage innovation and development. Aouatif El Fakir notes that just as the Moroccan nationalization of foreign companies in the 1970's had "benefitted only a few rich families", the "privatization (promoted by reforms) of public companies in the 1980's and the 1990's rewarded the same capitalists and TNCs. These rent-seekers did not have the motivation to start new and risky businesses." El Fakir goes on to explain that in Morocco's engineering sector, "dominant bureaucratic and economic rent-seekers prevent domestic development."[xli] Myriam Catusse goes even further by stating that Washington Concensus reforms merely turned Moroccan clientelism into "crony capitalism" that "profited first of all the elites and those who already held concentrations of considerable personal capital." Not only did IMF and World Bank structural adjustment prescriptions not have the intended effect of expanding Morocco's entrepreneurial class, Catusse explains, but "they have had the opposite effect of yet further concentrating the country's capital."[xlii] Indeed, Morocco's poverty rate has exploded in the years since enacting Washington Consensus reforms.[xliii]

Of course, the IMF and the World Bank are trying to put as positive a spin on Morocco's track record as possible. In their December 2009 Staff Report on Morocco, the IMF attempts to personally take credit for the thankfully "limited" impact the Global Economic Crisis had on the country by attributing Morocco's supposed resiliency to "structural reforms introduced over the last decade."[xliv] Apparently, the best thing the IMF can now say about its model reformer is that reforms may have played a role in Morocco not deteriorating as much recently as some may have expected. Never mind any evidence of sustainable long-term growth or increased competitiveness in the global market in the years since structural adjustment. While the latest World Bank Country Brief on Morocco (April 2011) states that it has "in the last three decades" embarked on a "solid program of human development and political liberalization," serious setbacks are admitted such as "inadequate social indicators relative to the country's income level", "high unemployment" (that is still increasing), "large segments of the population" remaining "economically marginalized" and the fact that "economic vulnerability remains widespread."[xlv] This is clearly a far cry from the World Bank MENA Director's aforementioned 1992 assessment of Morocco as "perhaps the only country in the world" with such "realistic hope" regarding structural adjustment.[xlvi]

Yet the reality of Moroccan structural adjustment has been even bleaker. The IMF and the World Bank like to gloss over some alarming statistics about Moroccan growth and GDP in the years since adopting Washington Consensus reforms. From 1991 until 1998, Moroccan total GDP growth averaged a sluggish 2% per year and GDP per capita growth averaged only 0.5%. In fact, Moroccan GDP actually shrank in 1992, 1995, 1997, and 1999. While growth from 1998 until 2004 improved slightly to 3.3%, this was still well below that of countries less extensive in their SAP compliance such as Egypt, Jordan, and Tunisia. In addition, 3.3% was still only half the estimated 6% growth rate needed to create adequate jobs for the expanding labor force and to reduce poverty and unemployment.[xlvii]

Indeed, Moroccan poverty grew from 13% (3.4 million people) in 1991 to 19% (5.3 million people) in 1999 and unemployment has remained well above 10% throughout SAP reform years[xlviii] and is currently on the rise.[xlix] Perhaps even more disturbing is the fact that Morocco's economically vulnerable population, those just above the poverty line who are in constant danger of slipping beneath it, has risen from 35% (9 million people) in 1991 to 44% (12 million people) in 1999.[l] Given this data, it is hardly surprising that hordes of Moroccans took to the streets to protest Washington Consensus structural adjustment prescriptions in what would become known as "IMF riots".[li]

Morocco is not so much a model reformer, as the IMF and World Bank implied in the early 1990's, but rather a model victim.

Tunisia: Success by Defiance, and a Third Way

The latest World Bank Country Brief on Tunisia is appropriately rosy. This April 2011 report contends that Tunisia is "known for its progress on development, good social conditions (among the best in the MENA region), more liberal social norms, large middle class, and gender equality." The brief also notes a considerable growth increase and debt decrease in 2010.[lii] In many ways, the truth is even rosier. The World Bank fails to mention that Tunisia has the highest per capita income of any non-oil Arab state and that, in 2005, its per capita income was 29% higher than the MENA average, even when including oil states. The World Bank also fails to mention that Tunisia's poverty rate has fallen from 8% (800,000 people) in 1995 to just 4% (400,000 people) in 2000, and its economically vulnerable population fell from 17% in 1995 to just 10% in 2000.[liii] The August 2010 IMF Staff Report on Tunisia mentions that Tunisia weathered the Global Economic Crisis well because it "entered the crisis with strong fundamentals due in large part to past prudent policies."[liv] Yet the most important thing both these reports fail to mention is that these "past prudent policies" came in stark contrast to IMF and World Bank structural adjustment prescriptions.

While Tunisia certainly engaged in liberalization and structural adjustment, these policies resulted from a purely domestic decision-making process that did not involve, and in fact pre-empted, IMF and World Bank pressure.[lv] Unlike Morocco, where structural adjustment brought about "IMF riots", Tunisian structural adjustment enjoyed popular support because its ingrown and organic nature allowed it to avoid any "neo-imperialism" stigma.[lvi] Even more important is the fact that Tunisian structural adjustment differed heavily from Washington Consensus prescriptions. In comparing the structural adjustment of Egypt, Jordan, Morocco, and Tunisia, Karen Pfeifer writes, "Of the four countries, Tunisia is the most successful in performance, especially on the domestic criteria and when viewed over a long period of time. Ironically, Tunisia was the weakest on implementation of a number of planks on the [Washington Consensus] SAP, for example, by running a relatively high public deficit and by failing to reduce tariffs to world-competitive levels."[lvii]

Jane Harrigan and Hamed El-Said agree that Tunisian structural adjustment has been "a far cry from IMF and World Bank policies" and note many key areas of defiance, such as state planning of development, retaining "price controls over key inputs such as public utilities, cement, water, electricity, port fees, cereal based products and chemicals", and retaining a certain degree of protectionism and relatively high tariffs.[lviii] Other key Washington Consensus departures include a state industrial development program, which provided enterprises with funds to restructure, and a refusal to combine trade liberalization with a simultaneous public sector downsizing, which allowed Tunisia to avoid the catastrophic job losses Algeria suffered from adhering to World Bank-IMF orthodoxy.[lix]

This is not to imply, however, that Tunisia's economy is not liberal. In fact, Paul Rivlin explains that "Tunisia went further than any other Arab country in liberalizing its economy, both in terms of domestic policies and opening it to international trade."[lx] Steffen Hertog adds that Tunisia is the North African country most economically integrated into the rest of the Arab world.[lxi] Tunisia's economy is neither the wholly statist, protectionist, ISI-dominated system of Arab political economy's bleak past, nor is it the product of IMF and World Bank "big bang liberalization" prescriptions. Instead, Tunisia has found a third way to become the Arab world's most successful non-oil economy, a gradualist, state-involved path to liberalism that has consistently outperformed its Washington Consensus competition.

As a fellow non-oil state in the Maghreb, Morocco would have been wise to follow Tunisia's example of success by defiance. Yet Morocco chose to swallow the bitter pill of IMF and World Bank prescriptions and is still paying for it today. Morocco, like Tunisia, did manage to avoid Algeria's catastrophic unemployment levels by resisting simultaneous liberalization and public downsizing.[lxii] However, its high level of IMF and World Bank compliance made Morocco victim to the two other fatal flaws of the Washington Consensus. Tunisia, however, averted all three fatal flaws in the Washington model with an approach designed internally with Tunisia's specific clientelist issues in mind. This gradual, initially state-directed approach sequenced liberalization and privatization and strategically scaled back protectionism according to industry needs. While Tunisian reforms may not as of yet completely transcend corrupt legacies of rent-seeking and cronyism, the Arab Spring may very well offer hope in this regard.

Tunisia's Economic Future: What Will the Arab Spring Bring?

Despite its status as the strongest overall non-oil Arab economy, Tunisia continued to struggle with high unemployment in the 2000's, which in 2009 reached 13.3% overall and 25% for young university graduates.[lxiii] With a repressive autocratic government in power and a large segment of educated people suddenly out of work and disgruntled, January 2011 saw a massive youth-led popular uprising known as the "Jasmine Revolution" overthrow President Ben Ali and demand a democracy.[lxiv] The success of the Tunisian protest movement quickly inspired similar and often successful uprisings across the Middle East in what would collectively become known as the "Arab Spring". The question emerges of what this Arab Spring will bring to Tunisia's economic future.

In the short-term, the Arab Spring is likely to be poisonous for Tunisia's economy. The Jasmine Revolution in Tunisia and the neighboring war in Libya have both served to devastate Tunisian tourism, a crucial sector, as well as foreign direct investment (FDI).[lxv] However, the long-term outlook for a post-Arab Spring Tunisia is much brighter. Once the perception of political stability returns and the war in Libya ends, tourism and FDI will undoubtedly bounce back. In addition, the interim government has already introduced a $1.5 billion stimulus package to get the economy moving, which may help offset the initial drops in tourism and FDI.[lxvi] Yet the most important indicator of long-term Tunisian economic success may be its change in government. Paul Rivlin argued two years before the Arab Spring that "Tunisia's economic future is constrained by government control" and that the state hesitates in enacting even more lucrative reforms because it fears that such reforms may "lead to political change."[lxvii] Now that democracy is replacing the old order of paranoid autocracy and remnants of short-sighted, rent-seeking cronyism, there is nothing to hold Tunisia back from reaping the benefits of further third way structural adjustment and economic reform.

Conclusions

This paper has shown the theoretical as well as statistical failures of IMF and World Bank structural adjustment prescriptions with respect to Arab economies. The evidence is undeniable both on the general regional level, as well as in the cases studies of Morocco and Tunisia. The Post-Washington Consensus hurts the Arab world, just as the Washington Consensus did before it, because its one-size-fits-all design ignores the economic peculiarities of Arab states. The results of shoving square pegs into round holes are devastating, as evidenced by the Arab world's stagnant GDP's, catastrophic unemployment, and burgeoning poverty and inequality. The Post-Washington Consensus must be scrapped. While their aims of liberalization and privatization are correct in spirit, the IMF and World Bank must design their structural adjustment prescriptions on a region by region, and perhaps country by country basis. SAP's in the Arab world must become more gradual and encourage regional integration as a prerequisite, they must sequence liberalization and privatization rather than force them simultaneously, and they must address and help change the corrupting clientelism at the heart of Arab political economy. While the latter may be the hardest to achieve, supporting Arab Spring democracy might be a good start. Until the Washington Consensus changes its ways, Arab states would be wise to learn from the examples of Morocco and Tunisia. Defying IMF and World Bank prescriptions with homegrown ingenuity is the key to success, not blind faith in broken foreign methods. As the Arab world launches a homegrown democratic revolution, it still needs an economic one.

Notes

[i] Milton-Edwards, Beverley. *Contemporary Politics in the Middle East. Second Edition.* Cambridge: Polity, 2006. Pg. 90.

[ii] Hakimian, Hassan. "From MENA to East Asia and Back: Lessons of Globalization, Crisis and Economic Reform." Ed. Hassan Hakimian and Ziba Moshaver. *The State and Global Change: The Political Economy of Transition in the Middle East and North Africa*. Richmond: Curzon, 2001. Pg. 86.

[iii] Richards, Alan and John Waterbury. *Political Economy of the Middle East. Third Edition.* Philadelphia: Westview, 2008. Pg. 232.

[iv] Richards, Alan and John Waterbury. *Political Economy of the Middle East. Third Edition.* Philadelphia: Westview, 2008. Pg. 229.

[v] Rivlin, Paul. *Economic Policy and Performance in the Arab World*. Boulder: Lynne Reinner, 2001. Pg. 99.

[vi] Richards, Alan and John Waterbury. *Political Economy of the Middle East. Third Edition.* Philadelphia: Westview, 2008. Pgs. 9-10.

[vii] Richards, Alan and John Waterbury. *Political Economy of the Middle East. Third Edition.* Philadelphia: Westview, 2008. Pg. 229.

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