Zeppelin University

Sociology, Politics & Economics

Economic Origins & Outcomes of the Arab Spring

Term Paper

in

Political Economy

Prepared by: David Broska

Matriculation number: 14201876

Study program: Sociology, Politics & Economics

Semester: Fall 2018

Supervisor: Professor Dr Jarko Fidrmuc

Date of Submission: January 14, 2019

Contents

1 Introduction

The term "Arab Spring" denotes a variety of regime protests, uprisings and armed rebellions, which differ from each other in several respects. On the one hand, they differ in their extent, ranging from local to nationwide activities, and on the other hand in the achievement of different results: from minor state concessions to appease the population, to stronger reactions in which the government was overthrown. Some countries plunged into civil war and others became autocratic regimes. As a result, social unrest in the affected countries varied widely, going along with remarkable differences in how the distribution of political power of economic resources has changed with the events of Arab Spring. How can these differences between countries be explained?

In fact, economic aspects were one of the main explanations for the political unrest in Arab Spring, which was used not only by many scholars but also by the media. The Economist's "Shoe Thrower's Index" is a remarkable example. It has been assumed that the youth population, years of government, corruption, GDP per capita and several other indicators measure the vulnerability of Arab countries to revolution.[1] It turned out that the potential for unrest in the Arab world in 2010 was highest in Yemen, Libya, Egypt and Syria, while countries such as Qatar, Kuwait, the United Arab Emirates and Lebanon achieved the lowest values (The Economist 2011). Although the index has no theoretical background, its predictions of social unrest are indeed empirically supported, as discussed below.

In addition, the scientific literature discussed in this paper supports some of the indicators used by the Economist. Consequently, the economic situation appears to be an appropriate indicator of social unrest. However, the economic origins of regime-critical movements can be examined in more detail and from the perspective of a more systematic approach. Acemoglu and Robinson's (2006) "Economic origins of dictatorship and democracy" is a promising starting point. This paper first discusses aspects of the authors' theoretical framework in order to better understand the circumstances under which revolutionary movements occur in non-democratic states. Second, this paper aims to put their theoretical considerations into an empirical test. Therefore, economic indicators provided by the World Bank (2018) are discussed in the context of the model.

2 The Revolution Constraint

Acemoglu and Robinson (2006) provide a theoretical framework for the analysis of the emergence of democracies and the dissolution of non-democracies from a game theoretical perspective. It implies strategical behavior of social groups with respect to conflicts of interest. Democracy is preferred by

[1] See Carbonnier (2013, 17) for a more detailed discussion of the index.

the majority of citizens but rejected by the elites. In nondemocracies, no checks on the power of the elites exist. In other words, elites would be eligible to choose the policies that are most beneficial to them (Ibid, 120). Since individual economic incentives determine political attitudes, there would be no redistribution to the poor or to the middle classes. In the terminology of Acemoglu and Robinson's model the elites, denoted by δ, would set set tax rate τ^r equal to 0.

However, the extent to which elites can benefit from their political power is limited by the danger of other groups striking, protesting or even trying to overthrow the ruling regime. It follows that the danger of a revolution puts a constraint on the policies of the elites in non-democracies. Acemoglu and Robinson argue that the likelihood of a revolution depends on the citizens utility in terms of their income before and after a successful revolution (Ibid, 121). Let $1-\theta$ denote the total income accruing to the poor population, $\bar{y}$ the average income and $1-\delta$ the share of the total population that belongs to the poor. Then, the income of a poor agent *before* a revolution is given by

$$V^p = y^p = \frac{(1-\theta)\bar{y}}{1-\delta}.$$

It follows that a high value of θ, the share of income held by rich, implies a high level of inequality. In this case, the constraints imposed on the elites are rather binding. Revolutions are on the one hand expensive for the elite who lose their privileges in the existing regime. On the other hand, revolutionary events also mean disorder and destruction, so that the productivity of the economy shrinks. Stated differently, there is a fraction μ that is destroyed during the revolution so that the rest $1-\mu$ can be distributed among the poor. Hence, a revolution is more attractive when the value of μ is small. In the post-revolutionary society the utility $V^P(R,\mu)$ of a poor agent, conditional on that fraction μ, is given by

$$V^P(R,\mu) = \frac{(1-\mu)\bar{y}}{1-\delta}.$$

This indicates, that total disposable income, denoted by $(1-\mu)\bar{y}$, will be divided among the poor population $1-\delta$. The equations allow to derive the first result for non-democracies: the extent to which the elites can define policies for their benefit is restricted by the potential utility of the poor. In other words, the revolution constraint binds when the potential income of a poor agent in a post-revolutionary society is greater than his current income y^p:

$$\frac{(1-\mu)\bar{y}}{1-\delta} > y^p$$

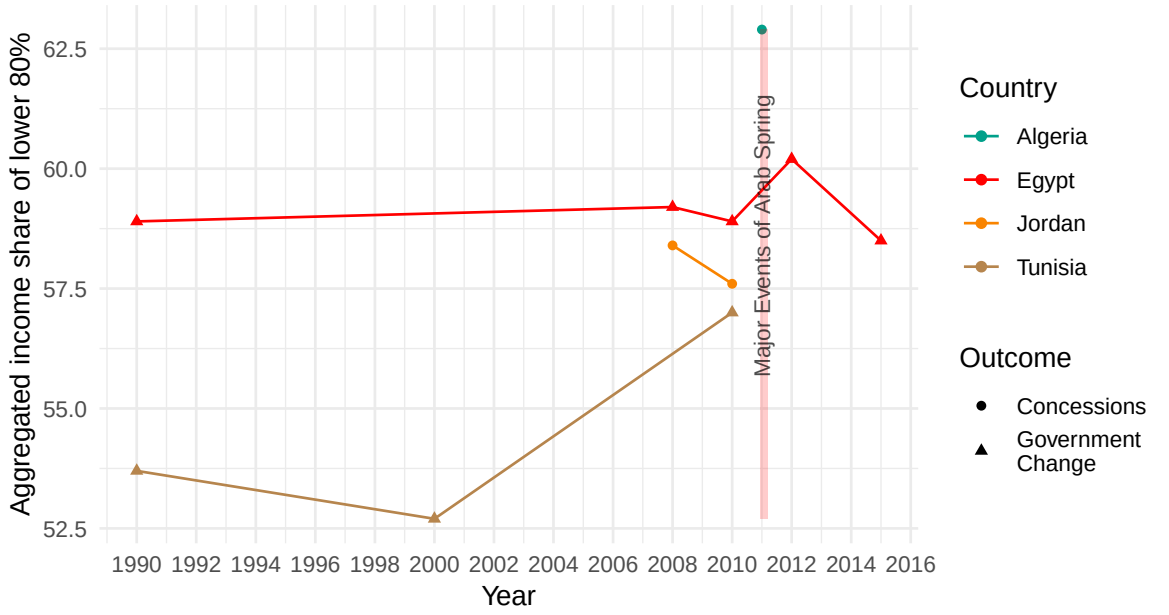

Figure 1: Aggregated income share held by the lower 80% of the population

3 Evidence from the Arab Spring

It should be emphasized that this result implies that individuals behave strategically under conditions of complete information. This assumption allows the authors, on the one hand, to create a flexible model for predicting the likelihood of a revolution based on economic indicators. On the other hand, the inherent reduction in complexity requires the model to be tested empirically. Would the model have predicted the revolutionary movements of Arab Spring?

3.1 The case of Egypt

Although the income data for the period before and after the major events of the Arab Spring are only available for Egypt, the World Bank database provides evidence for the hypothesized relation between the distribution of incomes and a countries vulnerability for revolutions. Indeed, Figure 1 shows that the income share accruing to the lower 80% of Egypt's population increased from 58.9% in 2010 to 60.2% in 2012, one year after the major events of the Arab Spring. An economic indicator that is closely related to the income share accruing to different segments of a society is its unemployment rate. It should be noted that according to the literature especially the high unemployment among the youth population accounts for the uprisings of the Arab Spring (Salih 2013, 187). In fact, unemployment among the youth population decreased from 33.1% in 2010 to 28.4% in 2013. These developments generally support Acemoglu and Robinson's idea that revolutions occur when citizens can reasonably assume to gain more than they loose in economic terms.

In addition, World Bank data indicate that the income share held by the top 20% diminished in this period from 41.2% to 39.8%. Undoubtedly, these variations might be due to other factors than to the consequences of the revolutionary movements. For example, it is difficult to isolate the effects that account for the growth of income held by the lower 80% of the population. Part of this might be due to the general growth of the country's economy (see Figure 3). However, the decline in the income share of the top 20% is countered by this general trend. As described in the following, the literature provides a specific explanation for the decline in top incomes.

According to Acemoglu, Hassan and Tahoun (2018, 2) the main roots of protests in Egypt were corruption, benefiting a small group in close relation to Hosni Mubarak's National Democratic Party (NDP) and repression, with the majority excluded from political participation. Starting with the resignation of president Mubarak on 11 February 2011, Egypt experienced four government changes until July 2013. Mubarak was followed by a military rule until June 2012, when Mohammed Mursi became elected president. This in turn was followed by a second period of military rule starting in 2013. In their paper, the authors show empirically that the economic fortune of politically connected firms to the incumbent regime fades with the changes of the government (Ibid, 9). Hence, the simultaneous loss of political power of the Mubarak's regime and its connected economic beneficiaries offers a partial explanation for the observed income decline of the top 20% as indicated by the World Bank data. Together with the improvement in the income of the lower 80%, this shift could be interpreted as economic redistribution in the sense of Acemoglu and Robinson's model.

It should be noted that, according to the model, the occurrence of a revolution, among other criteria, also depends on the policies in the post-revolutionary society. In their game theoretical considerations, Acemoglu and Robinson (2006) discuss the level of taxation in particular. Moreover, they acknowledge the fact that individuals need to coordinate their actions to impose a substantial threat on the incumbent government. Due to the lack of appropriate data, a simpler version of the model is discussed in this term paper. The next chapter, however, shows that the available indicators provide insightful comparative perspectives. Thereby, I will focus on the apparent differences regarding the extent to which Arab countries were affected by major protests. The aim is to further develop the argument that the general economic situation is useful measure of their vulnerability to revolutions and other forms of social unrest.

3.2 A comparative perspective

Algeria, Jordan, Tunisia and Egypt experienced major uprisings (Salih 2013, 184). Protests in Algeria against housing shortages and increased food prices forced the government to lift the state of emergency

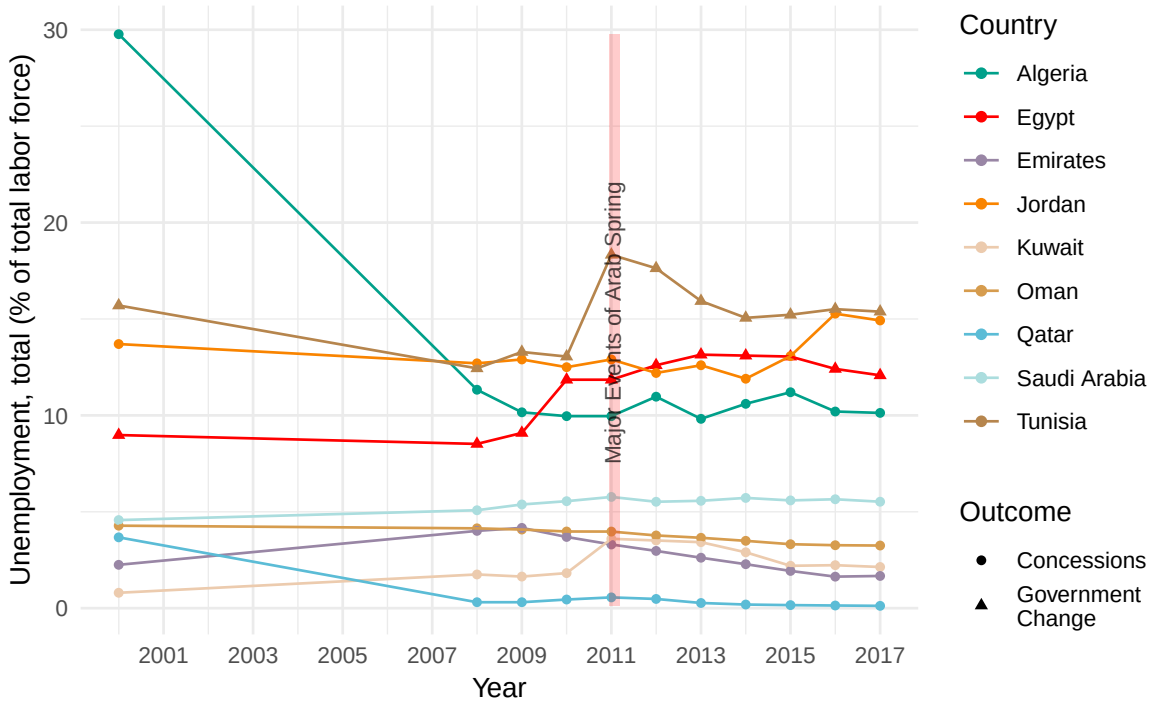

Figure 2: Unemployment, total (% of total labor force)

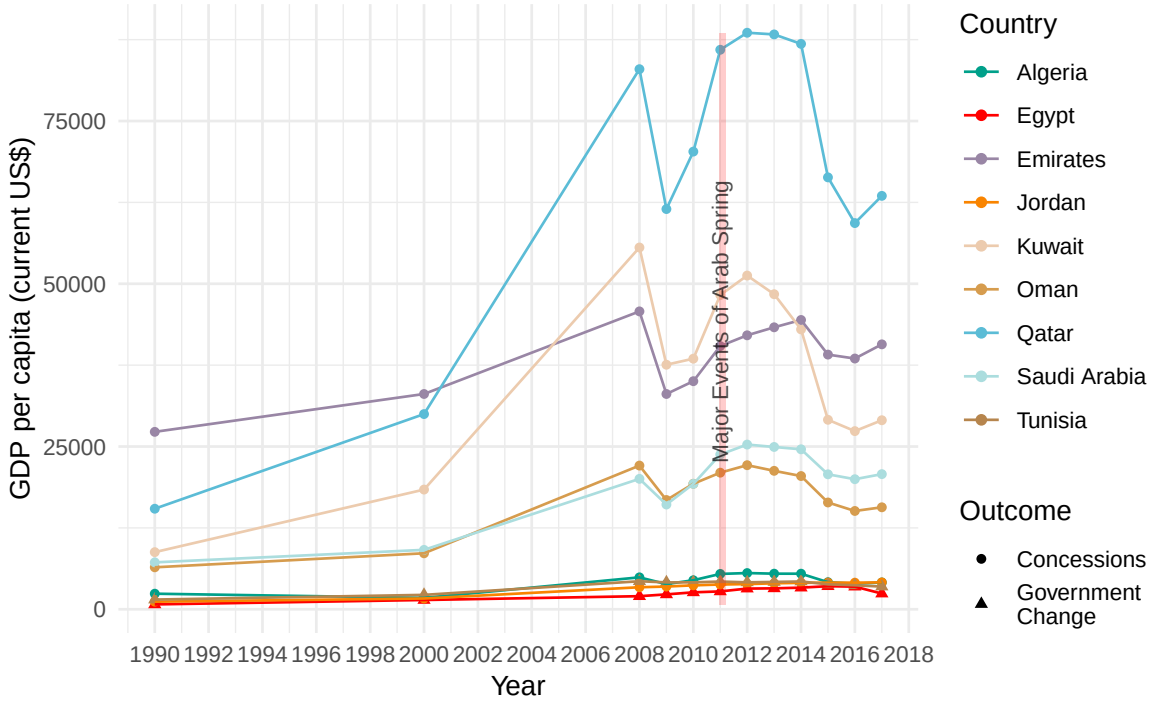

Figure 3: GDP per capita (current US$)

and subsidize food. Demands against the government in Jordan were followed by the appointment of a new prime minister (Rosiny and Richter 2016). Protests in Tunisia and Egypt ultimately culminated in a governmental change. In contrast, some Arab countries were not affected by major protest and their regimes remained remarkably stable (Salih 2013, 195). These include the five Gulf monarchies of Kuwait, Saudi Arabia, United Arab Emirates, Qatar and Oman. These countries are not geographically separated from countries where major protests took place. However, they differ not only in the extent to which they are affected by the events of Arab Spring, but also in their economic performance. More specifically, Figure 2 allows a distinction to be made between two groups of countries according to the total unemployment rate. Accordingly, the groups also differ in their GDP per capita (Figure 3).

As described in the previous chapter, the model of Acemoglu and Robinson implies that the poor impose a revolutionary thread on the elite only with a sufficiently high economic incentive. Accordingly, Egypt and Tunisia, countries with major protests and consequences, are among the countries with lowest GDP per capita and the highest rate of unemployment. The opposite is true for the Gulf monarchies. Interestingly, no protests occurred in Qatar and the Emirates (Rosiny and Richter 2016), and those are the countries with the lowest unemployment rate.

It is worth mentioning the reaction of the Gulf monarchies to the events of the smaller protests. Take the case of Saudi Arabia, for example. Salih (2013, 196) points out that King Abdullah reacted with political and economic reforms that "reduced substantially the magnitude of political turmoil in the nation; in the wake of their announcement, the number of protests in the Kingdom". Following the model of Acemoglu and Robinson (2006, 132), elites have the opportunity to use repression or concessions to avoid revolution, even if $\mu < \theta$. Thus, one could assume that in Saudi Arabia political and economic concessions by the incumbent regime were effective in calming social unrest.

4 Conclusion

The question under which conditions regime changes occur and consolidate is interesting both theoretically and empirically. The focus of this paper was to relate Acemoglu and Robinson's (2006) theoretical account to empirical findings on economic origins and outcomes of the Arabic Spring. Within the limits of an interpretative approach to the data, this paper provided evidence for Acemoglu and Robinson's theoretical framework. Economic indicators are indeed a useful measure of a country's vulnerability for revolutions and other forms of social unrest.

References

Acemoglu, Daron, and James A. Robinson. 2006. *Economic Origins of Dictatorship and Democracy.* Cambridge, UK: Cambridge University Press.

Acemoglu, Daron, Tarek A. Hassan, and Ahmed Tahoun. 2018. "The Power of the Street: Evidence from Egypt's Arab Spring." *The Review of Financial Studies* 31 (1): 1–42. doi:10.1093/rfs/hhx086.

Carbonnier, Joakim. 2013. "The Arab Spring and Its Different Outcomes." Thesis, Lund: Lund University.

Rosiny, Stephan, and Thomas Richter. 2016. "Der Arabische Frühling und seine Folgen | bpb." http://www.bpb.de/izpb/238933/der-arabische-fruehling-und-seine-folgen?p=all.

Salih, Kamal Eldin Osman. 2013. "The Roots and Causes of the 2011 Arab Uprisings." *Arab Studies Quarterly* 35 (2): 184–206.

The Economist. 2011. "Where Is the Next Upheaval?" *The Economist*, February.

World Bank. 2018. "World Development Indicators." https://data.worldbank.org/indicator.

I hereby declare that the work in this term paper

Economic Origins & Outcomes of the Arab Spring

was carried out in accordance with the requirements of the university's regulations and that it has not been submitted for any other academic award. Except where indicated by specific references in the text, the work is the candidate's own work. Work done in collaboration with, or with the assistance of others, is indicated as such. Any views expressed in the term paper are those of the author.

Friedrichshafen, January 14, 2019