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Economic Reform, Social Welfare and Political Instability in the Arab World:

The Case of Jordan, Egypt, Morocco, and Tunisia

1983-2004

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This paper fills an important gap in the literature by exploring the trends in social welfare in four countries in the MENA region which have undertaken extensive economic liberalization programs under the auspices of the IMF and the World Bank, namely, Jordan, Egypt, Tunisia, and Morocco. Studying the experience of these countries provides a good opportunity to enhance the understanding of the link between economic reforms, the level of social welfare provision, and political stability.

1. Introduction

The outbreak of the Arab Spring in late 2010 came as a surprise only to Western powers and observers. To the Arab World it was "not unexpected and many indicators pointed in their direction" long before 2010, including, for example, the strike of the Tunisian miners (Gafsa), the Egyptian mass strike in 2007-08 following hike in international food prices, and the protest of the new middle class organizations such as Kefaya in Egypt and National Committee of Military Veterans in Jordan[1]. One of the immediate outcomes of the Arab Spring has been the rise of political Islam. Like the Arab Spring itself, the rise of political Islam in countries like Tunisia, Morocco, and Egypt before the military *quo* that removed the former President Mohammed Morsi from power on

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[1]. Samir Amin. The People's Spring: the future of the Arab revolution, Cape Town, Pambazuka Press,

Amin, 2012, 2

July 3 (2013) was totally unexpected by Western observers and policy makers (Harrigan and El-Said, 2010),

For most Western observers, however, the Arab Spring and rise of political Islam are explained by political forces, namely, demands for "democracy," political freedoms, and participation (Horovitz, 2011). This paper argues that economic factors, particularly deterioration in living standards, increased concentration of wealth, inflation and high prices, and lack of strong social safety nets to protect the middle class during reforms are key factors explaining the uprising. The roots of these problems are traced to the economic reforms, which many countries in the region have undertaken over the past three decades under the auspices of the International Monetary Fund (IMF) and World Bank. Since the mid-1980s several Arab states, especially the resource-poor countries of the Middle East and North Africa (MENA), have undertaken economic reform programs supported by the IMF and the World Bank through policy-based loans such as stabilization and structural adjustment loans. In many other regions of the world especially in Latin America and sub-Saharan Africa, such programs which were undertaken in the 1980s and the 1990s have resulted in a decline in social welfare (Cornia, Jolly, & Stewart, 1987; Mosley, Harrigan, & Toye, 1995) and growing inequalities (Stiglitz, 2002; Dunkley, 1997; Goldstein, 2000; Stewart, 2000; CAFOD, 1998). However, the same phenomenon has received little attention in MENA.

This paper fills an important gap in the literature by exploring the trends in social welfare in four countries in the MENA region which have undertaken extensive economic liberalization programs under the auspices of the IMF and the World Bank, namely, Jordan, Egypt, Tunisia, and Morocco. These countries were chosen for two reasons. First, because of their prolonged adjustment efforts, and, second, because they are often put forward by the international financial institutions as cases of successful reformers, with regimes in Jordan, Morocco, and Tunisia generally perceived as the "most advanced" and "successful reformers" in the region (Shafiq, 1998, p. 8), "good pupils of the IMF" who followed its "commandments religiously" (Pfeifer, 1996, p. 40). Studying the experience of these countries with regard to economic reforms supported by international financial institutions provides a good opportunity to enhance understanding of the link between economic reforms, the level of social welfare provision, and political instability in the region and elsewhere.

In particular, the paper seeks to investigate an important question, namely whether economic liberalization as promoted by the IMF and

World Bank has had a negative impact on formal social welfare provisions. Assuming this has been the case, one then would expect economic reforms to be associated with higher unemployment, poverty, and worsened inequities. The paper argues that by weakening social welfare provisions, promoters of economic reform (IMF and World Bank) undermined the most significant source of authority, which would have provided legitimacy not only to reforms, but also to the pro-western regimes of Egypt, Jordan, and Morocco, which the Washington institutions sought to support. The only exception is Tunisia, which refused to compromise the social aspect of reform. On the other hand, the weakening of social safety nets created a gap, which has been filled by the faith-based organizations through their vast charity network. This, we argue, played a key role in enhancing the legitimacy of political Islam at the expense of incumbent regimes.

To investigate the link between economic liberalization and poverty, equity, and social welfare provisions, the paper relies on a detailed country-case study approach, and uses data from international agencies (such as the World Bank and the IMF), as well as national surveys. Since both sets of data have limitations, using data from both international agencies and national surveys is deemed as a complimentary and appropriate approach to overcome the “limitations” of each data set (Adams & Page, 2003, 2027).

We should also emphasize that while the paper does not ignore the pre-1980s decades, its emphasis is mainly on the 1983 and 2004 period. The reason for the paper’s focus on the 1983-2004 period is due to the fact that the early and mid-1980s was associated with economic collapse and weakening of statist policies in place in the region since independence. This led to, and was followed by, a period of rapid economic reform, liberalization and transition to more market-oriented policies, especially among four countries studied in this paper (Iqbal, 2006; Adams & Page, 2003). It is therefore appropriate to study the link between economic reform and social welfare provision through the experiences of Egypt, Jordan, Morocco, and Tunisia during this post-1983 transitional period. Finally, while the paper attempts to explain the causes of the Arab Spring, its does not include the main developments that occurred, and continue to occur in the post-Arab Spring era, since these remain incomplete and are still unraveling. The paper's analysis thus stops short of that period.

2. Economic Reform and Social Welfare

In the period between independence and the economic collapse of the 1980s, the four countries we studied, namely, Egypt, Jordan, Morocco, and Tunisia all had a strong implicit social contract. Under this contract the state provided various forms of social welfare, including free health and education, subsidized food and utilities and guaranteed jobs in an overextended public sector. In return, this provisioning garnered loyalty from the population for the political regimes in power. This section of our paper looks at whether the period of economic reform under the IMF and World Bank led to a breakdown in this social contract with a retrenchment of the state in terms of social welfare provision and a worsening of poverty and social welfare. The reason for this investigation is the thesis that IMF austerity programs, as part of the stabilization process sought by the Fund in recipient countries, are often associated with fiscal austerity and a decline in public expenditure, including that on social welfare, with large social implications.

Our four countries started their IMF and World Bank guided reforms at different times. Morocco was the first to commence in 1983, followed by Tunisia in 1986, Jordan in 1989, and Egypt in 1991. We analyze the trends in social welfare from the time their programs commenced through to 2004. Although starting at different times, all four programs displayed similar characteristics. The prescriptions of the IMF and World Bank, designed in a package of policy reform known as stabilization and structural adjustment programs were typical of the IMF and World Bank, embracing policies not much different from the ones prescribed by these international institutions to developing countries in other regions, such as Latin America and sub-Saharan Africa. In the Arab World, as elsewhere, the "Washington Consensus" demanded stabilization measures calling for massive cuts in public spending, new and broader taxes, and high and positive interest rates. They also called for immediate trade liberalization combined with large currency devaluations and massive reduction in tariffs and elimination of non-tariff barriers. Privatization of state-owned enterprises, price and financial deregulation also figured prominently in every SAL package signed with local governments (Niblock & Murphy, 1993; Harik & Sullivan, 1992; Vandewalle, 1996; Shafiq, 1998; El-Erian *et al*, 1996).

The available empirical evidence suggests the social implications of reform in the Arab world, despite their injection of a strong poverty focus in the 1990s, have been disappointing. While surveying eight countries that accepted co-operation with the IMF and World Bank in the 1980s (Egypt, Morocco, Tunisia, Jordan, Sudan, Turkey, Algeria, and Mauritania), El-Ghonemy (1998) found that, despite improvement in macroeconomic indicators, the social situation in each reforming country got "worse than before reform." Not only did unemployment and poverty increase, but also inequality of income worsened in most of them, except in Tunisia. Another more recent study (El-Said, 2002) found that the negative social impact of reform had been more severe in countries which were subject to international pressure to globalize rapidly, the "good pupils" of the IMF, particularly Morocco, Jordan, Egypt, and Algeria. In those four states, unemployment, poverty and inequalities had not only been much worse in the late 1990s than in the early 1990s, but also much worse than in other states that either followed the commandments of the IMF and World Bank less religiously or did not cooperate with them at all, such as Syria and Iran. Empirical evidence drawn from our four-country case studies is also supportive.

2a. Jordan

Large scale and systemic official corruption, macroeconomic mismanagement, an unfavorable shift in the external environment and poor policy advice by the international financial institutions were all key factors in Jordan's 1989 acute twin currency and banking crisis (Harrigan, El-Said, & Wang, 2006). Immediately following the outbreak of the crisis, the Jordanian government signed its first stabilization and structural adjustment programs (SALPs), which marked the beginning of what turned out to be a marathon of stabilizations and SALPs that lasted for more than 15 years up until 2005.

Typical of the IMF and World Bank programs, severe fiscal austerity measures were immediately imposed on the Jordanian economy, which was already suffering from contracted economic activities, a high level of foreign debt, and spiraling inflation, causing the collapse of the Jordanian Dinar, which lost almost 50 per cent of its value during early 1989. Worse, the IMF in particular insisted on expenditure reduction in a country where “expenditures were also rigid, leaving little scope for expenditure savings” (Mansur & Field, 2004, p. 32). Unable to reduce payments on interest or military expenditures (the largest two expenditure items in the budget), items that affected the poor most became the immediate target of austerity measures. This included food and energy subsidies, freezing public sector wages and employment, and introducing new cost-recovery charges for education and health. Food subsidies alone, which made up 7 per cent of government expenditure (or 3.3 per cent of GDP) in 1989, were slashed to 2.1 per cent and even to 1 per cent of GDP in 1991 and 1994, respectively (IMF, 2004, p. 102). This was accompanied by measures that gradually lifted energy subsidies and increased utility prices. A new Sales Tax was introduced in 1994, after four years of delay, at 7 per cent rate, rising to 10 per cent in 1995 and to 13 per cent in 1999 after which it was converted to a General Sales Tax (GST) (for a more detailed study of the IMF policy recommendations and implementation in Jordan, see Harrigan & El-Said, 2009a; IMF, 2004).

Naturally, introducing severe austerity in such circumstances confronted the government with serious poverty and unemployment problems. This situation was made worse by the forced return of more than 300, 000 Jordanians in 1991–2 as a result of the first Gulf war. According to the World Bank, the share of the population living under the poverty line jumped from 3 per cent in 1987 to over 14 per cent in 1992, before declining to under 12 per cent in the late 1990s. Similar upward trends were also observed with regard to unemployment (see Table 1). But these figures remain highly controversial. Other sources estimated the number of Jordanians living under the poverty line to have risen by two-thirds during 1987–91 to 19.8 per cent (Kossaifi, 1998, p. 6). The government of Jordan itself has been less optimistic than the IMF and World Bank regarding the levels of poverty and unemployment in the country, stating that "Depending upon the definitions used, anywhere from fifteen to more than thirty per cent of the population falls below the poverty threshold"; the same thing "applies to unemployment," the Jordanian government added (Ministry of Social Development, 2003, p. 5).

Table 1. Jordan: Key Social Indicators 1980-2002

	Poverty Headcount %	**Gini Coefficient**	**Unemployment**
1980	24.0	0.40	4.5% (1983)
1987	3.0	0.36	8.0%
1992	14.4	0.40	19.2%
1997	11.7	0.36	13.7% (2000)

2002	15.0-30.0$^{ests.}$	0.36	15.3%

Sources: MSD, 2003; Poverty Assessment Report, Washington, World Bank, 2004a.

During the IMF austerity period when subsidies were greatly reduced, Jordan's social safety net remained weak. The National Aid Fund (NAF) emerged as the most "comprehensive" and "single state-funded social safety net for the poor and most vulnerable segments of Jordanian society" (Zakharova, 2004, p. 111). The NAF's new role was consistent with the IMF and World Bank vision, which sought to substitute NAF for the previous general subsidy program as a mechanism, it was argued, to enhance the quality of public spending. But even the IMF officials acknowledge that "NAF [has major] coverage limitations" (IMF, 2004, p. 100). The government of Jordan itself also admits that the percentage of poor persons receiving NAF recurrent cash assistance to total poor does not exceed 40 per cent in best circumstances (Ministry of Social Development, 2003, p. 20).

Parallel to weak formal safety nets, Jordan's traditional, informal, and family-based social protection, largely relied on prior to 1989 to smooth occasional welfare shocks was also weakened during the reform period. The rapid rise in poverty and unemployment undermined the traditional family source of welfare support (UNDP, 2004, p. 62, El-Said & Harrigan, 2009). Poor Jordanian families' ability to participate in social ceremonies and networks (an important mechanism to build social capital) has been weakened because they "could not afford having a social life or attending social events like wedding parties or exchanging visits with their neighbours …" (DFID, 2001, pp. 18 and 22).

Following the stabilization phase of reform, Jordan witnessed two spurts of economic growth in the period under analysis, namely 1992-5 when growth registered an annual average of 8.6 per cent and 2000-04 when it averaged 4.81 per cent. However, we have shown elsewhere (Harrigan & El-Said, 2009a, pp. 75-104) that this growth was not sustained. Rather than being sustainable growth brought about by productivity increases, growth was largely extensive and unsustainable, brought about by factor accumulation. In addition, much of the growth was in the non-tradable sectors, especially the construction sector, rather than being the type of sustainable export-led growth one would normally expect from World Bank reform programs. The brief period of growth 1992-5 was accompanied by poverty reduction but Jordan's growth spurt in the 1990s was much more short-lived than that in Egypt and Morocco, and as a result the decline in poverty from 14.4 per cent in 1992 to 11.7 per cent in the late 1990s was less marked (see Table 1). Jordan's first growth phase was not sustained and as growth collapsed, poverty again increased from 11.7 per cent of the population in 1997 to the government's claim that poverty was anywhere between 15 per cent and 30 per cent by 2002 (see Table 1). Hence, by the year 2002, after over a decade of IMF and World Bank guided reforms, poverty was significantly above its 3.0 per cent level of 1987. In addition unemployment has also gone up during the reform period from 8 per cent in 1987 to 15.3 per cent in 2002 (see Table 1).

It is notoriously difficult to ascribe causation in terms of the increase in poverty and unemployment to reform programs (Cornia, Jolly & Stewart, 1987). However, undoubtedly some of the increase in poverty and unemployment in Jordan was a result of the reform measures introduced. As argued above, fiscal austerity under the IMF led to cut backs in government expenditure on social welfare, reduced employment in the public sector, a freeze on civil service wages and salaries as well as reductions in subsidies. World Bank reforms such as privatization and trade liberalization contributed to unemployment whilst reforms in the agricultural sector such as the removal of subsidies on farm inputs led to increased rural impoverishment (Harrigan *et al*, 2006).

2b. Egypt

The general welfare state system in place since the Nasserite revolution has meant that Egypt has made tremendous strides in improving different dimensions of social welfare since 1952. The aggressive ration and subsidy program was effective in protecting the food security of the majority of the population and the system favors the poor relatively more than the rich (World Bank, 1991, p. 58; Alderman & von Braun, 1984). Income distribution remained fairly stable and improved somewhat in the 1980s as a result of both economic growth and distributive policies, including land redistribution. By 1991 when the Economic Reform and Structural Adjustment Programme (ERSAP) was launched, Egypt had a more egalitarian income distribution than many comparator countries. Despite the large improvements in social welfare indicators, the onset of economic crisis at the end of the 1980s hampered continued improvements. By the time the ERSAP was launched in 1991, it was obvious that the economic crisis was exacerbating poverty and that the government's social safety net was inadequate (World Bank, 1991).

After a long period of economic growth the Egyptian economy faced crisis by the end of the 1980s. Growth had been based on a rentier economy model with rents in the form of aid, migrant remittances, oil, and Suez Canal revenue boosting an otherwise inward looking and interventionist economy. With the collapse in oil prices in the 1980s this model of growth could no longer be sustained and by the late 1980s Egypt faced a major external debt problem, high inflation, a large budget deficit, and an unsustainable balance of payments. Her support for the Allies in the first Gulf War brought a huge debt forgiveness package and an IMF and World Bank policy-based lending exercise designed to support a program of economic liberalization.

The first phase of the reform program consisted of a rapid period of stabilization in which the fiscal deficit was dramatically improved, inflation brought down, and the nominal exchange rate stabilized. This attracted a large surge of capital inflows, yet Egypt managed to avoid the financial sector and currency crises so often associated with such inflows. Structural adjustment however, was much slower. Although progress was made with trade liberalization and privatization, Egypt remained a largely inward looking economy and the growth that materialized in the 1990s was based on domestic demand not export-led growth. By the turn of the century this growth had slowed considerably and in 2004 a more reformist government was appointed by the President to speed up the pace of structural reform.

Despite a well thought out poverty alleviation strategy for the reform period as articulated in World Bank (1991), including prioritizing subsidies and social welfare expenditure for the neediest, protection of government expenditure on health and education, and the creation of a Social Fund, not all of the strategy was implemented during the ERSAP. As a result, poverty trends were mixed during the reform period. Two Household Income, Expenditure and Consumption Surveys carried out in 1995–6 and 1999–2000 enabled the World Bank and the Government to present a detailed analysis of poverty trends in the reform period (World Bank, 2002) and it is possible to construct a detailed picture of poverty trends in the first decade of the ERSAP as presented in Table 2.

Table 2 shows that, according to two measures, the national poverty line headcount and the US$2/day measure, poverty worsened between 1990–1 and 1995–6. If so, this is not surprising. The rapid stabilization program in the first half of the 1990s took place before the government had sensitized itself to the issue of poverty and it seems that there was a willingness to push for stabilization and liberalization with an acceptance of short-term negative social consequences in the hope that eventually growth would trickle down. Other studies also confirm this trend (El-Laithy & Osamn, 1997; Cardiff, 1997; El-Laithy *et al*, 1999). By contrast, all indicators show an unambiguous improvement in poverty in the second half of the 1990s. Again, this is not surprising. By the mid-1990s the difficult phase of rapid stabilization, including a swift improvement in the government's deficit, had been successfully completed, structural reforms were only slowly implemented and the government embarked upon a more expansionary policy bringing a short phase of economic growth. According to the Bank the moderate poverty improvements of the latter part of the 1990s were the first since the early 1980s, and the World Bank report (2002) indicated that by 1999– 2000 poverty in Egypt stood at 16.7 per cent using the lower national poverty line.

Table 2: Poverty Trends in Egypt 1990-2000 (per cent of population)

	1990-91	**1995-96**	**1999-2000**

Lower National Poverty Line Headcount	24.32	19.41	16.74
Poverty Gap (Nat. poverty line)	7.08	3.39	2.97
National Poverty line Headcount	49.27	51.43	42.63
Poverty Gap (Nat. poverty line)	16.98	13.92	10.83
Poverty Line at US$/day PPP Headcount	8.24	2.50	0.68
Poverty Gap	2.27	0.33	0.07
Poverty Line at US$2/day PPP Headcount	39.45	41.52	24.84
Poverty Gap	12.41	9.93	5.00
Food Poverty Line	8.93	3.05	2.87

Source: El-Saharty *et al*, 2005

The 2002 World Bank report also dissected regional trends in poverty. Even though for the nation as a whole poverty improved between 1995–6 and 1999–2000, with the greatest improvement in the Metropolitan area and moderate improvement in Lower Egypt, this was not the case for Upper Egypt where the poverty incidence increased substantially from 29.3 per cent to 34.2 per cent in rural areas and from 10.8 per cent to 19.3

per cent in urban areas. The depth and severity of poverty also increased in Upper Egypt, which has traditionally been the poorest region in Egypt. As a result, the previous national urban/rural poverty divide was replaced by a regional poverty divide. The reason for the new regional poverty divide was the regionally biased pattern of growth during the late 1990s. Import substituting manufacturing, the construction sector, and trading fuelled by expansionary policies grew rapidly in the second half of the 1990s and these activities were concentrated around the Metropolitan area and Lower Egypt with its proximity to the large Metropolitan area whilst Upper Egypt experienced virtually no growth. This helped create jobs and reduce poverty in Lower and Metropolitan Egypt.

The above indicators of poverty have all used money metrics. One broader indicator which confirms the pattern observed above is child malnutrition. In the first half of the 1990s there was an alarming increase in the percentage of children under 5 who were malnourished and underweight. This is not surprising given that we have already seen that this was a period in which poverty as a whole increased according to the national poverty line and stabilization was aggressively pursued with little concern for social welfare.

In spite of the rosy gloss put on poverty trends in the second half of the 1990s by the World Bank (2002), bank officials acknowledge that poverty is likely to have increased since 2000 and that the poverty and employment gains of the second half of the 1990s are probably unsustainable (personal interviews, Cairo, August 2005). Using the 2004–5 Household Survey, poverty was estimated to have increased to 19.6 per cent compared to 16.74 per cent in 1999–2000 using the lower national poverty line, whilst for Upper Egypt the figure was around 40 per cent. One of the main reasons for this seems to be that of rising prices in the face of devaluations of the Egyptian pound and reductions in subsidies. In fact, despite robust economic growth between 2004-08, the available empirical evidence points to a definite increase in poverty levels in Egypt. As Lynch (2008) noted:

> "Although the last ambitious economic reforms launched in 2004 have won plaudits from the business community they have done

> little for the average Egyptian. Poverty, in fact, has increased slightly over the past three years despite an economy growing at an annual rate of about 7%. That disconnect raises questions about whether the government can sustain its reforms amid mounting labor unrest and a generalized air of complaint."

One clear indicator that poverty has increased since 2000 is the rise in child malnutrition, an indicator closely linked to poverty trends. Between 2000 and 2004 the percentage of under-five year olds who were underweight more than doubled from 4.0 per cent to 8.6 per cent. To quote the Bank: "Given that poverty in Egypt is shallow, there is a chance that many of those whom escaped poverty during the 1995–2000 period may have slipped back into poverty again" (World Bank, 2002, p.v).

Summarizing the above it would seem that during the ERSAP period Egypt experienced mixed results in terms of the social consequences of stabilization and structural adjustment. In the first half of the 1990s stabilization was aggressively pursued with little regard for poverty and social welfare. As a result the number below the national poverty line increased and child malnutrition also increased. In the second half of the 1990s there was a spurt of economic growth and poverty for Egypt as a whole fell (although not for Upper Egypt), employment increased[2], and unemployment fell. However, this was not sustained and since 2000 poverty and unemployment has again been increasing. Taking these trends for the reform period as a whole, many Egyptians feel their living standards have declined since the ERSAP was launched in 1991 and that poverty has got worse and many are now looking to alternative sources of welfare provision.

2c. Morocco

Morocco, like many other MENA states, has a long history of populist state welfare provision in the form of an implicit Social Contract whereby the state provides for its citizens in return for loyalty to the

[2] Exports did little to help address poverty and unemployment in Egypt as indicated by the stagnant share of labor-intensive products in the export basket since 1990 and the growth of capital-intensive exports. Growth was concentrated in the non-tradable sectors serving the domestic market – construction, inward-looking manufacturing, services, and government employment, which, given the limited size of the domestic market spending on non-tradables were not sustainable sources of income growth as seen by the decline in growth after 2000.

regime. However, although the country has made huge strides since independence in improving social welfare, most of its social welfare indicators remain below those of comparable lower middle-income countries. This is because state welfare provision, although based on a populist model, has been biased towards urban areas and the better off (Walle, 2004, p. 1). Since the early 1980s the government has no longer commanded the resources it needs to sustain the Social Contract.

A weakness of social policy in Morocco is the inadequacy of social safety nets to protect the most vulnerable such that indicators like child malnutrition are much higher than in comparator countries. Most safety net programs are *ad hoc* and fail to catch many of the poor when they are adversely affected by livelihood shocks. The lack of organized social safety nets became particularly evident during the stabilization policies of the mid- to late-1980s when the poor were hit by subsidy reductions and increased living costs.

In the midst of the economic crisis of the early 1980s, austerity measures and structural reform measures were introduced under the auspices of the

IMF and World Bank. Trends in poverty and social welfare have fluctuated since these programs were introduced and follow a similar pattern to those witnessed in Egypt. In the first part of the 1980s poverty and social welfare both deteriorated. With the generation of export-led growth from the mid-1980s to the early-1990s poverty improved significantly. However, this was not sustained and in the economic slowdown of the 1990s poverty crept back up again to levels commensurate with the early 1980s. During the period 2000-4, Morocco experienced an economic upturn and poverty again declined but much of this growth was based on domestic demand rather than on exports.

Morocco launched its IMF and World Bank-guided reform program in 1983, when the powerful King Hassan II turned to the IMF and World Bank, leading to a ten-year long stabilization program promoted by the IMF accompanied by a series of structural adjustment and sectoral loans with the World Bank aimed at addressing Morocco's macroeconomic and structural imbalances. As in Jordan, Egypt, Tunisia, and elsewhere, the Fund and the Bank called for, amongst other things, fiscal consolidation in return for support. Fiscal consolidation was achieved by reducing absorption, mainly by lowering public investment. Government capital expenditure fell by half in real terms between 1983 and 1986, with large, negative consequences for development and operations of both economic infrastructural and social facilities. It was not surprising that cutting public investment, along with raising interest rates (a key condition in the IMF's stabilization package), also drastically reduced private investment, especially in rural areas where large segments of the population lived. In addition, Morocco's entire rural economy depends heavily on public investment for infrastructure, extension services, fertilizers, and mechanization. Reducing public investment in rural areas led to delays in the provision of infrastructure (transportation, telecommunication, etc) and social sector services (education, health, training, houses, etc), with severe implications for the poor in rural areas (Hamdouch, 1998; Achy & Hamdouch, 2003).

The initial years of reforms also involved severe fiscal austerity in the form of a civil service wage freeze from 1981–5, limited public sector recruitment to 10,000 per year for three years, higher taxation, a cut in subsidies with sugar, oil, and flour prices up by 30 per cent, 52 per cent and 87 per cent respectively. In addition the prices of about 45 products were decontrolled between 1983 and 1985 and the price of subsidized food, fertilizers, electricity, water, and petroleum were increased.

Macroeconomically, the reform measures were considered a success; the budget deficit was reduced from 10.9 per cent of GDP in 1983–4 to 2.6 per cent in 1992–3 and inflation was brought under control and declined from 12.5 per cent in 1984 to less than 3 per cent in 1988 (Achy & Hamdouch, 2003, p. 19).

The social impact of stabilization, however, has been dramatic. As in Jordan, figures regarding poverty and unemployment have been contentious and highly debatable. For example, while the official unemployment rate in Morocco was 17 per cent in 1989, “in reality [unemployment was] probably closer to 20–25 per cent” (Joffe, 1992, p. 142). Similarly, the unofficial but generally recognized poverty rates were much higher than publicly published figures. Anecdotal evidence (such as a decline in the primary school enrolment rate, continued high illiteracy rate, rapid rural–urban migration) pointed to higher poverty rates than formally recognized. In fact, the social impact of reform was so traumatizing that the Moroccan government terminated its agreement with the IMF in 1993 although it continued to collaborate with the World Bank on sectoral basis (Hamdouch, 1998, p. 17).

The stabilization effort of the early 1980s brought a brief contraction in economic growth but growth resumed during the period from the mid-1980s to the early-1990s. But an improved growth rate was caused by exceptionally good weather conditions and growth in the export sector, not by IMF austerity measures. During this period, official poverty fell (see Table 3) from 21 per cent in 1984 to 13 per cent by 1991. The success came from generating labor-intensive economic growth which created considerable employment opportunities for the poor.

Poverty reduction in urban areas was driven by government policies to boost industry and exploit its historically close ties with the EU. This led to rapid expansion of employment in the manufacturing sector, especially in export-orientated enterprises such as textiles, leather, and agro-industries, and by a rapid growth in the informal sector. Labor-intensive growth was partly due to the relative decline in labor costs and an increase in capital costs. Throughout the period real wages fell, particularly in the manufacturing sector where there was a move towards temporary low-skilled employment. But employment gains more than made up for this in terms of the impact on poverty and increases in the minimum wage protected the very poor.

Table 3: Morocco National Poverty Headcount

1984	1991	2000	2005
21%	13%	19%	14% (19%)*

* In fact, while official rates of poverty were estimated to be 14 per cent in 2005, just one year earlier the World Bank's Poverty Report (2004b, p. 2) estimated poverty in Morocco at 19 per cent. The same Report also

added that “another 25% of the population is considered ‘economically vulnerable’,” and need careful monitoring (Ibid).

Rural poverty also declined in the latter part of the 1980s largely due to good weather, which created rapid agricultural growth. During the 1980s the agricultural sector grew by an annual average of 8 per cent, twice the rate of overall economic growth. Private sector investment in agriculture increased by about 31 per cent. per annum in nominal terms between 1985 and 1991. Although this mainly benefited the irrigated areas, the latter provided a major source of employment for the rural poor, who relied more on wage employment than on land ownership. The rise in the agricultural minimum wage also helped alleviate rural poverty. Hence agriculture made a major contribution to the increase in rural incomes.

Government expenditure trends also contributed to the decline in poverty in the late 1980s to early 1990s. After an initial sharp reduction in government expenditures in the first phase of stabilization between 1983–8, expenditure started to rise again in the late 1980s. The government made a firm effort to protect social expenditures with public expenditure on health only falling from 1.1 per cent of GDP to 0.9 per cent of GDP between 1982 and 1991 and expenditure on education only falling from 6.2 per cent GDP to 5.3 per cent.

Macroeconomic stabilization, particularly in the form of inflation reduction, financial sector reform including higher interest rates and exchange rate polices, also contributed to a surge in migrant remittances which by 1991 accounted for 11 per cent of private consumption and 7.5 per cent of GDP. These remittances played an important role in boosting incomes including those of the poor. The World Bank has estimated that about 180,000 or 5 per cent of the estimated poor in 1991 would be added to the number of the poor if it were not for transfers from abroad (World Bank, 1994, p. 26).

However, although poverty fell from the mid-1980s to the early-1990s, a large number of the population remained close to the poverty line and thus vulnerable to even small deteriorations in economic conditions. This was clearly illustrated during the 1990s when an economic slowdown, particularly in the manufacturing sector, and droughts reduced growth to an annual average of only 2 per cent and increased poverty from 13 per cent in 1991 to 19 per cent in 2000 (see Table 3).

The rise in poverty rates to 19 per cent in the latter part of the 1990s meant that 5.3 million were poor in Morocco. During the 1990s the number of people just above the poverty line also increased such that 12 million were economically vulnerable. The depth and severity of poverty also increased during the latter 1990s particularly in rural areas. For example, the number of extreme poor, that is, those living beneath the food poverty line (the threshold that distinguishes those with only enough means to maintain minimum calorific intake required for survival) increased in rural areas from 255,000 people in 1990–1 to 844,000 in 1998–9. This increase in poverty occurred despite an increase in government expenditure on social protection from 9 per cent of GDP in the late 1980s to 12.5 per cent in 1998 equivalent to 43 per cent of total government expenditure. In particular, social security outlays increased as did expenditure on drought relief and rural public works schemes, but still fell well short of requirements.

The economic slowdown of the 1990s can be partly explained by an appreciation of the real exchange rate (which appreciated by 17 per cent in the 1990s), poor infrastructure, drought (almost one every two years during the 1990s), and a decline in agricultural investment. External causes included the economic recession in Europe, a slow-down in DFI and deterioration in terms of trade resulting from falling phosphate prices and rising oil prices due to the crisis in the Middle East. Growth turned negative in 1992 and 1993 and remained low for the rest of the decade. During this period unemployment grew and low labor productivity meant that real wages could not be increased without losing international competitiveness. Hence, increasing labor productivity became essential for further poverty reduction and this did not materialize. Demographic pressures also added to the unemployment and poverty increase. Between 1985 and the end of the 1990s unemployment rose from 11.5 per cent to 15 per cent with most of the increase concentrated in urban areas. The growth of urban unemployment during the 1990s was fuelled by rural to urban migration and to a lesser extent by growth in the population and rising labor force participation rates. The appreciation of the real exchange rate during this period also had adverse effects on unemployment by encouraging a return to more capital-intensive production methods. Urban unemployment peaked in 1995 at 23 per cent. One marked feature of the increase in unemployment has been the extent to which it has hit the young and the educated. Growing urban unemployment has been accompanied by an increase in urban slums (World Bank, 2006). Although poverty remains predominantly rural in Morocco, the 2004 Census on Population and Housing showed a clear increase in the incidence of urban poverty.

Other non-income indicators of poverty also deteriorated in the early 1990s. For example between 1987 and 1992 the nutritional status of children declined. Non-income measures of poverty were adversely affected by the fact that not enough income was channeled into categories of public spending which help the poor such as primary health and education and essential infrastructure services. In addition, the quality of health care and education deteriorated as expenditures failed to keep pace with population growth. The growth of poverty during the 1990s has led the Bank to conclude that although Morocco was successful in the mid- to late-1980s in terms of growth and poverty reduction this had fallen short in the 1990s (World Bank, 1997).

As growth picked up again since 2000, official sources believed that poverty had fallen to 14 per cent in 2005. However, no accurate figures for poverty rates existed, and these figures are highly contentious. The World Bank believes that poverty remained at the same level as it was in 2000 (see Table 3). It is true that between 2000 and 2004, GDP growth increased to 4.5 per cent per annum with strong growth in agriculture due to favorable weather (agricultural growth accelerated from -1.3 per cent in the 1990s to an annual average of 8.2 per cent in the early years of the 2000s) and in manufacturing, services, tourism, and IT. But the employment opportunities as a result of this growth have not been sufficiently high enough to achieve a big dent in poverty or even unemployment. According to World Bank officials, Morocco needs an annual average growth rate of 7–8 per cent in order to cause a real dent in poverty and unemployment. A 5 per cent growth rate, they add, will only prevent the current levels of poverty and unemployment from deteriorating (cited in Achy & Hamdouch, 2003, p. 25). It remains to be seen whether the growth upturn of the 2000s translates into sustainable long-term growth and poverty reduction. Much of this growth is based on remittances and tourism receipts along with growth of domestic demand and agriculture as opposed to being export driven.

Poverty reduction in Morocco is firmly on the Bank's agenda in the new millennium. In the 2005–9 Country Assistance Strategy (World Bank, 2005) the "overarching objective" of the strategy was poverty reduction in response to lackluster economic growth, inadequate social indicators relative to the country's income levels, and high unemployment. Coinciding with a greater Bank emphasis on poverty and social exclusion was a major re-orientation of government policy in the same direction. Shocked by the vast disparities between rural and urban areas, as well as by a rapid rise in the level of poverty and unemployment, the government introduced in 1997 the Social Priority Programme. The accession to the throne of King Mohammed VI in 1999 marked a major turning point in political and social policy in Morocco. Under the new King not only was economic reform sped up, but considerable emphasis was placed on social policy.

2d. Tunisia

Unlike Jordan, Egypt, and Morocco, the implementation of Bretton Woods policy packages did not lead to an increase in poverty or the disengagement of the state in social provisioning in Tunisia. On the contrary, throughout the 20 years of structural adjustment started in 1986, the Tunisian government has reformed, but preserved its strong role in social provisioning. As a result, poverty has been reduced considerably, while inequality has remained stable. Admittedly, there remain some pockets of poverty especially in rural areas, and social problems such as unemployment have persisted, but on aggregate, it can be argued that

Tunisia was successful in implementing structural reforms while simultaneously reducing poverty.

The commitment to social development has always been part of the Tunisian government's priorities. Since independence, social spending had remained high, making it one of Tunisia's key characteristics. In 2004, social spending represented 16 to 20 per cent of GDP depending on the measure (Ben Romdhane, 2006), and in 2003 social transfers were equal to 258.4 Tunisian Dinars (TD) per household per month, that is 1.2 times the guaranteed minimum wage. In fact, Tunisia is the highest social spender in the MENA region. There was particularly large spending in education, health, and diverse social welfare programs such as maternity benefits, food subsidies, and aid for poor families. These large social transfers translated into impressive social achievements. Most impressive has been the reduction in poverty; according to the INS, in 1975, 22 per cent of the population lived under the national poverty line; by 1985 this rate was reduced to 7.7 per cent. Improvements in human indicators were equally impressive, in particular for women. Overall, the commitment to social policies prior to structural reform implied a dramatic improvement in the well-being of a majority of Tunisians.

In 1986, Tunisia implemented stabilization and structural reforms in association with the World Bank and the IMF. The reforms were a relative success, with key macro indicators stabilized and, unlike Jordan, Egypt, and Morocco, continued economic growth during the stabilization phase. The structural adjustment phase was very gradual and implemented through a twenty-year period, and consisted of the traditional structural reform policies: trade liberalization, financial liberalization, price liberalization and privatization. The reforms were relatively successful in diversifying the economy, maintaining a relatively high level of growth rates, but little improvements were made in private investment levels and employment creation.

The implementation of structural reforms in 1986 could, in theory, have jeopardized the commitment to social provision in Tunisia and led to an increase in poverty. In fact, just before the reform, there were signs that the World Bank and IMF might push for a reduction in the social spending, since in 1983 these organizations were quite influential in pushing for a reform of the food subsidy system which at the time cost almost 4 per cent of GDP, sucking out fragile government finance. The price of wheat, flour, and semolina were increased by 70 per cent and the price of bread by 100 per cent in 1984 (Ben Romdhane, 2006). The reform inevitably led to street riots which spread across the country, and after a month of protests and riots the price increase was abolished and calm restored. The Tunisian government learned from the failure of the drastic subsidy reform and subsequently succeeded in preserving social policy throughout the structural reform.

During the two phases of structural reforms (1987–94 and 1995–2005), social spending as a proportion of GDP has been maintained at around 19 per cent, representing a two-fold increase in social spending in constant terms. Social transfer per habitant increased by 55 per cent, from 386 TD in 1987 (representing 0.8 times the minimum wage) to 599.3TD in 2002 (representing 1.2 times the minimum wage) (Ben Romdhane, 2006). All sectors apart from the General Compensation Fund saw an increase in spending in constant terms: spending on education and health both doubled during that period, while social welfare spending increased by 214 per cent -an average annual increase of 13.4 %.

During the 1986–2002 period, the government was under pressure from the World Bank to reform its social protection system (see for example World Bank, 1996; Dimitri, 1993), and to some extent the Tunisian government has responded to many of those pressures (for example, the government reformed the food subsidy system and the health compensation system). But the government has also created new institutions that systematically compensate the losers of these reforms. Furthermore, the period was characterized by an expansion of the social security system, which, however, is not financed by the government budget.

One significant reform during the adjustment program concerns the General Compensation Fund (GCF) (food subsidy system), which led to the most drastic drop in spending by the government. After the bread riots of 1984, the government opted for a self-targeted system with a gradual reduction in subsidies. In effect, government spending on GCF decreased by almost 52 per cent. Ben Romdhane (2006) however, highlights that each increase in basic food prices tended to be followed by an increase in the minimum wage. Furthermore, in order to compensate the poor for the increase in basic food price the National Programme for Aid to Needy Families (NAPNF) was created in 1986. Under this scheme, households receive on average 478 TD per annum, on top of free medical care. During the Structural Adjustment period, there has been great expansion of the social security system with two-fold increase in membership and a large increase in amount spent in contributions, with pension and health capturing the largest share in expenditure (Ben Romdhane, 2006).

The most significant change in social provisioning during the reform period, or, rather, the most original one, has been the set up of Presidential programs by Ben Ali. These are partly financed by the government, but mostly, funding comes from the private sector (Hibou, 2006; Ben Romdhane, 2006). The two most important programs are the National Solidarity Fund (NSF or project 26:26) and the National Job Fund (NJF or project 21:21). The NSF fund (created in 1993) offers a series of programs directed at low-income groups and covers needs and activities not provided by existing public schemes. The National Job Fund was set up in 2000 to promote job creation and provides support for micro-investment projects and training. Other Presidential programs such as the “Back to School” Program and the Religious Festival Program are also in place. These programs are likely to have contributed to some improvements in social conditions and to some extent cushioned the impact of the second phase of the reform. The Presidential programs cost little to the government since a majority of the funding comes from the private sector through the form of supposedly voluntary contribution by employers. As a result, a whole proportion of social provisioning in Tunisia is directly financed by the private sector, allowing the government to increase social provisioning while keeping its budget under control (simultaneously satisfying the IMF and World Bank budget deficit targets).

Overall, despite some reduction in social spending in the GCF for example, the structural adjustment period in Tunisia has been one of social provisioning expansion with increased spending per capita in education, health, and social welfare throughout the period. As a result, that period also translated into impressive improvement in the social conditions of most Tunisians, with a significant decrease in poverty between 1986 and 2002, therefore continuing the trend of the 1960s to 1980s.

After the reduction in poverty from 22 to 9.6 per cent in the 1975–85 period, poverty continued to decrease, and in 2000 reached 4.1 per cent; a drop in the number of people from half a million in 1985 to 400, 000 in 2000 (see Table 4). During that period, poverty increased between 1990 and 1995 (from 6.7 per cent to 8.1 per cent), mainly because of droughts between 1993 and 1995, impacting agricultural production and increasing inequality (Ghali & Mohnen, 2004). The second half of the 1990s largely compensated for that increase, and poverty was halved between 1995 and 2000 (ironically this drop occurred in the most intensive liberalization phase in Tunisia).

Table 4: Poverty Incidence in Tunisia (Regional Headcount, 1980-2000)

Region	1980	1985	1990	1995	2000
Greater Tunis	4.3	2.3	2.1	2.4	1
North East	15.6	8.9	5.9	6.3	3.5
North West	30.1	17.9	14.3	11.1	3.7
Centre West	33.8	18	12.5	20	10.8
Centre East	16.5	6.2	3.9	3.5	1.9
South West	13	6.7	8.8	8.2	6.4
South East	15.7	12.1	3.1	10.5	6
All Tunisia	20.1	9.6	6.7	8.1	4.1

Source: Ayadi *et al*, 2005.

Table 4 shows that there are strong regional disparities, and that poverty is particularly concentrated in the west of the country. The North, North West, and Centre East, which have benefited from particularly strong growth rates through tourism and offshore activities, are the regions that saw the most impressive drops in poverty.

Consumption poverty reduction in Tunisia has been matched by a drop in capability poverty. Education has seen the most improvement in both primary and secondary levels. Adult literacy rate has also increased dramatically from 53 per cent in 1984 to 86 per cent in 2000. Women remained behind with 17 per cent of adult women still illiterate. Reduction in consumption poverty has also been accompanied by an improvement in health status. Tunisian women and men lived, respectively, 9 and 7 years longer in 2004 as compared to 1985, while under-five child mortality rate was reduced from 70 per thousand live births in 1985 to 25.4 per thousand live births. Tunisia has achieved better health indicators than average for lower-middle income and middle-income countries (World Bank, 2000). Infrastructure data are scarce, but by combining World Bank data with National Household Survey data it can be shown that there has been a large improvement in access to basic infrastructure by the poor in both urban and rural areas, but with rural population still lagging behind urban population.

During the structural reform, reduction in poverty has been stronger in urban as compared to rural areas; between 1985 and 2000, poverty decreased by 65 per cent in urban areas, but only decreased by 56 per cent in rural areas. The structural reforms as such, are unlikely to have helped poverty reduction in rural areas, since the reforms have mostly benefited middle and large private farmers (King, 2003; World Bank, 2000). Similarly, further liberalization of agricultural markets under the EU agreement and World Bank pressure is unlikely to work in favor of the rural poor. Agricultural activities are likely to struggle to compete internationally, affecting mostly those who already constitute a large proportion of the rural poor: small farmers and landless agricultural workers.

Despite impressive improvements in poverty during the reform period, structural reforms in Tunisia failed to redress the high unemployment rate the country has been experiencing for more than twenty years. At a probably underestimated 14 per cent at the national level, the unemployment rate is relatively high amongst the poor (22 per cent of the unemployed are poor). One of the reasons for high unemployment rates is likely to be the extremely rigid labor market legislation making it almost impossible to lay off workers. Ironically, these legislations are there to protect workers and make them less vulnerable to poverty, but they also prevent potential new entrants entering the labor market and therefore growing out of poverty. High unemployment rates are also related to low investment levels and the wide gap between employment creation in urban as compared to rural areas. Unemployment is also particularly high for young graduates and first-time job seekers. Unemployment is likely to become a growing problem as liberalization strengthens with the end of the MFA and the Euro-Med agreement. The labor-intensive sectors such as textile and clothing will be the hardest hit;

yet these are the sectors which have benefited the poor the most. As a result, we would expect further liberalization to increase inequality and either freeze poverty trends or worsen poverty rates.

The above discussion suggests three main trends: first, despite undergoing a stabilization and structural adjustment program between 1985 and 2000, that period was characterized by a dramatic reduction in income and capability poverty, with a simultaneous drop in inequality. Rural areas and the West of the country seem to exhibit strong pockets of poverty both in terms of income and capability poverty. The rural/urban difference in Tunisia is largely explained by the fact the economic development has concentrated in the north and east of the country (mostly urban). Finally, the Tunisian government's commitment to social policy, despite its limitations and relative inefficiencies, is likely to have played a crucial role in the impressive poverty reduction the country has experienced. Nonetheless, it is possible that some of the structural reform policies, in particular the food subsidy reform and the agricultural reform have slowed down poverty reduction in rural areas and that poverty has been disguised by biased national poverty measures.

Three phenomena explain why the Tunisian government has been so committed to social development, and how it managed to implement these policies despite pressures from the World Bank and IMF to reduce government spending. First, social policy is historically an integral part of the Tunisian social contract; second, the Tunisian State had the capacity to negotiate with the Bretton Woods Institutions, and finally, social policy has been a key source of legitimacy as well as a tool of control for the government (Harrigan & El-Said, 2009b, pp.163-7).

3. **The Debate About Poverty, Inequality, and Social Welfare in MENA**

The issue of economic reform and liberalization, on the one hand, and poverty, equity, and social welfare provision in MENA, on the other, has recently generated some contentious debates. This debate has been triggered by a 2003 paper by Adams and Page, which, by using aggregate cross-country data, argued that, despite two decades of economic reform and liberalization, MENA "entered the 21st century with levels of income poverty that were strikingly low," that "MENA has been able to avoid a large increase in poverty despite 15 years of low economic growth," and that "compared to other developing regions, during the last 20 years the Middle east region has become one of the most equal in terms of income distribution" (pp. 2027 and 2043).

First, Adams and Page's aggregate cross country data is not capable of explaining what is, or has really been happening inside each individual country. For example, they treat the rise and simultaneous fall in the incidence of poverty in rural and Urban Egypt respectively as "puzzling," with the outcome being "puzzled by a set of apparently contradictory trends" that cannot be simply explained by aggregate cross country data. Adams and Page thus concluded that "more work is needed to clarify these [and other] issues" (pp. 2036 and 2043).

Second, poverty figures in MENA are highly contentious and debatable. Onlty the World Bank and Adams and Page argue that poverty declined in MENA during and after reforms. Most other observers, including many MENA governments themselves, question and doubt such claims (Harrigan and El-Said, 2009a and 2009b, Harrigan and El-Said, 2010), Lets assume for the moment, notwithstanding lack of accurate figures and a general agreement on the true levels of poverty in the region, that MENA did indeed 'enter the 21st century with levels of income poverty that were strikingly low' compared to other developing countries. Such a statement however, ignores the fact that "the transitional period featured not only meager," and even much lower levels of economic growth compared to other developing regions, but also "little change in poverty" (Iqbal, 2006, xviii). In fact, so "little progress was made on the poverty front" in MENA during the transition period that "by 2001 approximately 52 million people were poor, an increase in absolute numbers of poor by approximately 11.5 million people, compared with the situation in 1987." (Ibid, xix).

Third, the aggregate and positivist paradigm resorted to by Adams and Page to shed light on the link between economic reform and poverty and equity in MENA is a "reductionist approach," tended to over simply complex social and political phenomena, and thus "fails to unmask the complex processes that underlie" poverty in developing countries in general and in rural areas in particular (Sausman, 2011). Intricate, multifaceted and complex reasons behind poverty, such as the nature of social capital and social relations, political exclusions and power asymmetries are therefore completely ignored. In other words, "Adams and Page's approach is also problematic in terms of generating explanations behind their findings… [and] is largely ineffective in understanding what should happen because it only deals with how things are" (Ibid).

Fourth, Adams and Page's work says little about the link between economic reform and social welfare provision, a key objective of this paper. Their argument that MENA is more egalitarian than other developing countries, and enjoy lower poverty and unemployment rates, may imply that social welfare provision experienced little or no change, if not even improvement during the transitional period. This picture is misleading. As this paper has shown, the transitional period in MENA, which was associated with economic reforms promoted by the IMF and World Bank to restore macroeconomic balances and change economic structure, has also undermined formal social welfare provisions. Even World Bank officials admit that "The region's social safety nets came under stress as fiscal resources tightened" (Iqbal, 2006, xix).

Fifth, the World Bank (in Iqbal, 2006) recognizes that while inequality levels in MENA are perhaps lower than in many other developing regions, little change or improvement in the distribution of income and wealth took place in MENA since the mid-1980s. An environment characterized low growth rate with stable income distribution in a largely growing population suggests that "the rich stay[ed] rich and the poor stay[ed] poor" (Kanbur, 2006, 3). Both the Arab Human Development Report (UN, 2009) and the 2012 UNDP (pp. 9 and 18) report adopt this view and argue that growth in the region during the transition period lacked "social justice" and "continued to benefit a few… mainly benefit[ing] establishment elites and excluded the majority of ordinary citizens." According to the UN Human Development Report (UN, 2009, 242), the richest 20 per cent in MENA today control more than 45 per cent of income or expenditure while the poorest 20 per cent control only 7 per cent of income or expenditure.

Finally, Adams and Page's approach also failed to take into account the perceptions Arab people with regard to the outcome of reforms in general and poverty and inequity in particular. The fact that insignificant, if any improvement occurred with regard to poverty reduction and income distribution in MENA since the mid-1980s, in an environment characterized by increased corruption, repression and rent-seeking activities, created a negative impression of economic reforms and human development situation in the region. For example, a recent report by the World Bank (2008, vi) concluded that the Jordanian "public's perceptions" of the outcome of reforms, including poverty, unemployment, and inequities are negative. The UNDP 2012 Report on the Arab World concurs and argues that perceptions played a key role in triggering the Arab Spring:

> However, what may matter more is citizens' perceptions of inequality combined with an increasing sense of insecurity and low expectations for improvement of their position in the future. In fact, some evidence presented in this chapter suggests that pessimism was rising in the Arab region before the Arab Spring" (UNDP, 2012, 64).

As such, Adams and Page's approach not only failed to predict the outbreak of the Arab Spring, but might also have contributed to it by providing policy-makers with a misleading picture regarding the outcome of economic reform in the region. As the World Bank commented: "some may not think poverty a prominent enough issue in the Middle East and North Africa… This… image is misleading one. Although the Middle East and North Africa has low rate of poverty when compared with other developing regions, the fact remains that one of every five persons there can be considered poor (at the $2 PPP international poverty line) and that this situation has not improved much since the late 1980s" (Iqbal, 2006xi).

4. Conclusion

We have found that in the case of our four countries the relationship between economic reform and social welfare in the period between 1983-2004 was complex and mixed. In Tunisia the state did not disengage from social provisioning, rather there was an expansion of state provisioning and, as a result, an unambiguous improvement in poverty and social welfare during her reform period, contrary to our hypothesis. Although the strongest gains in poverty alleviation in Tunisia were made before the period of IMF and World Bank reforms, gains continued during the reform period with poverty falling to 4.1 per cent in 2000. Throughout the reform period social spending by the government remained at around 19 per cent of GDP which amounted to a doubling in real terms and an increase in per capita spending, whilst the minimum wage also increased. At the same time inequality improved with the Gini coefficient decreasing from 0.430 to 0.406.

Although Tunisia, like our other three countries, was under pressure from the IMF and World Bank to reform elements of the social contract, especially food subsidies, the strong Tunisian state, and bureaucracy it was able to argue against this. Reforms that were made, such as a reduction in food subsidies, were counterbalanced by other measures such as an increase in the minimum wage and the creation in 1986 of the National Programme for Aid to Needy Families. However, despite Tunisia's impressive gains in poverty reduction and social welfare improvement, there was a much greater improvement in urban poverty than in rural poverty with agricultural reforms mainly benefiting the larger farmers and further agricultural liberalization is likely to worsen rural poverty. In addition, as in our other three countries, unemployment, estimated to be 14 per cent in Tunisia, remains a pressing social problem.

In our other three country studies, trends in poverty and social welfare during the reform period are much more complex. Jordan, Egypt, and Morocco all started their reform programs with a period of austerity under IMF stabilization programs. This involved cut-backs in public expenditure, freezing of public sector wages and salaries and employment, reductions in subsidies and increases in taxation. In all cases this, not unexpectedly, led to an initial increase in poverty and a decline in social welfare.

After their initial stabilization phase with its adverse effects on poverty and social welfare, Morocco, Jordan, and Egypt were able to generate periods of growth which led to an improvement in poverty. Egypt, Morocco, and Jordan's growth phases were not sustained and as growth collapsed, poverty again increased in all three countries.

In summary, what our studies show is that the early phase of stabilization under the IMF program usually leads to a temporary increase in poverty. However, this is short-lived, as a successful stabilization helps to eventually generate a period of economic growth. All four countries show that poverty reduction is closely associated with labor-intensive periods of growth. But we have also seen that, with the exception of Tunisia, growth has not been sustained. As growth declines poverty again increases. We have shown that growth alone is insufficient to alleviate poverty. The pattern of growth is also critically important. The Tunisian pattern of growth has shown that intensive rather than extensive growth and growth in the tradable rather than the non-tradable sectors is crucial for a sustained improvement in poverty. Tunisia's ability to generate such a pattern of growth with sustained export-led and labor-intensive growth was due to the fact that she has a strong developmental state that was able to pick and support winning industries and preserve her social contract.

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