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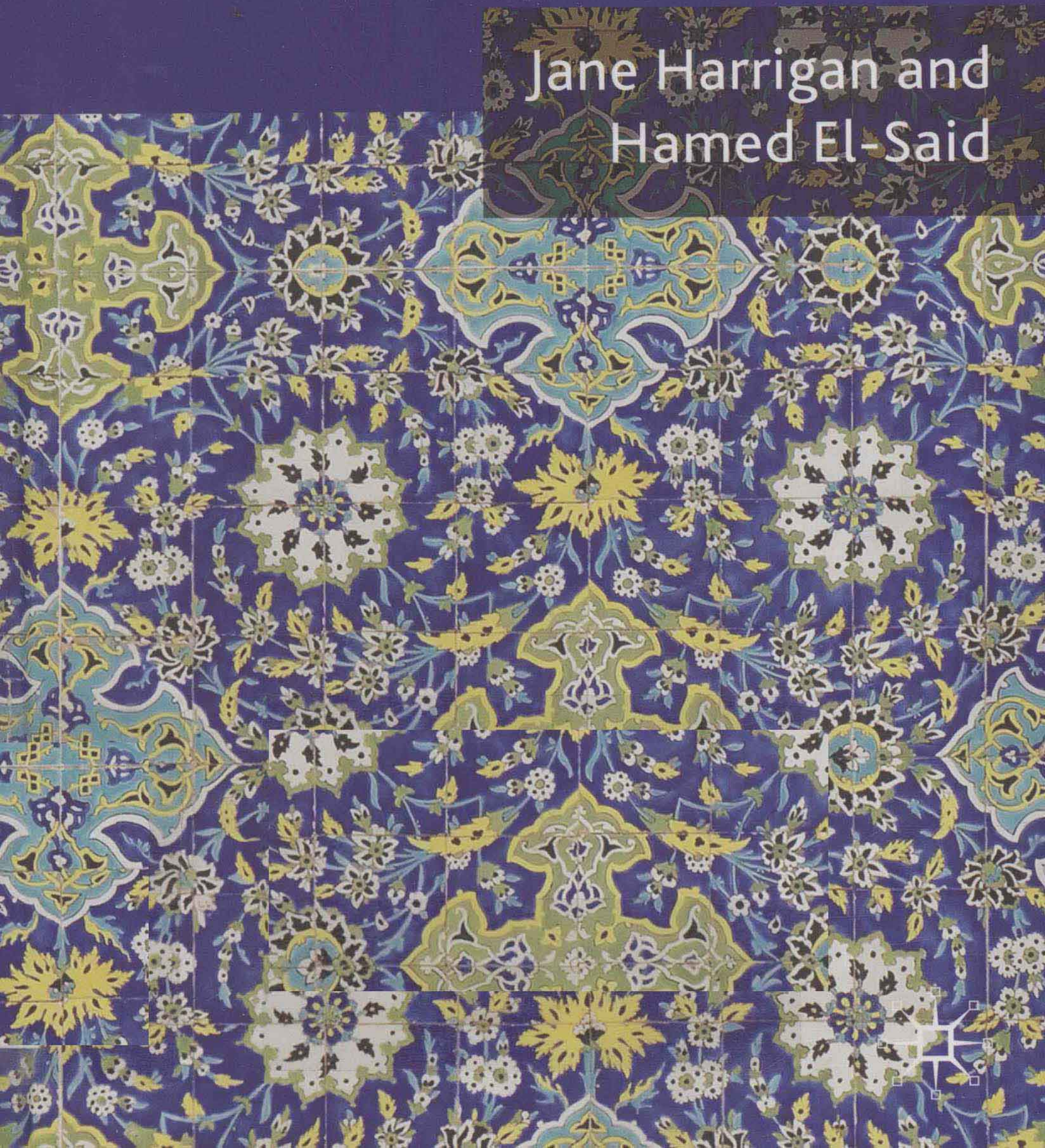
Jane Harrigan and Hamed El-Said



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palgrave
macmillan

First published 2009 by
PALGRAVE MACMILLAN
Houndmills, Basingstoke, Hampshire RG21 6XS and
175 Fifth Avenue, New York, N.Y. 10010
Companies and representatives throughout the world

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ISBN-13: 978–0–230–20219–1 hardback
ISBN-10: 0–230–20219–5 hardback

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources. Logging, pulping and manufacturing processes are expected to conform to the environmental regulations of the country of origin.

A catalogue record for this book is available from the British Library.

Library of Congress Cataloging-in-Publication Data

Harrigan, Jane.
Economic Liberalisation, Social Capital and Islamic Welfare Provision/ by Jane Harrigan and Hamed El-Said.
p. cm.
Includes bibliographical references and index.
ISBN 978–0–230–20219–1
1. Public welfare—Islamic countries. 2. Social capital (Sociology)—Islamic countries. 3. Economic development—Islamic countries. 4. Islamic countries—Economic policy. I. El-Said, Hamed. II. Title.
HV435H37 2008
361.917'67—dc22

10 9 8 7 6 5 4 3 2 1
18 17 16 15 14 13 12 11 10 09

Printed and bound in Great Britain by
CPI Antony Rowe, Chippenham and Eastbourne

Acknowledgements

We would like to thank the UK Department for International Development (DFID) who gave us a grant to undertake the research and field work for this book. DFID supports policies, programmes and projects to promote international development. DFID provided funds for this study as part of that objective but the views and opinions expressed are those of the authors alone. We would also like to thank Dr Chengang Wang who acted as a research assistant in the early stages of the research work and gave us much valuable assistance in data collection and analysis and Dr Myriam Blin who carried out field work and wrote chapter 7 on Tunisia.

Thanks to Kitty Carruthers who did an excellent and swift job sub-editing and setting the manuscript.

Finally, we would like to thank all those who gave us their time for interviews during our field work in Egypt, Jordan, Tunisia, Morocco, Beirut and Washington DC. They are too numerous to mention but without them this book would not have been possible.

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International Journal of Comparative Sociology for Table 1: Mosque related groups in Egypt, Jordan, Morocco and Algeria and Table 14: Politics and religion in Egypt, Jordan, Morocco and Algeria.

Palgrave Macmillan Ltd for Table 18 from Ben Romdhane (2006) Tunisia: Social transfers 1986–2002 (millions of constant 2002 dinars) in Karshenas, M. and Moghadam, V. (Eds) *Social Policy in the Middle East*.

Swiss Journal of Economics and Statistics for Table 20 from Poverty incidence in Tunisia (Regional Headcount 1980–2000), Ayadi et al (2001).

The World Bank for the following:
Table 8 from Poverty trends in Egypt 1958–82, Table 2.1.
Table 9 from El-Saharty, S., Chase, S. Richardson, G. (2005), Egypt and the Millennium Development Goals: Challenges and Opportunities in Report no. 31705.

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Foreword

This book is the culmination of five years' research work on a project entitled 'From Economic to Human Crisis: Policy-Based Lending in the Middle East and North Africa'. The research work was funded by the UK Department for International Development as project R8251.

The project set out to examine one facet of globalisation in the Middle East and North Africa (MENA), namely, policy-based lending by the International Monetary Fund (IMF) and the World Bank. Such lending consists of financial flows from the two Washington-based institutions which have policy reforms attached as conditions. These reforms consist of an opening up of the recipient economies to the global economy via liberalisation policies. Within this context we explored five hypotheses. The hypotheses are as follows: 1) The flow of international finance from the IMF and World Bank to the Arab region has been partly determined by geo-political factors, namely Washington's desire to support pro-Western regimes; 2) the economic reform conditions attached to IMF and World Bank policy-based loans have often had disappointing outcomes; 3) the economic reform conditions attached to this finance have resulted in a decline in state provision of social welfare, increased poverty and increased inequality; 4) this form of globalisation has been increasingly challenged by Islamist groups that have moved in to provide social capital and fill the welfare gap created by the gradual withdrawal of the state from economic and social affairs.; 5) globalisation, by restricting the ability of the state to protect the poor, has strengthened the hand of political Islam and undermined the political legitimacy of incumbent regimes and so increased their authoritarianism.

We used a variety of methodologies to examine these five hypotheses. Econometric work was used to test the extent to which financial flows to the Middle East and North Africa (MENA) were determined by geopolitical factors as well as to estimate growth accounting models for our four country case studies. The countries chosen as case studies were Egypt, Jordan, Tunisia and Morocco. They were chosen on the basis that they have a long history of IMF and World Bank policy-based lending and because they are often held up by the two Washington institutions as success cases. In addition to the econometric work we carried out extensive field work in the four case countries as well as in Beirut (a regional headquarters for World Bank staff) and Washington DC, the headquarters of the IMF and World Bank. This field work consisted of conducting semi structured interviews with a range of different people – government officials, IMF and World Bank staff, staff from other donor agencies, politicians, academics, members of the business community, Islamists and NGO staff. In addition, the field work was used for data collection and collection of official reports.

The original intention was to present the findings of the research and the testing of the five hypotheses in a single volume. However, the material we collected was so rich and extensive that two separate books have been the result. The first of the two books, which is a companion volume to this book, is entitled *Aid and Power in the Arab World: IMF* and *World Bank Policy-based Lending in the Middle East and North Africa* (Harrigan and El-Said, 2008) and is also published by Palgrave Macmillan. It examines the first two hypotheses centred on the flow of finance to the MENA region and the effects of economic liberalisation in our four chosen country studies. This is the second book, and it examines the remaining three hypotheses, namely: the extent to which economic liberalisation in our four countries has resulted in a decline in state welfare provision; the extent to which this space has been filled by faith-based welfare provision, especially by Islamic groups; and the nature of the state response to this phenomenon.

Although the two books stand alone, it is recommended that they are read together to gain a fuller insight into various facets of globalisation in the Arab world.

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Islamic Social Welfare and Political Islam in the Arab World

Introduction

Many countries in the Arab world, especially the resource-poor countries of the Middle East and North Africa (MENA), have undertaken economic liberalisation programmes over the past ten to twenty years. Often these programmes are supported by the International Monetary Fund and the World Bank through policy-based loans such as stabilisation and structural adjustment loans. In many other regions of the world, especially in Latin America and sub-Saharan Africa, such programmes which were undertaken in the 1980s and early 1990s, have resulted in a decline in social welfare (Cornia, Jolly and Stewart 1987, Mosley, Harrigan and Toye 1995). This book explores the trends in social welfare in four countries in the MENA region which have undertaken extensive economic liberalisation programmes under the auspices of the IMF and the World Bank, namely, Jordan, Egypt, Tunisia and Morocco, to see whether economic liberalisation has been associated with a decline in social welfare. These countries were chosen not just because of their prolonged adjustment efforts, but also 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).

The prescriptions of the IMF and World Bank, designed in a package of policy reform known as stabilisation and structural adjustment programmes, in the Arab World 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 stabilisation measures calling for massive cuts in public spending, new and broader taxes, and high and positive interests rates. They also called for immediate trade liberalisation combined with large currency devaluations and massive reduction in tariffs and elimination of non-tariff barriers. Privatisation of state-owned enterprises, price and financial deregulation also figured prominently in every SAL package signed with local governments (Niblock and Murphy 1993, Harik and Sullivan 1992, Vandewalle 1996, Shafiq 1998, El-Erian et al 1996).

We wish to explore whether the above types of economic reform conditions have resulted in a decline in state provision of social welfare, increased poverty and increased inequality. A second hypothesis we wish to explore is whether civic groups, especially Islamic groups, have moved in to fill a gap left by the retrenchment of the state in terms of welfare provision, and if so, what form such activity takes. Throughout the past two decades Islamic voluntary groups and charities have sprung up in the MENA region providing a vast array of services, including health services, education, literacy training, job training, social groups and financial help for the vulnerable and disadvantaged, amongst other things. We employ the concept of social capital to help analyse these phenomena.

Globalisation and economic liberalisation, by restricting the ability of the state to protect the poor, has strengthened the hand of political Islam[1] and undermined the political legitimacy of the very same incumbent regimes Washington sought to support, forcing these regimes to become increasingly authoritarian. We analyse these trends for our four countries, Jordan, Egypt, Morocco and Tunisia to assess the extent to which this has taken place.

International finance, poverty and inequality

In our analysis of the social effects of economic liberalisation we hope to fill an important gap in the literature. Compared to other regions there has been a dearth of work on the impact of stabilisation and structural adjustment programmes in the MENA region. While economic reform programmes implemented in sub-Saharan Africa in the 1980s and 1990s have been extensively researched (Mosley, Harrigan and Toye 1995), the same programmes in the MENA, except in Turkey and to a lesser extent in Egypt, have not received the attention they deserve. Not only is the available literature limited, but what is available tends to evaluate the experience of economic reform in the MENA in an individualistic approach, focusing mainly on the experience of one country or another with little regional linkage (Lofgren 1993).

The scant empirical evidence so far available suggests that the IMF and World Bank-sponsored economic reform in the MENA has not been the total success claimed by these organisations. The social and welfare implications of reform in the Arab world, despite their injection with a strong poverty focus in the 1990s, have been disappointing. This impact, particularly when implemented suddenly and prematurely, has already been extensively discussed elsewhere for other regions of the world. Theory and evidence show that when these policies are implemented in association with and on the terms of the IMF and World Bank the outcome is often a drastic increase in poverty, unemployment and inequalities (Stiglitz 2002, Dunkley 1997, Goldstein 2000, Stewart 2000, CAFOD 1998).

The available empirical evidence suggests that the social impact of hitherto reform in the MENA region has been disappointing. For example, the 2002 UN Arab Human Development Report argued that, although the Arab World has less abject poverty (income of less than \$1 a day) than other developing regions, poverty in the region, along with unemployment and inequalities have all risen rapidly in recent years: around 12 million Arab people, or 12 per cent of the labour force are unemployed; of every five Arabs, one lives on less than \$2 a day; among 280 million Arabs, 65 million adults are still illiterate, two-thirds of them are women; 10 million children have no schooling at all; and only sub-Saharan Africa registered lower annual growth in income over the past 20 years than the Arab world. Although the Arab World does not lack resources, the report added, it is 'richer than it is developed' (UNDP 2002, *The Economist* 2002a).

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) also maintained 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 all of them, except in Tunisia, which managed to reduce poverty in the mid-1990s by violating IMF conditionality and refusing to compromise on social welfare and protection of the poor. Another more recent study (El-Said 2002a) found that not only had the social impact of reform in the Arab World been disappointing in the 1990s, but that it had been more severe in countries which were subject to international pressure to globalise rapidly, the 'good pupils' of the IMF, particularly Morocco, Jordan and Egypt (as well as Algeria which had been suffering from political instability). 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, such as Yemen, for example, or did not cooperate with them at all, such as Syria.

The overall situation in the Arab states that are described as 'successful reformers', or IMF's 'good pupils', is indeed, puzzling for some observers. 'How', Pfeifer asked, despite disappointing social impact of restructuring, 'did Tunisia, Morocco, Jordan and even Egypt become IMF success stories in the 1990s in the first place'? (Pfiefer 1999 p.23). Put differently, why, despite the fact that efforts to globalise were lubricated by massive capital inflows, has the social outcome been disappointing?

We intend to build upon the above works by further exploring the social effects of IMF and World Bank financially supported economic reform programmes in our four case country studies. In Chapters 4 to 7 we examine the impact of World Bank and IMF reforms on poverty and social welfare in our four country studies and find that only in Tunisia was there an unambiguous improvement.

Social welfare and political Islam

A second theme we wish to explore in this book is the idea that in response to declining state provision of social welfare, Islamic groups, many with growing political aspirations, have stepped in to fill the gap by providing various forms of welfare and contributing to the development of social capital. Becker (1993) defines social capital as any social, or non-market, interaction with a continuing effect. Fine (2000) argues that the World Bank regards social capital as interventions in civil society which constitute non-market responses to market imperfections where 'civil society' can be seen as the space between family and State. Social capital either complements the state when the latter is performing well, or substitutes for it when it is in retreat as under austerity and liberalisation programmes.

The provision of welfare and charity by religious groups is a well-known but under-studied phenomenon in the MENA region (Woltering 2002), and we wish to assess whether faith-based welfare provision has been strengthened during the period of economic reform and liberalisation in MENA. Globalisation has been occurring at a time when the international financial institutions are insisting on policies that restrict the ability of the state to provide adequate social welfare and social safety nets to protect the poor. Such policies include cuts in public sector expenditure and more general policies to roll back the state. We find that the resulting decline in the quality of state welfare provision has prompted Islamist groups with political aspiration to fill the welfare gap, particularly in Egypt and Jordan, and become the main champions of the poor, providing them with food, clothing, cash transfers to pay for health, education and even marriage ceremonies as well as directly providing health and education services. They also provide credit for businesses via their specialised Islamic banks that have proliferated throughout the region and are more in line with local tradition and culture. Islamists have been in the forefront of defending the welfare of the poor and organising charities to collect donations for them. As Richards and Waterbury in their extensive work on the region put it: 'While government dithers, the Islamists move in and win support by providing their own assistance' (Richards and Waterbury 1996 p.228).

Through their welfare activities Islamists have been able to enhance their political legitimacy at the expense of incumbent regimes (Ayubi 1995a). A consensus is rapidly emerging among scholars and observers both inside and outside the region to the effect that 'Islam has been nurtured by the failure of current, authoritarian regimes to achieve economic equality ... [and] also by the US policy of supporting corrupt, authoritarian dictatorship' combined with unconditional support to Israel (Niva 1998 p.28). When Hamas eventually decided to enter the Palestinian elections in early 2006, its landslide victory, ironically, stunned the Western world. From the outset, Islamists dominated the Jordanian parliament in 1989. It was only after the regime, with US backing, changed the elections law in 1993 that their influence in the Jordanian parliament was reduced, though not eliminated. Despite the fact that the Muslim Brotherhood Movement is still banned in Egypt, its individual candidates did far better than expected in the last partially-free elections. Lifting the ban on the Moroccan Justice and Development Party in the late 1990s has also led to important Islamist gains in the Moroccan Parliament. In Egypt, Morocco, and Jordan Islamists are confident of their eventual overwhelming victory. They equivocally maintain that their strategy has so far not focused on dominating the political theatre, knowing very well that the local authorities, backed by the US and EU, will not allow such a scenario, and that the outcome will therefore be more reminiscent to the Algerian fiasco. If this is the case, then there is little doubt that Hamas's landslide victory will embolden Islamists in other Arab states and will cause a strategic change in their political thinking. During our field work in Jordan, Egypt, Tunisia and Morocco, we explored the extent to which religious groups have provided welfare and social capital in response to the changes in social welfare under liberalisation, and the extent to which they overlap with groups that have political aspirations in the form of opposition to incumbent regimes.

Repression, authoritarianism and the political backlash: the price of maintaining 'friendly' regimes

The final theme we wish to explore is that rather than enhancing the stability of pro-Western regimes, the US-led policies of globalisation and economic liberalisation supported by international finance have actually undermined and destabilised the very regimes the USA sought to protect. As a result of growing poverty and inequality in the region, Islam has been gaining strength, not just in its provision of welfare and social capital but also as a political movement and as a vocal opponent to globalisation and western capitalism. Many radical Islamists view globalisation as a new form of imperialism, aimed at dominating Islamic countries' resources and people (Schirato and Webb 2003). It is against this background that the Egyptian President, Hossni Mubarak, used the May

2006 World Economic Forum in *Sharam El Alsheik* to appeal to the world community, particularly the industrialised countries, to help in creating 'globalisation with a human face', and to warn against the widening gap between the rich and poor within and between countries of the region and the rest of the world.

The importance of equality for stability, investment and, hence, for growth and development has long been stressed and emphasised by various scholars. A high level of inequality makes it difficult to reduce poverty, weakens incentives and increases both stress among workers and market uncertainties. These inequalities destroy cohesion of a society, leading to political and social instabilities that are detrimental to investment, growth and development (DFID 2000). Further reform expected under the IMF, World Bank and WTO, if not accompanied by a mechanism to protect and compensate the losers from globalisation, could lead to a far reaching and devastating distributive conflict in the region, not unlike the one that has plagued Indonesia since the late 1990s or ravaged the Algerian economy and society for more than a decade. The 1990s and the first years of the 21st century have already experienced a rise in the number and forms of distributive conflicts in the Arab World, including riots, demonstrations, strikes, violence, assassinations, clashes with labour unions and university students in addition to an increase in the crime rate (Ayubi 1995b, Richards and Waterbury 1996, El-Ghonomy 1998, Shafiq 1998, *Economist* 2002b).

The response of incumbent Arab regimes to growing Islamic influence and opposition to the political and economic policies of the 'Washington Consensus' has been a marked increase in repressive measures. Washington and the EU not only 'decided to suddenly turn a blind eye to what is going on, perhaps because of a need to clamp down on Islamists' (Shahine 2005), but also gave their tacit approval for such repressive measures. Yet Prime Minister Tony Blair and President George Bush publicly declared that we 'share a vision of a free, peaceful, a democratic broader Middle East'. (Full text of Bush and Blair Press Conference, *Guardian*, 12 November, 2004, on website http://news.bbc.co.uk/go/pr/fr//1/hi/world/americas/4008071.stm) Such contradictory stances have led Carothers to argue that America's foreign policy in the Arab World suffers from schizophrenia, a 'split personality'. On the one hand, it is committed to good governance and democracy abroad, on the other, its war on terror has increased its reliance on corrupt and authoritarian regimes (Carothers 2003). Gerges, while working on Egypt, revealed that stability of pro-Washington regimes 'clearly overrides other consideration ... in US eyes' (Gerges 2000 p. 607). In Egypt, Jordan, Morocco, Tunisia, and even Yemen and Saudi Arabia, incumbent regimes were explicitly encouraged by Washington and other European states to brutally repress all shades of anti-Western Islamist activism in return for keeping their countries allied with the West at any cost.

International organisations, including Amnesty International and the International Crisis Group, have repeatedly warned against increased repressions in such states, which has undermined nascent domestic political reform initiated in the region in the early 1990s, in addition to putting the US-backed international financial institutions in a rather difficult and hypocritical position (International Crisis Group 2003a and b).

Since the early 1990s the international financial institutions have paid increased lip service to the concept of 'good governance' in developing countries. Particularly in sub-Saharan Africa the provision of finance has been made conditional on good governance, including the elimination of corruption and the introduction of Western style multi-party democracy.[2] However, increasingly the same institutions are providing financial support to corrupt and undemocratic Arab regimes labelled as Western 'allies'. The latter are not the democratic or 'good governance' that Washington and the IFIs portray them to be.

Long before the September 11 attacks on the USA, political liberalisation, initiated in the late 1980s by some states like Tunisia, Morocco, Jordan and Egypt was arrested shortly after its introduction under the pretext of fighting terrorism. The September 11 attacks only provided a more pertinent pretext, with Western tacit support and funding, to repress not only Islamists, but also all other forms of opposition (Garnham and Tessler 1995). For the first time in decades, Islamists and nationalists have been united in their (ambivalent) attitude towards their regimes and their Western backers.

Lack of real democracy has also hampered the ability of domestic regimes to rein in corruption, and has also encouraged them to maintain and nurture an old form of politics; corrupt 'patron-client relationships' upon which their legitimacy and survival came to depend (Richards and Waterbury 1996). It is not surprising, therefore, that a vicious cycle has emerged whereby reform in the region has failed to protect the poor and instead benefited only a small élite, one that is strongly linked to the state officials, bureaucrats and army generals. In Algeria, this élite came to be known as the 'new bourgeoisie' (Pfeifer 1996 p.3), in Morocco the 'agrarian élite' (Knauss 1989 p.437), in Tunisia the 'economic and political élite'(King 1999 p.421), in Egypt 'crony capitalists' (Sadowsky 1991), and in Jordan it refers to the 'progeny' of the men which King Hussein of Jordan relied on to implement his policies since the early 1970s (El-Said 2002b p.271). Corruption and authoritarianism have been the price of preserving 'allies' and friendly regimes in power in the region, a price that Washington firmly believes it is worth paying in order to enhance the stability of 'existing regimes' (Klare 1998 p.15).

2

Social Capital, Faith-Based Welfare and Islam

Introduction

Over recent years, the concept of Social Capital (SC) has attracted great scholarly and academic awareness. Despite the rise in the prominence of SC analysis, 'relatively little scholarly attention has been given to the role of religion in social capital formation' (Smidt 2003 p.2). The upshot has been an insufficient and unconvincing explanation for the phenomenal, recent and rapid rise of political Islam in most Muslim societies. It seems that thirty years since Iran's Ayatollah Khomeini brought to the modern world the idea that Islam might be a formula for governance, political Islam has gained vast momentum in almost every Muslim and Arab state. From Morocco through Jordan to the Gulf, Islamists' voluntary charities and networks seem to have transformed themselves into successful political parties and congregations, winning parliamentary elections or registering important victories in local, municipalities and professional associations. For most scholars and observers in the West, the recent political elevation of Islamic charity organisations is seen as a 'surprise' (BBC News 2006), unexpected, and even 'ambiguous' (Abdel-Latif 2005). Muslim societies are going through a crisis; 'The crisis of Islam' is reflected in political Islam itself and the political rise and prominence of voluntary religious organisations demanding large sacrifices.

In fact, contemporary images of Islam have come to be dominated by militants and fundamentalists. Islamic charitable, and mostly non-political organisations, are invariably seen as 'radical religious militias ... tak(ing) their religious faith to violent extremes', and using their resources to finance 'effective ... suicide attacks' (*The Economist* 15 Jan 2004). Such a view has had predictable and obvious implications. It not only called for, but also led to sturdy measures aimed at curbing formal 'subsidies' and other sources of finance to faith-based organisations, particularly Islamic charities, because they 'induce extreme increases in sacrifice' (Morford and Berman 2003 p.15). In one country after the other, from Washington to Europe to the Middle East,