

Social Dictatorships: The Political Economy of the  
Welfare State in the Middle East and North Africa

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## Abstract

This dissertation explores the diverging social spending patterns in labour-abundant regimes in the Middle East and North Africa (MENA). It is motivated by two main research questions: 1. Why have social spending levels and social policy trajectories writ large diverged so drastically across labour-abundant MENA regimes? 2. How can we explain the marked persistence of spending levels after divergence?

To answer the first question, this study develops a theory about the emergence of authoritarian welfare states. It argues that autocratic leaders need both the incentives and the abilities to distribute welfare for authoritarian welfare states to emerge. The former are shaped by coalition building dynamics at the onset of regime formation while the latter are conditioned by the external environment. At the level of incentives, broad coalitions emerge in the presence of intra-elite conflict and the absence of salient communal cleavages and, if present jointly, provide a strong incentive for welfare provision. Conversely, a cohesive elite or salient communal divisions entail small coalitions with few incentives to distribute welfare broadly. At the level of abilities, a strong external threat to regime survival is expected to undermine the ability to provide social welfare in broad coalitions. Facing a ‘butter or guns’ trade-off, elites shift priority to security expenditures and the population accepts that because no alternative regime could credibly commit to neglecting external defence in the presence of external threats. Only an abundant resource endowment can provide the necessary resources to avert this trade-off.

To answer the second question, I rely on two important mechanisms in the welfare

state literature to explain path dependence. The first one can broadly be summarised as ‘constituency politics’ in that beneficiaries of social policies successfully avert deviations from the spending path in the form of systemic reforms or large-scale spending cuts. Mobilisation of these constituencies should be particularly vigorous if initial advantages conferred to these groups have been reinforced over time, for instance, because these groups grew in size or got entrenched in the state administration. The second mechanisms are spill-over effects to unintended beneficiaries who can over time become important gatekeepers against path divergence.

Methodologically, the study is characterised by a mixed-methods approach which combines quantitative tests with the analysis of qualitative evidence in the form of archival material, newspapers, and field interviews. Moreover, the study also follows a multi-level approach in that the viability of the argument is tested comparatively at the cross-country level and process-traced at the micro-level in two in-depth case studies of Tunisia and Egypt.

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# 1

## Introduction

In January 2013, the Moroccan King Mohamed VI visited the Ibn Rochd hospital in Casablanca when a woman screamed at him and begged him to buy blood for her mother waiting for an emergency operation in the nearby Baouafi hospital. In the same hospital, deficient equipment had led to the death of an infant earlier the same month. Lacking a respirator, the doctors had only been able to rub the child's chest.<sup>1</sup> In stark contrast, neighbouring Tunisia has repeatedly been sent British patients because of a shortage of beds in the United Kingdom.<sup>2</sup> Eastwards, in Manshiet Nasser, one of Cairo's biggest shanty towns, one school caters for 2,000 pupils, with more than 70 pupils per classroom.<sup>3</sup> Reflecting decades of under-investment, Egypt's literacy rate in the mid-2000s stood at 66 per cent, almost 20 per cent lower than in Iran, the second most populous country in the region.<sup>4</sup> As examples abound, it becomes clear that in a region usually considered as a whole,<sup>5</sup> states have invested very differently in the social welfare of their citizens.

Despite these contrasts, comparative politics has remarkably little to offer to explain the divergence of welfare efforts across the Middle East and North Africa (MENA). This has to do with a triple neglect. First of all, welfare states have historically emerged in

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<sup>1</sup>New York Times 2013.

<sup>2</sup>See, for instance, The Telegraph 2002.

<sup>3</sup>IRIN 2014.

<sup>4</sup>World Bank 2010c.

<sup>5</sup>For a critique of this holistic view, see Rauch and Kostyshak 2009.

advanced industrialised nations as the culmination of a century-long struggle for social protection. Distributing large amounts of resources amounting to considerable shares of GDP, welfare states have become a fundamental part of modern capitalism in industrialised societies. As a result, the comparative politics literature has seen a proliferation of studies explaining the, in global comparison rather subtle, differences between Western welfare states, whilst neglecting developing countries.<sup>6</sup> Second, as the literature has recently pivoted to social policies in developing countries, the MENA region has received only scant attention. As a consequence, welfare provision in the Middle East ‘has so far been under-represented in the mainstream social policy and development studies literatures.’<sup>7</sup> Third, while the welfare state literature has predominantly focussed on democracies and adduced autocracies mostly to contrast differences *across regime types*,<sup>8</sup> scholarship on authoritarianism has paid little attention to policy differences *within regime types*.<sup>9</sup>

These differences are of a considerable magnitude, however. Figure 1.1 depicts the divergence of welfare efforts across authoritarian regimes. To facilitate comparison, the graph focuses on labour-abundant, in contrast to labour-scarce and resource-rich, regimes which represent the modal type of economy among autocracies.<sup>10</sup> Contrasting the average welfare effort with the average annual change of welfare effort, the figure highlights three important observations.<sup>11</sup> First, spending patterns have been very stable and vary only little – about 2.8 per cent – from year to year.<sup>12</sup> In fact, cross-regime differences dwarf

<sup>6</sup>The literature on the welfare state is too vast to be cited at length. Suffice it to refer to the handbook by Castles et al. 2010 which gives a succinct overview of the field.

<sup>7</sup>Gal and Jawad 2013, 242.

<sup>8</sup>Avelino, D. S. Brown and Hunter 2005; Baqir 2002; Blaydes and Kayser 2011; Habibi 1994; Barroso 2009; Stasavage 2005; and Ansell 2008 all find a positive effect of democracy on social welfare. For contradicting findings, see D. S. Brown and Hunter 1999; Kaufman and Segura-Ubiergo 2001; Lott 1999; McGuire 2013; Deacon 2009; and Mulligan, Gil and Sala-i-Martin 2004.

<sup>9</sup>This is noted by Mares and Carnes 2009, 101; Bank 2009, 33; Charron and Lapuente 2011, 398; Escribà-Folch 2013, 3; Wright 2008b, 334; and Richter 2012a, 2.

<sup>10</sup>Labour-abundant regimes can be resource-rich, such as Algeria or Iran. Yet, given a sizeable population, the political economy of distribution in these regimes is assumed to be characterised by scarcity and thus conflict, not abundance.

<sup>11</sup>Only regimes with a minimum duration of five years have been considered. As spending data are not always complete for non-MENA countries, the averages of regimes outside the MENA region should be taken as a rough indication only.

<sup>12</sup>The pattern is very similar when using social spending as a share of GDP as an indicator.

any changes in spending over time. Second, most but not all authoritarian regimes spend relatively little on social welfare. Whilst circa 75 per cent of all regimes commit a third or less of their budget to welfare, a number of regimes have made social welfare a clear spending priority, approximating or exceeding 50 per cent of their budget. Third, and most importantly, labour-abundant MENA regimes are nearly equally distributed between low- and high-spenders and, thus, represent a microcosm of a more general divergence in welfare provision across the authoritarian regime spectrum. Given the persistence of social spending patterns, it is of critical importance to understand what *initially* caused this divergence.

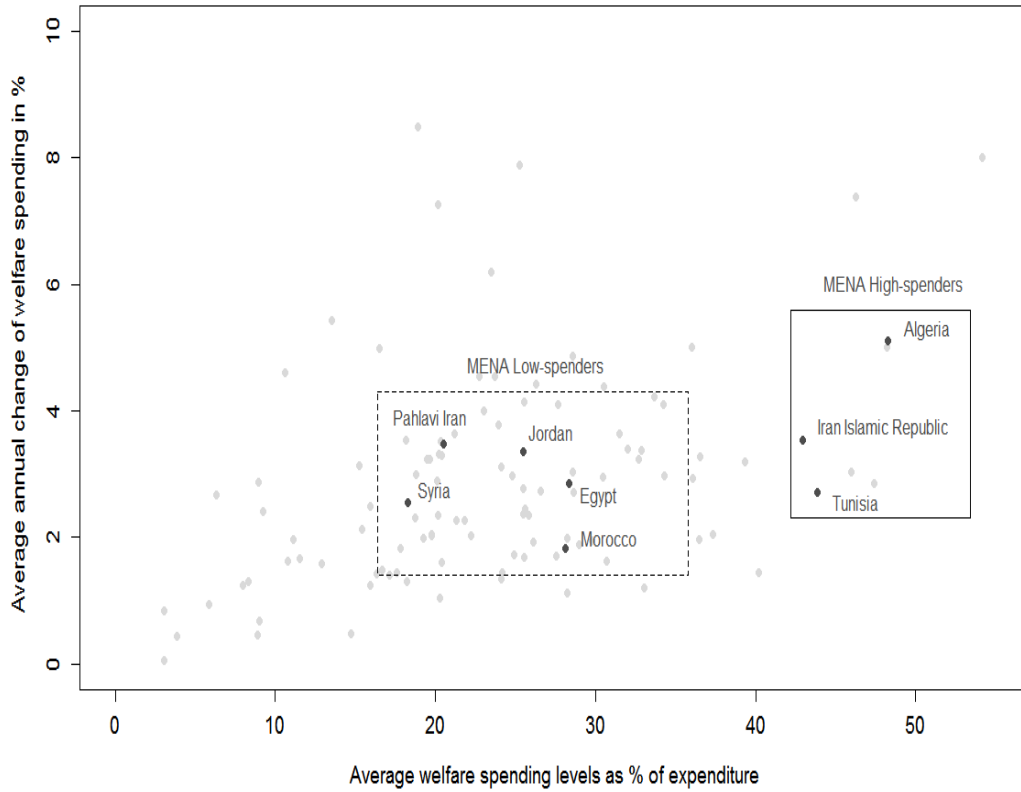


Figure 1.1: Welfare Efforts in Labour-Abundant Authoritarian Regimes

*Note:* Regime data for non-MENA countries are based on Svobik 2012; spending data are taken from V. Lucas and Richter 2012; and IMF 2011.

This study thus asks two interrelated research questions:

1. Why have social spending levels and social policy trajectories writ large diverged so drastically across labour-abundant MENA regimes?
2. And how can we explain the marked persistence of spending levels after divergence?

In answering these questions, this study develops a novel theoretical argument about the emergence of authoritarian welfare states and tests existing arguments pertaining to the path dependence of social spending trajectories developed for democratic welfare states in an autocratic setting. Doing so, the dissertation contends that the varying trajectories of these regimes are far from idiosyncratic, but follow a systematic, potentially generalisable pattern. Understanding this pattern would be of importance to the fields of comparative politics and Middle Eastern studies alike.

The remainder of this introductory chapter is structured as follows. Section 1 adumbrates my argument, highlighting its theory generating and theory testing elements. Section 2 lays out in greater detail how the argument contributes to the existing literatures on the welfare state, authoritarianism, and socio-economic development in the Middle East. Section 3 examines alternative explanations, emphasising their inability to explain the variation at hand. Section 4 outlines the particular research design of this study and describes the organisation of the manuscript.

## I. THE ARGUMENT

### **Theoretical Foundations**

Elites represent the key actors in my theoretical framework. Whilst I do not propose a specific definition of elites, they are understood to exhibit two key characteristics that set them apart from ordinary citizens. They are (a) *endowed with power*, derived from a disproportionately high amount of political and economic resources; and (b) *interested in power* in that they will seek to maintain or improve their access to power. Pursuing their

interests, elites stand in competition with each other, and it is the dynamic pattern of cooperation and conflict between competitive elites that represents one of the key pillars of my argument. The argument is thus inspired by and contributes to theories that have highlighted interaction between elites as the primary driver of political change and stability, particularly in the absence of meaningful democratic elections.<sup>13</sup> Moreover, given the particular opportunity structure of episodes of regime formation, elite interaction is assumed to be momentous in these contexts.<sup>14</sup>

The specific pattern of elite interaction is assumed to follow a rational logic shaped by the imperatives of political survival. Similar to other rational action approaches to authoritarian politics,<sup>15</sup> I hold that the key concern of elites, notably autocratic rulers, is the conquest of and the survival in political power.<sup>16</sup> This has two important implications. First, countering a tendency to attribute the policies of authoritarian regimes to the personal predilections of its ruler,<sup>17</sup> I maintain that any kind of social policies in stable autocracies must be compatible with the imperative of regime and ruler survival. Second, and following from that, I attribute only a marginal role to what might be called ‘regime ideologies.’ Following Pepinsky,<sup>18</sup> I view these ideologies as a reflection of the preferences of a regime’s supporters and a mechanism to cement its underlying coalition.

Regarding the structure of my argument, I distinguish between two fundamental conditions that must be present to enable the emergence of an authoritarian welfare state. Regime-building elites need to have an *incentive* to provide extensive welfare to a broad cross-section of the population. In addition, elites must have the *ability* to provide welfare,

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<sup>13</sup>Elite-based approaches are numerous in the literature. Tilly 1978, Tarrow 2011, and O’Donnell, Schmitter and Whitehead 1986, for example, consider elite division an important causal factor enabling political change through mass mobilisation. For North, Wallis and Weingast 2009, elite competition drives the transformation of social orders. And Slater 2010 emphasises elite cohesion as the cause of regime durability in autocracies.

<sup>14</sup>For a similar argument, see Hertog 2010, 3.

<sup>15</sup>See, for instance, Bueno de Mesquita et al. 2003; Magaloni 2008; Svolik 2012; and Wright 2008a.

<sup>16</sup>Tullock 1987.

<sup>17</sup>This tendency has been criticised by T. Cook 2002, 188-89; and, in the MENA context, by Richards and Waterbury 2008, 289.

<sup>18</sup>Pepinsky 2009, 18.

provided a sufficiently strong incentive. Both are necessary and jointly sufficient conditions for a regime to provide extensive social welfare. Whilst most scholarship on authoritarian regimes has uniquely focussed on domestic politics as the arena in which incentives and abilities are generated,<sup>19</sup> the proposed theoretical framework emphasises the important interrelation between domestic and external environment. As regimes are embedded in a system of states that poses specific challenges, their policies cannot be understood in relation to their societies alone.<sup>20</sup> This is particularly true in the MENA region where both spheres, domestic and external, have been highly permeable and shaped the internal character of the state.<sup>21</sup> Yet to the extent that the survival of regimes and rulers also depends on external forces and the behaviour of surrounding regimes, this inter-penetration can be considered a general characteristic of authoritarian politics.<sup>22</sup> Only by taking both spheres into account – so the argument – we are able to explain the divergent pattern of welfare provision in autocracies.

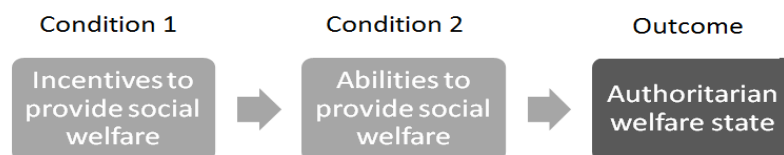


Figure 1.2: The Logic of the Argument

<sup>19</sup>A notable exceptions is Levitsky and Way's 2010 explanation of regime survival past the third wave of democratisation.

<sup>20</sup>Rueschemeyer, Huber and J. D. Stephens 1992, 63. See also Barnett 1992, 7.

<sup>21</sup>Halliday 2005, 68.

<sup>22</sup>The literature on systemic vulnerability has highlighted the importance of the external environment for the politics of upgrading and economic development. See Doner, Ritchie and Slater 2005; and Ritchie 2010.

## Coalitions and the Politics of Distribution in Autocracies

Since Aristotle we know that it is often more revealing to ask *not by whom* a regime is ruled, *but for whom*. As authoritarian regimes are exclusively, not electorally responsive like democracies,<sup>23</sup> identifying those constituencies to which an authoritarian regime is responsive provides key insights to explain their social policies.<sup>24</sup> In line with recent scholarship on authoritarian regimes,<sup>25</sup> I argue that constituencies of authoritarian regimes are assembled in the form of *authoritarian support coalitions* and that the composition and shape of these coalitions determines a regime's incentive to distribute social welfare. Following Pepinsky, I define authoritarian support coalitions as groups of supporters who (i) voluntarily bestow upon political leaders economic, coercive, and/or ideological resources; (ii) benefit from existing public policies; (iii) and thence guarantee and favour the reproduction of the political and allocational regime.<sup>26</sup> It is important to note that the concept of support coalition is related to, but not commensurate with the notion of a ruling coalition, which generally designates a narrower circle of decision-makers in an authoritarian regime.<sup>27</sup>

I further distinguish between two types of coalitions in this study: *narrow coalitions* are composed almost exclusively by a country's political and economic elites and predominantly respond to their specific policy preferences; *broad coalitions* are composed of a broad cross-section of social classes, including lower and middle classes. Given the difference in size and social origins of broad as opposed to narrow coalitions, it is assumed that the overall policy preference for welfare distribution is considerably higher in broad coalitions. Lower endowment with socio-economic resources means that lower and middle classes cannot privately purchase services, such as education, or insure themselves against

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<sup>23</sup>Albrecht and Frankenger 2010.

<sup>24</sup>Mares and Carnes 2009, 101

<sup>25</sup>The critical importance of coalitions has been highlighted by Waterbury 1993; Bueno de Mesquita et al. 2003; and Pepinsky 2008a. However, coalitional politics has a longer tradition in comparative politics, harking back to a literature on cross-class coalitions in the history of Europe and Latin America. See, for example, B. Moore 1967; Luebbert 1991; and Berins Collier and D. Collier 1991.

<sup>26</sup>Pepinsky 2008a, 450.

<sup>27</sup>See, for instance, Svolik 2009.

life-course risks, such as illness. This entails a preference for the public distribution of these services.<sup>28</sup> Moreover, even if elites had the same preference for public welfare distribution, the smaller number of those included in narrow coalitions would be reflected in a much lower welfare effort in these regimes.

A coalitional approach to authoritarian politics is considered more fruitful than alternative frameworks that have emphasised the difference between authoritarian regime types or their different institutional setup. Regarding regime typologies, it has been pointed out that policy preferences are difficult to derive from a taxonomy of who rules the country (military, parties, monarchies).<sup>29</sup> This is also due to the fact that a number of regimes exhibit a hybrid mix of these three and are thus not easy to classify.<sup>30</sup> As for institutional variation, the literature has almost exclusively focussed on legislatures, with mixed findings regarding social policies.<sup>31</sup> To the extent that political institutions are underpinned by social coalitions,<sup>32</sup> an analysis of coalitions should yield greater insights into the distributional preferences of an authoritarian regime. Maximising the gains of their members, support coalitions critically regulate material exchange in society and, by providing various incentives to authoritarian rulers, drive the politics of distribution in autocracies. In other words, coalitions are the proximate cause of varying policies of welfare provision.

## **Forming Incentives: Explaining the Emergence of Different Support**

### **Coalitions**

My theoretical argument starts from the assumption that, in authoritarian settings, coalitions need to be self-enforcing as agreements between different actors cannot be enforced externally.<sup>33</sup> In other words, they must be incentive compatible such that no member

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<sup>28</sup>Korpi 2006, 168.

<sup>29</sup>Geddes 1999a, 11; and Falleti 2011. See also Haggard and Kaufman 2008, 357.

<sup>30</sup>Geddes 1999b, 123-24.

<sup>31</sup>See, for instance, Gandhi and Przeworski 2006; Gandhi 2008; Wright 2008a; and Escribà-Folch 2008.

<sup>32</sup>Hall 2010, 206; and Hall 2013, 26.

<sup>33</sup>Acemoglu, Egorov and Sonin 2006; and Pepinsky 2008b.



wants to defect from it.

Regarding the shape of coalitions, elites, understood as a collective actor, have a preference for narrow instead of broad coalitions.<sup>34</sup> These coalitions are small in size, which means that the resources and surplus generated from political power are distributed over a smaller amount of people. This, in turn, entails a higher payoff for each individual member of the elite. Endowed with a disproportionately high amount of coercive resources, elites can use repression to defend this power-sharing arrangement against potential threats emanating from ordinary citizens. Therefore, if elites are able to forge a compromise amongst themselves at the moment of regime formation – in other words, if they are cohesive – they will form a narrow support coalition with limited or no side-payments in the form of social welfare.<sup>35</sup> Whether or not elites are capable to come to an internal agreement hinges on conditions antecedent to coalition formation, which are not explicitly theorised.<sup>36</sup> The simple claim here is that elite cohesion entails narrow coalitions.

The incentive to form a narrow coalition changes in the presence of important discord amongst elites.<sup>37</sup> Intra-elite conflict that cannot be resolved by a power-sharing deal or by unilateral repression entails the risk of permanent exclusion from the support coalition for certain elite groups. Facing ‘an absolute loss of an elite’s capacity to extract surplus,’<sup>38</sup> elites have an incentive to broaden their coalition to outcompete their elite rival by including segments of the lower and middle classes. Whilst their incorporation means a permanently reduced payoff for the victorious elites, this situation is still preferable to the risk of ultimate elimination from the support coalition, assuming risk-averse elites. Existing game-theoretic models have argued that such elite-lower class alliances are not self-enforcing as, once the elite rival is eliminated, the remaining elite would turn against

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<sup>34</sup>Geddes 2004; and Peters and P. Moore 2009, 259.

<sup>35</sup>This argument goes against claims that all regime-building elites have an incentive to broaden coalitions. See Hinnebusch 2010, 204.

<sup>36</sup>On potential sources of elite cohesion, see Slater 2010. On the concept of antecedent conditions, see Slater and E. Simmons 2010.

<sup>37</sup>This mechanism has first been pointed out by Schattschneider 1960, and later been used by Waldner 1999; and Brownlee 2007 to explain varying patterns of late development and authoritarian regime survival.

<sup>38</sup>Waldner 1999, 29.

their lower-class partners and oust them from the coalition, yielding a higher payoff.<sup>39</sup> This crucially hinges on the assumption that side-lined elite groups cannot return.<sup>40</sup> However, if elite groups are rather understood as social groups, such as entrepreneurs or the military leadership, their future return seems indeed quite plausible, and under these conditions such coalitions are self-enforcing.

It is important to note here that intra-elite conflict only generates this incentive if the elites' coercive capacity breaks rather evenly along the fault lines of elite dispute. Imagine an elite coalition composed of civilians and the military leadership. If conflicts break out between these two groups, the military would be expected not to broaden their coalition but to use their coercive capacity to sideline civilian elites. It is also noteworthy that the incentive cannot be generated by opposition from among ordinary citizens as cohesive elite coalitions can fend them off forcefully, without having to broaden the coalition.<sup>41</sup> Again, sources of intra-elite conflict can be various and are not explicitly modelled in the argument here.

Counteracting the broadening effect of intra-elite conflict are communal cleavages that, whenever sufficiently salient, incentivise elites to build coalitions around ethnically confined sub-groups of the population.<sup>42</sup> The reason for this ethnic narrowing of coalitions is twofold:<sup>43</sup> on the one hand, there were strong mutual expectations of support among elite and non-elite groups belonging to the same community.<sup>44</sup> Two-edged in nature, these expectations render intra-communal coalitions more cohesive whilst they also represent an important source of instability if these expectations were to be disappointed; on the

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<sup>39</sup>Acemoglu, Egorov and Sonin 2006; and Pepinsky 2008b.

<sup>40</sup>The most prominent example is the repeated purges carried out by Stalin, which permanently narrowed his ruling coalition.

<sup>41</sup>Smith 2005 argues that heightened anti-regime opposition can have a similar broadening effect.

<sup>42</sup>Building on Whitefield 2002, 181, I define communal cleavages as strongly structured and persistent lines of division among different ethno-linguistic or religious groups.

<sup>43</sup>Ethnic favouritism has been an empirical regularity across the globe. See Alesina, Baqir and Easterly 1999; Kitschelt and Wilkinson 2007; Morrison 2009; Cederman, Wimmer and Min 2010; Cammett and Issar 2010; Cammett 2011; Arriola 2013; and Roessler 2011. The causal mechanisms underlying this pattern have been analysed much less frequently, however.

<sup>44</sup>Wimmer 2002, 93.

other hand, cross-communal coalitions in the presence of inter-communal fray are impaired by serious collective action problems as a result of heightened inter-communal distrust,<sup>45</sup> which is why elites tend to form coalitions from within their own community. The causal mechanism of this argument builds on the presence of information asymmetries between different communities,<sup>46</sup> which entails higher mistrust and uncertainty<sup>47</sup> and thereby substantially increases the transaction costs within a cross-communal coalition. By forming intra-communal coalitions, elites reduce uncertainty,<sup>48</sup> increase the collective action capacity of their coalition, and thus heighten their chances of outcompeting their rival.

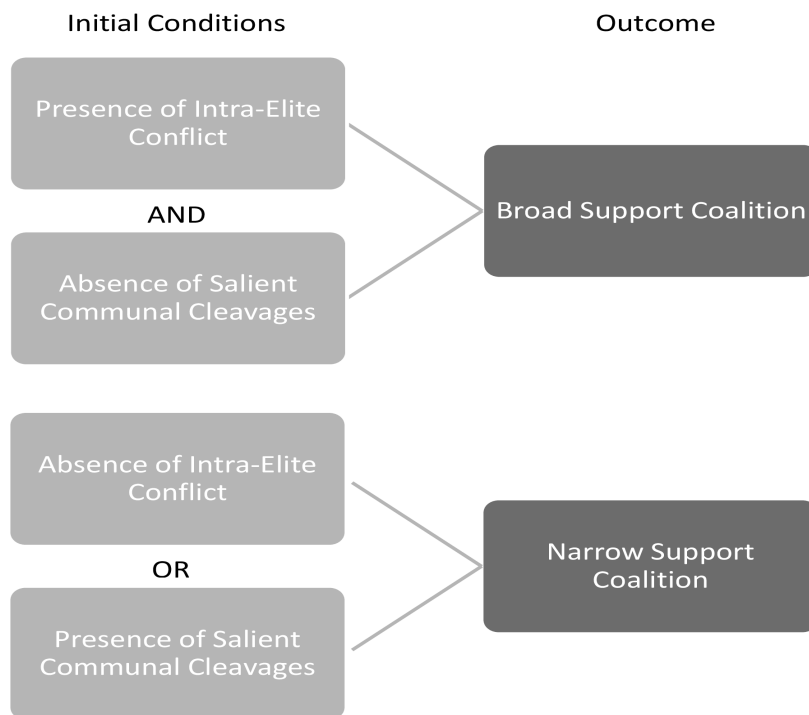


Figure 1.3: The Emergence of Different Regime Coalitions

<sup>45</sup>Cohen 1974.

<sup>46</sup>Fearon and Laitin 1996.

<sup>47</sup>Cohen 1974.

<sup>48</sup>Hale 2004.

### **Constraining Abilities: Coalitions in their Geostrategic Environment**

Thus far, I have argued that elite interaction at the moment of regime formation shapes a regime's incentives to provide social welfare. Conditioned by internal conflict and communal cleavages, the pattern of coalition formation is thus exclusively rooted in the domestic politics of a regime. Yet, as argued earlier, regimes do not exist in a vacuum, but have to respond to challenges of regime survival emanating from the geostrategic environment.<sup>49</sup> This brings me to the question of varying abilities to provide welfare. Before outlining the next step of my argument, I should note, however, that the question of abilities is obviously only relevant for those regimes that have an initial incentive to provide welfare. In other words, welfare provision in narrow coalitions is not affected by the geostrategic environment.

Turning to abilities, I argue that the occurrence of a severe external threat during regime formation can undermine the establishment of an authoritarian welfare state by shifting a regime's spending priority from welfare to national defence. The causal story unfolds as follows. Severe external threats pose an imminent danger for the survival of an authoritarian regime and its rulers. Crucially, severe here does not only denote the possibility of military defeat and loss of territory. Severe external threats are perceived by the rulers as representing a danger to the regime as a whole and, constituting an acute short-term risk, need to be addressed swiftly. Rulers are usually aware that this spending shift entails a domestic political risk as resources are turned away from key constituencies of the support coalition. Yet, given the imminence of the threat, they prefer the possibility of short-term survival irrespective of later negative repercussions.

Furthermore, since the threat is severe, it is visible to all members of the support coalition. As a result, coalition members do not perceive the spending shift as a 'power grab'<sup>50</sup> by rulers revoking the social contract. In view of the reduction of their side-

<sup>49</sup>This part of the argument is inspired by the literature on systemic vulnerability and developmental states in East Asia. See Doner, Ritchie and Slater 2005; and Ritchie 2010.

<sup>50</sup>Svolik 2009.

payment,<sup>51</sup> coalition members have two choices. They can abandon the coalition and thereby trigger the breakdown of the regime, or accept lower side-payments and maintain their support. For two reasons, they will choose the latter option. First, they cannot be certain to be part of any newly formed regime coalition and will thus prefer a permanent, albeit reduced, side-payment to the risk of exclusion. Second, it is likely that even a newly formed regime will have to deter the external threat, and thus cannot credibly commit to higher side-payments. Note, however, that even if the threat is present before regime formation, intra-elite conflict still entails an incentive to form broad coalitions. From the elites' point of view, support continues to be needed against elite rivals. And from the ordinary citizens' point of view, any level of side-payment is still preferable to no side-payments at all.

Broad coalitions facing a severe external threat therefore face a dilemma of contravening incentives in the presence of limited resources. At this point, yet only here, resource endowment begins to matter. Enabling rulers to simultaneously engage in military expansion *and* maintain a high level of social spending, an abundant resource endowment, usually in the form of exportable resources, crucially conditions the impact of external threats on welfare provision. Whilst scarce resources inevitably drag social spending levels to the bottom if threats are severe, abundant resources provide the regime with sufficient fiscal capacity to honour both defence and welfare commitments.

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<sup>51</sup>Those working in the military will obviously see their side-payments increase, which, as argued below, can have important distributive consequences at later stages.

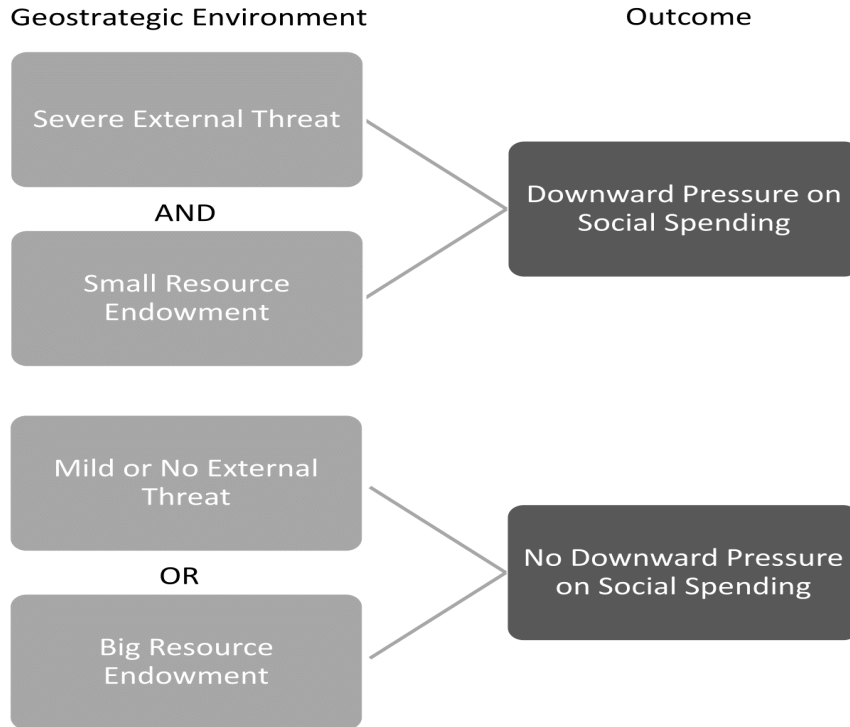


Figure 1.4: Geostrategic Environment and Ability to Provide Welfare

### Three Different Pathways of Welfare Provision

Figure 1.5 and Table 1.1 provide an overview of the argument thus far and succinctly summarise the determinants of welfare provision in autocracies. The critical alignment of societal actors during the moment of regime formation is attributed a key role in explaining the variation of welfare provision in autocracies.<sup>52</sup> This critical alignment is considered to follow a systematic, non-contingent pattern along the dimensions of intra-elite conflict, communal cleavages, external threats, and abundant resources.<sup>53</sup> Three possible pathways of welfare provision emerge:

<sup>52</sup>Following Haggard and Kaufman 2008, I prefer the notion of critical alignment to critical junctures, which entails a number of theoretical expectations, not all of which I subscribe to.

<sup>53</sup>This is in line with arguments that critical junctures are not entirely contingent, but follow a systematic, explainable pattern. See Pierson 2004, 51; and Slater and E. Simmons 2010. The counter-argument is represented by Mahoney 2000; and Capoccia and Kelemen 2007.

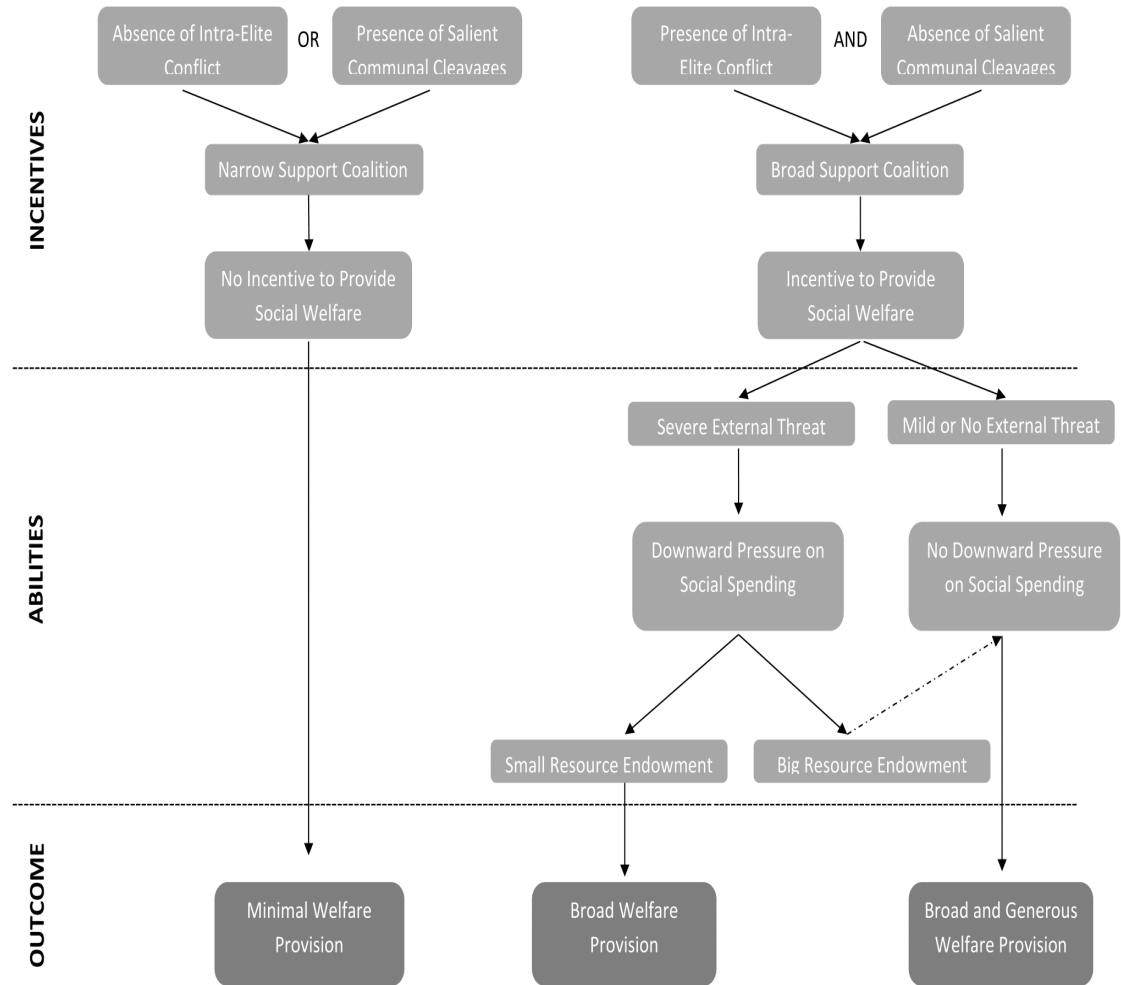


Figure 1.5: Different Pathways of Authoritarian Welfare Provision

	High Ability	Low Ability
High Incentive	Broad and Generous Welfare Provision	Broad Welfare Provision
Low Incentive	Minimal Welfare Provision	Minimal Welfare Provision

Table 1.1: Determinants of Authoritarian Welfare Provision

*Pathway 1: Broad and Generous Welfare Provision*

Broad coalitions that are unconstrained by their geostrategic environment provide generous levels of welfare spending to a broad cross-section of the population. This is expressed by high welfare efforts, measured as the amount of spending allocated to social welfare, and by social policies widely, often universally, accessible to the population. Thus, social security and assistance programmes are characterised by a high rate of coverage, that sets these regimes apart from those based on narrow coalitions. This pathway represents what can be called authoritarian welfare states.

*Pathway 2: Broad Welfare Provision*

Broad coalitions with scarce resources and facing a severe external threat provide welfare broadly, but not generously. This reflects the fact that the politics of distribution is shaped by incentives stemming from coalition types, whilst the politics of allocation responds to



challenges from the external environment. Thus, such regimes seek to make social policies widely accessible, with access often based on citizenship only and coverage rates being rather high. They fail, however, to underpin access with a sufficient stream of financial resources, leading to generally underfunded welfare programmes.

Emanating from the specific combination of incentives and abilities, these regimes, furthermore, engage in what can be called ‘cheap social policies,’ which provide side-payments in the form of statutory rights that do not entail a financial commitment on the part of the state (such as price controls of housing rents) and which are designed to support the regime’s defence effort (such as national savings from pension schemes). Finally, these regimes will make particular use of resources from windfalls, such as expropriations or privatisations, to fund welfare provision.

### *Pathway 3: Minimal Welfare Provision*

Narrow coalitions, regardless of the geostrategic environment, provide a minimal level of social welfare. This is reflected in a generally low welfare effort and minimal financial commitments to welfare. Moreover, social security and assistance programmes will usually be characterised by particularism and be accessible to strategic social groups only. This results in generally low rates of coverage.

## **Mechanisms of Path Dependence**

The above explanation combines existing arguments in a novel framework and, thus, generates theory. The explanation of the persistence of welfare trajectories exclusively resorts to the body of existing literature on path dependence and applies them to an authoritarian context.<sup>54</sup> While the institutionalisation of coalitions in social policies reflects underlying

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<sup>54</sup>The study of path dependence has been prolific. See Ikenberry 1994; Thelen 2003; Pierson 2004; and Beyer 2010 for a selective overview.

balances of power,<sup>55</sup> and, as a results, does not fundamentally differ from patterns of institutionalisation in democracies, the persistence of coalitions is reinforced in a non-democratic context. This is because, in contrast to democracies, autocracies lack an institutional mechanism, that is, electoral competition for power, to organise the reformation of coalitions. By consequence, the substitution of support groups by others becomes more difficult and more risky, considering the negative consequences of such an endeavour which surpass the trouble inflicted by electoral defeat.<sup>56</sup> This is not to say that change and reform have been absent. Broadly speaking, however, regimes have remained on their specific pathways of spending and distribution.

Regarding the specific mechanisms of path dependence relevant in this study, two can be highlighted in particular:

*Initial Advantages Reinforced over Time*

It has been argued that initial advantages conferred to societal actors can be significantly reinforced over time, which turns the beneficiaries of policies into important gatekeepers guaranteeing their continuation.<sup>57</sup> The reason for this is twofold. One, groups targeted by specific social policies can, over time, substantially grow in size, which reinforces their political weight. Consider the example of free university education. Instituted, say, in the 1950s, the policy benefited a manageable section of the middle class, barely surpassing a few thousand families. Forty years later, free higher education has become a privilege of millions of families, who consider it their right and are ready to stand up for its continuation. Two, policies implemented by specific coalitions tend to maintain, if not increase, power asymmetries between members and non-members of the support coalition.<sup>58</sup> Based

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<sup>55</sup>This has been the key tenet of historical institutionalism, which conceptualises institutions as distributional instruments. See Hall 2010; and Mahoney and Thelen 2010. This stands in contrast to approaches that view institutions primarily as commitment devices. See, in an authoritarian context, Gandhi 2008; Magaloni 2008; and Wright 2008a.

<sup>56</sup>Martin 2005, 29.

<sup>57</sup>Skocpol 1992.

<sup>58</sup>Ikenberry 1994, 8; and Pierson 2004, 30.

on this dynamic feedback between policies and power rooted in coalitions, we should expect a perpetuation of welfare trajectories.

Initial divergence reinforcing the power of groups in society is also the reason why resource-scarce broad coalitions facing a severe external threat cannot easily transform into authoritarian welfare states. Following a sustained empowerment of the regime's military, the military develops considerable veto power itself, able to influence budgetary decisions and ready to defend privileges, even once external threats have waned.<sup>59</sup>

### *Unintended Beneficiaries*

The second mechanism concerns the expansion of the number of beneficiaries to groups that were not initially targeted by policies, but that, over time, have become powerful stakeholders in the current status quo.<sup>60</sup> With regard to social policies, this group of unintended beneficiaries can be found especially in the area of food and energy subsidies. As the two case studies on Egypt and Tunisia will show, subsidies that initially targeted urban middle classes – they were never really intended to target the poor – have gradually come to benefit a politically powerful network of local producers and traders that reap enormous benefits from the the subsidy system as it is currently in place.

Yet, unintended beneficiaries also exist for countries following pathway 2, the broad but not generous welfare providers. Due to the sustained financial commitment to the army in this regimes, a similar network of beneficiaries can come into place that strives for the perpetuation of a high financial stream to the armed forces. These beneficiaries include, on the one hand, the military-industrial complex, which in the MENA region has grown to a considerable size and vested their interests in the status quo.<sup>61</sup> On the other hand, the army itself can transform into an economic actor by venturing into sectors of civilian

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<sup>59</sup>See Perlmutter 1977; P. Collier and Hoeffler 2002; Gupta et al. 2004; Rasler and Thompson 1985; and Lektzian and Prins 2008 for examples outside the MENA region. In the context of the Middle East, see Kamrava 2000; S. Cook 2007; and Droz-Vincent 2011.

<sup>60</sup>Thelen 2003.

<sup>61</sup>Richards and Waterbury 2008, 354; and Halliday 2005.

production and thus aggrandise the pool of people who directly or indirectly benefit from military expenditures.

## II. CONTRIBUTION TO THE LITERATURE

### **Middle Eastern Studies**

The contribution of this study to the field of Middle Eastern Studies is, first of all, empirical and lies in the collection of original data on welfare spending in the countries analysed herein. By compiling a novel dataset on social spending reaching from the early 1970s back until the moment of regime formation – mostly in the early to mid-1950s – this dissertation critically expands our empirical knowledge of welfare distribution in labour-abundant MENA regimes. The data were collected from archival material of the International Monetary Fund and from a selected number of statistical yearbooks.<sup>62</sup>

Whilst data collection itself is sometimes undervalued as descriptive, the availability of new, mostly historical data has been crucial for this study. First, only by tracing spending data back to the origins of these regimes, I was able to identify regime formation as the moment of spending divergence. With available IMF spending data only,<sup>63</sup> I would have been unable to eliminate other possible moments of divergence, such as the oil boom in the early 1970s. Second, having a clearer picture of welfare distribution in the region has enabled me to correct some important ‘myths’ lingering in the field of Middle Eastern Studies. One of them has portrayed Egypt as the epitome of extensive welfare distribution in the region.<sup>64</sup> In reality, Egypt’s historical welfare effort has been mediocre and the country has been constantly outspent by the likes of Algeria, Tunisia, and the Islamic Republic

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<sup>62</sup>The dataset and the method of data collection is presented in greater detail in a data note in Appendix A. Data collection was carried out in association with a research project on authoritarian stability at the GIGA Institute in Hamburg. The project has yielded a large dataset on Global State Revenues and Expenditures, parts of which are used in this dissertation. See V. Lucas and Richter 2012.

<sup>63</sup>Starting in the early 1970s, IMF data have important temporal limitations and are incomplete for a number of MENA countries, such as Algeria. See IMF 2011.

<sup>64</sup>See, for instance, Richards and Waterbury 2008, 31.

of Iran. Scholars of social policies in the region are invited to study the achievement of these countries to get a sense of the extension of authoritarian welfare provision.<sup>65</sup>

Another equally persistent myth is that the advent of IMF-led structural adjustment policies has led to a general and far-reaching welfare retrenchment across the region.<sup>66</sup> This claim is erroneous in two ways: (i) in many regimes, welfare spending was never so high in the first place; and (ii) regimes have remained with remarkable persistence on the welfare trajectories they had embarked on in the 1950s and 1960s. This study thus underlines the necessity for comparative collection of historical data to bring to light long-term patterns instead of analysing momentary trends.

### **Comparative Social Policies**

This study also contributes to the comparative research on the welfare state and continues recent attempts to broaden the geographical scope of this literature by venturing into the area of developing countries.<sup>67</sup> Whilst Latin America and Asia have received increasing scholarly attention,<sup>68</sup> the Middle East has continued to be viewed as a region pervaded by exceptionalism stemming from abundant resources and the lack of democracy. In contrast to that, this study shows that theories developed in democratic welfare states, notably explanations of path dependent social policies, travel fairly well to the MENA region. This is all the more important as, due to the lack of democratic competition, the causal mechanisms underlying these arguments cannot be taken for granted in autocracies. It seems, however, that the sustained empowerment of societal groups by institutionalised social spending has as constraining effects on autocracies as on democracies.

Moreover, highlighting the social policy trajectories of Algeria, Tunisia, and the Islamic

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<sup>65</sup>There is a significant Egypt bias in Middle Eastern Studies, which partly explains this misclassification.

<sup>66</sup>Mostly based on anecdotal evidence, this tenet has become so dominant that contradicting it amounts, for some, to an act of heresy. For examples of this claim, see Baylouny 2010; Clark 2004a; Murphy 1999; S. J. King 2010; Hinnebusch 2006; Hinnebusch 2010; and Bozarslan 2011. For a nuanced counter-example, see Richter 2007.

<sup>67</sup>Examples of this new focus on less developed countries are Rudra 2007; Rudra 2008; and Haggard and Kaufman 2008.

<sup>68</sup>See, for example, Segura-Ubiergo 2007; and Frazier 2010.

Republic of Iran, this study shows that, under certain conditions, autocracies engage in extensive welfare commitments to large cross-sections of the population. If they do so, they outperform the average welfare performance of developing democracies and demonstrate that the notion of an authoritarian welfare state can indeed be warranted. Finally, the argument developed in this dissertation highlights the important nexus of war-making and social policies, and the domestic and external environment more broadly. By showing the significant negative impact of war preparation and war making on social welfare, the study not only contradicts an emerging consensus that there is no trade-off between ‘butter and guns,’<sup>69</sup> but also shows that, trying to cater to large constituencies whilst defending the country against external threats, regimes engage in a specific type of ‘cheap social policies.’ Novel to the welfare state literature, this concept lends itself to further comparative research, possibly across regimes, analysing the effect of war making on the welfare state.

### **Authoritarianism Studies**

As a legacy to its origins, scholarship on authoritarianism has been predominantly concerned with the question of regime breakdown and survival.<sup>70</sup> This means that ‘current theoretical research has neglected much of the interesting everyday politics of authoritarian rule, consigning this to the realm of case studies by country experts.’<sup>71</sup> By focussing on welfare spending in a sample of stable, long-lasting authoritarian regimes, this study aims to broaden the field of authoritarianism studies and recalibrate its focus on important differences in the policy output between authoritarian regimes. This shift seems even more important considering the fine-grained analyses of policies in democratic context, which, thus far, have no equivalent counterpart in the scholarship on authoritarian regimes. By presenting a novel argument on the origins of authoritarian welfare states, this thesis has

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<sup>69</sup>See Whitten and Williams 2011 for a succinct overview.

<sup>70</sup>Bank 2009, 33.

<sup>71</sup>Pepinsky 2008b, 1.

made a step toward a more fine-grained understanding of authoritarian politics. Besides, by developing a theory from a sample of Middle Eastern regimes, I also break with a tradition of little theory generation and, overall, a stuttering dialogue between Middle East scholars and the mainstream of social sciences.<sup>72</sup>

Joining an attempt to revise the paradigm of the rentier state,<sup>73</sup> the presented argument also downsizes the importance of exportable resources by highlighting its conditional effect. Far from a mechanistic link between resource income and welfare spending, the effect of resource rents is more nuanced and depends (i) on the underlying support coalition and the ruler's incentives; and (ii) the geostrategic environment and the exposure to external threat. To put it more bluntly, nothing, *per se*, prevents a resource-scarce regime from spending half of its budget on welfare; and nothing, *per se*, predisposes a resource-rich regime to do so.

Finally, by showing the crucial importance of support coalitions for the political economy of distribution in authoritarian regimes, this study urges an analytic shift away from the category of regime type to explain divergent spending patterns in autocracies. Granted, the categories of broad and narrow coalitions used in this thesis are still very broad; yet they appear more appropriate to capture varying incentives for authoritarian rulers than focussing on nominal differences in the composition of the ruling elite. It demonstrates that the political economy of autocracies could greatly benefit from a more fine-grained understanding of which constituencies matter and why.

### III. WHY CONVENTIONAL WISDOM DOES NOT WORK

A number of alternative explanations have been utilised to explain cross-country differences of welfare spending. Some of these theoretical arguments, such as the ideological ori-

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<sup>72</sup>The difficult communication between social sciences and Middle Eastern studies has been pointed out by Anderson 1999, 4; Bill 1994, 518-19; and Mitchell 2002.

<sup>73</sup>See Dunning 2008 for a revisionist approach outside the MENA region; and Yom 2009 for an example from the Middle East.

entation of the autocratic ruler, cannot be easily rejected at the macro-level and, therefore, will be examined in greater detail in later case study chapters. Others can be evaluated and refuted more easily here.

### **Socio-Economic Determinants**

The literature has highlighted a number of macro-structural variables to explain varying levels of social expenditures. Following a ‘logic of industrialism,’<sup>74</sup> some scholars have viewed increasing social expenditures as a quasi-natural accompaniment of economic wealth and modernisation, as income growth is believed to bring about new constituencies in demand for social welfare.<sup>75</sup> Theoretically and empirically, however, development as a predictor of welfare spending is problematic. On the one hand, the ‘logic of industrialism’ either assumes a pluralistic political framework for its causal mechanisms to work,<sup>76</sup> or the causal effects of development are understood as unmediated by the political process.<sup>77</sup> On the other hand, reflecting mixed findings for democracies,<sup>78</sup> wealth seems to be a rather bad predictor of social spending levels, in the Middle East and autocracies at large. Looking at Figure 1.6a, it becomes clear that welfare spending has remained markedly constant despite the considerable increase of GDP per capita that has occurred in labour-abundant MENA regimes over time.<sup>79</sup> At the global level, depicted in Figure 1.6b, high spending levels are only empirically absent in very poor autocracies, suggesting a minimum threshold of development as a necessary condition for a high welfare effort.<sup>80</sup>

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<sup>74</sup>Kerr 1964.

<sup>75</sup>Wilensky 1975; Lindert 2005; and Obinger and Wagschal 2010.

<sup>76</sup>Myles 1984.

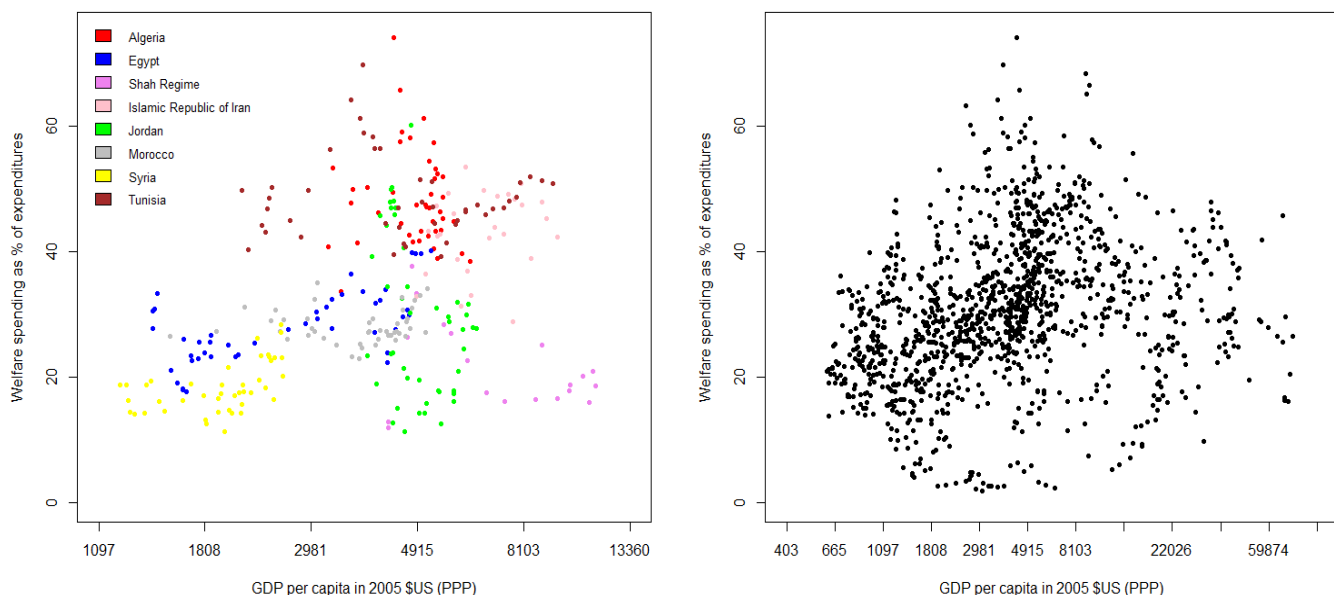
<sup>77</sup>Hicks and Misra 1993, 674.

<sup>78</sup>See Huber and J. D. Stephens 2001, 335; Baqir 2002, 23; Mares and Carnes 2009, 96; and Gandhi 2008, 147. Flora and Alber 1981 argue that economic development is a bad predictor of the timing of social insurance adoption.

<sup>79</sup>See also Loewe 2010, 136; and Salbah and Yartey 2004 on this point.

<sup>80</sup>All graphs in this section look very similar when using social expenditures as a share of GDP.





(a) Welfare Spending and Wealth in Labour-Abundant MENA Regimes

(b) Welfare Spending and Wealth in Autocracies

Figure 1.6: Welfare Spending and Development

*Note:* Regime data for non-MENA countries are based on Svobik 2012; spending data are taken from V. Lucas and Richter 2012; and IMF 2011; GDP data are taken from Heston, Summers and Aten 2006.

Development strategies and openness to world trade have also been put forward as an explanation for varying welfare efforts. Wibbels and Ahlquist, for example, have proposed a theory in which factor endowments determine development strategies, which, in turn, produce distinct patterns of social spending.<sup>81</sup> As for trade, two rival hypotheses, a ‘compensation hypothesis’ and an ‘efficiency hypothesis,’ exist, with each of them claiming some empirical evidence in their favour.<sup>82</sup> Problems, again, emerge at the theoretical and empirical level. Whilst varying factor endowments predict the emergence of specific cleavages, they do not preclude any particular distributional outcome and, by consequence, spending level.<sup>83</sup> Moreover, these theoretical claims seem to be vitiated by the uniformity

<sup>81</sup> Wibbels and Ahlquist 2011; see also Haggard and Kaufman 2008, 8-10.

<sup>82</sup> Compare Segura-Ubiergo 2007, 167 with contradictory evidence in Mares 2005; Kaufman and Segura-Ubiergo 2001; and Nooruddin and J. W. Simmons 2009. In a vast sample of autocracies, Gandhi 2008, 136 finds a negligible impact of trade on social spending.

<sup>83</sup> Rogowski 1989.

of development strategies in the MENA region. Richards and Waterbury note ‘the relative lack of variation in the degree and scope of state intervention across countries that otherwise differ greatly.’<sup>84</sup> Likewise, trade restrictions have been high in the Middle East and, in contrast to social spending, differed very little across countries.<sup>85</sup>

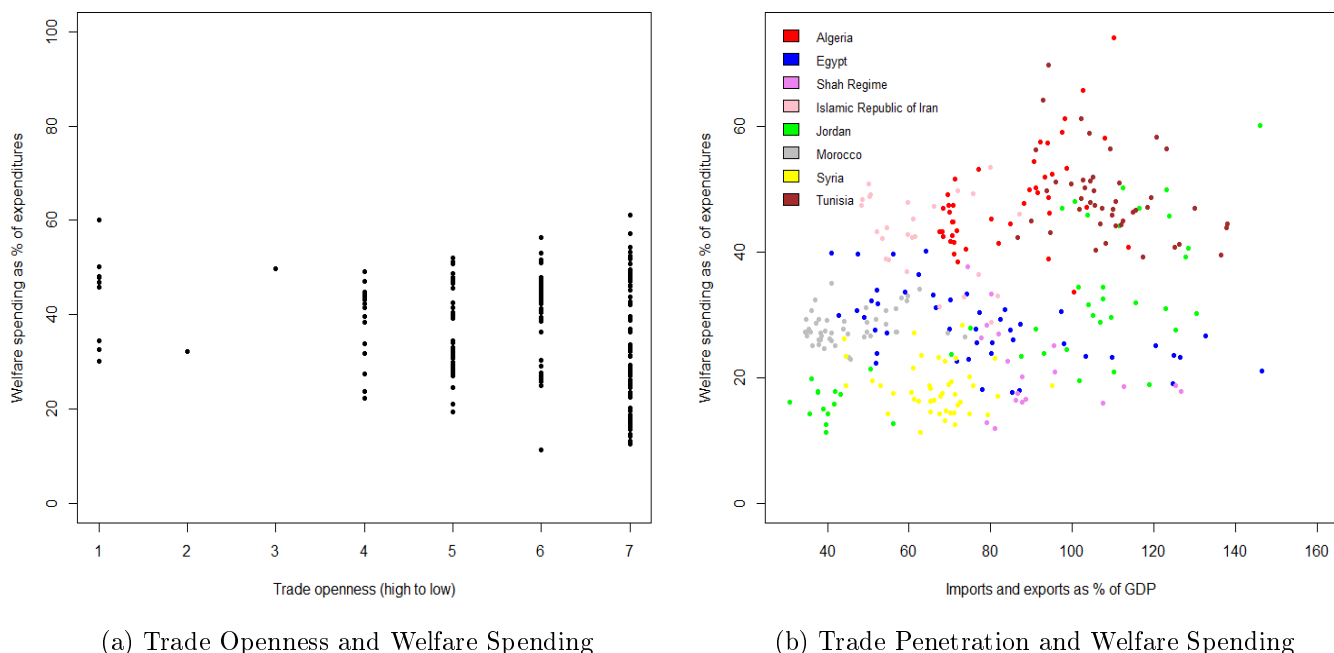


Figure 1.7: Trade and Welfare Spending in Labour-Abundant MENA regimes

*Note:* Regime data for non-MENA countries are based on Svobik 2012; spending data are taken from V. Lucas and Richter 2012; and IMF 2011; GDP data are taken from Heston, Summers and Aten 2006; and the measure for trade openness is taken from Martin 2005.

Non-tax revenues, such as resource rents and aid, have also been conjectured to positively affect social spending levels.<sup>86</sup> Its intuitive appeal notwithstanding, rentier state theory struggles to provide convincing causal mechanisms that link rent income to social spending. Certainly, rents directly increase state revenues which, in turn, can be distributed as social benefits to the population. Yet rents also tend to displace taxation which means that the overall level of income does not necessarily increase.<sup>87</sup> Moreover, the crucial

<sup>84</sup> Richards and Waterbury 2008, 179.

<sup>85</sup> See Figure 1.7 and Noland and Pack 2007, 105.

<sup>86</sup> Beblawi 1987, 53; Morrison 2009; and Frazier 2006, 23.

<sup>87</sup> Dunning 2008, 7.

question is why autocrats should actually distribute the rents rather than keeping them for themselves. Beck suggests that by distributing rents, autocrats seek to depoliticise their population;<sup>88</sup> yet this also holds for social spending in non-rentier states. Schlumberger argues that rentier states do not have to reinvest rent income and can therefore use it to bolster their grip on power;<sup>89</sup> but this strangely suggests that most state revenue in non-rentier states is productively reinvested, which is empirically not true. Finally, Anderson remarks that rents make state elites autonomous, which is why they seek legitimacy through distribution rather than taxation and representation.<sup>90</sup> Yet would it not be more plausible to expect tax-paying citizens to demand more social welfare than those exempted from taxation? The state costs them more and they should logically ask for more in return.<sup>91</sup> Thus, one should not rule out the possibility of ‘despotic rentierism’<sup>92</sup> based on exclusionary policies and repression. Overall, it is problematic to attribute deterministic features to economic rents and nothing conditions their use solely for the purpose of social welfare.<sup>93</sup> Regarding my country sample, Figure 1.8 indeed suggests no systematic link between non-tax revenues and social spending.

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<sup>88</sup>M. Beck 2007b, 46.

<sup>89</sup>Schlumberger 2008a, 118.

<sup>90</sup>Anderson 1986, 10.

<sup>91</sup>Ross 2004, 243-45.

<sup>92</sup>Yom 2011, 223; see also Peters and P. Moore 2009, 280.

<sup>93</sup>Richter 2009, 71; Herb 2005, 302; and Herb 2009, 391.

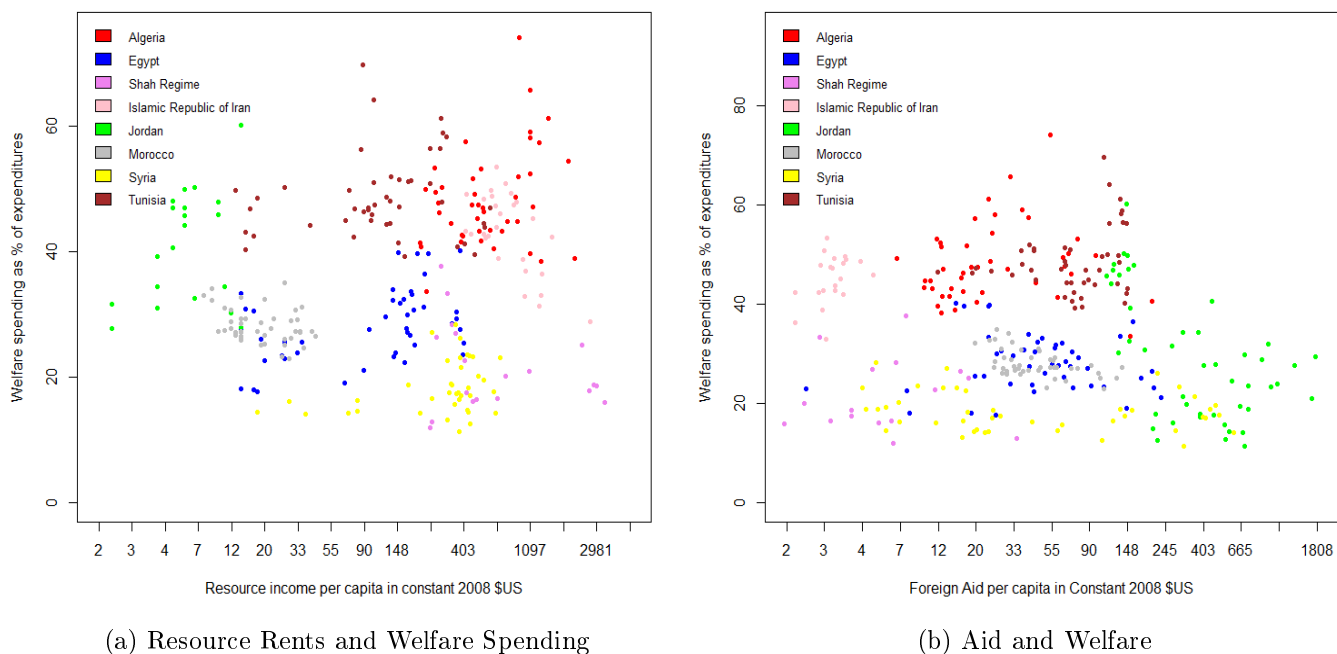


Figure 1.8: Non-Tax Revenues and Welfare Spending

*Note:* Regime data for non-MENA countries are based on Svobik 2012; spending data are taken from V. Lucas and Richter 2012; and IMF 2011; data on resources rents are taken from Haber and Menaldo 2011; and the data for aid are taken from World Bank 2010c.

## Political and Historical Determinants

From the MENA-specific literature, two rival explanations need to be highlighted, which are neo-patrimonialism and legitimization ideologies. Neo-patrimonialism in the Middle East has been associated with paternalistic tendencies and, hence, a tendency to legitimate non-democratic rule by the distribution of welfare goods.<sup>94</sup> From a slightly different angle, Loewe has argued that legitimization ideologies strongly influence a ruler's propensity to provide social welfare. He thus claims that the fault line in terms of welfare spending runs along a division between conservative-monarchical (Jordan, Morocco) and (post)socialist-republican (Algeria, Tunisia, Egypt, Syria) regimes.<sup>95</sup> Yet, whilst the

<sup>94</sup>Schlumberger 2008a, 111-12. For a summary of the debate on neo-patrimonialism, see Erdmann and Engel 2007.

<sup>95</sup>Loewe 2010, 157-58.

focus on the legitimising effect of welfare distribution is certainly warranted, theories of neo-patrimonial rule have failed to make strong predictive claims about the type and, most importantly, the extent of distribution. I should also add that almost all regimes in the region have been attributed neo-patrimonial characteristics, albeit to different degrees.<sup>96</sup> Regarding the role of ideology, most area study scholars have been reluctant to view ideology – apart from nationalism and Islamism – as a driving force in Middle Eastern politics<sup>97</sup> and, furthermore, strong ideological commitments have not been a hallmark of neo-patrimonialism.<sup>98</sup> In view of Figure 1.1, the fault line seems to run right through the group of republican party regimes, which also makes regime type as an explanation little plausible.

Turning to the welfare state literature, working class mobilisation has been viewed as a driving force behind both programme enactment<sup>99</sup> and expansion of expenditures,<sup>100</sup> as well as an influential veto player capable of inhibiting welfare retrenchment.<sup>101</sup> Distributional conflict between competing interests, determined by relative balances of power, are a key feature of this demand-based approach.<sup>102</sup> Welfare state development is thus conceived as a result of a societal demand from below, with the power resources of organised labour as the key determinant of the outcome.<sup>103</sup> However, this power resource approach cannot be easily transferred to an authoritarian context because it generally assumes an even playing field in which societal actors can organise. In autocracies, the organisational strength of labour might be seriously hampered by regime repression, or at least considerably limited as a result of organisational co-optation into state-led unions, bans on strikes or severe restrictions on wage bargaining.

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<sup>96</sup>Pawelka 2002.

<sup>97</sup>On the MENA region in general, see Ayubi 1992; Anderson 1987, 11; and Perlmutter 1977, 164. On Egypt, see Bayat 2006; and Beinin and Lockman 1988, chapter 13. On Algeria, see D. Ottaway and M. Ottaway 1970, 286; Quandt 1969, 172; and Knauss 1980, 71. On Tunisia, see C. H. Moore 1970, 315.

<sup>98</sup>Bratton and Van de Walle 1994, 548.

<sup>99</sup>Hicks, Misra and Ng 1995.

<sup>100</sup>Esping-Andersen 1990; Hicks 1999; and Ebbinghaus 2010.

<sup>101</sup>Huber and J. D. Stephens 2001; and Rudra 2002.

<sup>102</sup>Hicks and Misra 1993.

<sup>103</sup>Korpi 1983.

In the Middle East, the industrial working class has remained relatively small<sup>104</sup> and the existence of a sizeable population of low-skilled workers, often working in the informal sector, has complicated labour organisation.<sup>105</sup> Moreover, labour incorporation in the region has been rather repressive<sup>106</sup> and, as a result, labour has remained relatively weak.<sup>107</sup> In Algeria – a high-spending regime – the central labour union has been described as ‘the region’s most coopted, divided and political inconsequential union organization.’<sup>108</sup> Similarly, Iranian labour unions were heavily repressed under the Shah and, lacking coordinated labour organisation after the Islamic Revolution, quickly brought under control in the early 1980s, despite their mobilisation during the Revolution.<sup>109</sup> And even in Tunisia, which has arguably hosted the MENA’s strongest labour organisation, bargaining power of labour was weakened in the early years after independence.<sup>110</sup> In contrast, labour in Morocco was well-organised, mobilised, and relatively independent until the mid-1960s,<sup>111</sup> yet remarkably inconsequential for social spending.

Highlighting the historical origins of welfare states, a number of authors have emphasised the colonial origins of social policies in developing countries.<sup>112</sup> Certainly, colonialism left an imprint on the institutional design of social policies, which is particularly visible in the countries of the Maghrib. Yet the pattern of colonialism in the region does not easily map onto the variation of social spending (see Table 1.2). Other factors emphasised in the literature, such as religion,<sup>113</sup> are held constant by design.

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<sup>104</sup> Ayubi 1995, 176.

<sup>105</sup> Rudra 2002, 413 notes that the abundance of low-skilled workers makes collective action for labour more difficult.

<sup>106</sup> Gobe 2008.

<sup>107</sup> Comparing labour strength across the Middle East is a complicated undertaking because the standard measure, that is, the level of unionisation, is either not available for the early periods of regime formation or existing data seem to be little reliable. Therefore, one is left with case studies as the only way to compare labour strength across the region.

<sup>108</sup> Alexander 1996, 50.

<sup>109</sup> Bayat 1988.

<sup>110</sup> Ben Romdhane 1984, 260; Bellin 2002, chapter 3; Ben Hamida 1985; Tosun 2005, 316; and Liauzu 1996.

<sup>111</sup> Douglas Elliott Ashford 1961, 270; Benseddik 1990, 574; Bouzaine 1989, 66; Benhlal 1984; and Monjib 1992, 158.

<sup>112</sup> Bailey 2004; and Barbone and Sanchez 1999.

<sup>113</sup> Jawad and Yakut-Cakar 2010.

Regime	Colonial Power	Welfare Effort
Algeria	France	High
Egypt	Britain	Low
Shah Regime	Britain*	Low
The Islamic Republic of Iran	Britain*	High
Jordan	Britain	Low
Morocco	France	Low
Syria	France	Low
Tunisia	France	High

Table 1.2: Colonialism and Welfare Spending in Labour-Abundant MENA Regimes

\* *Note:* Iran was never colonised but came under strong British influence at the beginning of the twentieth century.

#### IV. RESEARCH DESIGN AND OUTLINE

##### The Case for Studing Labour-Abundant MENA Regimes

The rationale for choosing cases from the same geographical area is often a concern for comparability.<sup>114</sup> Units from the same region are expected to be similar and therefore causal processes are assumed to be broadly comparable. Yet my argument for selecting eight MENA regimes differs from such a purely taxonomic approach to area studies.<sup>115</sup> In fact, the MENA is socio-economically one of the most diverse regions,<sup>116</sup> so that claims of similarity are not easily warranted. Besides, case selection based on region can lead to serious inferential bias.<sup>117</sup> What matters are *theoretically relevant similarities*, which can only be specified in relation to the relevant universe of cases and the scope conditions of the proposed theory.<sup>118</sup> What will follow is a five-step procedure of case selection that delineates the boundaries of theory and generalisation of this study.<sup>119</sup>

From among all authoritarian regimes for which data are available, I suggest, first, to

<sup>114</sup>Basedau and Köllner 2007, 118-19.

<sup>115</sup>Ahram 2009, 4.

<sup>116</sup>Rauch and Kostyshak 2009. Richards and Waterbury 2008, 45 note that the MENA region exhibits more variation in per capita income than any other region.

<sup>117</sup>Geddes 2003, 101-02.

<sup>118</sup>Munck 2004, 107; and Nome 2011.

<sup>119</sup>See Table 8.1 for a schematic overview.

select only regimes with relatively long duration.<sup>120</sup> On the one hand, the budgetary effect of social policies can take some time to be visible and, on the other hand, welfare efforts are affected by business cycles. Therefore, short-term data might be seriously distorted by cyclical fluctuations and inferences be biased as a result. I therefore propose a 15-year threshold to circumvent that problem. Second, given the high persistence of social spending levels over time, I propose to compare only those countries that have not (yet) experienced longer periods of democracy, generally not longer than one election period of four years. Theory suggests that democracy has a positive impact on social spending. It is thus important to ensure the welfare effort of an authoritarian is not confounded by the welfare effort of its democratic predecessor regime.

Third, taking into account the relationship between economic development and welfare effort, I suggest 720 \$US per capita as a minimum threshold of development for case selection.<sup>121</sup> The threshold was determined empirically and corresponds to the income level of the poorest high-spender that could be found, that is, Tunisia in the 1960s. This case selection based on a minimum level of development follows the ‘possibility principle’,<sup>122</sup> which advises to select only cases where the outcome of interest is at least possible. Fourth, in view of the few very resource-rich and labour-scarce rentier autocracies, it seems sensible to select regimes with a broadly similar socio-economic profile. Thus, labour-scarce, resource-abundant rentier autocracies have not been considered for case selection. This does not mean, however, that my sample includes only resource-scarce regimes. In fact, to avoid selection bias it is important to maintain a number of resource-rich regimes in the sample. But these regimes are both resource-rich and labour-abundant. Fifth, and finally, cases were selected so as to ensure sufficient variation of all causal conditions of interest.

In summary, the proposed theory aims to be valid for rather enduring, fairly developed, labour-abundant autocracies without any prior experience of democratic rule. In light of

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<sup>120</sup>Regime codings for non-MENA regimes are based on Svoboda 2012.

<sup>121</sup>Dollars are in constant 2000 prices. Data are taken from World Bank 2010c.

<sup>122</sup>Goertz and Mahoney 2004.



these scope conditions, I would argue that the selected sample of eight MENA cases is indeed relatively representative of the relevant population. The region is renowned for its long-standing legacy of autocratic rule,<sup>123</sup> and thus any theory of welfare efforts in enduring autocracies would be evaluated according to how well it can explain the variation of social spending in the world's most authoritarian region. Besides, labour-abundant MENA regimes feature a number of theoretical 'anomalies' (see Table 1.3), which make it an interesting starting point for analysis.

Theoretical Expectation	Middle Eastern 'Anomaly'
Rents boost social spending	<i>Shah Regime</i> / Tunisia
Party regimes are more pro-welfare	<i>Syria, Egypt</i> / Islamic Republic of Iran
Strong labour unions foster high social spending	<i>Morocco</i> / Algeria, Islamic Republic of Iran
Left-wing regimes create welfare states	<i>Egypt, Syria</i> / Islamic Republic of Iran

Table 1.3: Labour-Abundant MENA Regimes as a Challenge to Theoretical Expectations

*Note:* Cases in italics exhibit the hypothetical cause but not the outcome; non-italicised cases exhibit the outcome without the cause. Table inspired by Slater 2010, 10.

### Claiming Causality: A Funnel Mixed-Method Design

This study broadly falls within the research agenda of comparative historical analysis (CHA).<sup>124</sup> It is 'concerned with explanation and the identification of causal configurations that produce major outcomes of interest.'<sup>125</sup> My theory aims at 'contingent generalisations'<sup>126</sup> and therefore mirrors CHA's attempt to reconcile external and internal validity.<sup>127</sup> Its propositions are best formulated in terms of necessary and sufficient conditions, which has been a main feature of CHA.<sup>128</sup> Although methodologically diverse,<sup>129</sup> CHA has

<sup>123</sup>Schlumberger 2007.

<sup>124</sup>Mahoney and Rueschemeyer 2003b.

<sup>125</sup>Mahoney and Rueschemeyer 2003a, 11.

<sup>126</sup>George and Bennett 2005, 235.

<sup>127</sup>Janoski 1991.

<sup>128</sup>Mahoney, Kimball and Koivu 2008.

<sup>129</sup>Amenta 2003; Hall 2013 argues that CHA is distinguished by its subject-matter, rather than a specific method.

shown a strong affinity with detailed, sometimes comparative case studies.<sup>130</sup>

By contrast, this dissertation proposes a ‘funnel approach’ that tries to maximise inferential leverage by combining qualitative and quantitative methods in a mixed-methods design. In view of the methodological trade-offs each single method entails,<sup>131</sup> I aim to work gradually ‘downwards’ from the macro-comparative to the case level with different methods jointly testing my theoretical propositions. This has a number of advantages.

First, the funnel design reflects the dual interest of this study in theory generation, which has an important macro-comparative element, and theory testing, which in light of the theories requires detailed attention to cases. Second, the evaluation of the theoretical argument at hand requires a good balance between macro-comparative and case study level, and thus between external and internal validity. On the one hand, delving into causal mechanisms using process tracing in case studies might overlook inconsistencies at the macro, cross-country level that invalidate the theoretical claim.<sup>132</sup> I therefore start by testing whether the theoretical argument broadly holds at the macro level, that is, whether the causal factors hypothesised to explain the outcome are actually present.<sup>133</sup> Methodologically, this is done by a structured, focussed comparison of coalition formation in the selected MENA regimes.<sup>134</sup> As the theory makes a number of concrete predictions as to when we should see the emergence of broad regime coalitions and how the external environment affects these, it is important to ensure that the cross-country pattern is consistent before tracing any causal mechanism. Evidence at this stage will be mainly from secondary accounts and a selected number of primary sources.

On the other hand, a causal relationship based on a consistent cross-country pattern

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<sup>130</sup>Rueschemeyer 2003.

<sup>131</sup>As Gerring 2001 and 2011 rightly points out, every research design represents an arbitration between trade-offs. For arguments in support of a mixed-methods design, see Pickel 2009; and Seawright 2011.

<sup>132</sup>On process tracing, see Mahoney and Goertz 2006; Checkel 2006; Vennesson 2008; Mahoney 2012; Beach 2012; Rohlfing 2013; and Hall 2013.

<sup>133</sup>Mahoney 2012, 589.

<sup>134</sup>On structured, focussed comparison as a method, see George and Bennett 2005, chapter 3; see Slater and Ziblatt 2013 for a related approach.

might be spurious if there is no evidence of the causal mechanism.<sup>135</sup> For the theory at hand, it is thus crucial to demonstrate that intra-elite conflict incentivised elites to broaden their coalition *using social expenditures as a tool to do so*, and that external threats made it impossible for broad-based regimes to establish authoritarian welfare states. Regarding the mechanisms underpinning path dependence, it needs to be demonstrated how initial advantages were reinforced over time and how unintended beneficiaries became major stakeholders in the status quo. This is best done by bringing the analysis to the case level. This dissertation thus includes two case studies, Tunisia and Egypt, to trace the outlined causal mechanisms. Both cases represent typical cases of one causal pathway. Tunisia represents a typical authoritarian welfare state, whereas Egypt followed a trajectory of broad, yet not generous welfare provision due to the external environment.<sup>136</sup> The evidence presented in these two case studies is based on documents, including cabinet minutes, from the national archives of both countries and elite interviews with former politicians and bureaucrats.

Finally, I draw on the rich time series data on social spending to test important observable implications from my theoretical framework. For instance, my theory relies on the existence of a trade-off between welfare and defence spending, which can be tested using statistical analysis. Other assumptions include the likelihood of welfare retrenchment and how different regimes deal with free resources. If coalitions are as powerful as I claim, they should have left a traceable impact on the pattern of social spending over time, which these tests aim to bring to light.

## **Organisation of the Manuscript**

The remainder of the manuscript is organised as follows. Chapter 2 turns the empirical focus to the MENA region by providing an analytical overview of welfare provision in

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<sup>135</sup>Hedström and Ylikoski 2010, 54.

<sup>136</sup>According to Gerring 2007; and Seawright and Gerring 2008, 297, typical cases are well suited to process trace causal hypotheses. Egypt, in addition to being a typical case, is also a pathway case in the sense that it is the only regime representing this pathway. On pathway cases, see Schneider and Rohlfing 2013.

labour-abundant MENA regimes. Covering the period from regime formation until the late-2000s, the chapter gives particular attention to spending levels and the accessibility of social policies and maps the eight regimes onto the three different pathways of welfare provision outlined above. It also diversifies the picture by examining policies of education, health, and social protection separately. Whilst the argument is descriptive, the chapter lays important groundwork for further analyses and gives a better sense of the outcome than bare-bone spending figures.

Chapter 3 is macro-comparative in nature and examines whether coalition formation followed the expected pattern, structured by intra-elite conflict and communal cleavages. In addition, the chapter also maps out the variation of the geostrategic environment, highlighting differences in the exposure to external threat and the endowment with resources. It does so in the form of comparative narratives of coalition formation and the geostrategic context and, whilst outlining broad trends, demonstrates how elite competition and communal cleavages widened or narrowed the support coalitions. It also formalises the macro-comparison using Qualitative Comparative Analysis (QCA).

Chapter 4 uses statistical methods to test observable implications of my argument visible in the spending patterns over time. Establishing an important crowding-out effect between military and social spending, the chapter empirically corroborates a key mechanism of the outlined theory. It further demonstrates the importance of different coalition types for welfare retrenchment, the distribution of free resources, and, with weaker empirical results, the differential use of social spending by different coalitions in response to popular mobilisation.

In Chapters 5 and 6, I substantiate the causal mechanism at the micro-level by retracing the emergence and development of social policies in two regimes, Tunisia and Egypt. As both regimes were based on broad coalitions unconstrained by communal cleavages, a primary goal of the case studies is to provide empirical evidence for a link between intra-elite conflict and social policies and spending. To do so, I rely on three types of primary

sources: archival material, including cabinet minutes, from the Tunisian, Egyptian, and IMF archives; autobiographies of key actors of regime formation; and interviews with former policy makers who have all been involved in the budget-making process. Especially in Tunisia, I was fortunate to find a number of the founding figures of the regime still alive and ready to answer my questions.

Given the geostrategic situation of Egypt, my analysis of archival material emphasises in particular how external threat made high social spending levels financially impossible, albeit politically desirable. It also demonstrates the specific types of ‘cheap social policies’ the regime utilised to deal with this dilemma. For example, based on my archival research, I can show that the establishment of the Egypt’s social insurance scheme in 1955 was partly, if not mainly, motivated by the country’s defence policies. Finally, in both countries, I specifically focus on the role of the ruler, Bourguiba and Nasser, and their impact on early social policies. Highlighting important about-faces in the case of Nasser and opposition to social policy reforms in the case of Bourguiba, I back up my claim that ideas played a secondary role in shaping social policies.

Regarding the persistence of social spending following divergence, I focus on a number of key periods of reform or, as in Egypt, attempted reform, to demonstrate the mechanisms underpinning path dependence. Specifically, I analyse the system of food and energy subsidisation in both countries, demonstrating how a group of producers and traders has become a major stakeholder in the status quo. I also focus on health care reforms in the 2000s, highlighting failed reform in Egypt and successful reform in Tunisia as evidence illustrating a continuation of their specific welfare trajectory. With regard to Egypt in particular, I show how the military has become a key player in the budget-making process and how this has undermined a reversal of the regime’s welfare path after the Camp David peace treaty.

In Chapter 7, I draw out the implications of my argument, both at the scholarly and at the policy level. I outline future comparative research to assess the validity of my theory

beyond the MENA region. Finally, in the light of recent episodes of regime breakdown in Tunisia and Egypt, I reflect on the ambiguous link between social policies and autocratic survival.

## 2

### Welfare Efforts in Comparative Perspective

The introductory chapter briefly outlined the pattern of welfare provision in labour-rich MENA countries, highlighting an initial divergence between high- and low-spenders and the persistence of this divergence until present days. It also proposed a typology of welfare trajectories in the region, distinguishing between broad and generous, broad only, and minimal welfare provision. Supported by a cursory overview of social spending, this stylised description requires further scrutiny. This chapter therefore aims to empirically substantiate the validity of this distinction. To do so, I use three types of evidence: one, social spending data over time, both at the aggregate and more fine-grained level, focusing on education and health spending; two, the extent of social protection provided by public social security systems, most notably health care and pension schemes; three, over-time changes in outcome indicators in the area of education and health, such as enrolment rates and infant mortality rates. Regarding the latter, literacy, enrolment, and mortality indicators have been considered good indicators of inequalities in human development and should thus adequately reflect different patterns of welfare provision.<sup>1</sup>

Combining different data has a number of advantages: First, as stated in the introduction, the underlying dataset on social spending relies on novel historical data from IMF

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<sup>1</sup>Ross 2006; Gerring, Thacker and Alfaro 2012; and Miller forthcoming. I focus on over-time changes rather than absolute levels as these largely depend on a country's point of departure, which is historically contingent.

archival material, so juxtaposing spending, insurance coverage, and outcome data serves as an important cross-check for the new dataset and its validity as a first-hand indicator of welfare effort.<sup>2</sup> Second, and more importantly, only the combination of multidimensional data brings to light the three different pathways of welfare provision prevalent in the MENA region. To anticipate the following argument, I argue in this chapter that broad and generous welfare providers have not only exhibited consistently high levels of welfare spending, they have also established extensive social insurance systems, which protect their population from life-course risks such as old age and illness. Including the vast majority of the workforce, their coverage levels are the highest in the region. Broadness and generosity of welfare provision are also reflected in outcome indicators, which demonstrate the fastest changes in literacy, enrolment, and child mortality in these regimes.

Broad welfare providers lack the resources to financially honour their commitment to social welfare, as they are impeded by perceived risks from the external environment which drive up defence spending. Yet, while spending levels are generally low, these regimes still provide welfare broadly among their population as barriers to social services are low and access is usually granted universally based on citizenship. This fact is most notable in the area of health care which has been accessible to the large majority of the population at zero costs or highly subsidised rates. In turn, nearly universal access is mirrored in positive outcome indicators, most notably in the area of health where broad welfare providers are nearly on par with their generous counterparts. Similarly, broad welfare providers have established relatively comprehensive social insurance systems.<sup>3</sup>

Finally, minimal welfare providers neither exhibit high levels of welfare spending nor have they made a noticeable effort to distribute welfare broadly. As a result, social insurance systems erected in these regimes are highly corporatist in nature, with coverage limited to key constituencies, such as civil servants and the military, and minimal pro-

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<sup>2</sup>For a detailed description of the dataset, see a data note in Appendix A.

<sup>3</sup>'Cheap social policies' as a unique variant of social policies of broad welfare providers are addressed in detail in the case study section.



viders have lagged behind in the extension of school enrolment and the improvement of health, as evidenced by slower changes of child mortality and life expectancy.

The organisation of the chapter closely follows the typology of welfare provision outlined above. Section 1 describes welfare provision of the broad and generous type in Tunisia, Algeria, and the Islamic Republic of Iran. Along with an analysis of the data, the section also briefly addresses social policies in the colonial period to underline that post-colonial welfare provision was not conditioned by a propitious colonial legacy. Section 2 analyses Egypt and Syria as broad welfare providers. Section 3 turns to minimal welfare provision in Jordan, Morocco, and Pahlavi Iran. A conclusion summarises the findings.

## I. BROAD AND GENEROUS WELFARE PROVISION

Broad and generous welfare providers can be considered the authoritarian welfare states among labour-abundant MENA regimes. Whilst their per capita spending has not reached levels of OECD countries, the share of resources allocated to social welfare rivals those in developed democracies, with spending levels near or above 50 per cent of total government expenditures. Their spending patterns have thus been distinctive from those of low-spenders. Moreover, authoritarian welfare states have succeeded in establishing comprehensive social security systems covering, at least, two thirds of their workforce. Their intensive and extensive welfare effort, sustained over long periods of time, is reflected in the fastest changes of child mortality, enrolment, and literacy in the region. Three regimes in the region have followed this path: Tunisia, Algeria, and the Islamic Republic of Iran.

## Tunisia

Tunisia has stood out for its level of social expenditures and the scope and coverage of its social security system.<sup>4</sup> Since 1960, the country has spent on average 44 per cent of its budget on social welfare, reaching a peak of 56 per cent in 1971.<sup>5</sup> From the late 1970s until the mid-1980s, when Tunisia went through a period of meagre growth and economic readjustment, followed by an IMF agreement in 1986, social spending dropped below 40 per cent, only to pick up again from the early 1990s onwards.<sup>6</sup> Quite remarkably, changing economic policies did not entail major social disruptions.<sup>7</sup> On the contrary, the period witnessed a number of major social policy reforms, including a significant extension of the coverage of social security.<sup>8</sup> In the late 2000s, the Tunisian social security system covers 85 per cent of the country's workforce,<sup>9</sup> and 80 per cent are entitled to a pension.<sup>10</sup> Tunisia has thus achieved a remarkable success in gradually extending social insurance to an ever-growing number of socio-professional categories.<sup>11</sup> Reflecting their high welfare effort, Tunisia witnessed the most rapid extension of primary and secondary enrolment among all countries in my sample, the second-fastest reduction of child mortality, and the fastest increase of life expectancy (see Table 2.1).

Nothing had predestined Tunisia to take this trajectory, however. When the French protectorate ended in 1956, after seventy-four years of colonial rule, the former rulers had left a framework of rudimentary social policies, geared to the minuscule elite of white-collar workers, most frequently French nationals, and the nascent industrial proletariat.<sup>12</sup> The most long-lasting impact had family allowances (*allocations familiales*), introduced in

<sup>4</sup>Karshenas and Moghadam 2006, 22; Chaabane 2002, 1; and Islam 2000, 105.

<sup>5</sup>See Figure 2.1a; and Ben Romdhane 2006, 31.

<sup>6</sup>Murphy 1999, 153.

<sup>7</sup>Ben Romdhane 2006, 52; Willis 2012, 241; and Alexander 2010, 116.

<sup>8</sup>Catusse and Karam 2009, 19-20; and Erdle 2010, 130.

<sup>9</sup>Catusse and Karam 2009, 22. Kasmi 2008b indicates a coverage rate of 92 per cent.

<sup>10</sup>Loewe 2010, 224; and Boudahrain 2003, 134.

<sup>11</sup>Destremeau, 2009, 130; Catusse and Karam 2009, 32; and Sraïeb 1971, 426.

<sup>12</sup>A provident society was established for civil servants in 1889. In 1921, the authorities set up workmen's compensation scheme, followed by a programme for single-income families in 1944. See Chaabane 2002, 3; Duwaji 1967, 167; and S. Amin 1966, 236.

1918, which became a major pillar of post-independence social policy. Upon independence, the health infrastructure was largely insufficient, leaving a country of almost four million people with only 548 doctors.<sup>13</sup> Neither had education been a priority of the French. Primary school enrolment stood at 35 percent in 1950<sup>14</sup> and only 15 per cent of the population were literate.<sup>15</sup>

To address these shortcomings, education was made a key priority in post-independence Tunisia. In absolute terms, education spending tripled in the first ten years after independence,<sup>16</sup> amounting to 8.2 percent of GDP in 1968 – at the time the highest share of educational spending in the world.<sup>17</sup> In budgetary terms (see Figure 2.1b), education spending doubled, consuming nearly a third of all government expenditures in the early 1970s. The government's effort in the realm of education had a sizeable effect both on enrolment and on literacy rates. Thanks to a major educational reform adopted in 1958 under Mahmoud Messaadi, Minister of Education and head of the Secondary Teachers' Federation in the National Trade Union, UGTT, Tunisia achieved nearly complete primary school enrolment by 1968. With an average annual enrolment growth of 3.6 per cent, Tunisia even stands out among other high-spenders (see Table 2.1). Similarly, literacy levels declined at one of the highest levels in the region.<sup>18</sup> Having attained complete primary school enrolment in the early 1970s, education spending visibly decreased but has remained consistently above levels of low-spenders and 'far above the corresponding percentage for the OECD [...] and lower-middle income countries.'<sup>19</sup>

In contrast to other countries in the region, access to secondary education was kept relatively selective until the early 1990s,<sup>20</sup> when the entrance exam for secondary edu-

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<sup>13</sup>Guen 1961, 112.

<sup>14</sup>World Bank 2008, 314. Granai and Fanton 1965, 221 advance a much lower figure of 26 per cent.

<sup>15</sup>World Bank 2008, 337.

<sup>16</sup>Ben Romdhane 2006, 36,38; Alexander 1996, 117; Micaud, L. C. Brown and C. H. Moore 1964, 150; and Poncet 1970, 108.

<sup>17</sup>Sraïeb 1971, 110.

<sup>18</sup>See Table 2.1 and World Bank 2008, 176.

<sup>19</sup>Galal and Kanaan 2010, 118. See also Erdle 2010, 350.

<sup>20</sup>Allman 1979, 62; and Micaud, L. C. Brown and C. H. Moore 1964, 150.

cation was abolished. That said, a generous bursary scheme has rather successfully allayed regressive effects of varying income levels on the access to, in particular higher, education.<sup>21</sup> While other regimes in the region have embarked on a programme of privatisation of education since the late 1990s to alleviate the financial burden on the state budget, private education has remained marginal in Tunisia, representing the lowest share of private education in the sample.<sup>22</sup>

A similar effort was exerted in the field of health policies.<sup>23</sup> Hospital capacity, for instance, increased by 89 per cent between 1956 and 1961.<sup>24</sup> In addition, 1960 saw the establishment of the country's public social security scheme, which incorporated the compensation for accidents and work-related illnesses, granted in 1957, alongside a maternity leave scheme, a survivorship annuity, and health insurance.<sup>25</sup> Public pensions were initially limited to state employees and extended to private sector employees in the mid-1960s. As health insurance was initially limited to formal sector workers in the non-agricultural sector, the government provided a parallel tax-based health care system, which was practically free of charge until 1969, when the government introduced a small mandatory contribution, coupled with a compensation scheme for low-income families.<sup>26</sup>

This is reflected in comparatively high health spending until the early 1980s (see Figure 2.1c). With increasing social security coverage, the weight of health expenditures in the Tunisian state budget gradually declined as the social security fund was stepping in to cover the costs. This explains why the budgetary share of health expenditures has declined below levels of low-spenders in the late 1990s and, more generally, why low-

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<sup>21</sup>Until the mid-1980s, 50 per cent of all students were in receipt of government bursaries, a number which declined to 30 per cent in 2007. See Galal and Kanaan 2010, 124.

<sup>22</sup>World Bank 2008, 191.

<sup>23</sup>Perkins 1997, 58; and Alexander 2010, 73.

<sup>24</sup>Ben Romdhane 1984, 264.

<sup>25</sup>There are two main social security funds in Tunisia. The *Caisse de retraite et de prévoyance sociale* (CNRPS) covers the public sector. Private sector employees subscribe to the *Caisse nationale de sécurité sociale* (CNSS).

<sup>26</sup>Camau, Zaïem and Bahri 1990, 184. Until today, there is a non-prohibitive out-of-pocket contribution to health care in Tunisia. See Chaabane 2002, 6.

spenders have overtaken high-spenders in terms of health expenditures.<sup>27</sup> Notably, social security in Tunisia insures dependent family members and has targeted large segments of the informal and low-income sectors,<sup>28</sup> including most recently construction workers and domestic employees.<sup>29</sup> As a result, both pension and health insurance coverage is nearly universal, covering 80 and 85 per cent of the workforce respectively.

Another pillar of social protection has been the subsidisation of energy and consumable durables, such as flour and oil, with the stated goal to preserve the purchasing power of low-income families. In this respect, Tunisia has followed a widespread pattern of subsidisation prevalent across the region. The cost of subsidisation has varied considerably according to the prices on the world market.<sup>30</sup> To alleviate the impact of structural adjustment, the government also introduced a programme for families in need in 1986, which in the mid-1990s covered about 72 per cent of the target group.<sup>31</sup> Finally, in the mid-1990s, the National Solidarity Fund (NSF) and National Employment Fund (NEF) were created under the explicit auspices of President Ben Ali.<sup>32</sup> Spending data for these schemes is hard to come by but given the small size of their target group, their financial weight is fairly limited.

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<sup>27</sup>Note that the government still subsidises the social security scheme from the budget to cover deficits, yet these expenditures are technically not part of the health budget. These transfers are, amongst others, the reason why aggregate social spending has remained consistently above levels of low-spenders.

<sup>28</sup>Chaabane 2002, 11.

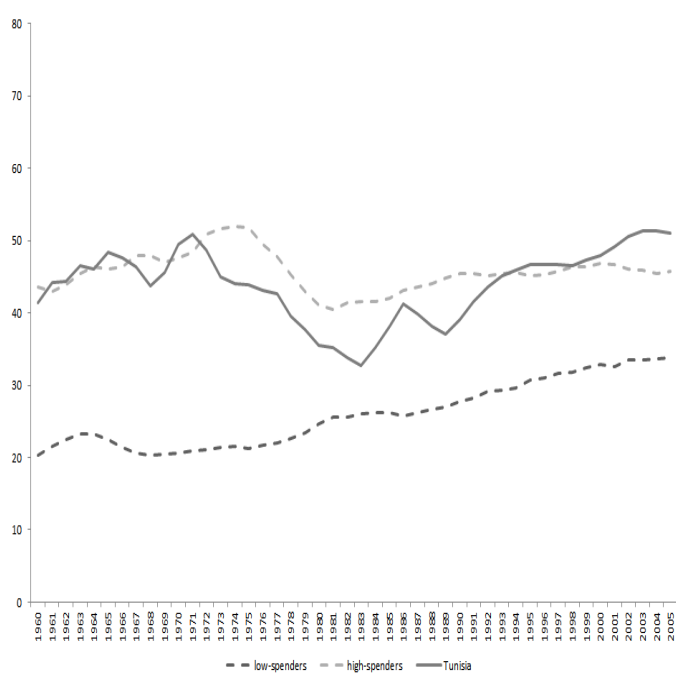
<sup>29</sup>Boudahrain 2003, 134.

<sup>30</sup>Tunisia imports most of the wheat and, since the late 1990s, also energy it consumes.

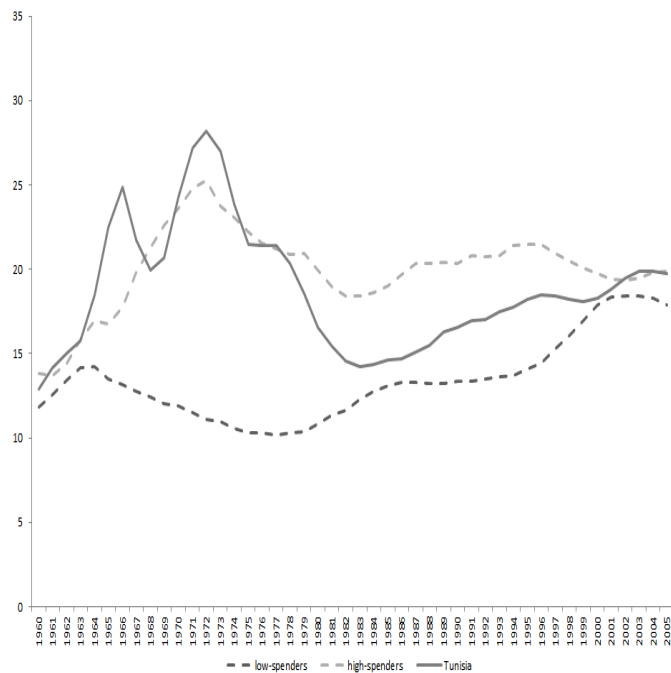
<sup>31</sup>Tzannatos 2000, 26.

<sup>32</sup>Hibou 2006, 230-36; and Erdle 2010, 256.

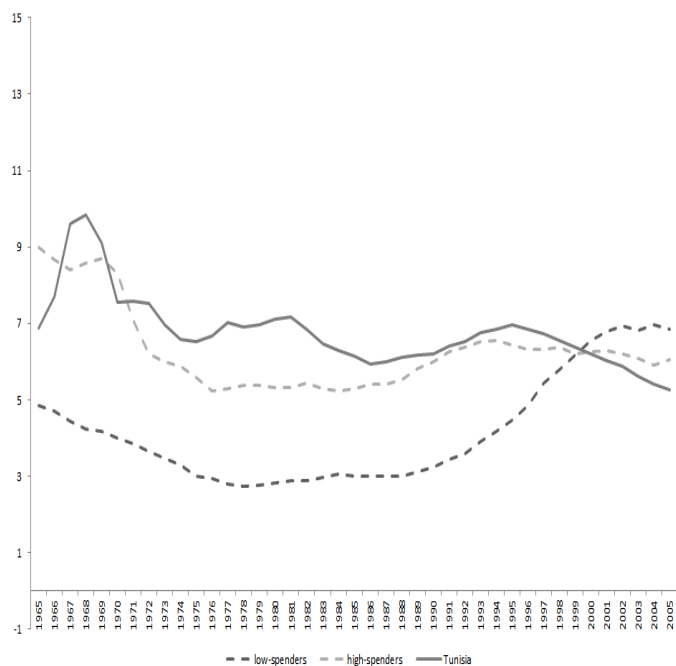
## Broad and Generous Welfare Provision



(a) Aggregate welfare spending



(b) Education spending



(c) Health spending

Figure 2.1: Tunisian Welfare Expenditures as % of the Budget (1960-2005)

*Note:* High-spenders include Tunisia, Algeria, and the Islamic Republic of Iran; low-spenders include Egypt, Jordan, Morocco, Syria, and Pahlavi Iran. Line plots were smoothed using a 3-year moving average. The pattern looks similar when using welfare spending as percentage of GDP.

Source: V. Lucas and Richter 2012; and IMF 2011.

## Algeria

Similar to Tunisia, Algeria made social spending its key priority after gaining independence in 1962. Since its first post-independence budget, the country has dedicated on average 48 per cent of all expenditures to social welfare, culminating in a historical peak of 74 per cent at the height of the oil boom in 1975.<sup>33</sup> When oil prices started to decline in the 1980s, social expenditures also contracted, an effect which was further compounded by violent conflict with Islamist insurgents in the 1990s. Yet despite these upheavals, social spending still consumed approximately 45 per cent of the state budget in the period from 1985 until 2005, leaving the country's distributive policies largely intact.<sup>34</sup> To alleviate the negative effects of an IMF structural adjustment programme starting in 1994, the Algerian regime responded by considerably enlarging the scope of its social security system, which in the mid-2000s covered 90 per cent of the Algerian workforce.<sup>35</sup> At the same time, three quarters of the country's workforce contribute to a public pension scheme and health insurance.<sup>36</sup> This has left Algeria with one of the most sophisticated social safety nets in the region.<sup>37</sup> In terms of human development outcomes, Algeria has had the third largest annual growth of primary and secondary enrolment behind Tunisia and the Islamic Republic of Iran, the biggest annual growth of literacy, and a rapid reduction of child mortality on par with other broad welfare providers.<sup>38</sup>

Like in Tunisia, Algeria's post-colonial welfare trajectory represented a remarkable break with the colonial past. While the French government introduced free medical assistance (*assistance médicale gratuite*) in Algeria for the poorest segments of the French settler population in 1902, the much more numerous Algerian native population was left at the

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<sup>33</sup>See Figure 2.2.

<sup>34</sup>Safar Zitoun 2009, 54.

<sup>35</sup>Ouzzir 2006, 50,70.

<sup>36</sup>Loewe 2010, 244.

<sup>37</sup>The two main social security funds are the *Caisse nationales des assurances sociales des travailleurs salariés* (CNAS) and the *Caisse des non salariés* (CASNOS). Special funds exist for high-level bureaucrats (*Fonds spécial des retraites*, FSR) and the military (*Caisse militaire de sécurité sociale et prévoyance*, CAMSSP).

<sup>38</sup>See Table 2.1.

mercy of charitable organisations, both Christian and Muslim, to meet their basic sanitary needs.<sup>39</sup> In 1920 the French authorities extended the provisions for industrial injuries to the Algerian territory, followed by the introduction of family benefits (*allocations familiales*) in 1941, again only targeted at the French settler population. This situation started to change in the wake of the Algerian war of independence as France abandoned its policy of social discrimination in 1956 and extended the social security regime to parts of the Algerian population.<sup>40</sup> In an attempt to undercut popular support for the Algerian National Liberation Front (*Front de Libération Nationale*, FLN), the authorities also launched an extensive social assistance programme (*Service de l'action sociale*, SAS) that specifically targeted the native population.<sup>41</sup> Yet this belated attempt could not alleviate the devastating effects of more than a century of neglect. On the eve of the war, Algerians died of diseases that had ravaged Europe in the 19<sup>th</sup> century, and the mass flight of Europeans in 1962 left a country of 11 million inhabitants with merely 600 doctors.<sup>42</sup> In 1954, only eight per cent of Algerian children went to school,<sup>43</sup> 80 per cent of all Algerians were illiterate.<sup>44</sup>

Having attained independence, education was made one of the most favoured sectors in the allocation of state resources. Whilst the country was recovering from a disruptive war and public resources were nearly depleted,<sup>45</sup> the government set itself the ambitious goal to reach universal primary enrolment by 1978, for which it tripled the share of education in the budget from 10 per cent in 1963 to nearly 30 per cent by the early 1970s (see Figure 2.2b). As a result, Algeria witnessed the second fastest increase in primary enrolment between 1965 and 1985 after Tunisia, and the third fastest growth of combined enrolment figures amongst all labour-abundant MENA regimes.<sup>46</sup> Despite initial disadvantages, Al-

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<sup>39</sup>Kaddar 1989, 3.

<sup>40</sup>Safar Zitoun 2009, 56.

<sup>41</sup>The financial impact of this programme should not be overstated. Actually, the share of social spending declined between 1954 and 1961, from 25.7 to 16.2 percent. See S. Amin 1966, 221.

<sup>42</sup>Ouchfoun and Hammouda 1993, 2.

<sup>43</sup>Stora 2001, 24.

<sup>44</sup>Ouchfoun and Hammouda 1993, 4-5.

<sup>45</sup>Buy 1965, 42.

<sup>46</sup>See World Bank 2008, 314-15 and Figure 2.1.



geria thus quickly caught up with other countries in terms of literacy levels.<sup>47</sup> Government scholarships, which, by the late 1970s, were granted to 65% of all pupils and nearly all university students, sought to guarantee equitable access to education, especially for underprivileged segments of society.<sup>48</sup> In addition, the regime's firm financial commitment to education guarded the educational system from potentially deleterious effects of a rapidly growing population, particularly in the 1970s and 1980s.<sup>49</sup> To be sure, the decline of the oil prices and the Algerian civil war during the 1990s dampened education spending, yet this decrease occurred from particularly high levels.<sup>50</sup> Private education has also remained marginal at all levels and the Algerian state still shoulders the brunt of educational expenditures.<sup>51</sup>

In the area of health, the regime pursued a policy of marginalising private health care, which had been predominant under colonial rule, whilst rapidly expanding hospital capacity and the number of trained personnel after independence.<sup>52</sup> To improve access, the government introduced a system of means-tested free medical assistance to the poor shortly after independence, which made health care affordable for the majority Algeria's low-income population.<sup>53</sup> With improved financial resources after the oil boom, free universal health care was introduced in 1974, which abolished any medical fees and means-tests.<sup>54</sup> The reason why this policy shift is not visible in the spending trend shown in Figure 2.2c is a parallel 'de-budgetisation'<sup>55</sup> of health expenditures. This meant that the government gradually apportioned the costs of health care to the public social insurance, the share of which increased from 29 per cent in 1974 to 65.8 per cent in 1987.<sup>56</sup> On

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<sup>47</sup> World Bank 2008, 337.

<sup>48</sup> Korany 1984, 82; and Bennoune 1988, 226.

<sup>49</sup> Abdoun 1989, 8.

<sup>50</sup> World Bank 2008, 105.

<sup>51</sup> *ibid.*, 27.

<sup>52</sup> Bennoune 1988, 247, 249.

<sup>53</sup> Grangaud 1984, 5.

<sup>54</sup> CERMOC 1992, 115.

<sup>55</sup> Kaddar 1989, 15.

<sup>56</sup> Fatima-Zohra 1990, 15. Combined, social security and government spending represent one of the highest levels of health expenditures among developing countries. See Zine Barka 1991, 2

balance, Algeria's somewhat lower health expenditures compared to other high-spenders are reflected in the outcome indicators, which show for child mortality and life expectancy slower average changes than Tunisia or Iran. That said, with these figures, Algeria still ranges in the top-tier of broad welfare providers and noticeably above levels of minimal providers.

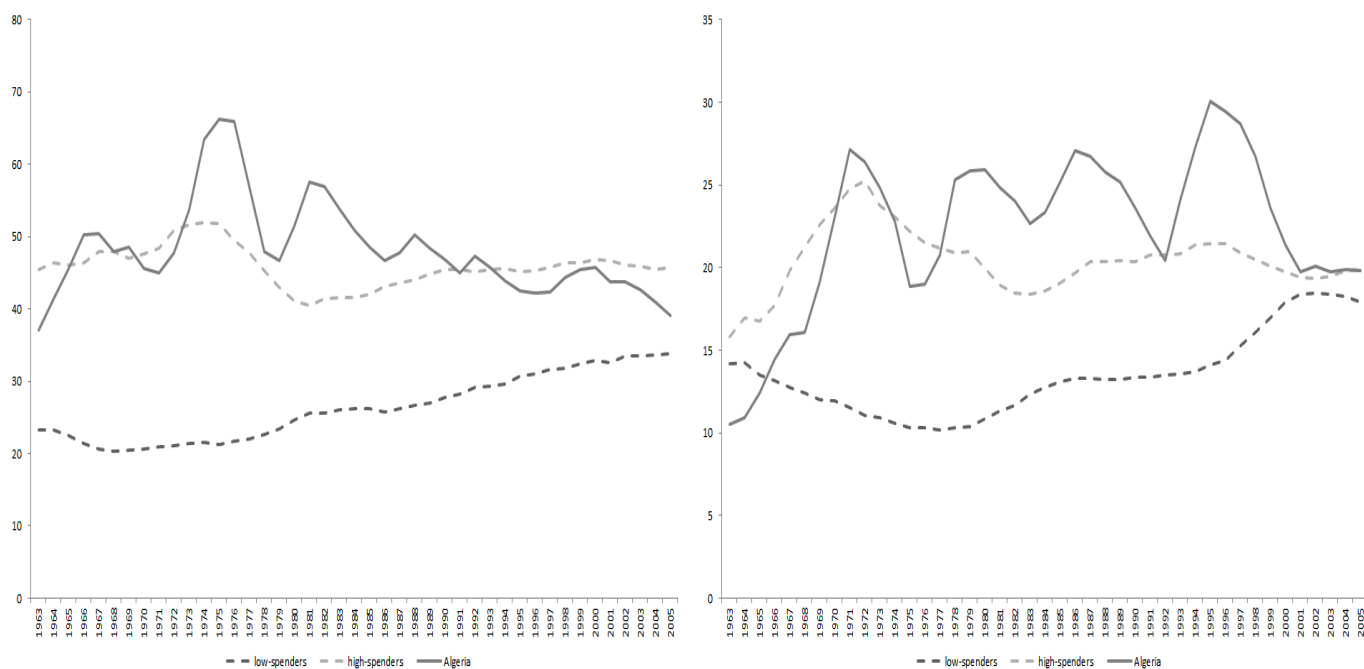
Besides, since the 1990s, government health spending has nearly doubled whilst social security coverage increased at a similar pace, from 66 per cent in 1984 to nearly 90 per cent in the mid-2000s.<sup>57</sup> This includes further benefits, such as sick-pay and disability pensions, for the insured and all dependent members of the household. It is also remarkable that the Algerian social security system started to reach out into the agricultural sector early on, granting family benefits to agricultural workers in 1971.<sup>58</sup> Finally, like all MENA regimes, Algeria has also pursued an extensive policy of subsidisation of durables and energy, which has been less costly in view of the country's oil and gas reserves. Taken together, Algeria has one of the most sophisticated and far-reaching social protection systems in the region.

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<sup>57</sup>Ouzzir 2006, 3; Loewe 1998, 7; and Grangaud 1984, 4.

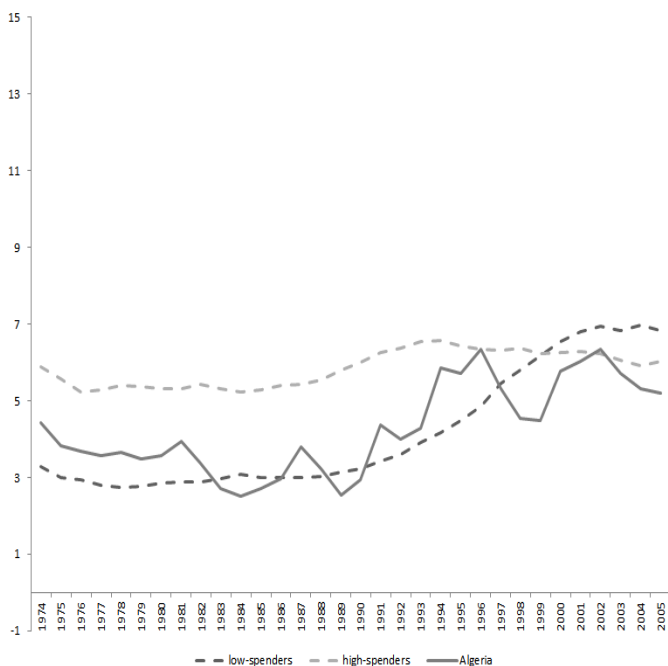
<sup>58</sup>*ibid.*, 12.

## Broad and Generous Welfare Provision



(a) Aggregate welfare spending

(b) Education spending



(c) Health spending

Figure 2.2: Algerian Welfare Expenditures as % of the Budget (1960-2005)

*Note:* High-spenders include Tunisia, Algeria, and the Islamic Republic of Iran; low-spenders include Egypt, Jordan, Morocco, Syria, and Pahlavi Iran. Line plots were smoothed using a 3-year moving average. The pattern looks similar when using welfare spending as percentage of GDP.

Source: V. Lucas and Richter 2012; and IMF 2011.

## **The Islamic Republic of Iran**

The downfall of the Shah and the establishment of the Islamic Republic of Iran in 1979 heralded a period of steady increase of social spending, which has set the new regime in sharp contrast to the policy of minimal welfare provision under Mohamed Reza Shah.<sup>59</sup> In its first year, the new Iranian government boosted social spending by nearly ten per cent compared to pre-revolutionary levels, reaching a third of the state budget in 1980.<sup>60</sup> A drastic decline in real output and the war with Iraq, which started in September 1980 and lasted until 1988, caused welfare expenditures to decline slightly between 1981 and 1984, but spending levels quickly rebounded and, by the late 1980s, social spending had doubled compared to pre-revolutionary levels. When the pressure for acute defence spending abated with the end of the Iran-Iraq War, welfare spending rose even further and amounted to more than half of the government budget under the first five-year plan in the early 1990s.<sup>61</sup> Since then, spending levels have fluctuated between 40 and 50 per cent of the state budget,<sup>62</sup> making welfare provision a major characteristic of the regime.<sup>63</sup> The fact that this spending expansion coincided with Iran fighting one of the deadliest and most destructive wars in the 20<sup>th</sup> century remarkably demonstrates the new regime's political commitment to social welfare. Alongside expenditures, the Iranian regime also improved social safety nets and insurance, such that, by the mid-2000s, over 90 per cent of the Iranian workforce were covered by health insurance.<sup>64</sup> Social security as a whole covers two-thirds of the Iranian workforce.<sup>65</sup>

To combat illiteracy and achieve universal primary enrolment, the new leadership intensified spending efforts in the field of education. Its share of the national budget doubled

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<sup>59</sup>Amuzegar 1993, 87; and Maloney 2000, 163. As welfare provision under the Shah is analysed later in the chapter, I refrain here from describing the legacy of past provision. Like in Tunisia and Algeria, Iran's welfare trajectory post-1979 represents a marked deviation from the past.

<sup>60</sup>Harris 2010a, 731.

<sup>61</sup>Messkoub 2006b, 240.

<sup>62</sup>See Figure 2.3a.

<sup>63</sup>Doostgharin 2012, 55.

<sup>64</sup>Harris 2010a, 736.

<sup>65</sup>Harris 2013, 234.

from ten per cent in the last decade of the Shah to a fifth by the mid-2000s.<sup>66</sup> Literacy rates and school enrolment markedly improved as a result, making Iran one of the most successful MENA country's in this field.<sup>67</sup> The annual growth of literacy was second highest after Algeria and enrolment grew at the third highest rate after Algeria and Tunisia.<sup>68</sup> Despite strong population growth in the 1990s, there was no outsourcing to private education for primary and secondary education.<sup>69</sup> However, spending priorities gradually shifted to university education, which has entailed greater class sizes and, in some places, the running of two classes a day.<sup>70</sup>

Likewise, spending on health care also doubled compared to the 1970s, amounting to roughly 7 per cent of the state budget.<sup>71</sup> Major sums were spent on the construction of so-called health houses, which provide free health care to the poor, especially in rural areas. Their number increased from 1,800 in 1985 to 12,000 in 1992.<sup>72</sup> In 1994, the government went one step further and extended the coverage of the public Medical Care Insurance Organisation (MCIO) to the entire population, including the self-employed.<sup>73</sup> Although the implementation of this law has met some difficulty,<sup>74</sup> over 90 per cent of all Iranians were covered by a public health insurance or an assistance scheme by the mid-2000s.<sup>75</sup> To fully honour article 29 of the post-revolutionary constitution, which stipulates the right to social

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<sup>66</sup>See Figure 2.3b.

<sup>67</sup>World Bank 2008, 176; and Abrahamian 2008, 180.

<sup>68</sup>See Table 2.1. Note that the presented outcome figures underestimate the performance of the Islamic Republic while they overestimate the performance of the Pahlavi regime. The reason for this lies in the different time periods used to calculate the percentage changes. While for all other regimes I look at comparably long time periods, comprising periods of early and late development, in Iran figures for the Pahlavi regime reflect an early development period, which generally features much faster changes in mortality, life expectancy, and enrolment. By contrast, the figures for the Islamic Republic represent a period of late development, where gains in outcome indicators are much more difficult to achieve. The fact that the Islamic Republic still compares well with other high-spenders in terms of outcome performance makes their welfare record all the more remarkable.

<sup>69</sup>World Bank 2008, 332-33.

<sup>70</sup>Messkoub 2006b, 241.

<sup>71</sup>See Figure 2.3c.

<sup>72</sup>Rastegar 1996, 226.

<sup>73</sup>The MCIO had been set up in 1972 to provide medical insurance for public servants. See Messkoub 2006a, 210.

<sup>74</sup>Harris 2010a, 735.

<sup>75</sup>This has gradually shifted the financial burden of health care away from the state budget to the social security sector, which is visible in the spending plot.

security in very broad terms, the regime also extended the coverage and scope of public social insurance bodies.<sup>76</sup> Having established an insurance scheme for unemployment in the early 1990s, the country's largest fund, the Social Security Organisation (SSO), opened up to the informal sector and the self-employed in 2002 and thereby provided coverage to socio-professional categories that had hitherto been excluded.<sup>77</sup> The regime's effort to broaden access to health care has had a conspicuously positive impact on human development. Child mortality witnessed the most rapid decrease in the sample and improvements in life expectancy were only topped by Tunisia.

The particular context of a revolutionary regime moulded by the ravages of war also led to the emergence of special revolutionary institutions (*nahad-ha-ye Enghelabi*), which have become a major provider of welfare alongside the classical institutions of social security. These para-statal charities and foundations (*boniyads*), currently more than 30 in number, provide a wide range of social services, such as medical assistance, student-ships, and family benefits, and have over time amassed an enormous economic weight. Financed by donations and, mainly, public subsidies, their financial structure has been opaque. The World Bank estimates that their combined expenditures amount to half of the annual state budget.<sup>78</sup> Taken together, they might control up to 40 per cent of the country's GDP.<sup>79</sup> Some of these *boniyads*, such as the Foundation of the Martyrs of the Islamic Revolution (*Boniyad-e Shadi-e Enghelab-e Eslami*), built their fortune by appropriating the former estates and industries of the Pahlavi family and their cronies. Other foundations, such as the Imam Khomeini Relief Committee (*Komiteh-e Emdad-e Emam Khomeini*), were born out of the concern to support the victims of war and destruction. The latter organisation assisted in 2001 over 6 million people, delivering services such as health care, housing loans, and stipends, and received the lion share of its funds from the

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<sup>76</sup>The major social security funds are the Social Security Organisation (SSO) and the Medical Service Insurance Organisation.

<sup>77</sup>Harris 2010a, 735.

<sup>78</sup>World Bank 2006a, 35.

<sup>79</sup>Longuenesse, Catusse and Destremeau 2005, 27.

state budget.<sup>80</sup>

Finally, the post-revolutionary regime also heavily engaged in subsidising food essentials and energy. The government has spent between a quarter and a third of current expenditures on these subsidies, which, in the light of recent international sanctions, have become a considerable weight on the state budget.<sup>81</sup> Therefore, the regime initiated a major reform of the system in late 2010, which aimed to transform in-kind subsidies into cash transfers, which could be better geared toward the target population.<sup>82</sup>

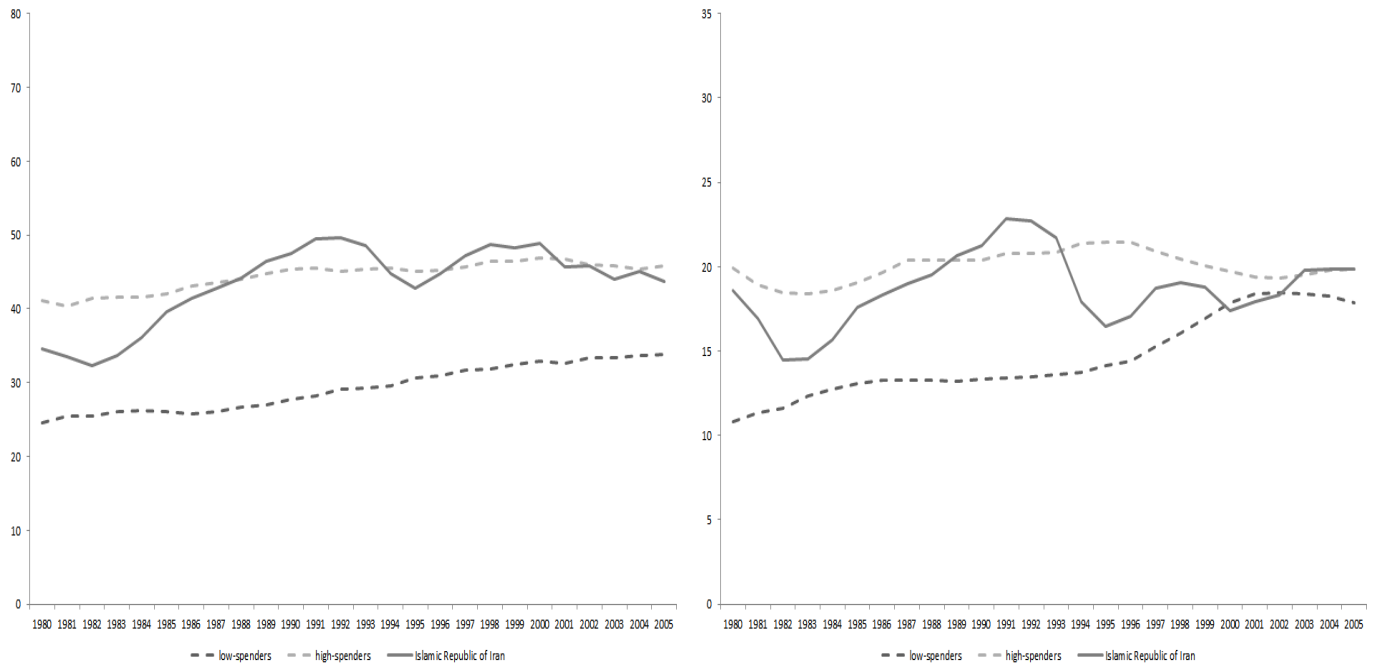
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<sup>80</sup>Harris 2012.

<sup>81</sup>Messkoub 2006b, 246; and Abrahamian 2008, 180.

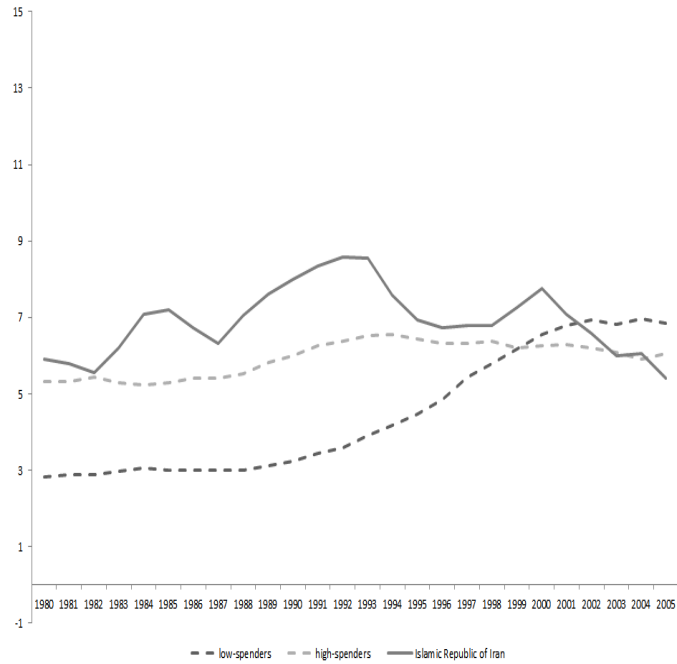
<sup>82</sup>Segal 2012; and Harris 2010b.

## Broad Welfare Provision



(a) Aggregate welfare spending

(b) Education spending



(c) Health spending

Figure 2.3: Iranian Welfare Expenditures as % of the Budget (1980-2005)

*Note:* High-spenders include Tunisia, Algeria, and the Islamic Republic of Iran; low-spenders include Egypt, Jordan, Morocco, Syria, and Pahlavi Iran. Line plots were smoothed using a 3-year moving average. The pattern looks similar when using welfare spending as percentage of GDP.

Source: V. Lucas and Richter 2012; and IMF 2011.



## II. BROAD WELFARE PROVISION

Broad welfare provision results from the combination of an incentive to provide social welfare, stemming from a broad regime coalition, and the inability to do so, as a result of strong external threats. It is thus characterised by wide, often universal access to social services without being underpinned by a strong financial commitment to social welfare. Broad providers also feature social security systems that reach out beyond labour market elites in the public sector or the army. Broad provision is most obvious in the area of health care which is accessible universally. This has lifted broad providers above minimal providers in terms of human development improvements, most notably child mortality and, to a lesser extent, enrolment. Egypt is the exemplary case in this category. Syria is a hybrid case but its universal access regime coupled with its human development record distinguishes it from minimal providers.<sup>83</sup>

### **Egypt**

Egypt has long been considered the epitome of populist authoritarianism under Gamal Abdel Nasser (1952-70), whose legacy was supposedly dismantled by neo-liberal reforms introduced under his successors, Anwar Al-Sadat (1970-81) and Hosni Mubarak (1981-2011).<sup>84</sup> Both parts of the story are not entirely accurate and misrepresent the particular welfare trajectory of Egypt since the 1950s. Certainly, Nasser, who increasingly turned toward socialism since the mid-1950s, introduced numerous social reforms and significantly broadened access to social services. This is reflected in marked improvements in human development, such as life expectancy, child mortality, and enrolment.<sup>85</sup> Yet, the majority of these reforms did not entail a major financial commitment to social welfare, an assessment which is supported by the evolution of social spending under his rule.<sup>86</sup>

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<sup>83</sup>Broad welfare providers can also engage in what I call ‘cheap social policies,’ which are analysed in a later chapter on Egypt.

<sup>84</sup>See, amongst others, Posusney 1997; and S. J. King 2010.

<sup>85</sup>See Table 2.1.

<sup>86</sup>See Figure 2.4a.

After an initial boost upon the Free Officers seizure of power in 1952, the share of social spending in the budget gradually declined, not exceeding an average of a third in the 1950s and a fourth in the 1960s.<sup>87</sup> Social spending remained at this level under Anwar Al-Sadat and stepped up again to about a third in the first decade of Mubarak's presidency. With the onset of a severe economic crisis in the early 1990s, social spending had declined to about a fourth of the budget by the late 1990s, only to bounce back to a third, on average, until the mid-2000s. While it is true that neither Sadat nor Mubarak continued Nasser's verve in the realm of social policies – no major social policy reform has been passed since the mid-1960s – the narrative of a dismantling of Nasser's legacy is not supported by empirical evidence. However, what does emerge from the evidence is a story of underfunding combined with unrestrained access.

Regarding education, Nasser abolished all remaining fees for primary and secondary education in 1956, followed by the suspension of university fees in 1961. The early Nasser years also witnessed a rapid expansion of primary education, with the number of primary schools doubling between 1952 and 1976.<sup>88</sup> Primary education was increasingly neglected, however, at the expense of secondary education, the expansion of which was only faster in the Islamic Republic of Iran.<sup>89</sup> This is also visible in the particularly slow increase of literacy in Egypt.<sup>90</sup> In terms of spending, education spending did not significantly increase following the Free Officers coup.<sup>91</sup> By the late 1980s, the share of educational spending in the budget had declined dramatically,<sup>92</sup> teachers were poorly remunerated, and 40 per cent of all schools operated more than one shift to cope with the ever growing number of pupils.<sup>93</sup> Under Mubarak, a programme to build 1,000 new schools yielded a

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<sup>87</sup>See also Issawi 1963, 277.

<sup>88</sup>Waterbury 1983, 219.

<sup>89</sup>See Table 2.1.

<sup>90</sup>See Table 2.1.

<sup>91</sup>Issawi 1963, 97-99; and Hinnebusch 1985, 268. It is noteworthy that educational spending had been noticeably expanded prior to 1952. See Mabro 1974, 109.

<sup>92</sup>G. Amin 1995, 125.

<sup>93</sup>Harik 1997, 142.

meagre 140.<sup>94</sup> And although educational spending had picked up again towards the end of the 1990s lifting the country in-between low- and high-spender averages, Egypt in the mid-2000s exhibited considerably lower levels of education expenditures than other lower-middle income countries.<sup>95</sup> As a result, there has been a growing tendency to privatise education in Egypt to compensate for the lack of quality in the public education system.<sup>96</sup>

Health care followed a similar trajectory. Free basic health care was introduced in 1959 for those not covered by health insurance. At the same time, health insurance has been gradually extended to new socio-professional groups. For instance, in 1973 social security coverage was extended to permanent agricultural workers, self-employed persons and, on a voluntary basis, Egyptians working abroad. In 1993, the government gave access to health insurance to more than 14 million pupils and university students at a highly subsidised rate. Coverage extension has been hampered, however, by the fact that the Egyptian social insurance scheme does not insure dependants. On the whole, the architecture of the Egyptian health care system means that access is universal, which is expressed by the country's remarkable reduction of child mortality – on par with high-spenders – and an increase of life expectancy above levels of minimal welfare providers, such as Jordan.<sup>97</sup>

Broad access was not accompanied by high expenditures on health, however, which means that the public health infrastructure has been chronically underfunded.<sup>98</sup> Although the share of health spending increased under Nasser and the regime attempted to bring health care to the countryside,<sup>99</sup> only ten per cent of all planned social service units were eventually built.<sup>100</sup> By the 1970s, 'public hospitals fell into abysmal squalor'<sup>101</sup> and health spending reached an all time low of 2 per cent of the state budget in 1992. At the same time,

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<sup>94</sup> Arafat 2009, 69.

<sup>95</sup> Soliman 2011, 66; and Galal and Kanaan 2010, 13.

<sup>96</sup> World Bank 2008, 332-33.

<sup>97</sup> See Table 2.1.

<sup>98</sup> CERMOC 1992, 117.

<sup>99</sup> See Figure 2.4c.

<sup>100</sup> Baker 1978, 221.

<sup>101</sup> Hinnebusch 1985, 272.

out-of-pocket expenditures amounted to 60 per cent of all health expenditures.<sup>102</sup> Though health spending soared up between 2002 and 2004, this was not sustained as shown in Figure 2.4c. And by the mid-2000s, every other patient used private health care; only a fifth relied on the free public services.<sup>103</sup>

Finally, Egypt, like all countries in the region, has subsidised consumer durables and energy in order to preserve the power of purchase of lower and middle classes. Dating back to the period of food rationing during the First World War, the subsidy system was considerably extended under Nasser, but, due to propitious world market prices, financially enduring.<sup>104</sup> Yet when food prices started to climb in the 1970s, subsidies increasingly strained the state budget, representing 15.5 per cent of all expenditures in 1977. In the same year, Anwar al-Sadat's attempt to reduce food subsidies resulted in notorious 'bread riots' and the plan to cut back subsidies was abandoned. After subsidies peaked at 20.5 per cent of total expenditures in 1980-81, they were gradually reduced back to levels of around eight per cent under the presidency of Husni Mubarak.<sup>105</sup> Thanks, again, to low world market prices and a growing economy, the subsidy bill was manageable by the mid-2000s.

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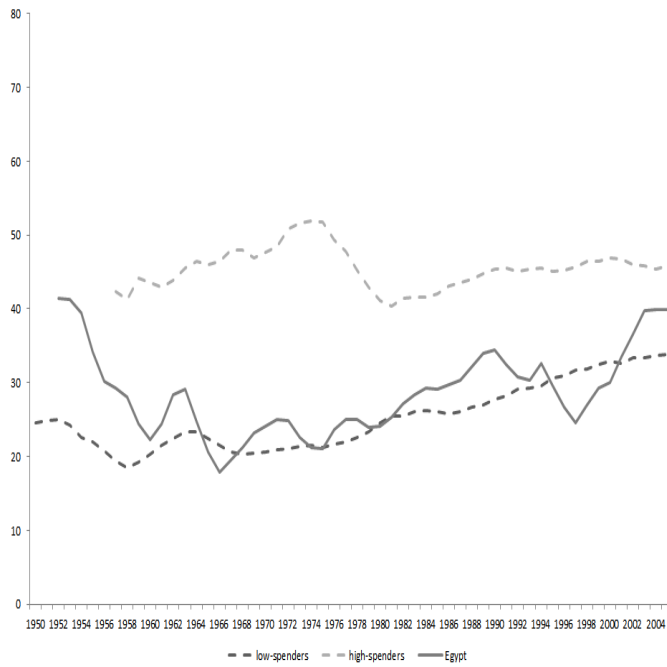
<sup>102</sup>Chiffolleau 1990, 88.

<sup>103</sup>Clark 2004b, 74.

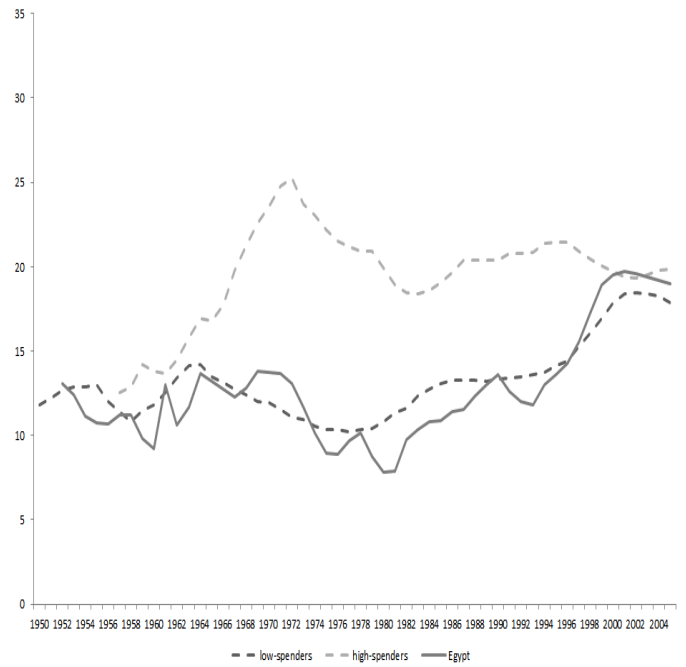
<sup>104</sup>Soliman 2011, 123. Based on my own data, subsidies amounted to an average of eight per cent of all expenditures between 1952 and 1970. The Egyptian subsidy system is discussed in greater detail in a later chapter.

<sup>105</sup>ibid., 57-59. Subsidies on meat, fish, tea and rice were removed between 1990 and 1992.

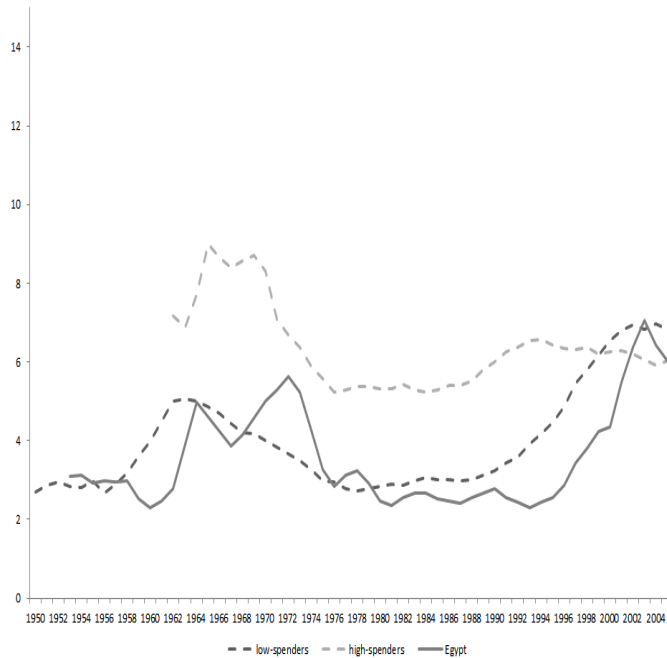
## Broad Welfare Provision



(a) Aggregate welfare spending



(b) Education spending



(c) Health spending

Figure 2.4: Egyptian Welfare Expenditures as % of the Budget (1952-2005)

*Note:* High-spenders include Tunisia, Algeria, and the Islamic Republic of Iran; low-spenders include Egypt, Jordan, Morocco, Syria, and Pahlavi Iran. Line plots were smoothed using a 3-year moving average. The pattern looks similar when using welfare spending as percentage of GDP.

Source: V. Lucas and Richter 2012; and IMF 2011.

## **Syria**

The Syrian welfare trajectory exhibits many similarities with Egypt. In fact, some of the most important social policy reforms in Syria were implemented when Egypt and Syria unified briefly under the banner of the United Arab Republic (UAR, 1958-63).<sup>106</sup> Syrian social policies are characterised by the same contradictory combination of universalism and insufficient spending. As Hinnebusch remarks, social policies remain ‘unenforced for failure of the government to assign sufficient resources or to develop policy instruments to enforce them.’<sup>107</sup> That said, Syria’s commitment to welfare was not only hampered by its external environment, but also by the lop-sided nature of its regime coalition characterised by ethnic favouritism.<sup>108</sup> This, in turn, meant that welfare was provided less broadly than in Egypt and, honouring the regime’s ethnic origin, particularly furthered the social development of the countryside and the rural sector.<sup>109</sup>

Regarding spending, spending levels have been even lower than in Egypt, which brings Syria closer to the pattern of minimal welfare provision prevalent in other low-spending countries. While average spending amounted to 22 per cent of the state budget in the period 1953-62, the Ba’th regime, which came to power through a coup d’état on 8 March 1963, cut back spending levels, so that by the end of the 1960s, social spending represented a meagre 14 per cent of the state budget.<sup>110</sup> In the aftermath of the 1973 War with Israel, spending levels picked up slightly and peaked at 26 per cent in 1983, after which declining oil prices and the ensuing economic slowdown led to a period of social spending contraction. Towards the end of Hafiz Al-Asad’s rule (1970-2000) and in particular after the takeover by his son, Bashar Al-Asad, in 2000, welfare expenditures experienced a noticeable increase, rising to about a fourth of the state budget by the mid-2000s. Yet this merely meant that

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<sup>106</sup>Heydemann 1999, 122-26.

<sup>107</sup>Hinnebusch 1986, 95.

<sup>108</sup>See Chapter 3 for more details.

<sup>109</sup>G. E. Robinson 1998, 161; and Hinnebusch and Ehteshami 2002, 10.

<sup>110</sup>This figure is also reported by Waldner 1999, 108. Yet while he views this as an indicator of high welfare effort, this chapter should have made clear that such spending levels are dwarfed by the financial commitment to welfare in high-spending regimes.

Syria was catching up with the average level of low-spenders.

The peculiar mix of universalism, low spending, and ethnic favouritism is particularly visible in the regime's education policies. The Syrian Ba'th regime followed the example of Egypt in abolishing tuition fees and making all levels of education free of charge. In addition, after elementary education was made compulsory in 1970, Syria witnessed a rapid expansion of primary school enrolment.<sup>111</sup> The number of primary students doubled between 1964 and 1977 and, by the early 1980s, the country had reached nearly universal primary school enrolment.<sup>112</sup> It is here where the ethnic element is particularly visible as the regime paid particular attention to rural areas and in particular areas populated by Allawites – the sect most of the ruling elite hailed from. While most regimes have a preference for the politically more volatile urban centres, the Syrian regime's focus on the countryside meant that rural areas benefited more from social development than elsewhere, which is visible in the regime's human development record. For instance, the annual growth of primary school enrolment was noticeably higher than other low-spenders, such as Jordan, and higher than in Egypt.<sup>113</sup> Moreover, in terms of literacy, the regime holds a middle position between high- and low-spenders and, again, outperforms Egypt.<sup>114</sup>

Syria's outcome performance contrasts with spending levels which were actually in constant decline since the mid-1960s and levelled off at an average of eight per cent in the 1980s.<sup>115</sup> By that time, many schools were in decay, class-rooms were crowded, and minuscule salaries forced many teachers into moonlighting.<sup>116</sup> Drop-out rates were also very high.<sup>117</sup> Education spending increased slightly until the end of the 1990s but still ranked among the lowest shares in the world.<sup>118</sup> This had led to the development of a

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<sup>111</sup>Owen and Şevket 1998, 157-58.

<sup>112</sup>Drysdale 1981a, 102.

<sup>113</sup>See Table 2.1.

<sup>114</sup>See Table 2.1.

<sup>115</sup>See Figure 2.5b.

<sup>116</sup>Batatu 1999, 71.

<sup>117</sup>Ma'oz 1988, 80.

<sup>118</sup>Galal and Kanaan 2010, 104.

considerable private sector for higher education by the mid-2000s.<sup>119</sup>

As regards health care, Syria gradually established a universal health care system by enlarging the number of health card holders, which allowed access to free health care following a means-test. The regime finally abandoned means-testing and introduced a national health service free of charge and accessible to all Syrian citizens.<sup>120</sup> However, the gradual and lengthy introduction of universal health care meant that, for a long time, between a third and a fourth of the country's population was neither covered by the means-tested system nor any other social insurance.<sup>121</sup> In terms of spending, spending levels have been extremely low, barely exceeding 1.7 per cent of the state budget in the period from 1972 until 1999.<sup>122</sup> This has negatively affected the quality of the health care infrastructure, with 'public health institutions being understaffed and poorly equipped.'<sup>123</sup> Yet, again, the combination of broad access and the regime's advertence to the countryside entailed relatively good performance in terms of health outcomes. Child mortality, for instance, decreased faster on average than in Algeria – a high-spender – and other minimal welfare providers, such as Morocco and Jordan.<sup>124</sup>

As regards social safety nets, with 35 per cent Syria's social security coverage lies in between Egypt's medium-range coverage and the very rudimentary systems in minimal welfare regimes, such as Morocco, which underlines the regime's status as a hybrid between both types. That said, there has been no major reform since the introduction of social insurance in 1959 during the union with Egypt.<sup>125</sup> A reform attempt to unify the schemes of public and private sector in 1979 failed because of the staunch resistance of labour unions.<sup>126</sup> As a result, coverage rates have remained stagnant and the current system

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<sup>119</sup>Galal and Kanaan 2010, 106.

<sup>120</sup>CERMOC 1992, 119.

<sup>121</sup>Drysdale 1981a, 100.

<sup>122</sup>See Figure 2.5c. Unfortunately, health spending data are only available from 1972 to 1999.

<sup>123</sup>Perthes 1997, 128.

<sup>124</sup>See Table 2.1.

<sup>125</sup>CERMOC 1992, 119.

<sup>126</sup>*ibid.*, 120. Labour unions mostly comprise public sector workers.

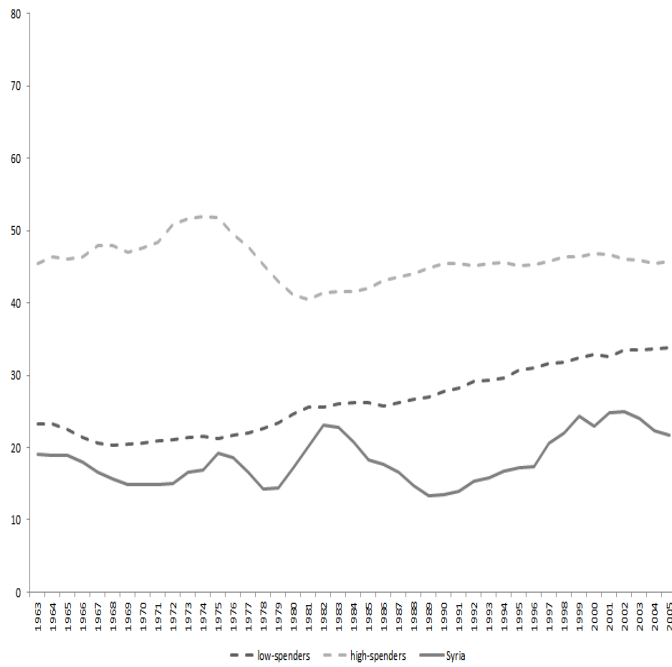


privileges a minority of white-collar public sector workers.<sup>127</sup> Following the regional pattern, Syria has sought to increase social protection for low-income groups by extensively subsidising food and energy.

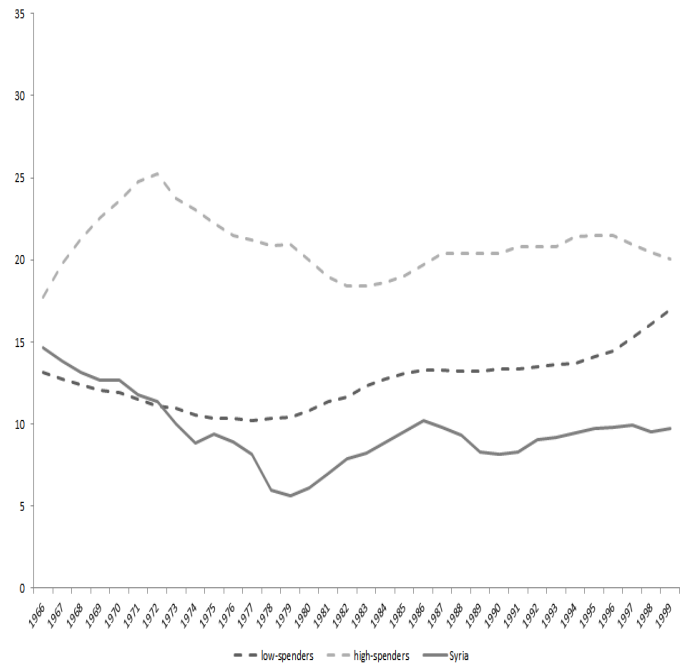
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<sup>127</sup>Perthes 1997, 128.

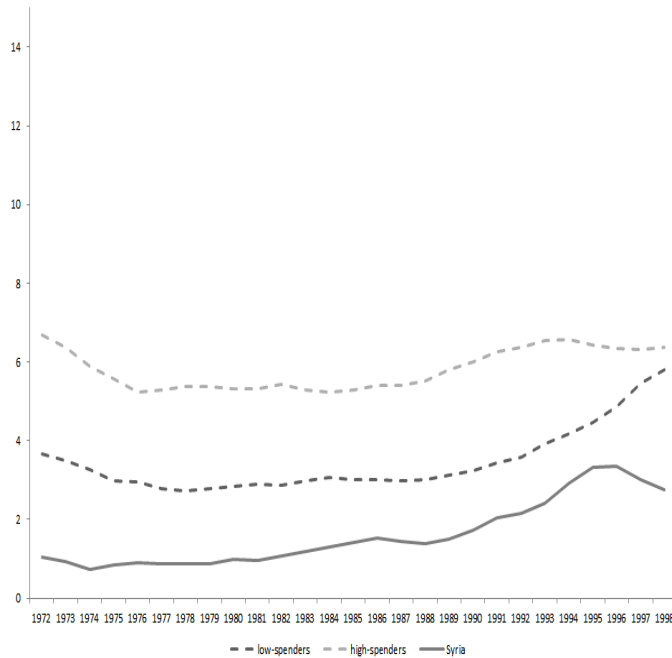
## Minimal Welfare Provision



(a) Aggregate welfare spending



(b) Education spending



(c) Health spending

Figure 2.5: Syrian Welfare Expenditures as % of the Budget (1966-1999)

*Note:* High-spenders include Tunisia, Algeria, and the Islamic Republic of Iran; low-spenders include Egypt, Jordan, Morocco, Syria, and Pahlavi Iran. Line plots were smoothed using a 3-year moving average. The pattern looks similar when using welfare spending as percentage of GDP.

Source: V. Lucas and Richter 2012; and IMF 2011.

### III. MINIMAL WELFARE PROVISION

Minimal welfare provision characterises a third type of welfare regime among labour-rich MENA countries. Like broad welfare provision, minimal welfare provision stands out for its low social spending levels and, as a result, deficient social policies. Yet minimal welfare providers have lacked the universal access policies characteristic of broad welfare provision. By consequence, social welfare has been largely confined to a minority of core societal actors considered vital for the endurance of the regime. This has abetted the emergence of a highly fragmented social security system, characterised by generally low coverage rates. In terms of human development outcomes, minimal provision has entailed slower reductions of child mortality, slower improvements of life expectancy and literacy, and a less vigorous expansion of enrolment.

#### **Morocco**

Like no other regime in the region, the Kingdom of Morocco stands for a policy of minimal welfare provision. Since the country's independence from France in 1956, social protection has never been a priority. Instead, it has been considered ancillary to growth and economic development, turning social policies into a residual category of state activity.<sup>128</sup> This is clearly reflected in the regime's pattern of social spending. Since 1960, when the first data are available, until 2005, the average share of social expenditures in the state budget has approximated a third of total expenditures.<sup>129</sup> Only in the wake of a phosphate boom, parallel to the oil boom in the early 1970s,<sup>130</sup> did social spending hike up rapidly, reaching an all-time high of 35 per cent in 1973. However, this spree was short-lived as the rapid fall of phosphate prices entailed a steady contraction of spending levels until the late 1970s. Despite a programme of economic restructuring under IMF supervision in the

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<sup>128</sup>Catusse and Zaki 2009, 188.

<sup>129</sup>See Figure 2.6a.

<sup>130</sup>Morocco holds 75 per cent of the world's phosphate reserves and is the second largest exporter worldwide.

1980s, the country kept its, admittedly underfunded, social policies intact,<sup>131</sup> and since the mid-1990s spending levels were on the rise for about a decade. Yet, again, commitment to social welfare was not sustained as demonstrated by the sharp spending drop in the mid-2000s.

This assessment is shared by a World Bank report from 2002, which notes: ‘public expenditures in social sectors, although increasing, are still (i) insufficient for lifting people out of poverty and reducing vulnerabilities; (ii) skewed toward the better-off; and (iii) inefficient.’<sup>132</sup> This bias toward the better-off is equally visible in Morocco’s weakly institutionalised and highly fragmented system of social insurance. By the mid-2000s, only one in four Moroccans was covered by a public pension scheme.<sup>133</sup> Access to health insurance was even worse, covering only 15 per cent of the entire population,<sup>134</sup> which is reflected in the the slowest decrease of child mortality in the whole sample.<sup>135</sup> Educational inequalities are also striking. Reduction of illiteracy was slow and Morocco achieved universal primary enrolment only belatedly, in the early 2000s.<sup>136</sup>

Looking at education more specifically, independence was not accompanied by a major effort to achieve mass education. On the contrary, Hassan II’s infamous declaration that he wished Moroccans had remained illiterate gives an impression of the insignificance of education for post-colonial regime building.<sup>137</sup> Expenditures thus barely increased after independence and constituted 15 to 20 per cent of the state budget from 1960 until the late 2000s.<sup>138</sup> In addition, educational policies have also been biased in favour of secondary and higher education,<sup>139</sup> which explains the comparatively slow decline of illiteracy

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<sup>131</sup>Mouline 2005, 54.

<sup>132</sup>World Bank 2002, i.

<sup>133</sup>Loewe 2010, 244.

<sup>134</sup>Catusse and Zaki 2009, 200.

<sup>135</sup>See Table 2.1.

<sup>136</sup>See Table 2.1; and World Bank 2008, 314-15.

<sup>137</sup>The literal quote reads as follows: ‘It would be better if you were illiterate because illiterates are less dangerous to the state than so-called intellectuals.’ The declaration was made when addressing the nation on 29 March 1965 in response to civil unrest in Casablanca and Rabat. See Rollinde 2002, 123.

<sup>138</sup>See Figure 2.6a.

<sup>139</sup>World Bank 2008, 33.

in Morocco.<sup>140</sup> Another factor that has contributed to the persistence of illiteracy is a particularly high dropout rate from school. According to Galal and Kanaan, only 46 per cent of all children starting school reach the final year of compulsory education.<sup>141</sup> With the ascension of Mohammed VI to the Moroccan throne in 2000, the so-called ‘King of the Poor’ placed a greater emphasis on human development, which led to an increase of education’s share in the state budget. Increased spending, however, has as yet not been able to make up the accumulated leeway over the past decades. By the mid-2000s, Morocco’s education sector remained ‘poorly funded and equipped.’<sup>142</sup>

In the field of health care, Morocco established a centralised health care system after independence, in which the state was the unique provider of health care.<sup>143</sup> Yet, in contrast to broad welfare providers, these services were not provided universally and came with prohibitively high costs for the country’s poor. To build the necessary infrastructure, health expenditures expanded during the first decade after independence, but thereafter set on a permanent decline until the late 1970s. Since then, the share of health expenditures has barely exceeded three per cent of the budget.<sup>144</sup> In contrast to broad welfare providers, health services have not been provided universally and come with prohibitively high costs for the country’s poor. Granted, to countervail negative distributive effects, the lowest income brackets have, in theory, access to subsidised health care, subject to a means-test. In reality, many poor Moroccans are unable to even afford the reduced service charges and subsidised health care reaches only five per cent of the population.<sup>145</sup> Until 2002, health insurance was not even part of the social insurance scheme; only civil servants were offered an optional complementary insurance.<sup>146</sup> This meant that, by the mid-2000s, about 80 per cent of all Moroccans had to pay their health expenses entirely out of their own pockets.

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<sup>140</sup>See Table 2.1.

<sup>141</sup>Galal and Kanaan 2010, 89.

<sup>142</sup>Sater 2010, 116.

<sup>143</sup>Belghiti Allaoui 2006.

<sup>144</sup>See Figure 2.6c.

<sup>145</sup>Loewe 2010, 251-52.

<sup>146</sup>World Bank 2001, 34.

This had visible repercussions on Morocco's human development record as mortality rates and life expectancy range at the very bottom of my sample of countries.<sup>147</sup> To remedy this situation, the government introduced compulsory health insurance alongside a tax-based scheme for low-income groups in 2006. Yet, by the end of the decade, the implementation of the law was lagging behind and very limited improvement of coverage rates had been achieved.<sup>148</sup> Considering a pension coverage of 15 per cent of the workforce, social insurance remains a privilege of the urban, formal sector, and social protection for low-income groups is limited to the subsidisation of food and energy.<sup>149</sup>

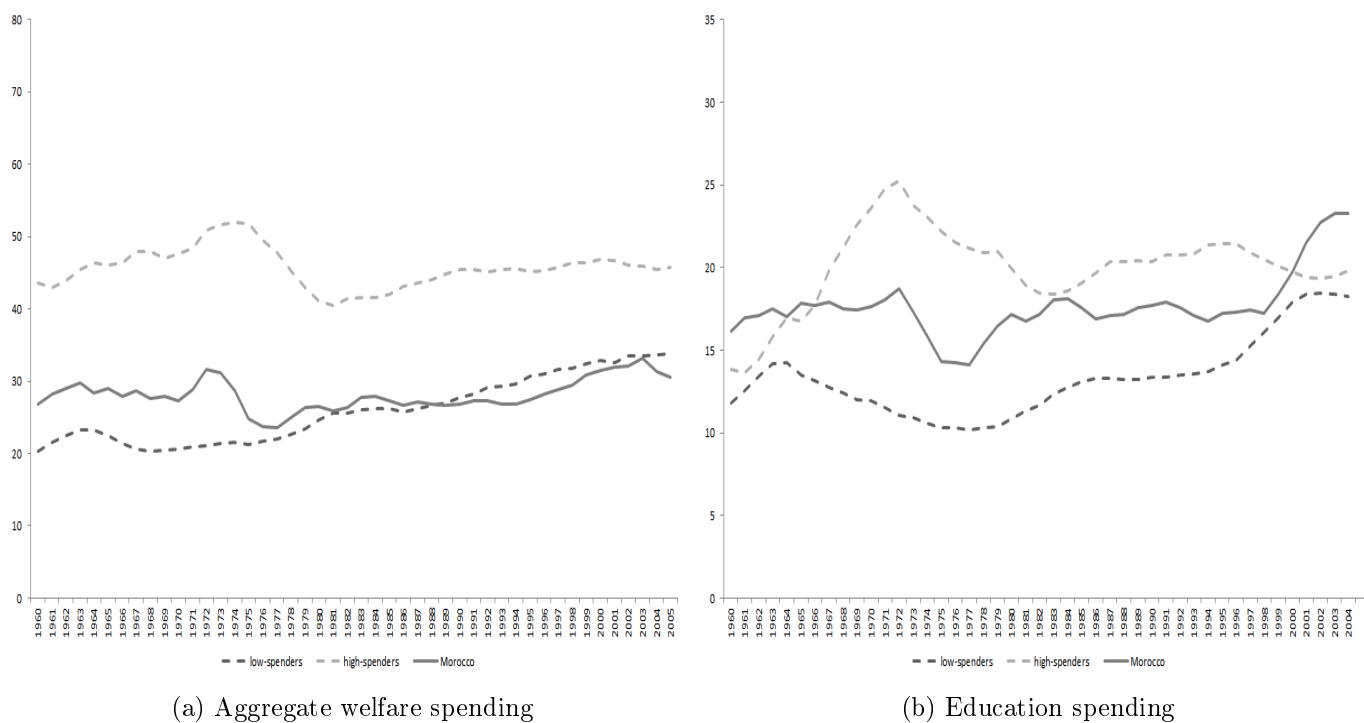
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<sup>147</sup>See Table 2.1.

<sup>148</sup>Catusse and Zaki 2009, 216.

<sup>149</sup>In 2014, the Moroccan government initiated a gradual phasing out of in-kind subsidies for energy and food.

## Minimal Welfare Provision



(c) Health spending

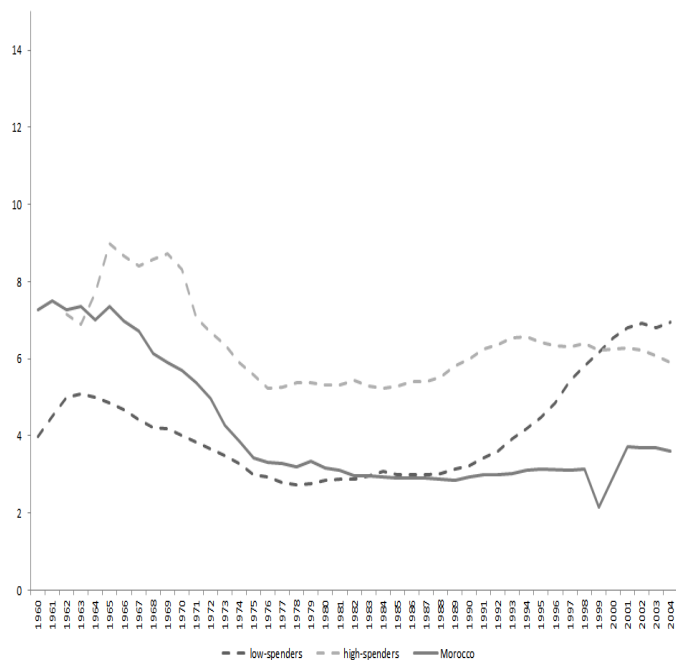


Figure 2.6: Moroccan Welfare Expenditures as % of the Budget (1960-2005)

*Note:* High-spenders include Tunisia, Algeria, and the Islamic Republic of Iran; low-spenders include Egypt, Jordan, Morocco, Syria, and Pahlavi Iran. Line plots were smoothed using a 3-year moving average. The pattern looks similar when using welfare spending as percentage of GDP.

Source: V. Lucas and Richter 2012; and IMF 2011.

## **Pahlavi Iran**

Iran under the rule of Mohamed Reza Shah Pahlavi (1953-1979) is another example of an authoritarian regime with only minimal provision of welfare. While Iran's considerable oil reserves made it by far the most affluent labour-rich MENA country – GDP per capita levels over-topped all other regimes until the late 1970s – copious oil rents did not entail high social spending. On the contrary, save the momentary spending surge in the wake of the White Revolution in the early 1960s,<sup>150</sup> welfare spending was low throughout and rarely exceeded 20 per cent of the state budget.<sup>151</sup> Contradicting prophecies of a quasi-natural link between rent income and welfare provision, spending remained flat with the onset of the oil price boom in the early 1970s and only picked up slightly when prices started to drop again by the end of the decade. Another indicator of the regime's weak commitment to welfare provision is the belated establishment of a Ministry of Social Affairs, which was set up only five years before the Shah's ouster during the Iranian Revolution.<sup>152</sup> Social insurance was also a latecomer in Iran and remained a privilege of urban white-collar employees, mainly working in the public service. By the end of the Shah's regime, Iran exhibited the slowest reductions of illiteracy and child mortality in the entire sample.<sup>153</sup> The ILO considered Pahlavi Iran one of the least egalitarian countries in the world.<sup>154</sup>

The regime's disregard for the population's welfare is particularly visible in the field of education. Although the idea of mass education had been part of the Iranian public discourse since the beginning of the 20th century and the country established its first national university in Tehran in 1934,<sup>155</sup> actual expenditures for education lay bare the regime's unwillingness to honour its political rhetoric. Compared to spending levels under

<sup>150</sup>The White Revolution was a reform and modernisation programme of the Shah, initiated in 1963, which aimed to undercut the influence of the country's landed upper class and promote social and economic development. See M. M. Milani 1994, 43-47.

<sup>151</sup>See Figure 2.7a and Messkoub 2006b, 234-35.

<sup>152</sup>Savory 1978, 120.

<sup>153</sup>See Table 2.1. As mentioned above, these estimates probably overestimate the Shah regime's performance as they are measured for a period of more rapid, early development only.

<sup>154</sup>Abrahamian 1982, 447-48.

<sup>155</sup>Messkoub 2006b, 228.



the Shah's father and predecessor, Reza Shah Pahlavi (1925-1941),<sup>156</sup> the share of education increased only slightly. Between 1953 and 1963, an average of 13 per cent of the budget was spent on education, and after a temporary hike at the beginning of the White Revolution in 1963, spending quickly reverted back to previous levels. In addition, the regime invested very little in the country's educational infrastructure, allocating less than ten per cent of all development expenditures under the Second (1955-1962) and Third Plan (1962-1967) to education.<sup>157</sup>

A more fine-grained study of spending further reveals that increasing expenditures clearly favoured higher education.<sup>158</sup> Thus, when education became compulsory and nominally free of charge in the mid-1960s, primary enrolment stood at 63 per cent.<sup>159</sup> It is true that following the establishment of so-called literacy corps in 1963, primary enrolment increased rapidly until the Shah's downfall, amounting to 2 per cent on average between 1950 and 1979.<sup>160</sup> Whilst these figures are comparatively high compared to other minimal welfare providers, they need to be nuanced. As Abrahamian reports, about 60 per cent of all school children did not finish school, which qualifies official enrolment figures.<sup>161</sup> This also explains why Pahlavi Iran achieved the slowest increase of literacy of all countries under observation, amounting to an annual average of 0.64 per cent.<sup>162</sup> On the whole, the education system was clearly biased toward higher-income groups in urban areas.<sup>163</sup>

Rural areas were also largely left out when it came to health care. Despite the creation of health corps to improve sanitary conditions in the countryside in 1964, an estimated 90 per cent of all villages still lacked access to medical facilities by the late 1970s.<sup>164</sup> Health spending never exceeded five per cent of the budget and was primarily allocated to 'pseudo-

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<sup>156</sup>Messkoub 2006b, 229.

<sup>157</sup>ibid., 233.

<sup>158</sup>Eilers 1978, 306.

<sup>159</sup>World Bank 2008, 314-15.

<sup>160</sup>See Table 2.1.

<sup>161</sup>Abrahamian 2008, 142.

<sup>162</sup>See Table 2.1.

<sup>163</sup>Katouzian 1981, 288-89.

<sup>164</sup>Halliday 1979, 120.

modernistic' prestige projects in the big cities.<sup>165</sup> As a result of this weak financial effort, Iran stood out for having one of the worst doctor-patient and hospital bed-to-population ratios in the Middle East.<sup>166</sup> In terms of child mortality, figures reveal almost no change between 1950 and 1969 and the total average reduction amounted to only 0.64 per cent a year – not even half the level of high-spenders.<sup>167</sup> Even an official government report from the late 1970s remarked that 'many of Iran's major health and medical problems remain unsolved.'<sup>168</sup>

The only reasonably protected segment of society was the army and the civil service, which had been offered social insurance schemes in 1957 and 1960 respectively, including pensions and health insurance.<sup>169</sup> In contrast, the establishment of social insurance for the private sector lagged behind. Until the mid-1970s, social protection was limited to work-related accidents and illnesses, based on a law passed before the return of the Shah in 1953.<sup>170</sup> In 1975, the regime transferred this minimal scheme for the private sector to the newly founded Social Security Organisation (SSO) and extended coverage to include pension, health, and unemployment. Coverage rates for the private sector remained relatively weak, though. Covering only four per cent of the population in the 1950s, this rate increased to about 18 per cent of the population prior to the Shah's removal.<sup>171</sup> The rural sector was legally included but, again, hardly benefited from these reforms as the government failed to carry social security into the countryside.<sup>172</sup>

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<sup>165</sup>See Figure 2.7c and Katouzian 1981, 291.

<sup>166</sup>Abrahamian 1982, 447.

<sup>167</sup>See Table 2.1 and United Nations 2012.

<sup>168</sup>Cited in Halliday 1979, 120.

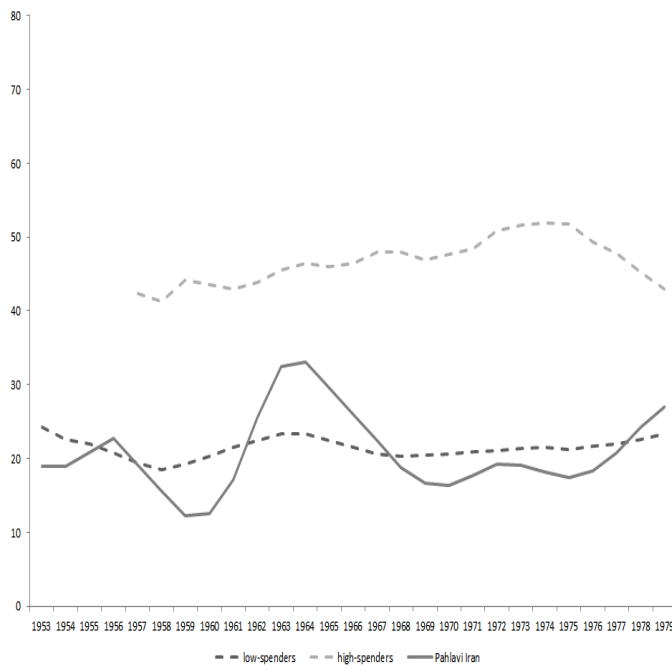
<sup>169</sup>Longuenesse, Catusse and Destremeau 2005, 26; and Messkoub 2006b, 243.

<sup>170</sup>*ibid.*, 231.

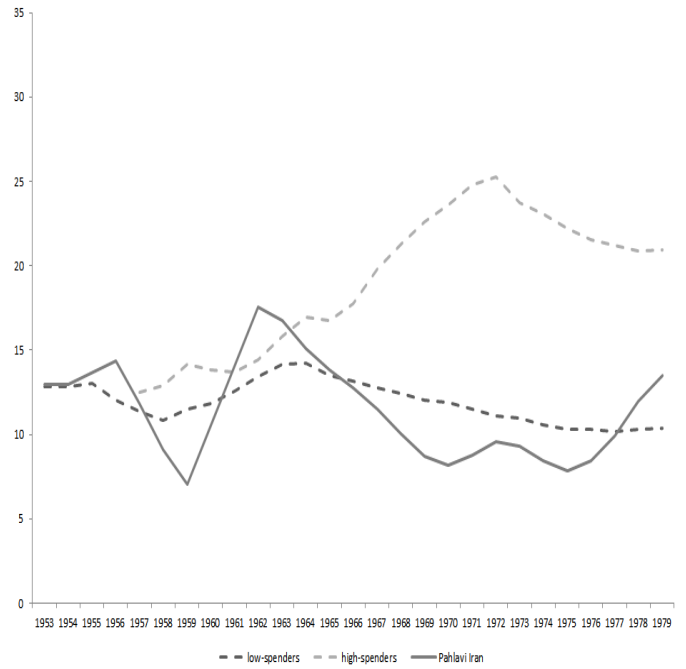
<sup>171</sup>Harris 2010a, 728-29.

<sup>172</sup>*ibid.*, 730.

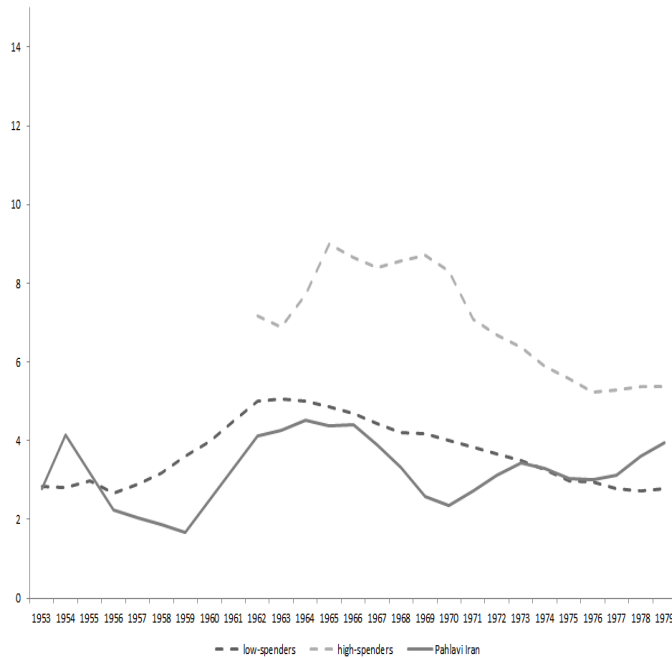
## *Minimal Welfare Provision*



(a) Aggregate welfare spending



(b) Education spending



(c) Health spending

Figure 2.7: Iranian Welfare Expenditures as % of the Budget (1953-1979)

*Note:* High-spenders include Tunisia, Algeria, and the Islamic Republic of Iran; low-spenders include Egypt, Jordan, Morocco, Syria, and Pahlavi Iran. Line plots were smoothed using a 3-year moving average. The pattern looks similar when using welfare spending as percentage of GDP.

Source: V. Lucas and Richter 2012; and IMF 2011.

## **Jordan**

The Kingdom of Jordan takes a special position among minimal welfare providers in that minimal provision coincides with a communal cleavage. This means that Jordan has been rather generous to communal ‘insiders,’ i.e. East Bankers, and much less generous to communal ‘outsiders,’ that is, Palestinian West Bankers. Having gained full sovereignty with the end of the British protectorate in 1946, Jordan’s first ruler, King Abdullah (1946-1951), only paid very scant attention to social welfare.<sup>173</sup> His grandson, King Hussein, who came to power in 1953 after a short interregnum, followed in his grandfather’s footsteps and mainly focused on foreign and defence policy, which led to ‘a deplorable neglect of internal affairs and especially the welfare of his people.’<sup>174</sup> The regime’s social policies were thus broadly in line with those of Morocco and the Shah regime, and Jordan exhibited all key characteristics of a low welfare effort. Social expenditures were low, especially in the 1950s and 1960s, and until the late 1980s always represented less than a third of the state budget.<sup>175</sup> A first seven-year development plan to improve education and health facilities was adopted only 16 years after the country had gained independence. Social security was inexistent until the late 1970s.<sup>176</sup>

Moreover, social policies were biased against Palestinians, who after the 1948 War with Israel and Jordan’s annexation of the West Bank in 1950 represented about half of Jordan’s population.<sup>177</sup> This ongoing ethnic favouritism has reinforced the exclusivist character of the Jordanian welfare regime. As Loewe argues, the targeting of social policies to key support groups has been more pronounced in Jordan than elsewhere.<sup>178</sup> Since the early 1990s, the existence of a two-tier system has been particularly visible. Whilst the conjuncture of a peace dividend, the return of more than 100,000 Jordanians in the wake of the Gulf War, and the improvement of social services to buffer the effects of IMF structural

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<sup>173</sup>Satloff 1994, 11.

<sup>174</sup>Shlaim 2007, 472.

<sup>175</sup>See Figure 2.8a.

<sup>176</sup>Aruri 1972, 178.

<sup>177</sup>Baylouny 2010, 72.

<sup>178</sup>Loewe 1998, 151.

adjustment led to an expansion of social and, in particular, health expenditures in the 1990s,<sup>179</sup> only a minority reaped the benefits of this spending spree. The spending hike, which abated in the early 2000s as Jordan reverted to levels comparable to other minimal welfare providers, was predominantly driven by more generous social benefits to civil servants – a sector which has historically been dominated by East Bankers.<sup>180</sup> Especially the military personnel and their families benefited from this new largesse as social services for this, already, privileged group were further enhanced.<sup>181</sup> Thus, instead of extensive universalism, the Jordanian welfare regime, unlike others, has been marked by intensive particularism and a remarkable generosity toward the country's armed forces.

In the field of education, policies were haphazard and spending increased only piecemeal.<sup>182</sup> In the wake of two wars with Israel in 1967 and 1973, education was nearly squeezed out of the budget, with spending levels reaching an all-time low of six per cent in 1973. Although spending recuperated and increased until the early 1990s, education was by the mid-2000s still no priority in the state budget. In addition, the establishment of the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) in 1949 allowed the regime to outsource the education of the Palestinian population to an international agency, which provided free education to all Palestinian refugees. This explains why primary enrolment rates jumped by about 30 per cent between 1950 and 1955.<sup>183</sup> Given the country's meagre performance to increase primary enrolment thereafter – primary enrolment growth after 1955 was the lowest in the entire sample<sup>184</sup> – Jordan's performance would have looked much more like Morocco's without the presence of UNRWA. The influx of the much better educated Palestinian refugees also boosted Jordan's literacy levels,<sup>185</sup> which have been comparatively high given the regime's spending levels. In terms

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<sup>179</sup>See Figures 2.8a and 2.8c.

<sup>180</sup>Baylouny 2008, 281.

<sup>181</sup>ibid., 301.

<sup>182</sup>See Figure 2.8b.

<sup>183</sup>World Bank 2008, 314-15.

<sup>184</sup>See Table 2.1.

<sup>185</sup>Ayal and Chiswick 2013, 866.

of literacy growth, Jordan clearly ranks below rates of high-spenders.<sup>186</sup>

Educational outsourcing intensified in the late 1980s when the regime decided to alleviate the financial burden of education by encouraging private education and shifting the financial burden onto citizens.<sup>187</sup> Between 1983 and 2003, the private enrolment share in primary education increased from 7.8 to 29.9 per cent. For secondary education, shares increased from zero to 16.6 per cent in the same period.<sup>188</sup> In cooperation with the World Bank, the Jordanian government also initiated a reform of higher education starting in 2000,<sup>189</sup> which has led to a significant hike of tuition fees for students.<sup>190</sup> While higher education is essentially free of charge for members of the military and their families,<sup>191</sup> tuition fees represented, overall, 65.6 per cent of universities income in late 2000s.<sup>192</sup>

The health sector has followed a similar trajectory. Apart from a spending surge following the Six-Day War in 1967, health expenditures represented only a minimal share of the state budget until the late 1980s, consuming about 4 per cent on average.<sup>193</sup> In the 1990s, the provision of health care improved as a result of higher expenditures and development loans from the World Bank.<sup>194</sup> Access to health care has remained unequal, however, and clearly privileged public sector employees and the army, both dominated by East Bankers. For instance, 25 per cent of the population use the Royal Health Services, created in 1963, which provide high-quality health care to members of the army and their dependants.<sup>195</sup> In 1965, the government introduced Civic Health Insurance which provides coverage to another 25 per cent of the population working in the public sector.<sup>196</sup> Low-income groups have, in theory, access to subsidised health care, yet even these

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<sup>186</sup>See Table 2.1.

<sup>187</sup>Baylouny 2010, 56.

<sup>188</sup>World Bank 2008, 332-34.

<sup>189</sup>Knowles 2005, 110.

<sup>190</sup>World Bank 2008, 191.

<sup>191</sup>Baylouny 2010, 54.

<sup>192</sup>Galal and Kanaan 2010, 32.

<sup>193</sup>See Figure 2.8c.

<sup>194</sup>Knowles 2005, 110.

<sup>195</sup>CERMOC 1992, 123.

<sup>196</sup>Baylouny 2008, 297.

reduced fees are often unaffordable.<sup>197</sup> This means that, by the mid-2000s, about 50 per cent of the population had to pay their health care expenses entirely out of their own pockets.<sup>198</sup> Restricted access to health care is reflected in Jordan's outcome performance, with improvements of life expectancy and child mortality ranging at the lower end of the spectrum.<sup>199</sup>

The same holds true for pension coverage, which has only been accessible for an elite of the country's workforce. The establishment of a state pension fund for the public sector occurred late, in 1977, which is why pension coverage was limited to about a third of the workforce until the mid-1980s.<sup>200</sup> Yet even the creation of the Social Security Cooperation (SSC) for private sector employees in 1980 did not significantly increase coverage levels, mainly because the subscription to the SSC has long been limited to large businesses and no concerted effort to reach into the informal sector has been undertaken.<sup>201</sup> In the 2000s, the SSC only covered about a quarter of the country's workforce.<sup>202</sup> Conversely, 45 per cent of Jordan's workforce did not have access to a pension scheme, private or public. Subsidies for food items and electricity have thus been the only social protection measure with universal access.

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<sup>197</sup>Loewe 2010, 252.

<sup>198</sup>ibid., 251.

<sup>199</sup>See Table 2.1.

<sup>200</sup>Loewe 1998, 151.

<sup>201</sup>CERMOC 1992, 124. At the time of writing, a reform bill of the SSC aiming to enlarge social security coverage is under discussion.

<sup>202</sup>Baylouny 2010, 58.

## Conclusion

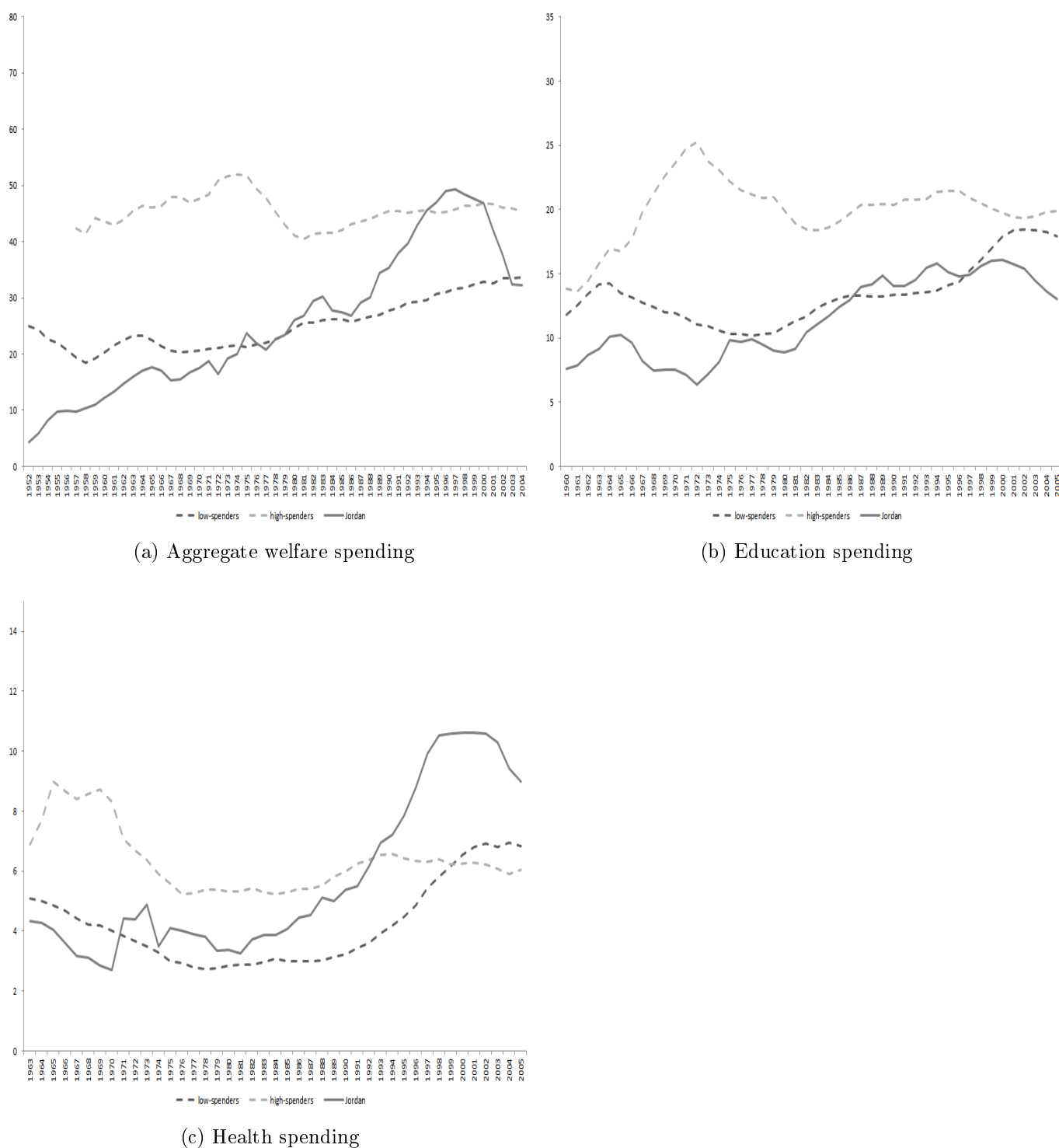


Figure 2.8: Jordanian Welfare Expenditures as % of the Budget (1952-2004)

*Note:* High-spenders include Tunisia, Algeria, and the Islamic Republic of Iran; low-spenders include Egypt, Jordan, Morocco, Syria, and Pahlavi Iran. Line plots were smoothed using a 3-year moving average. The pattern looks similar when using welfare spending as percentage of GDP.

Source: V. Lucas and Richter 2012; and IMF 2011.



## IV. CONCLUSION

This chapter has presented a descriptive argument about the divergent welfare trajectories of labour-abundant MENA regimes. Based on my typology of three distinct types of welfare provision— broad and generous, broad, and minimal – the chapter has mapped out the different welfare trajectories of my eight cases and, by doing so, laid important groundwork for the analysis to come. The key findings are presented in Table 2.1 below and can be summarised as follows:

First, based on the foregoing description, the use of social spending data as a first-hand criterion to distinguish welfare efforts in the region seems warranted. High-spenders, such as Tunisia, Algeria, and the Islamic Republic of Iran, have not only allocated more resources to social welfare; their social policies have also reached out to large segments of the population. They all established complex systems of social security that cover not only white-collar, urban middle classes, but also encompass important segments of the rural and informal sector. Ranging between 66 and 90 per cent of the workforce, the coverage rates of both pension and health insurance schemes are by far the highest in the whole sample. Regarding health care in particular, all high-spenders have ensured universal access to health care by providing far-reaching social security coupled with free or highly subsidised health care for those without coverage. This has had noticeable repercussions on the countries' health outcomes. In terms of life expectancy and child mortality, the three high-spenders have witnessed the fastest improvements across all observed cases. They have also achieved the fastest changes of enrolment and literacy rates. The latter two points further demonstrate a strong link between consistently high spending levels and desired social outcomes.

Second, among low-spenders, the question of access to social policies represents an important criterion to distinguish broad from minimal welfare providers. Whilst both groups have allocated considerably less to welfare than their high-spending counterparts, broad welfare providers have ensured greater accessibility of their social policies and thereby

managed to provide welfare more widely among their populations. This is particularly visible in the area of health care. In contrast to Morocco, Pahlavi Iran, and Jordan, Syria and Egypt have established a system of universal health care provision. Though lacking in terms of quality as a result of low spending, their public health care system has ensured free access for low-income groups, with sizeable impacts in their health outcomes. Child mortality rates dropped remarkably faster in Egypt and Syria than other low-spenders, which ranks them right in-between authoritarian welfare states and minimal provision regimes. The picture is similar for expansion of enrolment and literacy. And their social security systems exhibit higher coverage rates than all other low-spenders, except for Jordan. On closer inspection, Syria features hybrid elements between restricted and universal access stemming from the communal nature of the regime coalition. Yet considering access restrictions in all areas of social protection in minimal providers, Egypt and Syria stand out as a distinctive type of broad welfare provision.

Third, despite the variability of social spending revealed by the spending plots, the chapter emphasises persistence of welfare trajectories more than anything else. To be sure, high-spenders have at times weakened their effort in the face of adverse economic conditions; and low-spenders have at times boosted their social expenditures to levels characteristic of high-spenders, in particular when looking at education and health spending more specifically. However, it is important to note that these ups and downs have generally been followed by reversal to previous spending patterns, such as happened in the mid-2000s in Jordan. By the mid-2000s, aggregate welfare expenditures in authoritarian welfare states were on average 15 per cent higher than in low-spenders. In the mid-1950s, this difference had stood at 20 per cent – a mere improvement of 5 percentage points of low-spenders over five decades. Moreover, if we take into consideration social insurance schemes and outcomes, the divergence becomes even more pronounced as none of the low-spenders has managed to catch up with the coverage and outcome performance of high-spenders. Granted, regimes like Jordan have established relatively generous systems

### *Conclusion*

of welfare provisions for regime ‘insiders;’ yet this comes at the expense of the welfare provision to the population as a whole. In total, it is a story of long-term, persistent divergence that emerges from the foregoing analysis – not one of gradual convergence.

Regime	Type of Welfare Provision	Social Spend- ing	Extent of Social Protection		Education Performance				Health Performance	
			<i>Pension entitlement (%) of work-force)</i>	<i>Access to health care, insurance coverage (%) of workforce)</i>	<i>Average Annual Growth of primary enrol-ment in %</i>	<i>Average annual growth of secondary enrol-ment in %</i>	<i>Average annual growth of primary and secondary education in %</i>	<i>Average annual growth of literacy in %</i>	<i>Average annual reduction of child mortality in %</i>	<i>Average annual change of life expectancy in %</i>
Tunisia	Broad and generous	High	80	Universal, 85	3.56	1.40	2.48	1.23	-5.45	1.13
Algeria	Broad and generous	High	80	Universal, 80	1.80	1.56	1.68	1.37	-4.57	0.83
Islamic Republic of Iran	Broad and generous	High	66	Universal, 90	2.20	1.77	1.99	1.31	-5.52	0.88
Egypt	Broad	Low	55	Universal, 55	0.97	1.75	1.36	0.86	-4.97	0.75
Syria	Broad-minimal hybrid	Low	35	Universal, 35	1.44	0.66	1.05	1.11	-4.63	0.65
Morocco	Minimal	Low	22	Restricted, 16	1.62	0.83	1.23	0.87	-3.84	0.73
Pahlavi Iran	Minimal	Low	18	Restricted, 18	1.98	1.01	1.50	0.64	-2.41	0.85
Jordan	Minimal	Low	50	Restricted, 50	0.65	1.54	1.10	1.16	-3.95	0.65

Conclusion

Table 2.1: Summary of Welfare Provision in Labour-Abundant MENA Regimes  
*Note:* Education performance based on the following time periods: Tunisia 1955-2000, Algeria 1965-2000, Islamic Republic of Iran 1980-2000, Egypt 1950-2000, Syria 1965-2000, Morocco 1955-2000, Pahlavi Iran 1950-1980, Jordan 1955-2000. Health performance is based on the time period from 1960 to 2010, except for Iran where the period from 1950 to 1980 is used for the Pahlavi regime, and the period from 1980 until 2010 for the Islamic Republic.  
Source: World Bank 2008; Abrahamian 2008, 142; United Nations 2012; Loewe 2010; Harris 2010a; and Harris 2013.

# 3

## Divergent Paths: The Coalitional Origin of Authoritarian Welfare States

This chapter begins the empirical investigation of my argument. Macro-comparative in nature, it links the outlined theoretical framework and the variation of welfare provision with the historical evidence of patterns of regime formation in the MENA region. Analysing the genesis of regime coalitions in their specific geostrategic context, this chapter explores to what extent my theoretical framework captures the divergent patterns of regime formation and welfare efforts in labour-rich MENA countries. It demonstrates that foundational intra-elite crises that pitted rival elite groups against each other crucially affected the shape of regime coalitions and hence the incentives for elites to provide social welfare. Elites are thus the central actor in this chapter, whose struggle for power had tremendous and long-lasting consequences for the structure of the regimes they strove to build. Besides intra-elite conflict, this chapter emphasises the formative impact of communal cleavages on the size of regime coalitions. Salient communal cleavages are found to undermine the formation of broad coalitions, prompting elites to form lopsided coalitions characterised by communal favouritism. It further demonstrates that the ability to effectively hand out welfare goods was conditioned by external threat and available resources.

By establishing the moment of coalition formation as a moment of divergence placing the eight regimes on different trajectories, the analysis substantiates my theoretical argument about the coalitional origin of authoritarian welfare states.

The chapter is organised as a structured focussed comparison of regime formation and its geostrategic context in my eight cases. Building on the variation of welfare provision established in the previous chapter and summarised in Table 3.1 below, it is possible to formulate clear expectations about the pattern of coalition formation in my eight regimes. Specifically, each case narrative systematically answers the same set of questions to assess whether my argument broadly holds in light of the empirical pattern. With regard to regime formation, I first assess whether the causal conditions were present and, secondly, whether there is evidence of the expected causal effect. Did intra-elite conflict occur, was it intense, and is there any evidence that it entailed a broadening of the initial coalitions? If elites managed to avoid major conflict, what were the sources of elite cohesion? Similarly, were there ethnic cleavages, were they salient, and did they affect coalition size in the expected manner? Importantly, I also seek to ascertain that coalitions were not broad prior to intra-elite conflict, which would confound my theoretical argument. Likewise, regarding the geostrategic context, I analyse whether a severe external threat existed at the moment of regime formation, whether it was perceived as a threat to regime survival, and whether it had noticeable financial repercussions. Finally, the presence and effect of resource endowment is examined in the same way.

In the explanatory logic of this thesis, the chapter represents a necessary empirical hurdle the proposed argument has to clear. Certainly, the chapter is not meant to substitute for a detailed analysis of the causal link between coalitions and welfare distribution, which will be the subject of later chapters. However, before delving into in-depth case studies, it seems appropriate to assess whether the theory broadly holds in view of the historical genesis of these eight regimes. Building on a broad range of secondary and a few primary sources, the evidence presented in the following narrative is not entirely novel.

Yet its reassessment in the light of my theory certainly is.

The remainder of the chapter proceeds as follows. Section 1 demonstrates how intra-elite conflict and communal cleavages jointly shaped authoritarian regime coalitions. Section 2 analyses the geostrategic context in which these regimes emerged. Section 3 concludes this chapter.

<b>Regime</b>	<b>Welfare Provision</b>	<b>Expected Pattern of Coalition Formation</b>	<b>Expected Geostrategic Context</b>
Algeria	broad and generous	intra-elite conflict, no communal cleavages	no threat and/or abundant resources
Egypt	broad	intra-elite conflict, no communal cleavages	threat and scarce resources
The Pahlavi regime	minimal	no intra-elite conflict and/or presence of communal cleavages	no expectation
The Islamic Republic of Iran	broad and generous	intra-elite conflict, no communal cleavages	no threat and/or abundant resources
Jordan	minimal	no intra-elite conflict and/or presence of communal cleavages	no expectation
Morocco	minimal	no intra-elite conflict and/or presence of communal cleavages	no expectation
Syria	minimal/broad	no intra-elite conflict and/or presence of communal cleavages	no expectation
Tunisia	broad and generous	intra-elite conflict, no communal cleavages	no threat and/or abundant resources

Table 3.1: Outcomes and Expected Pattern of Regime Formation in Context



I. ELITE CONFLICT, COMMUNAL CLEAVAGES, AND THE FORMATION OF REGIME  
COALITIONS

This section demonstrates how elite conflict and communal cleavages critically affected the size of authoritarian regime coalitions. The variation of these conditions across my eight cases is such that all possible combinations are empirically observed, which make the MENA sample an interesting ground for theory generation (see Table 3.2). Whilst maintaining the conceptual distinction between broad and narrow coalitions, analysing the eight cases along these two dimensions enables me to present a slightly refined pattern of regime formation.

Tunisia, Egypt, the Islamic Republic of Iran, and Algeria all represent cases of a broad, cross-class coalition. As the following narratives set out to show, rivalry among those vying for power gave elites in these regimes a strong impetus to the formation of broad coalition in an attempt to outcompete one's rival. This process was unaffected by communal cleavages, which were either absent (Tunisia), not salient (Algeria, Morocco), or the sidelined community was too small (Egypt) to trigger an ethnic narrowing of the coalition.

Morocco and the Pahlavi regime represent cases of cohesive elites who did not feel compelled to build a strong support base among the wider population, leading to what I call 'rule of the court.' This expression takes account of the fact that all MENA cases falling in this category established monarchical regimes. However, it is important to point out that the determining factor was not regime type *per se* but, rather, the intra-elite dynamics underlying it. Morocco, in particular, is an interesting case as intra-elite conflict did occur but coercive capacity between the two elite groups was so unevenly distributed, that the royal camp could deal with their rivals using repression, rather than engaging in coalition building.

Finally, Syria and Jordan both underline the importance of communal cleavages for

coalition formation. While intra-elite conflict encouraged Syrian elites to build a cross-class coalition, the salient ethnic cleavages in the country meant that this coalition was ‘under-sized’ and lop-sided in favour of ethnic minorities, most notables the Alawites. Though narrow in nature, the specific pattern of regime formation explains why social policies in Syria exhibit elements of broad, universalist welfare provision, as shown in the previous chapter. Jordan, on the other hand, represents a case of highly cohesive elites coupled with a salient ethnic cleavage between East Bankers and Palestinians. This incentive structure elucidates the particular pattern of social policies outlined earlier, consisting in particularistic social policies targeting strategic groups of a specific ethnic community.

		<b>Communal Cleavages</b>	
		Salient	Not Salient
<b>Intra-elite Conflict</b>	High	Syria	Tunisia Egypt Islamic Republic of Iran Algeria
	Low	Jordan	The Pahlavi regime Morocco

narrow coalition  
broad coalition

Table 3.2: Coalition Formation in Labour-Abundant MENA Regimes

### **Rivalling Elites in the Absence of Communal Cleavages: Broad Cross-class Coalitions**

#### *Tunisia*

The Tunisian regime was based on a labour-middle class coalition that, unaffected by ethno-religious cleavages, included a large cross-section of the population and provided the regime with a strong incentive for welfare provision. Elite conflict is crucial to understand

the emergence of this coalition and the unfolding the post-independence regime formation provides strong evidence in favour of my argument about coalition formation.

First of all, intra-elite conflict occurred and it was intense. When the two leaders of the Tunisian nationalist movement, Habib Bourguiba and Salah Ben Youssef, clashed during the second half of 1955 over the leadership of the country, Tunisia was brought to the brink of civil war.<sup>1</sup> More than 1,000 people lost their lives in the brutal intra-elite strife, representing more than twice as many victims as during the whole struggle for independence between 1953 and 1955.<sup>2</sup> When the conflict turned into an armed rebellion launched by the supporters of Ben Youssef in late 1955, the French deployed heavy artillery and air force in support of Bourguiba.<sup>3</sup> Vigilance committees, set up by the Bourguibist camp, assaulted and tortured purported supporters of Ben Youssef.<sup>4</sup> The end of the French protectorate was thus marked by ‘a profound crisis among the elites that had fought for the liberation of the country.’<sup>5</sup>

At its heart, the antagonism between Bourguiba and Ben Youssef was driven by their ambition to become the sole leader of the national movement, represented by the Neo-Destour party. Given that the Neo-Destour clearly was a mass party,<sup>6</sup> it might be argued that a broad coalition already existed before the outbreak of elite conflict. To see that this was not the case, it is important to bare in mind the state of the Neo-Destour party on the eve of independence. On the one hand, recent historiographical research suggests that repeated French crackdowns had severely weakened the party since the late 1940s.<sup>7</sup> French intelligence reports noted a serious regression of the party’s activities coupled with increas-

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<sup>1</sup>Both historical protagonists, such as the former Ministers Ahmed Ben Salah and Ahmed Mestiri, and academics have used the term civil war to describe the conflict opposing Ben Youssef and Bourguiba. See Borsali 2008, 35; A. Mestiri 1999, 91; Alexander 2010, 34; and Rudebeck 1967, 37.

<sup>2</sup>Bessis and Belhassen 1988, 170-71. See also Charfi 1989, 60.

<sup>3</sup>Bessis and Belhassen 1988, 164.

<sup>4</sup>Sghaier 2011, 61.

<sup>5</sup>Kraïem 2011, 168.

<sup>6</sup>Estimates of the party’s membership range from 200,000 to 325,000. See Oualdi 1999, 70-71; and Kraïem 2011, 13.

<sup>7</sup>Borsali 2008, 19.

ing conflict among its leadership following their crackdowns,<sup>8</sup> to the extent that the French expected an implosion of the Neo-Destour in 1949.<sup>9</sup> Besides, it has been shown that the resistance groups (*fellaghas*), recruited from the rural poor in the south of Tunisia, were not under direct control of the party.<sup>10</sup> On the other hand, the depiction of the party as a broad cross-class movement needs to be qualified. Analysing the party's register of members, Kraïem estimates that about 70 per cent of the party's followers were small merchants and artisans.<sup>11</sup> Likewise, in April 1955 the upper echelons of the party were mainly composed of merchants, artisans, and small landowners.<sup>12</sup> Notably, the party's leadership comprised only one worker.<sup>13</sup> The situation Bourguiba and Ben Youssef thus found upon their return in summer 1955 was an enfeebled Neo-Destour with a considerably narrowed social base.

Regarding ethnic cleavages, Tunisia lacked a significant ethnic or linguistic divide,<sup>14</sup> and (pre-)colonial state formation had effectively weakened tribal organisations and thereby brought about the outlines of a stable national community with clearly recognised boundaries.<sup>15</sup> Compared to other countries in North Africa, a berberophone population was 'virtually non-existent',<sup>16</sup> which reinforced the sense of communal cohesion among the population. Therefore, Bourguiba and Ben Youssef were able to form their support coalitions in the absence of any salient communal cleavage.

As for the link between elite conflict and the broadening of coalitions, the strategic behaviour of both actors clearly demonstrates how they were looking for allies to outcompete each other. In this process, both protagonists built coalitions that reflected different socio-economic constituencies of Tunisian society.<sup>17</sup> Ben Youssef pitched his rejection of

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<sup>8</sup>Kraïem 2011, 21.

<sup>9</sup>Oualdi 1999, 31.

<sup>10</sup>Sghaier 2010, 58.

<sup>11</sup>Kraïem 2011, 29.

<sup>12</sup>*ibid.*, 28.

<sup>13</sup>*ibid.*, 28.

<sup>14</sup>C. H. Moore 1970, 324.

<sup>15</sup>Charrad 2001, 89.

<sup>16</sup>*ibid.*, 201.

<sup>17</sup>Anderson 1986, 233; and S. J. King 2010, 77.

autonomy offered by the French in a pan-Arab nationalist tone, which resonated well within large segments of society and the Neo-Destour.<sup>18</sup> French military intelligence estimated that 40 per cent of the party supported Ben Youssef, who could also claim the support of the biggest party federation in the country's capital city.<sup>19</sup> Hailing from a Djerban merchant background, Ben Youssef, furthermore, managed to secure the support of Tunisia's traditional economic elite, mostly merchants and large landowners whose business unions he had helped to set up in the 1940s.<sup>20</sup>

Pledging to preserve a constitutional monarchy after independence, he was also able to gain the favour of the Tunisian aristocracy, along with the country's traditional religious establishment represented by the Zaituna Mosque and its various satellite institutions in the country.<sup>21</sup> The latter provided a particularly powerful network through which he could mobilise his supporters throughout the country.<sup>22</sup> Although being predominantly upper-class in nature, his coalition also comprised sectors of the rural poor, mainly recruited from the *fellagha* movement, and a young urban lumpen-proletariat.<sup>23</sup> In a show of force, Ben Youssef gathered 20,000 supporters in the central stadium of Tunis prior to the Neo-Destour's national congress in November 1955, which underlines his popularity and organisational capacity alike.

In view of the extensive support enjoyed by Ben Youssef, Bourguiba seemed to be in the weaker position in autumn 1955. His core social base was predominantly lower middle-class and consisted of petit bourgeois landowners and merchants from the Sahel region.<sup>24</sup> The leadership of the Neo-Destour also supported Bourguiba, while the party's rank and file was deeply divided. Tunis, the capital city, was in the grip of the Youssefist camp. Bourguiba, moreover, had no security apparatus at hand as the police force still remained under the

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<sup>18</sup>Alexander 2010, 33.

<sup>19</sup>SHAT n.d. and Alexander 2010, 38.

<sup>20</sup>Erdle 2010, 60; Toumi 1989, 25; and Bessis and Belhassen 1988, 158.

<sup>21</sup>Kraïem 2011, 68.

<sup>22</sup>Sghaier 2010, 93.

<sup>23</sup>Micaud, L. C. Brown and C. H. Moore 1964, 91.

<sup>24</sup>Anderson 1986, 232.

control of the French authorities, which were, at least initially, reluctant to clearly side with Bourguiba.<sup>25</sup> The arabophone press and most nationalist organisations affiliated with the Neo-Destour also backed Ben Youssef. Bourguiba thus ‘desperately needed support.’<sup>26</sup> In this decisive moment, he turned to the *Union générale tunisienne du travail* (Tunisian General Labour Union; UGTT), the country’s second most powerful organisation, seeking to garner labour’s support against Ben Youssef.

Labour was, by no means, a natural ally for Bourguiba. Within the UGTT, the choice of the ‘right’ camp was hotly debated. As the only political actor in the country, the UGTT had outlined an extensive programme of social and economic reforms, and the union was discerning with whom it would be able to realise most of its socio-economic goals.<sup>27</sup> What is more, Bourguiba had insinuated that he would opt for a liberal economic policy after independence, which ran counter to the UGTT’s economic and social programme. Bourguiba was thus not considered particularly pro-labour and he himself worried that the UGTT would alienate liberal middle-class supporters.<sup>28</sup>

Why, then, an alliance with Bourguiba? Essentially, the UGTT brought itself to side with Bourguiba because of the strong pro-business constituency in Ben Youssef’s camp. Ben Youssef’s alliance with large landowners deeply antagonised the labour union. And although Bourguiba was not euphoric about their left-wing ideas, an alliance with him appeared more promising to implement social reforms.<sup>29</sup> Gaining the UGTT’s support, in turn, afforded Bourguiba a much broader support coalition, bringing in scores of agricultural and industrial workers as well as civil servants, mostly teachers, that could be mobilised against Ben Youssef.

In sum, it was intense intra-elite conflict in the aftermath of independence that brought about broad cross-class coalition and afforded labour the role as the ‘king-maker.’<sup>30</sup> Under

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<sup>25</sup>C. H. Moore 1965, 68.

<sup>26</sup>Alexander 1996, 83-84.

<sup>27</sup>Oualdi 1999, 38.

<sup>28</sup>Alexander 2010, 38-39

<sup>29</sup>Oualdi 1999, 39-40.

<sup>30</sup>Bellin 2002, 91.

strong influence of the trade union, this coalition would be at the origin of the country's authoritarian welfare state.

*Algeria*

The Algerian regime coalition bears strong similarities to the Tunisian case. Cross-class in nature, the Algerian regime as it emerged in the post-independence period crucially relied on the support of labour and lower middle classes. Likewise, the fact that independence was officially won by a national liberation front, the *Front de libération nationale* (National Liberation Front; FLN), should not obliterate the fact that a viable, broad coalition emerged only after independence, not prior to it. It was the inability of the country's elites to remain cohesive and divide power amongst themselves that made them reach out to large segments of the population. This inability can be explained by the divisive impact that the Algerian struggle for independence had on the country's elites.

Historically, the nationalist movement had emerged in different stages which brought about consecutive generations of nationalist elites with increasingly radical demands.<sup>31</sup> These differences in political socialisation coupled with varying degrees of repression by the French authorities explain why the FLN, which led off the military liberation from colonialism in 1954, was not a broad-based, cohesive movement.<sup>32</sup> Organised as a loose platform without a unitary organisational structure, the FLN's cohesion was further aggravated by the war of independence. Guerilla warfare against the French army necessitated decentralised command structures divided into regional command centres (*wilayas*).<sup>33</sup> Militarily defeated on Algerian ground in 1958, the *Armée de libération nationale* (National Liberation Army; ALN) came to operate outside Algeria, on Moroccan and Tunisian territory.<sup>34</sup>

Furthermore, cleavages also emerged between the political and the military leader-

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<sup>31</sup> Quandt 1969.

<sup>32</sup> Ruedy 2005, 180; and Connelly 2002, 207.

<sup>33</sup> Charrad 2001, 174.

<sup>34</sup> Financially supported by Egypt under Nasser and tolerated by the Moroccan and Tunisian authorities, the ALN amassed by the end of the war about 32,000 soldiers outside Algerian territory.

ship within the FLN. As the general staff of the external army grew in influence, the *Gouvernement provisoire de la République algérienne* (Provisional Government of the Algerian Republic; GPRA) – the country’s exile government formed in 1958 – was struggling to maintain its eroding authority in the face of military competitors.<sup>35</sup> Finally, a few months before granting Algeria independence, France released five historical leaders of the FLN, among them future President Ahmed Ben Bella, whom it had captured in 1956. Despite lacking a power base inside the country, these men, in particular Ben Bella, still claimed a leadership position in the FLN.

Four distinct groups were thus contending for power on the eve of Algerian independence: the internal *wilaya* fighters, the ALN’s general staff, the GPRA, and the historical leaders, especially Ben Bella. Aligning himself with the general staff, the latter entered the country from Morocco and established the Tlemcen Group, composed of himself, the general staff, and a group of former members of the GPRA. The GPRA entered the country on the East, formed the Tizi Ouzou Group in the capital of Kabylia, and laid claim to the political leadership of the country. The ensuing conflict between the two groups was intense. The ‘fratricidal struggle for power’<sup>36</sup> that emerged between the two groups claimed more than 1,000 lives. In the capital Algiers only the intervention of the war-weary population prevented further bloodshed.<sup>37</sup>

Regarding ethnic cleavages, the fact that the Tlemcen Group was entirely Arab whilst the Tizi Ouzou Group comprised large numbers of berberophone Kabyles has been interpreted by some authors as a sign of a salient communal cleavage.<sup>38</sup> However, the majority of the historiographical literature denies the presence of inter-communal strife in the aftermath of Algerian independence.<sup>39</sup> Beberist ideas played no role in the internal power struggle within the FLN and Berberism as an issue never resonated with the post-

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<sup>35</sup> Quandt 1972, 294.

<sup>36</sup> Lowi 2009, 76.

<sup>37</sup> Willis 2012, 57.

<sup>38</sup> Charrad 2001, 177; and Heggoy 1970, 21.

<sup>39</sup> See, amongst others, Quandt 1972; and H. Roberts 2001.



independence political elite.<sup>40</sup> While my theoretical argument predicts serious collective action dilemmas in the presence of salient communal cleavages, Quandt notes that ‘Berbers were no more likely to collaborate with one another than they were with the like-minded Arabs [and] fought one another almost as passionately as they fought Arab rivals for power.’<sup>41</sup> Therefore, it is safe to conclude that the existence of two ethno-linguistic communities did not undermine the building of a broad regime coalition in post-war Algeria.

Coalition building unfolded in two stages. In late 1962, the two ad-hoc coalitions represented by the Tlemcen and the Tizi Ouzou Group confronted each other in a series of military battles, which ended in the capitulation of the Tizi Ouzou Group. This victory heralded another round of intra-elite conflict within the Tlemcen group, with Ahmed Ben Bella as its key protagonist. The link between intra-elite conflict and the enlargement of coalitions is particularly visible at this stage. Although being one of the historic leaders of the Algerian nationalist movement, Ben Bella lacked an established support base within Algeria due to his long captivity in France (1956 until 1962). Thus, when Ben Bella became head of government in September 1962, he was clearly in need of supporters.

Similar to Bourguiba in Tunisia, Ben Bella turned first to labour, represented by the *Union générale des travailleurs algériens* (General Union of Algerian Workers; UGTA), to consolidate his position in power. During the power struggle between the Tlemcen and the Tizi Ouzou group, the UGTA had stood on the sidelines and with an estimated membership of 300,000 unionists, it was clearly an important ally to win over.<sup>42</sup> It is important to note that this move was strategically and not ideologically motivated. Underlining the strategic aspects of this alliance with the working class, Alexander notes that the bargain with labour came about because ‘the new government needed labor’s support against internal rivals.’<sup>43</sup>

A key element of Ben Bella’s strategy to win over labour was his support for the

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<sup>40</sup>Quandt 1972, 228.

<sup>41</sup>ibid., 287.

<sup>42</sup>D. Ottaway and M. Ottaway 1970, 7.

<sup>43</sup>Alexander 1996, 99. See also Lowi 2009, 79.

*autogestion* (self-management) movement that had emerged in the immediate aftermath of the war. In reaction to the rapid flight of European entrepreneurs and landowners, workers occupied vacant factories and agricultural estates and established self-management committees. As the movement lacked clear leadership,<sup>44</sup> Ben Bella seized the opportunity to release a series of decrees in March 1963 which aimed at regularising and protecting the movement. Not coincidentally, Ben Bella issued the decrees at a moment when he was embroiled in an exacerbating struggle with Mohamed Khider, the head of the FLN.<sup>45</sup> Ben Bella's endorsement of the movement thus afforded him a surge in popularity and put him in a position to sideline Khider shortly after the enactment of the decrees.<sup>46</sup>

Having sidelined most competitors within the FLN, Ben Bella eventually took on the last remaining autonomous institution: the army. Seeking to undermine Boumediene, he gradually began to purge ministries and the general staff from Boumediene's supporters and thereby delimit their influence within government. When he threatened to dismiss Boumediene himself, the latter decided to forcefully depose Ben Bella in a coup that was carried out in June 1965. Suspending the constitution, Boumediene established a military government, the Council of the Revolution. He also relegated the ruling party FLN to a position of political insignificance, dislodging, in essence, all newly created post-war institutions. Yet, despite his rather pragmatic approach to questions of economic and social policies, Boumediene did not dismantle the cross-class coalition inherited from Ben Bella. While he toned down leftist rhetoric, he was anxious not to alienate the working-middle-class coalition that had coalesced after independence.

In sum, the Algerian case demonstrates well the nexus between intense intra-elite competition and the coalitional dynamics that emerge from it. It shows that the broad post-independence coalition did not emerge during the struggle for independence; rather, it was forged during the struggle for leadership after independence. Regarding the effect of

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<sup>44</sup> Francos and Séréní 1976, 140.

<sup>45</sup> Ruedy 2005, 200-01.

<sup>46</sup> *ibid.*, 199.

ethnic cleavages, it lends support to the claim that the cleavages need to be salient to have an effect, for the presence of two ethno-linguistic communities did visibly not undermine cross-ethnic collective action.

*Egypt*

Egypt represents the only case of a broad coalition that did not lead to the establishment of an authoritarian welfare state. While this deviation is due to the country's particular geostrategic context and, thus, its ability to provide social welfare, the incentives to distribute were – like in Tunisia and Algeria – created by a cross-class coalition, including lower middle classes and labour. This coalition emerged out of intense intra-elite struggle during regime formation and was unaffected by ethnic cleavages. Though ethnic cleavages were salient, the sidelined community – the Copts – was too small to have a sizeable effect on the coalition.

Let us first ascertain the presence and intensity of intra-elite conflict. After the ouster of King Farouk at the hand of the Free Officers Movement (FOM) in July 1952, Egypt came to be ruled by a military junta, the Revolutionary Command Council (RCC). Conflict emerged from within the junta as General Naguib – a renowned war hero, chosen by FOM as a figurehead to publicly represent the RCC – came to develop his own personal ambitions, which put him on direct collision course with Nasser, the leader of the FOM.<sup>47</sup> The conflict reached its height in spring 1954 after Naguib's resignation from the RCC, which sparked an immediate wave of protest against the RCC, with thousands of demonstrators turning out in the streets of Cairo demanding the reinstatement of Naguib and a return to parliamentary rule. Underlining the intensity of the conflict, the divisions between both camps also ran across the armed forces, which brought the country to the brink of civil war.<sup>48</sup>

Regarding ethnic cleavages, the political context of coalition formation was marked by

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<sup>47</sup> Hopwood 1993, 38; and Baker 1978, 32.

<sup>48</sup> Gordon 1992, 129.

heightened communal tensions between Egypt's Coptic minority and its Muslim majority. In addition to riots against them,<sup>49</sup> Copts were well represented in the country's political and economic elite and hence disproportionately affected by the Free Officers' attempts to purge the political system of what they considered old, corrupt elites.<sup>50</sup> Moreover, there were clear signs of mistrust between both communities as Copts were systematically excluded from security-related position in the public administration because their loyalty to the state was considered uncertain.<sup>51</sup> Importantly though, the Copts were too small a minority to have a decisive impact on the size of the nascent regime coalitions. Representing about ten per cent of the population, exclusionary policies vis-à-vis the Copts – which at any rate only targeted the elite – did not undermine the building of a broad cross-class coalition.<sup>52</sup>

As the RCC could not rely on any political platform, the field for coalition formation was wide open. The sense of a political *tabula rasa* was reinforced by (i) the RCC's lack of a programme other than 'cleansing the nation of tyrants'<sup>53</sup> and putting an end to British colonialism;<sup>54</sup> and (ii) the abolishment of existing political institutions, such as political parties and the monarchy, which were outlawed in January and June 1953 respectively, and the implementation of land reform to weaken the upper class.<sup>55</sup> Clearly, the RCC knew whom they feared, but not whom they stood for. Finding constituencies in their support was thus key for both rivals.

Building on his popularity as a war hero, Naguib started a public-relations campaign to promote the goals of the Revolution, as the nascent political order came to be called, shortly after the Free Officers' coup in 1952.<sup>56</sup> Of Sudanese origin, he enjoyed a particularly

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<sup>49</sup>V. Ibrahim 2011, 159.

<sup>50</sup>S. E. Ibrahim 1996, 16.

<sup>51</sup>*ibid.*, 16.

<sup>52</sup>Pennington 1982, 177-78 describes the relations at the popular level as 'usually close and harmonious.'

<sup>53</sup>Cited in Hopwood 1993, 38.

<sup>54</sup>Bayat 2006, 137; Beinin and Lockman 1988, 437; Lenczowski 1966, 36; and Hinnebusch 1985, 14.

<sup>55</sup>Waterbury 1983, 423; and Beinin 1989, 72.

<sup>56</sup>Mohi El Din 1995, 157.

high standing in the southern parts of the country where he travelled extensively.<sup>57</sup> Seeking to identify his own bases of support within society, Naguib gradually became the focal point of all those who had an interest in the return to a parliamentary system, first and foremost the Wafd party. Having dominated Egyptian politics under the monarchy, the Wafd was likely to be at the centre stage of any new parliamentary system. Another important player that initially turned toward Naguib was the Muslim Brotherhood. Its extensive grass-root network made it the 'the strongest political actor at the onset of the 1952 coup.'<sup>58</sup> Should the country return to democracy, the MB could reasonably expect to be one of the key players, especially after the weakening of the Wafd party.

Besides these two mass organisations, Naguib, more generally, managed to garner the support of Egypt's liberal upper-middle class. This included the, at the time, relatively small number of university students, as well as Egypt's liberal professions: lawyers, doctors, and higher-ranking civil servants predominantly favoured Naguib.<sup>59</sup> Finally, owing to his military status, Naguib enjoyed widespread popularity among the army.<sup>60</sup>

Nasser lacked Naguib's status and was, initially, unknown to the public.<sup>61</sup> Conscious of this disadvantage, he endeavoured to counter Naguib's popularity. To this end, the Liberation Rally (LR) was set up in spring 1953 as a substitute for the outlawed political parties and a platform to muster popular support against Naguib's nascent coalition.<sup>62</sup> The LR failed, however, in one of its principal goals, which was to attract followers of the MB to Nasser's camp.<sup>63</sup>

With the powerful organised groups on Naguib's side, it is surprising why Nasser made initially no particular effort to court labour. One reason is that Egypt's working class, though numerous, was weakly organised, which is why Nasser first tried to gain the support

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<sup>57</sup>Mohi El Din 1995, 157.

<sup>58</sup>Vatikiotis 1961, 77.

<sup>59</sup>Baker 1978, 34; and Brownlee 2007, 54.

<sup>60</sup>Gordon 1992, 125.

<sup>61</sup>Mohi El Din 1995, 160.

<sup>62</sup>Hopwood 1993, 39.

<sup>63</sup>Beattie 1994, 82.

of the MB. Another reason for this disinterest was that Nasser and the unions differed over the future socio-economic order in Egypt as Nasser made a deliberate effort to court Egypt's capitalists to spark growth and investment.<sup>64</sup> Finally, the RCC had shown little tolerance for labour activism by violently suppressing a strike of textile workers in Kafr al-Dawwar and sentencing two strike leaders to death shortly after the coup.

Yet, the demonstrations in favour of Naguib's reinstatement in 1954 proved crucial in shaping 'Nasser's own conception of the social bases of his support.'<sup>65</sup> He realised that his coalition lacked popular support and needed to be enlarged to effectively confront Naguib. Thus, to wrest the advantage of urban mobilisation away from Naguib's camp, Nasser made the deliberate decision to reach out to labour unions, some of which had grown very concerned about the conservative elites' return to power.<sup>66</sup> The negotiations, in fact, resembled a genuine bargain in which the RCC offered immediate and more long-term material benefits in return for staging demonstrations against Naguib.<sup>67</sup>

On 26 March, worker demonstrations against a restoration of political parties and a return to democratic rule paralysed Cairo for two days, until the RCC announced an indefinite postponement of general elections. Taken by surprise, Naguib's camp failed to turn out into the street and Naguib was eventually put under house arrest in November 1954. For Nasser's regime coalition, the events of spring 1954 were crucial. Not only had labour's support proved decisive to defeat Naguib,<sup>68</sup> the events also 'crystallised Nasser's thoughts regarding real and prospective sources of regime support.'<sup>69</sup> Prompting the idea to fully develop labour as a pillar of his rule,<sup>70</sup> the events of 1954 thus stood at the origin of Egypt's broad-based regime coalition.

In sum, regime formation in Egypt was structured by the struggle between Nasser

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<sup>64</sup>S. Cook 2012, 45.

<sup>65</sup>Baker 1978, 34.

<sup>66</sup>Beinin and Lockman 1988, 439.

<sup>67</sup>ibid., 454-59. Details of this bargaining process will be the subject of a later chapter.

<sup>68</sup>ibid., 440.

<sup>69</sup>Beattie 1994, 98.

<sup>70</sup>ibid., 98.

### *The Formation of Regime Coalitions*

and Naguib and followed a similar logic of populist appeal to outcompete one's rival. Salient ethnic cleavages between the Muslim majority and the Copts did not undermine the formation of a broad, cross-class coalition as the Coptic community was too small to effectively matter.

### *The Islamic Republic of Iran*

Like the three preceding cases, the regime coalition underpinning the Islamic Republic of Iran has spanned large parts of the country's lower and middle classes and thus formed the basis for Iran's extensive post-revolutionary welfare state. With the country's largest minority, the Azeris, well integrated in the coalition, ethnic cleavages played a marginal role for the dynamics of coalition formation, despite salient cleavages with smaller minorities. Contrary to analyses emphasising religion and ideology,<sup>71</sup> the following account demonstrates the importance of power politics and intensive conflict between political elites, most prominently Ayatollah Khomeini, to explain the emergence of the regime's support coalition.<sup>72</sup>

To start with ethnic cleavages, it is important to note that despite Iran's multi-ethnic composition, intra-elite conflict did not crystallise around communal cleavages. Cross-ethnic in nature, the anti-Shah front was largely unaffected by local and ethnic centrifugal tendencies and cultural differences did not play an important role during the popular uprisings.<sup>73</sup> In fact, most minorities initially welcomed the revolution.<sup>74</sup> This had certainly to do with the fact that the Azeris, the country's biggest minority representing about a quarter of the population, were not marginalised in Iranian society.<sup>75</sup> Azeri businessmen formed an important part of Iran's economic elite, in addition to being well represented in the military, political, and religious establishment.<sup>76</sup> At the height of the conflict, clashes

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<sup>71</sup>Kippenberg 1981. For a dissenting argument, see Keddie 2003, 241.

<sup>72</sup>Maloney 2000.

<sup>73</sup>Hourcade 1988, 161.

<sup>74</sup>Samii 2000, 130.

<sup>75</sup>Higgins 1984, 59.

<sup>76</sup>Elling 2013, 31.

occurred within the Azeri community, rather than between Azeris and the Persian-speaking community, which half of all Iranians at the time belonged to.<sup>77</sup>

Notwithstanding widespread inter-ethnic cooperation during the revolution, communal conflicts occurred in the Kurdish and Arab provinces, which represented an estimated 7 and 3 per cent of the population.<sup>78</sup> However, like in Egypt, the discriminated minority communities were too small in size to effectively undermine a broad regime coalition in Iran. And the only community with the potential to shift the power balance in the country, the Azeris, was well integrated the regime coalition.

Turning to the causal mechanism, the role of elite conflict can only be understood when considering the multifarious nature of the ‘rainbow coalition’<sup>79</sup> that unseated the Shah. Lacking a specific ideological programme other than regime change,<sup>80</sup> the revolutionaries comprised communist and marxist groups, secular nationalists, religious liberals, segments of the industrial working class, the conservative bazaar petit bourgeoisie, and the Shi’ite clergy.<sup>81</sup> Owing to his long exile since 1963, the core of Khomeini’s supporters was rather small and he mainly relied on the bazaris and clerical actors, who had been alienated by the Shah’s pro-Western secularism and anxious about their dwindling economic status.<sup>82</sup> Whilst other actors, such as the opposition parties, had been able to build, at least, rudimentary institutions on the ground and had an idea about their supporters in society, Khomeini arrived in the midst of a revolutionary atmosphere, characterised by mass mobilisation, without an institutionalised political platform at his disposal. Though recognised as the primary leader of the revolution, he did not have a viable coalition of supporters that would enable him to secure power. In search for supportive constituencies

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<sup>77</sup>Higgins 1984, 60.

<sup>78</sup>L. Beck 1991, 209; Entessar 1984, 926-27; and Samii 2000, 131.

<sup>79</sup>Amuzegar 1991, 14.

<sup>80</sup>Behdad 1996, 98.

<sup>81</sup>Keddie 2003, 218-32; and Abrahamian 1982, 510.

<sup>82</sup>ibid., 533.



in Iranian society, Khomeini faced two main challengers from within the anti-Shah front.<sup>83</sup>

Within Iran's clerical forces, Khomeini was far from being the uncontested leader and had to face serious opposition from within Iran's religious elite.<sup>84</sup> Parts of the religious establishment called into question his competence as a religious scholar and his main concept of the Guardianship of the Islamic Scholar (*Vilayat-e Faqih*) was rejected by a great number of scholars on the eve of the revolution.<sup>85</sup> Khomeini's most powerful opponent within the Iranian clergy was Grand Ayatollah Shariatmadari who was in 1979 head of the religious seminary in Qom, Iran's most important centre of religious learning. Being one of Iran's most influential Shiite scholars, Shariatmadari rejected Khomeini's idea of clerical rule,<sup>86</sup> and became increasingly critical of the repressive tactics used by Khomeini's camp.<sup>87</sup> His supporters, most numerous in the north-eastern Azeri provinces, were organised in the Muslim People's Republican Party (MPRP).<sup>88</sup> Given his prestige, Shariatmadari represented a serious threat to Khomeini from within the religious establishment.

Khomeini's position was also threatened by the representatives of the liberal middle class, religious and secular. Both trends were initially well represented in the immediate post-revolutionary landscape. Mehdi Barzargan, who was head of the Freedom Movement and stood for the secular segments of the Iranian middle class, became the first Prime Minister of the Provisional Revolutionary Cabinet (PRG). Abolhassan Bani-Sadr represented the left-leaning, religious middle class, which was a sizeable constituency at the time.<sup>89</sup> In July 1980, he was elected Iranian President with 75 per cent of the vote, which was an impressive sign of his popularity.<sup>90</sup> Upon his election, Bani-Sadr also became head of the

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<sup>83</sup>The provisional government under Shapour Bakhtiar, set up by the Shah a few days prior to his departure, did not constitute a major challenge for the revolutionary coalition and quickly disintegrated after Khomeini arrived.

<sup>84</sup>Moin 1999, 216.

<sup>85</sup>Keddie 2003, 194-95.

<sup>86</sup>ibid., 194.

<sup>87</sup>Moin 1999, 216.

<sup>88</sup>Amjad 1989, 133.

<sup>89</sup>Keddie 2003, 222.

<sup>90</sup>Bakhash 1990, 90.

Iranian armed forces and when his conflict with Khomeini broke out in the open in spring 1981, there were concerns in Khomeini's camp that he might attempt a military coup.<sup>91</sup>

Crucial for the argument here, Iran's peasants, working class, and a 'lumpemproletariat' of the urban poor – all mobilised during the revolution – lacked a strong affiliation with any of the established political actors. Highly susceptible to the idea of redistributing the Shah's wealth, these constituencies saw themselves courted by Khomeini in the early stages of the revolution. Considering the right-wing, conservative profile of his core supporters, this move was certainly strategically, not ideologically motivated.

Benefiting from the liberal camp being divided over nationalisations and radical socio-economic reforms, Khomeini cunningly organised the seizure of the Shah's wealth and began a massive programme of redistribution to gain the loyalty of the poor.<sup>92</sup> This programme was based on and executed by a number of revolutionary organisations, most notably the Foundation of the Dispossessed which had seized the fortunes of the Pahlavi foundations and other confiscated properties.<sup>93</sup> The so-called Reconstruction Jihad provided deprived rural areas with free housing, permitting some of the new occupants to keep seized urban and rural properties.<sup>94</sup> Distributing 850,000 hectares of land to more than 220,000 peasant families, Khomeini's camp successfully ensured the allegiance of the country's rural areas.<sup>95</sup> As Keddie rightly points out, 'subsidies, price controls, redistribution of confiscated properties, and direct financial rewards [...] helped sustain the loyalty of the lower classes.'<sup>96</sup>

Whilst this programme ran counter to the ideological orientation of Iran's religious establishment,<sup>97</sup> the measures were crucial to broaden Khomeini's coalition. By tying the country's hitherto unaligned poor to the regime, Khomeini, in fact, created one of the most

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<sup>91</sup>Moin 1999, 237.

<sup>92</sup>Moslem 2002, 222-24.

<sup>93</sup>Maloney 2000, 153.

<sup>94</sup>Keddie 2003, 246.

<sup>95</sup>Abrahamian 2008, 180; and Amjad 1989, 150-51.

<sup>96</sup>Keddie 2003, 256.

<sup>97</sup>ibid., 256.

important constituencies of the regime. With Iran's liberal middle-class migrating in great numbers, President Bani-Sadr was thus left with little popular support to mobilise when Khomeini's Islamic Republican Party (IRP), based on its predominance in parliament, took on him to seek his ouster in spring 1981.

Taken together, the formation of Khomeini's regime coalition underlines the importance of intra-elite conflict as a key motivation to reach out to lower and middle classes. Since the profile and ideological outlook of his core supporters did not predispose Khomeini to such a coalition, the broadening of his support base can only be explained by the imperatives of power politics in post-revolutionary Iran.

### *Summary*

The foregoing narratives all support the claim that coalition formation was critically influenced by power politics of elites struggling to outcompete their rivals. While communal cleavages were found to be inconsequential, all four cases provide empirical evidence for a causal link between coalition size and intra-elite conflict. Moreover, the Iranian and Algerian narrative in particular underline a link between coalition building and social policies. In both cases, welfare distribution was used as an important tool to tie key social groups to the nascent regimes. In the case of Tunisia and Egypt, this nexus is analysed in greater detail in later case studies.

## **Cohesive Elites in the Absence of Communal Cleavages: The Rule of the**

### **Court**

#### *Morocco*

In contrast to the previous cases, the authoritarian regime that formed in Morocco after the country's independence in 1956 predominantly recruited the members of its support coalition from the country's traditional economic, political, and bureaucratic elite. Though

narrow in nature, the exclusive character of the regime cannot be attributed to ethnic divides. Rather, the genesis of this regime coalition is special in that visible intra-elite conflict between the royal palace and the parties of the nationalist movement occurred, but elite split was accompanied by a very unequal distribution of coercive capacity. While the King Mohamed V (1956-1961) and his successor, Hassan II (1961-1999), could rely on a very cohesive group of elites from within the security apparatus, the nationalist parties were bereft of coercive power sufficient to make the royal palace reach out to popular constituencies. Counterfactually speaking, the nascent regime would have rested upon a broad cross-class coalition if the elite division had affected the security apparatus. Yet, within the court and its affiliated institutions, called the *Makhzen*, elites had little incentive to defect.

Elite cohesion in the royalist camp is noticeable in a number of instances. In the wake of independence, the army and the local administration visibly rallied behind the monarch. Most of these declarations of loyalty to the palace were made pre-emptively, unprompted by any solicitation. The case of the Army of Liberation is very revealing in this respect. Formed in early 1955 and recruited from among tribal, often Berber, areas to fight the French colonial troops, the army comprised several thousand fighters in the wake of independence and was at this point ‘the only organised military force in Moroccan hands.’<sup>98</sup> Yet instead of laying their own claims to power, the leaders of the army, Abdelkrim al-Khatib and Mahjoubi Ahderdane, declared their unconditional loyalty to King Mohamed and pledged to lay down arms only if instructed by the King.<sup>99</sup>

At the local level, loyalty to the King was expressed by rural rebellions against attempts by *Istiqlal* (Independence Party; PI), the leading nationalist party, to gain control over the local administration and a foothold in rural areas where the party was only weakly represented.<sup>100</sup> In 1957, for instance, the provincial governor of Tafilalet, Addi Ou Bihi,

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<sup>98</sup>Pennell 2000, 300.

<sup>99</sup>ibid., 301.

<sup>100</sup>Charrad 2001, 148.

violently opposed the imposition of new administrative personnel, proclaiming that he was ‘loyal to the monarchy alone.’<sup>101</sup> In the same fashion, the highest-ranking Moroccan officers in the French colonial army hastened to affirm their support to the King and their readiness to serve in the newly formed Royal Armed Forces under the authority of Crown-Prince Hassan.<sup>102</sup>

Building on his prerogative to appoint government ministers, Mohamed V was able to deal a further blow to the PI by nominating the former *Caid* Bekkai<sup>103</sup> as the country’s first Prime Minister in December 1955. The berberophone Lahcen Lyouissi, also a former *Caid*, became the country’s first Minister of Interior. The King, furthermore, established a shadow cabinet, the Crown Council, parallel to the official government. Taken together, the elites that rallied around the King in the wake of independence had a very similar profile: most were drawn from rural areas and belonged to families of notables, especially rural *Caids*; many were of Berber descent.

In view of the prominence of Berbers in the King’s regime coalition, it might seem natural to suggest salient communal cleavages as the main driver of coalition formation in post-colonial Morocco. Morocco’s Berber community constituted nearly half of the country’s population, with the remainder being arabophone. Nonetheless, the overwhelming judgement of historians, both foreign and Moroccan, denies the existence of a distinctive Berber identity in the wake of independence as lower-level, tribal identities generally prevailed.<sup>104</sup> Moreover, colonial authorities could not ‘prevent Berber-speakers from joining with their Arabophone compatriots in ejecting France from the Maghreb.’<sup>105</sup> Ethnic diversity did thus not impair inter-ethnic collective action. And when the remnants of the Liberation Army refused to lay down their arms in 1958, the monarchy did not have any qualms to violently dismantle the predominantly Berber troop, using the full force

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<sup>101</sup>Sater 2010, 24-25.

<sup>102</sup>Pennell 2000, 289.

<sup>103</sup>*Caids* are local notables representing the King in the countryside.

<sup>104</sup>Crawford 2002, 59.

<sup>105</sup>Willis 2012, 206.

of its newly formed army.<sup>106</sup> Altogether, historical evidence suggests the existence of a rural-urban, rather than an inter-communal cleavage.

What, then, explains the high elite cohesion around the King? By virtue of his modern education and his urban, arabophone upbringing, the King was culturally certainly closer to the urban nationalist elite of the *Istiqlal* than to the numerous rural notables who rallied behind him. Conversely, the power of his traditional and religious legitimacy surely afforded him immense popularity but fails to explain why potentially rival elites – sometimes commanding considerably coercive capacity, such as the Moroccan army officers or the leaders of the Liberation Army – threw their luck behind the King. Three factors account for the high degree of cohesion within the royal camp.

First, Mohamed V's return after two years of exile in November 1955 marked the end of an intensive conflict which, on the eve of independence, had pervaded Morocco's political institutions and its traditional elites composed of rural notability and religious authorities, the *Ulama*. A group of discontented religious orders, so-called *tariqas*, 250 *Pashas* and *Caids*, as well as rural notables had formed in spring 1953 and, aided by the French, overthrew then Sultan Mohamed V.<sup>107</sup> This conflict left the country's traditional elite deeply divided: about 40 per cent of all rural notables opposed the Sultan,<sup>108</sup> while Mohamed V, who indeed was strengthening his ties with the nationalist movement, was supported by a minority of *Pashas* and the *Ulama* of Fez. His return to Morocco thus symbolised the defeat of all those who had rebelled against the King and marked Mohamed V's victory in this intra-elite struggle.<sup>109</sup> Defeated and discredited, the rebellious local elites now all turned toward the King who, in the face of a very hostile *Istiqlal* movement willing to dismantle the traditional pre-colonial institutions, was their only chance to preserve at least some of their privileges.<sup>110</sup>

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<sup>106</sup>Pennell 2000, 304-5.

<sup>107</sup>Sater 2010, 22-23.

<sup>108</sup>ibid., 23.

<sup>109</sup>Pennell 2000, 290.

<sup>110</sup>The majority of them managed to transfer their privileged status onto their sons, who came to provide the bulk of local administrators in post-independence Morocco. See Leveau 1970, 215.

Second, having collaborated with the French, elites in the central bureaucracy and Moroccan officers in the French army rallied behind the King in fear of retribution at the hand of *Istiqlal*.<sup>111</sup> Third, having defeated the rival Sultan, Ben Arafa, there was little resistance to Mohamed V's and, from 1961, Hassan II's rule from within the family. Most family members were very old and the rift that had divided the royal family from 1953 until independence had certainly left its mark. Given these particular circumstances, it is understandable why none of the elite groups in Mohamed V's regime coalition had a strong incentive to defect.

In sum, with the traditional elites rallying around the King and the security apparatus cohesively standing behind him, the conflict with the *Istiqlal* could thus be settled by repression, not the building of a broad coalition. Resting upon a narrow support coalition, the regime thus had very little incentive to provide extensive social welfare.

### *The Pahlavi Regime*

Qualified as 'sultanistic'<sup>112</sup> and lacking broad societal support,<sup>113</sup> the Pahlavi regime represents in many ways the epitome of a narrow support coalition. Recruiting its supporters from Iran's upper class elite, the Shah relied on four groups in society: the army, higher-level civil servants, Iran's notability, mostly landowners, and the country's religious elite of conservative Shiite clergy.<sup>114</sup> The case bears strong similarities with Morocco in that elite cohesion did not result from common ethnic descent; rather, it was a defensive reaction in the face of aspiring lower and middle classes. Their mass mobilisation during the so-called interregnum period from 1941 until the royal, pro-Shah coup in 1953 induced the country's elites to rally as a bulwark against social upheaval around the Shah. Again, the cohesion of the security apparatus proved critical. For instance, when in the early 1960s Prime Minister Amini tried to assemble a coup coalition against the Shah, no one within

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<sup>111</sup>Sater 2010, 24.

<sup>112</sup>Katouzian 1998.

<sup>113</sup>Smith 2007, 118.

<sup>114</sup>Abrahamian 1982, 435; and Ladjevardi 1985, 194.

the regime coalition was willing to defect.<sup>115</sup> The resulting near monopoly of repressive capacity increased the reluctance to broaden the coalition.

As stated above, the politics of the interregnum period is critical to explain intra-elite cohesion. Akin to an exogenous shock, the interregnum commenced with the abdication of the incumbent, Reza Shah, under Soviet and British pressure in 1941 and the transfer of power to his son, Mohammad Reza, which critically weakened the monarchy. In return for retaining control of the army, the Shah had to restore property, estates, and religious endowments, illegally appropriated by his father, to the state, which negatively affected his ability to dispense patronage.<sup>116</sup> Introducing a system of semi-competitive elections for the parliament, the *Majles*, foreign intervention thus created a hybrid political system in which ‘power was not concentrated in one place...[but] hotly contested between the royal palace, the cabinet, the Majles, and the urban masses.’<sup>117</sup> Especially the latter inspired awe among Iran’s traditional elite, who rightly considered the emergence of mass politics as a critical challenge to their claim to power. Two movements came to represent the urban masses.

The Communist *Tudeh* party had benefited from Soviet financial and logistic support during Iran’s occupation and, by 1946, had become the political platform of workers and the salaried middle class. Campaigning with the slogan ‘Work for All, Education for All, Health for All,’ the party advocated socio-economic reforms, including a comprehensive land reform, and brandished the exploitation of the working class at the hand of Iran’s landowning elite.<sup>118</sup> For the latter, the Tudeh clearly became the spectre of social upheaval.

Yet the more dangerous threat to the Iranian upper-class emanated from the nationalist movement, which took over *Tudeh*’s role as representative of the country’s urban lower and middle class in the late 1940s.<sup>119</sup> Led by a Western-educated lawyer, Muhammad

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<sup>115</sup> Amjad 1989, 77.

<sup>116</sup> Abrahamian 1982, 178.

<sup>117</sup> Abrahamian 2008, 99.

<sup>118</sup> *ibid.*, 113.

<sup>119</sup> *ibid.*, 113.



Mossadeq, the nationalist movement campaigned in favour of a truly constitutional monarchy and thus against foreign influence and the increasingly autocratic Shah.<sup>120</sup> Whilst enjoying considerable support among the country's middle class, Mossadeq's assertive and, from the traditional elite's point of view, radical policies won him the hostility of the country's establishment who rallied behind the Shah to preserve their privileges. Rather than encouraging elite splits, his policies corroborated elite cohesion and paved the way to a fully authoritarian regime in Iran.

These policies, in fact, culminated in a frontal attack on the Shah's pillars of political power in mid-1952, the most important among them being the army. In a series of measures, Mossadeq decided to cut the military budget by 15 per cent, limit arms purchases to defensive weaponry, appoint a parliamentary committee to investigate corruption related to arms purchases, and transferred 15,000 soldiers from the army to the police force whilst starting to purge the upper echelons of the officers corps. He also cut back the palace budget, nominated an anti-royalist Front member as court minister, and transferred the royal charities and estates to the state.<sup>121</sup> Finally, Mossadeq decided to dissolve the Senate and seek new elections for the *Majles*, which were likely to afford him a comfortable majority. By July 1953, there was open talk among members of the National Front about abolishing the monarchy and replacing it by a republic.<sup>122</sup>

Clearly, this incurred the wrath of the Shah, which was a calculated risk that the National Front was willing to take. However, Mossadeq failed to recognise that these measures also brought large parts of the country's elites against him. As 'the army owed its existence to the Pahlavi dynasty,'<sup>123</sup> there was an acute awareness that privileges and the financial largesse were tied to the Shah's survival in power. In essence, the Front's intended political reforms meant that all members of the country's traditional establishment were going to lose out. This meant that Mossadeq created too powerful a coalition of potential

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<sup>120</sup>Keddie 2003, 124.

<sup>121</sup>Abrahamian 2008, 117.

<sup>122</sup>ibid., 118.

<sup>123</sup>Abrahamian 1982, 177.

losers from his reformist policies.

The reaction to his policies was a pro-Shah coup in August 1953, which put an end to Mossadeq's era and marked the beginning of a new authoritarian regime under the Shah.<sup>124</sup> The fact that this coup was carried out with financial and logistic support from the CIA and the British government should not obliterate the marked elite rallying around the Shah that had occurred prior to the coup.<sup>125</sup> Ethnic cleavages played only a secondary role in generating cohesion. Certainly, the Shah regime after 1953 pursued an anti-tribe and anti-minority policy based on Iranian nationalism, which led to a concentration of investment in the Persian-speaking parts of the country.<sup>126</sup> However, as stated before, the Azeris were hardly affected by these nationalist policies as they had been politically and economically well integrated even before the Pahlavi era.<sup>127</sup>

In sum, similar to the Moroccan case, the Pahlavi regime represents a case of marked cohesion among the incumbent elite establishment. Whilst opportunities to defect were present in the context of heightened political polarisation, the country's elites perceived the change of the status quo as a threat and rightly perceived that all of them stood to lose from a changed political system. Narrow in nature, the emerging regime coalition gave the Shah no political incentive to engage in welfare distribution.

### *Summary*

The cases of Morocco and the Pahlavi regime both highlight the importance of elite cohesion, especially within the repressive apparatus. Both cases exhibit a similar pattern of rallying around the monarchs as elites were concerned to lose out in an alternative regime representing lower and middle class. Anxious to preserve their status, they empowered the monarchs in both countries to resort to repression to deal with challengers and, thus,

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<sup>124</sup>For a detailed description of the event, see A. Milani 2011, 210ff.

<sup>125</sup>Keddie 2003, 130

<sup>126</sup>Elling 2013, 54; and Entessar 1984, 916.

<sup>127</sup>Higgins 1984, 59. Notably, the Shah's narrow coalition included a number of important Azeri notables, such as Manucher Efqbal.

drew off any incentive to build a broad coalition.

### **Elite Conflict and Communalism: Ethnic Cross-class Coalitions**

#### *Syria*

Established by a Ba'thist<sup>128</sup> coup d'état in March 1963 and consolidated after an internal, 'corrective' coup led by Hafez al-Asad in 1970, the Syrian regime is unique in that it combines intensive intra-elite struggle with highly salient ethnic cleavages during the moment of regime formation. The outcome of these confluent factors brought about an 'under-sized' cross-class coalition. It 'indisputably incorporated a middle-lower class,'<sup>129</sup> which, as I will detail below, was propelled by conflict within the coup coalition.<sup>130</sup> But a tendency to build coalitions around communal groups led to a minority, specifically Alawite-dominated regime,<sup>131</sup> with a clear incentive to distribute welfare among communal lines, not universally. It should also be noted that intra-elite struggle consisted mostly of intra-military rivalries which entailed limited popular mobilisation as, in the words of Rabinovich, 'the struggle was kept indoors.'<sup>132</sup> This further weakened the regime's incentive for welfare distribution.

Before analysing coalition formation, a short note on the ethnic background in Syria is in order. Syria's majority population, Sunni Arabs, represented approximately 58 per cent of the population in the early 1960s and constituted the country's dominant social class, populating urban centres along with Syria's Christian community (14 per cent).<sup>133</sup> About 12 per cent of all Syrians belonged to the Alawite sect,<sup>134</sup> the country's largest Shiite minority group. The two smaller Shiite minority groups are the Druzes and the Ismailis, representing 3 and 1.5 per cent of the population. Though numerically small, the three

<sup>128</sup>The Ba'th party was founded in 1940 by Michel Aflaq and Salah Al-Din Bitar with the aim of unifying Arab nations and socialist modernisation.

<sup>129</sup>Hinnebusch 2002, 81.

<sup>130</sup>Van Dam 1996, 26.

<sup>131</sup>Perlmutter 1969, 828. See also Drysdale 1981b, 16; and Hinnebusch 1990, chapter 5.

<sup>132</sup>Rabinovich 1972, 136.

<sup>133</sup>Van Dam 1996, 1.

<sup>134</sup>ibid., 1

Shiite minorities came to play a pre-eminent role in post-independence Syria, as the French colonial authorities, to offset Sunni anti-colonial nationalism, had preferably recruited minorities into the indigenous army, the *Troupes spéciales du Levant*. Alawis, Druzes, and Ismailis were therefore heavily over-represented in the Syrian armed forces after 1946.<sup>135</sup>

It should also be kept in mind that the initial coup coalition was, indeed, rather small, as the Ba'th party barely comprised a membership of 6,000 members and thus lacked a clear social base.<sup>136</sup> The other pillar of the coup coalition were Nasserist officers whom the Ba'th party had lured into the alliance by promising a revival of the defunct United Arab Republic – a state union of Syria and Egypt under the leadership of Nasser. When internal strife convulsed this heterogeneous coalition soon after its rise to power, the combination of intra-elite conflict and communal cleavages had two countervailing effects: an outreach to Syria's working classes coupled with a narrowing of the coalition's ethnic composition. Let us look at each of them in turn.

Regarding intra-elite conflict, the struggle opposing Ba'thists and Nasserists in the initial coup coalition was critical for the widening of the coalition. Populist reforms during the UAR period had made Nasserism the strongest current among Syria's 80,000 unionised workers and the country's student population.<sup>137</sup> Immediately upon their seizure of power, Ba'thists were thus confronted with working class mobilisation in the form of pro-Nasser demonstrations. Demanding the reinstatement of the UAR, demonstrators were supported by Nasserist officers within the coup coalition who expected Ba'thists to act on their promise. The conflict exacerbated in July 1963 when Nasserist officers attempted to sideline the Ba'th in an abortive coup which claimed more than 800 lives.<sup>138</sup> In response, Nasser's propaganda machinery incited workers to rise up against the 'separatist regime.'<sup>139</sup> Recognising its own position of weakness, the Ba'th's leadership came to the

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<sup>135</sup>Drysdale 1982, 53.

<sup>136</sup>Rabinovich 1972, 49; Seale 1965, 176; and Hinnebusch 2002, 34.

<sup>137</sup>Hinnebusch 1982, 196; and Rabinovich 1972, 67.

<sup>138</sup>Hopwood 1988, 45.

<sup>139</sup>Rabinovich 1972, 66.

conclusion that ‘the only way open to the party was to launch massive social and economic reforms that would outdo those of Nasser and guarantee the regime its popular basis of support.’<sup>140</sup>

The party’s 6<sup>th</sup> National Congress, held in October 1963, translated this strategy to enlist working class support into concrete political resolutions. Stating the necessity to ‘attract those sectors of workers who are still loyal to ‘Abd-ul-Nasser,’<sup>141</sup> the congress decided the establishment of free medical services and the establishment of university quotas for students from under-privileged backgrounds.<sup>142</sup> Denouncing past exploitation of the countryside at the hand of an urban bourgeoisie, the Ba’th also relaunched the project of land reform, expropriating, by 1969, 1.5 million hectares of land.<sup>143</sup> In October 1964, Ali Taljani, a senior labour leader, was made Minister of Labour and Social Affairs.<sup>144</sup> Importantly though, this was a strategic response to a situation of intra-elite conflict from a position of weakness, not the enactment of Ba’thi political doctrine. In fact, before 1963, the theme of Arab unity had prevailed over programmatic positions on economic and social reforms, and for many of the Ba’thist older generation, such as Michel Aflaq, the leftist turn to outcompete Nasserism was supported only half-heartedly.<sup>145</sup>

Parallel to the broadening of the regime’s class base occurred a narrowing of its communal base. Propelled by intra-military rivalries following the 1963 coup, numerous purges led to a gradual predominance of the Alawite sect in the upper echelons of the regime.<sup>146</sup> Starting right after the coup, Sunni officers, who had been the main instigators of the 1961 secession from Egypt, were purged *en masse* from the army, whilst recruitment efforts favoured Shi’ite minorities in an unprecedented fashion.<sup>147</sup> As the Nasserist officers in the coup coalition were also predominantly Sunni, their ouster and the sub-

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<sup>140</sup>Rabinovich 1972, 92.

<sup>141</sup>*ibid.*, 92.

<sup>142</sup>*ibid.*, 94-95.

<sup>143</sup>Perthes 1997, 81.

<sup>144</sup>Heydemann 1999, 198.

<sup>145</sup>Abu Jaber 1966, 147.

<sup>146</sup>Van Dam 1996, 30, 47.

<sup>147</sup>Hinnebusch 2002, 62.

sequent purges following the abortive coup in July 1963 further reduced Sunni presence in the officers corps. When Sunni President Amin al-Hafiz was ousted at the hands of an internal coup in February 1966, further anti-Sunni purges ensued.<sup>148</sup> In September 1966, a Druze-led abortive coup entailed the elimination of numerous Druze officers, such that by 1967 Alawite officers, most prominently Salah Jedid and Hafez al-Asad, outnumbered all other sects among the Bath party's powerful military command.<sup>149</sup>

The reasons for this ethnic narrowing strongly support my argument based on inter-communal distrust and communal expectations. Regarding the former, Hinnebusch notes that 'intra-elite conflict reinforced sectarianism as it heightened the need to recruit from one's own sect in order to maximise loyalty and political security.'<sup>150</sup> As a result, 'empty posts tended to be staffed with trusted officers from the own sect.'<sup>151</sup> With regard to expectations, Picard remarks that minorities in the periphery 'expected to be favoured by the new regime.'<sup>152</sup> A similar observation is made by Van Dam who notes that scores of young men from a minority background volunteered to join public service after 1963 in expectation of a preferential treatment.<sup>153</sup>

Regarding welfare distribution, communal narrowing also had profound repercussions. Rural Alawi areas started to benefit disproportionately from the regimes populist policies. Education and health care in the Latakia region improved substantially, and Alawis could expect to receive preferential treatment when applying for entry into the civil service.<sup>154</sup> Conversely, the predominantly Sunni bourgeoisie, consisting of liberal professions and small scale merchants living in urban areas – sociologically, a core constituency of Bourguiba's cross-class coalition in Tunisia – was neglected.

In summary, the Syrian case illustrates in an exemplary way the countervailing effects

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<sup>148</sup> Van Dam 1978, 208.

<sup>149</sup> *ibid.*, 209.

<sup>150</sup> Hinnebusch and Schmidt 2009, 7.

<sup>151</sup> Hinnebusch 2002, 5.

<sup>152</sup> Picard 1979, 54-55.

<sup>153</sup> Van Dam 1996, 9.

<sup>154</sup> Zisser 1999, 138; Kienle 1991, 218-19; and Van Dam 1996, 10.

of intra-elite conflict and ethnic cleavages. By forming a lop-sided, ethnic cross-class coalition, the regime's incentive to provide social welfare were considerably weaker than in broad coalition types, such as in Tunisia or Egypt. This, in addition to the external context examined in the next section, underpinned Syria's particularly low welfare effort.

### **Cohesive Elites and Communal Friction: Narrow Ethnic Coalitions**

#### *Jordan*

The Jordanian pattern of regime formation is also unique. It combines, on the one hand, a highly cohesive elite, a 'tiny royal clique,'<sup>155</sup> consisting of the officers corps, the upper echelons of the bureaucracy, as well as landowners and merchants.<sup>156</sup> On the other hand, the formation of the Jordanian regime occurred in the midst of heightened communal tensions between the Palestinian West Bankers and the Transjordanian East Bankers. This formative conflict entailed a communal narrowing of the regime coalition in favour of its historical tribal support group, the East Bankers. The resulting narrow ethnic coalition gave the regime very limited incentives to provide social welfare.

Regarding elite cohesion, the country's turbulent and protracted period of leadership succession following the assassination of the country's first King, Abdullah, in 1951 illustrates in an exemplary manner the elite's strong sense of loyalty and commitment toward the survival of the Hashemite Kingdom. In fact, it can be argued that the regime only survived intact as a result of its highly cohesive political elite. First, when Nayif – one of Abdullah's sons and contenders for the throne – pondered the possibility of staging a coup against his brother Talal,<sup>157</sup> he was unable to find collaborators among the upper echelons of the court.

Second, when Talal's health rapidly deteriorated in spring 1952 – he suffered from schizophrenia and alcoholism – the palace elite under the crucial leadership of al-Huda

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<sup>155</sup>Milton-Edwards and Hinchcliffe 2001, 26.

<sup>156</sup>Alon 2007, 155.

<sup>157</sup>Satloff 1994, 38.

convinced parliament to depose Talal and in August 1952 his 17-year-old son, Hussein, was appointed new King of the Hashemite Kingdom. However, as Hussein was in the midst of his training at the British military academy in Sandhurst, a Crown Council was formed which oversaw the daily government business until the young monarch assumed power in May 1953. With the young monarch absent abroad, it is remarkable that nobody within the inner core elite attempted to defect and form a rival coalition to seize power. The ouster of the Egyptian monarch at the hands of the Free Officers, which coincided with Talal's deposition in Jordan, could in fact have served as a blueprint for regime change in Jordan. Yet, the inner circle of the country's elite in fact valued the survival of the monarchy as an institution higher than potential personal gains from throwing in one's lot with a contending side.

The sources of this remarkable elite cohesion lay in 'the nature of the British-constructed state.'<sup>158</sup> Wary of the political ambitions of the local Transjordanian elite, Abdullah recruited the bulk of his civil servants from outside the country, most notably from among Palestinian, Syrian, and Lebanese nationalist elites, some of whom had fought alongside his brother Faisal. Whilst being better educated than the local tribal notables, this elite lacked any root inside Transjordan and was thus bereft of an independent power base within the country.<sup>159</sup> Underlining the long-lasting effect of this strategy, Robert Satloff remarks:

'Central to Abdullah's thinking, delegating authority to expatriates – who, by definition lacked local political fiefdoms – kept power out of the hands of potential adversaries. In so doing, Abdullah built up a circle of non-Transjordanians who attained power and privilege solely because they had thrown in their lot with his. Loyalty to the monarchy was the only guarantee of their status; their vested interest in the survival and prosperity of Hashemite

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<sup>158</sup>Robins 2004, 89. See also Satloff 1994, 174.

<sup>159</sup>Aruri 1972, 34.



Jordan was almost as great as that of the Hashemites themselves.<sup>160</sup>

Numerically, the presence of expatriates in the bureaucracy was sizeable, with 32 per cent of non-native civil servants in 1936.<sup>161</sup> Moreover, the upper echelon of the administration was almost exclusively expatriate, which turned this elite group into an indispensable pillar of the regime following independence.

The second institution that guaranteed elite cohesion after the end of the mandate was the Jordanian army, the so-called Arab Legion, which was central in tying the local tribal population to the regime.<sup>162</sup> Absorbing the local tribesmen into the state without having to forcefully disarm them, the Arab Legion's officers corps became the main springboard for the aspiring sons of Transjordan's most influential tribes, such as the Huweitat, Beni Saqr, and Sirhan.<sup>163</sup> Tribal solidarities were thus gradually substituted by a sense of loyalty toward the new 'chief,' the Emir and later King, and, over time, tribes began to vest their interests in the survival of the Hashemite dynasty.<sup>164</sup>

Cohesion was further reinforced by salient ethnic cleavages after the Palestine War in 1948-49. East Bankers henceforth only constituted a third of the country's population; two-thirds were Palestinian, of whom 458,000 came as refugees.<sup>165</sup> Moreover, the Palestinian community had a very different socio-economic profile that distinguished them from the tribal East Bank population. In terms of class background, they were mostly urban middle-class and on average better educated than East Bankers. Many of them had also been successful merchants and traders, and therefore brought not only cultural but also economic capital.<sup>166</sup> Finally, the Palestinian community lacked the sense of loyalty to the King that had developed over nearly three decades in the East Bank.<sup>167</sup>

In the Jordanian case, it was the presence of strong communal expectations on the part

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<sup>160</sup>Satloff 1994, 7.

<sup>161</sup>Robins 2004, 33.

<sup>162</sup>Vatikiotis 1967, 5.

<sup>163</sup>Day 1986, 80.

<sup>164</sup>Alon 2007, 1.

<sup>165</sup>Robins 2004, 82.

<sup>166</sup>Vatikiotis 1967, 109.

<sup>167</sup>Shwadran 1959, 300.

of the East Bankers that triggered ethnic narrowing of the coalition. In fact, expecting the regime to maintain their privileges, many East Bankers were displeased by the massive influx of Palestinians.<sup>168</sup> Reiter therefore portrays both sides as ‘two conflicting ethnic groups’ after 1948.<sup>169</sup> Against the backdrop of heightened communal tensions, the nascent regime could not jeopardise the support of the East Bankers, who were considered more loyal to the regime and, in addition, formed the bulk of the Jordanian armed forces.<sup>170</sup> As a result, Jordanian authorities dealt with the Palestinians with great caution and distrust, discrimination at the hands of the authorities was widespread – particularly in the early years – and especially refugee camps were subject to disruptive security measures.<sup>171</sup>

Economically, the continued hegemony of the East Bank was ensured by concentrating industrial projects almost exclusively in the East Bank and politically by granting West and East Bank equal representation in parliament, which meant that, *de facto*, every Palestinian vote counted only half as much as a Transjordanian one.<sup>172</sup> When King Abdullah died at the hands of a Palestinian assassin in Jerusalem in July 1951, anti-Palestinian riots ensued. Summarising their sense of exclusion, Pappé remarks that ‘with the monarchy belonging to the Hashemites and the army to the Bedouins, the Palestinian majority felt as though it was living under the rule of a dictatorial minority.’<sup>173</sup>

Overall, the combination of a cohesive elite and salient ethnic cleavages led to the formation of a narrow coalition coupled with pro-East Bank favouritism. Whilst generous to those included, the regime had very little incentive to widely distribute social welfare, as most of it would have been reaped by Palestinians, whose loyalty to the regime was considered more than uncertain.

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<sup>168</sup>Tal 2002, 9.

<sup>169</sup>Reiter 2004, 72.

<sup>170</sup>Brand 1999, 283.

<sup>171</sup>Dann 1989, 14.

<sup>172</sup>Dann 1994, 20; Robins 2004, 87; and Nevo 2003, 190.

<sup>173</sup>Pappé 1994, 71.

## II. COALITIONS IN CONTEXT: EXTERNAL THREATS AND RESOURCE ENDOWMENT

This section analyses the geostrategic context in which regime formation took place. This step is important to assess a regime's ability to provide social welfare, which is a necessary condition for the emergence of an authoritarian welfare state. Since military defeat and territorial losses at the hand of a foreign power are highly destabilising and can jeopardise regime survival, the existence of a severe external threat considerably constrains a regime's distributive capacity. With resources channelled toward national defence to maintain an efficacious threat level vis-à-vis external forces, the regime's ability to provide social welfare is hampered, and only resource-abundant regimes are able to honour both their commitment to welfare and defence.

As the following narratives demonstrate, this external dimension has been particularly important in the MENA region. Hosting 25 per cent of the world's armed conflicts since 1945, the region has been haunted by protracted military conflicts. The Arab-Israeli conflict alone has cost over 200,000 lives, left 3 million displaced, and caused material damage of more than 300 billion \$US.<sup>174</sup> This conflict will thus play a particular role in this section.

To preview the case studies, Tunisia and Morocco both represent cases of poor states at peace. This means that their geostrategic environment was free of external threats to regime survival. While Tunisia has been exempt from any military conflict during regime formation, Morocco had a minor border clash with Algeria which entailed a ongoing rivalry between both countries. Yet, as I show, this threat was minor, not perceived as endangering the survival of the regime, and thus inconsequential for the regime's ability to distribute welfare. Given similar abilities, the marked difference in social policies between Morocco and Tunisia directly points to incentives stemming from coalitions as the key explanatory factors.

Jordan, Syria, and Egypt represent cases of poor states at war. In contrast to Tunisia

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<sup>174</sup>S. E. Ibrahim 1998, 229-30,

and Morocco, their geostrategic environment constituted an vital challenge to regime survival, with considerable consequences on the countries' state budget. While this was less consequential for Jordan and Syria, considering their low incentive to provide welfare, external threat coupled with a low resource endowment seriously affected social policies in Egypt and pushed the country to its specific trajectory of broad, yet not generous welfare provision. The cases of Syria and Egypt also demonstrate well how the threat perception changed during regime formation and the external environment gradually came to be perceived as a threat to regime survival.

Algeria and the Pahlavi regime are cases of rich states at peace. While endowed with abundant exportable resources, namely oil, none of the regimes was exposed to an existential threat emanating from the external environment. Unconstrained by external forces, state expenditures thus reflected the incentives coming from the regime coalition, favouring welfare in Algeria in contrast to defence in the case of Iran.

Finally, the Islamic Republic of Iran represents the case of a rich state at war. It, thus, represents the gateway case for my claim that abundant resources can alleviate the dilemma between 'butter or guns' and enable a regime to build a welfare state whilst deterring external threats.

		External Threat	
		High	Low
Resource Endowment	High	Islamic Republic of Iran	Algeria The Pahlavi regime
	Low	Jordan Syria Egypt	Tunisia Morocco

low abilities

high abilities

Table 3.3: Geostrategic Context of Regime Formation in Labour-Abundant MENA Regimes

## Poor States at Peace

### *Tunisia*

In Tunisia, the incentives for broad welfare provision were not affected by the regional environment. In the absence of a severe external threat, the regime could thus fully commit its resources to building an authoritarian welfare state. Failing a challenge to regime survival from the external environment, the country's meagre resource endowment did not impair its ability to provide welfare.

Remote from the epicentre of conflict in the Middle East, the Tunisian regime emerged in a comparatively unthreatening regional environment. During the period of regime formation, the country was spared from any major military conflict with neighbouring states and national security was thus a second-order concern for the country's leadership. Granted, its small size made it potentially vulnerable to interference from its two bigger neighbours, Algeria and Libya.<sup>175</sup> When conceiving the country's post-independence defence strategy, the Tunisian leadership therefore came to the conclusion that the country would be unable to defend itself alone in the event of a major foreign attack.<sup>176</sup> Military protection from a Western super-power, notably France, thus became the cornerstone of Tunisia's strategy of national defence.<sup>177</sup>

However, the country's small size was also a blessing since it meant that Tunisia was not regarded as a rival for regional hegemony, which in combination with a lack of extractable resources allowed it to remain 'under the radar.' Though endowed with oil and gas reserves, it would be wrong to characterise Tunisia as a resource-abundant state. In comparison, reserves were minor and income from natural resources represented a negligible proportion in the state budget before the oil boom in the early 1970s.<sup>178</sup> And even at the height of the oil price, Tunisia's per capita revenues from resources were comparatively small, with

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<sup>175</sup> Willis 2012, 87.

<sup>176</sup> Former Minister of Defence, A. Mestiri 1999, 199.

<sup>177</sup> Willis 2012, 87.

<sup>178</sup> Situated in the lowest quartile in terms of oil rents, it is not clear why Richards and Waterbury 2008, 196 speak of 'substantial revenue' in the case of Tunisia.

three quarters of all state revenues still coming from taxation.<sup>179</sup>

In line with its defence strategy, the country's own military forces were kept deliberately small – about 11,000 soldiers.<sup>180</sup> In the words of one of the country's first Ministers of Defence, Ahmed Mestiri, it would have been 'pointless to dedicate more than 10 per cent of the budget to the armed forces.'<sup>181</sup> In reality, defence spending has rarely ever exceeded 6 per cent since independence.<sup>182</sup> This meant that the Tunisian government was financially not encumbered by the burden of a heavy defence budget.

An unthreatening environment did not mean, though, that Tunisia's foreign relations were entirely free of conflict. In 1958, French warplanes bombarded the Tunisian town of Sakiet, an important base of the Algerian FLN. Moreover, French officials repeatedly alluded to the possibility of carrying out a 'blitz invasion' of Tunisia to wipe out Algerian resistance fighters.<sup>183</sup> Nonetheless, just a few years after decolonisation, a permanent occupation of Tunisia by the former colonial power was considered inconceivable and, despite sporadic tensions, France had a clear interest in preserving the territorial integrity of Tunisia, which was the most pro-Western and also pro-French of all Maghrebi states.

In sum, the situation of a 'benign neglect' in regional rivalries meant that Tunisia could allocate resources to socio-economic development, most notably social welfare, instead of national defence. Conversely, a severe external threat would have critically undermined the regime's welfare effort.

### *Morocco*

Compared to Tunisia, the Moroccan regime was exposed to a more challenging external environment upon regime formation. Rivalling with its neighbour Algeria over regional hegemony in the Arab Maghreb,<sup>184</sup> Morocco's foreign relations have witnessed periods of

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<sup>179</sup>Decaluwé et al. 1990, 1054.

<sup>180</sup>Bourguiba 1976, 115.

<sup>181</sup>A. Mestiri 1999, 198.

<sup>182</sup>IMF 2011; and V. Lucas and Richter 2012.

<sup>183</sup>A. Mestiri 1999, 127.

<sup>184</sup>Damis 1985, 142.

military conflict. However, it is safe to say that border disputes with Algeria were never perceived by the country's elites as a threat to the regime itself.

Considering the first outbreak of hostilities in the autumn of 1963, it is noteworthy that during August and September both governments were trying to de-escalate the situation and sought to attribute the hostilities to 'uncontrolled elements.'<sup>185</sup> Moreover, as Damis points out, the confrontation was short and small in scale, involving only a minimal level of casualties and no super-power intervention.<sup>186</sup> Nor did the 'War of Sands,' as it came to be called, entail a sizeable expansion of military expenditures or an arms race on both sides. In fact, both countries reduced defence spending the years following the conflict<sup>187</sup> The potential threat was arguably higher for Algeria, considering the military superiority of the Moroccan armed forces at the time and Morocco's rather expansionist foreign policy.<sup>188</sup> Crucially, none of the parties sought an overthrow of the other regime by military means and the conflict therefore remained geographically confined. While relations remained tense throughout the 1960s, the conflict was, in all, too minor to influence the domestic political economy of spending in the long-run.

As for the country's resource endowment, Morocco has had only a very limited amount of exportable resources at its disposal. Although hosting two-thirds of the world's phosphate reserves, non-tax revenues were negligible during the period of regime formation as a result of low world market prices.<sup>189</sup> Only when the international prices of phosphate tripled in 1974 did Morocco come to enjoy notable resource rents.<sup>190</sup> However, with prices plummeting in the late 1970s, the phosphate bonanza was short-lived and left conspicuous traces of a boom-bust cycle in the state budget.<sup>191</sup> Overall, it can be said that Morocco has depended, to a certain extent, on its income from exportable resources, without being

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<sup>185</sup> Wild 1966, 24.

<sup>186</sup> Damis 1985, 141.

<sup>187</sup> IMF 2011; and V. Lucas and Richter 2012.

<sup>188</sup> At the time, Morocco laid claim to a number of territories outside its borders, such as current Mauritania, yet without very actively pursuing this agenda. See Douglas E. Ashford 1962, 644.

<sup>189</sup> IMF 2011; and V. Lucas and Richter 2012.

<sup>190</sup> Denoeux and Maghraoui 1998, 56.

<sup>191</sup> Willis 2012, 234.

resource abundant.

*Summary*

These two cases of poor states at peace underline the importance of domestic incentives to distribute welfare, rather than focussing on the resource endowment of regimes. Whilst both countries have been resource poor and thus had the same abilities to build a welfare state, the marked difference in their social policies points to differences in the social base of both regimes as the key explanatory factor.

**Poor States at War**

*Egypt*

Egypt is the showcase of a regime which, in the absence of abundant resources, was unable to honour both its welfare commitments and build a strong army to deter external threats. Despite a present incentive to provide welfare, the Egyptian regime did not have the capacity to deliver due to its challenging external environments. Counterfactually speaking, Egypt would have spent much more on social welfare if it were located 2,000 kilometres more to the West. Besides, the Egyptian case also illustrates well how a series of events in the early stages of regime formation significantly changed the threat perception of the ruling elites, which came to perceive the external environment as one of the biggest threats to the regime's survival.

This shift of perception and, by consequence, spending priorities happened in stages. When the Free Officers seized power in July 1952, the Arab-Israeli conflict did not figure among the key priorities of Egypt's new rulers. Granted, the humiliating defeat in the Palestine War (1948-49) in which about 4,000 Egyptian soldiers lost their lives had made the Free Officers aware of Egypt's military weakness and highlighted Israel as a potential threat to the regime. However, in the Free Officers' assessment of the Palestine defeat, military inefficiency was considered an expression of more far-reaching domestic political



problems, most notably a corrupted party system with a weak monarch at its top. Consequently, the new leadership exhibited a certain ‘ambivalence’ vis-à-vis the Arab-Israeli conflict and sought to avoid further escalation. In terms of foreign policy, its main priorities were the end of British military presence and the full establishment of national sovereignty over the Suez Canal. Domestically, the Free Officers believed that only economic development coupled with a functioning political system would allow Egypt to withstand potential external threats. The ruling Revolutionary Command Council (RCC) therefore initially agreed to keep the size of Egypt’s armed forces relatively limited and prioritise economic and social development, including welfare distribution.<sup>192</sup>

Israel, in turn, feared that an economically reinvigorated Egypt would, in the long run, constitute a much more dangerous military threat. While the monarchy had been viewed as weak and fragile, Nasserist Egypt was a ‘red rag’ for the Israeli leadership. As Avi Shlaim notes, ‘Israeli rulers considered the toppling of Nasser and the defeat of his army as their primary aim.’<sup>193</sup> To this end, several operations were mounted to destabilise the Egyptian regime, which in combination significantly altered the Egyptian regime’s perception of Israel. According to Barnett, the first change of perception came as a result of the so-called Lavon Affair in July 1954 when Israeli spies failed to execute a bomb plot against Egyptian and American cultural centres. The attack, which should have been imputed to Egyptian Muslim Brothers and Communists, aimed to torpedo the ongoing Anglo-Egyptian negotiations about a British withdrawal from the canal zone.<sup>194</sup>

The second, more consequential, incident occurred in February 1955 when Israeli troops attacked an Egyptian army base in Gaza, which at the time was occupied by Egypt. Whilst human losses were limited, the attack significantly altered the regime’s perception of external threat. As Khaled Mohi El Din, a Free Officer and member of the RCC, remarks in his autobiography, ‘Israel did not begin to figure on the list until after the

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<sup>192</sup> Vatikiotis 1978, 254; and Barnett 1992, 48. Low defence spending also aimed at avoiding military coups.

<sup>193</sup> Shlaim 2007, 115.

<sup>194</sup> Barnett 1992, 84; in response, Nasser sponsored Palestinian guerilla (*fedayeen*) attacks along the Israeli border.

incidents of Gaza.<sup>195</sup> Highlighting the profound impact of the Gaza raid, the historian Vatikiotis notes that ‘after the Gaza raid he [Nasser] clearly came to perceive Israel as a serious threat.’<sup>196</sup> Another indicator of the change in perception is the spending shifts that occurred in the wake of the crisis. Defence spending increased by 75 per cent and, exasperated over US refusal to deliver weapons to Egypt, the regime turned to the Soviet Union to provide weapons in a historical arms deal, which was sealed in September 1955.<sup>197</sup>

The third event, which consolidated Egypt’s turn to a defence-centred spending policy, was the Suez War of 1956. In particular, the defeat of the Egyptian army in Gaza and Sinai at the hand of the Israelis made the regime acutely aware of its vulnerability. The capital city, Cairo, had been affected by air raids and the damage inflicted to the Egyptian armed forces was substantial. Over 3,500 Egyptian soldiers died in the conflict. Port facilities and infrastructure along the canal area, which had been occupied by British and French forces, was largely destroyed. Moreover, Ben Gurion’s initial refusal to withdraw from occupied Sinai and Gaza and his advocacy of a partial annexation of these territories reinforced the perceived threat to Egypt’s territorial sovereignty and the survival of the regime.<sup>198</sup> In combination, these three events led to a marked about-face in the regime’s defence policy. The regime’s leadership came to the conclusion that it needed a strong army capable of defending the country against external threats. This is reflected in the regime’s defence spending. After an initial drop to 19 per cent of the budget, defence spending was about 10 per cent higher in the early 1960s.<sup>199</sup>

Regarding Egypt’s resource endowment, as Barnett points out, ‘Nasser was severely limited by the simple fact that Egypt was a resource-poor country [and thus] the the never-ending concern was how to fund such escalating military costs while furthering the regime’s other objectives of political stability.’<sup>200</sup> Apart from raising additional tax revenues, the

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<sup>195</sup> Mohi El Din 1995, 131.

<sup>196</sup> Vatikiotis 1978, 254.

<sup>197</sup> Barnett 1992, 88.

<sup>198</sup> Perry 2004, 98.

<sup>199</sup> IMF 2011; and V. Lucas and Richter 2012.

<sup>200</sup> Barnett 1992, 85,87.

regime had no exportable resources at its disposal.<sup>201</sup> It therefore crucially hinged on the financial support of external donors in order to finance large development projects, such as the Aswan High Dam, which was built with the help of Soviet funding.<sup>202</sup> Aid, however, was insufficient to finance both extensive welfare and defence expenditures, which is shown by the country's steadily increasing budget deficits, in particular since the early 1960s.<sup>203</sup>

In summary, Egypt is the critical case to demonstrate how a lack of ability undermined the establishment of an authoritarian welfare state despite strong incentives to do so. As the external environment came to be perceived by the regime-building elites as a serious threat to regime survival, spending priorities shifted toward national defence. Decisively, as resources were lacking to preserve social spending levels, Egypt was pushed on a welfare trajectory of broad, yet not generous provision, characterised by 'cheap' social policies.

### *Syria*

Syria's geostrategic environment was in many ways similar to Egypt. According to Patrick Seale, there was an accute 'sense of limited resources and permanent siege' among the Syrian ruling elites.<sup>204</sup> It was this combination of a strong external threat and scarce resources that pushed the Syrian regime toward low social spending. However, compared to Egypt, the incentive to provide welfare was weaker and it is not clear whether the regime would have established an authoritarian welfare state, considering its salient ethnic divisions.

As in Egypt, the ruling elite's gradually changed its threat perception of its external environment from a latent threat to a danger for the survival of the regime. In the early stages of regime formation, Syria's leadership was well aware of the military imbalance

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<sup>201</sup> As a result, the regime adopted Defence Tax Law No. 277 of 1956, which increased direct taxes and excluded taxes on commercial profits in selected industrial and manufacturing activities. Revenue from oil and gas exports were negligible before the early 1970s. See Barnett 1992, 88; IMF 2011; and V. Lucas and Richter 2012.

<sup>202</sup> Barnett 1992, 119.

<sup>203</sup> IMF 2011; and V. Lucas and Richter 2012.

<sup>204</sup> Seale 1995, 494.

with Israel,<sup>205</sup> without considering this threat as existential. Compared to the Israeli Defence Forces (IDF), the Syrian army was badly trained, ill-equipped with cheap Soviet weaponry, and its officer corps had been decimated by waves of purges as a result of intra-elite struggles.<sup>206</sup> Geographically, Syria's location made it liable to being outflanked either through Lebanon or Jordan in the case of an Israeli attack.<sup>207</sup> Finally, the Syrian leadership was aware that a growing lobby within the IDF advocated the provocation of border conflicts with Arab neighbours to expand Israeli borders and thus render them more defensible.<sup>208</sup> In view of this strategy and past clashes along the border, the new regime expected Israel 'to fight every year to weaken surrounding Arab states and improve border security.'<sup>209</sup>

Yet, importantly for the argument at hand, the crushing defeat in the 1967 Six-Day War permanently altered the regime elites' threat perception. This is particularly true for later President Asad for whom the defeat was 'the decisive turning point'<sup>210</sup> in his life, persuading him that Israel was 'a concrete, existential threat to his regime, to Syria.'<sup>211</sup> Indeed, the war had devastated the Syrian army, destroying the country's entire air force and killing about 2,500 soldiers. On a humanitarian level, thousands of refugees flocked to Damascus from the Golan Heights, which were now occupied by Israel. Strategically, the loss of Golan was a disaster as it lay bare the entire Damascus plain and left the capital city virtually without protection. The statement of Israel's Prime Minister Eshkol 'to occupy Damascus, if necessary'<sup>212</sup> was thus not an idle, but a very real threat to the regime.

Beyond its immediate material damage, this defeat had a profound impact on the regime's policies and its national security strategy. While before the war Syria had pursued

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<sup>205</sup>Seale 1995, 118.

<sup>206</sup>Zisser 2001, 103.

<sup>207</sup>D. Roberts 1987, 117.

<sup>208</sup>Seale 1995, 128.

<sup>209</sup>ibid., 118.

<sup>210</sup>ibid., 143.

<sup>211</sup>Zisser 2001, 103.

<sup>212</sup>Hopwood 1988, 48.

an active policy of socialist economic reforms, nationalising and collectivising the country's economy, in the hope of achieving strength through development, the regime's leadership and, in particular, Asad became convinced after the war the military strength was the only viable deterrence against Israel. For Asad, the notion of military parity was important and, as a result, the procurement of military equipment became one of his main concerns. Outlining his political priorities, he remarked that 'our prime efforts are [...] to strengthen our military force for the purpose of defending the homeland and withstand the cruel enemy [Israel].'<sup>213</sup> Spending figures are illustrative of this strategic turn, rising from 6.6 per cent of GDP in 1967 to 15.1 per cent in 1973 and remaining in the double-digit area until the late 1980s.<sup>214</sup>

Crucially, Syria had to pursue this strategy of military deterrence under conditions of scarce resources. Oil production, which had started in 1958, only began to produce sufficient quantities for exportation in 1968, and given the country's modest reserves remained limited even during the height of the oil boom in the 1970s.<sup>215</sup> Other resources, such as phosphate and gas, were also too scarce to create important rent streams into the state budget. Hence, similar to Egypt, Syria had to rely primarily on economic assistance, which poured in at considerable levels after 1973 with the onset of Egyptian-Israeli peace negotiations, and deficit spending. As an illustration of the latter point, Syria ran deficits in the vicinity of 15 per cent of GDP from the early until the late 1970s, and of 20 percent from the late 1970s until 1986.<sup>216</sup>

Taken together, in the light of the massive defence burden, the regime thus had to sacrifice most of its initial commitment to welfare provision that stemmed from the regime's, albeit communally narrowed, cross-class coalition. As Hinnebusch aptly summarises, 'the central vulnerability of the Ba'thist political economy was that neither public sector accumulation nor taxation produced sufficient resources to finance the state's many

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<sup>213</sup>Ma'oz 1988, 57.

<sup>214</sup>IMF 2011; and V. Lucas and Richter 2012.

<sup>215</sup>IMF 2011; and V. Lucas and Richter 2012.

<sup>216</sup>IMF 2011; and V. Lucas and Richter 2012.

commitments.’<sup>217</sup>

*Jordan*

The Jordanian case shares with Egypt and Syria an exposure to regime-threatening external threats and meagre financial resources. Externally derived income, mostly aid, could certainly not substitute for a large endowment with exportable resources. In other words, Jordan is the classic case of a resource-dependent, not a resource-abundant regime. Besides, in contrast to Egypt and Syria, Jordan’s narrow regime coalition meant that it could eschew the dilemma of having to arbitrate between welfare and defence spending. The severity of the threat meant, however, that even without a strong welfare commitment, the country struggled with the economic burden of war preparation and making. For example, defence spending amounted to 68 per cent of the budget in 1955 and at the height of the conflict with Israel in 1967, only three countries in the world outspent Jordan in terms of defence spending as a percentage of GDP.<sup>218</sup>

Regarding the perception of threats, the Jordanian regime has considered Israel an existential external threat right from the beginning. Since its annexation of the West Bank following the Palestine War of 1948-49, the country had to defend a 630-kilometres armistice line and, unlike Egypt and Syria, was not protected by a geographical buffer zone such as the Sinai or the Golan Heights. Both capital cities were only 110 kilometres apart and the distance from the armistice line to Tel Aviv was a mere 25 kilometres. Aware of their military inferiority in terms of numbers and weapons, the Jordanian elites therefore concentrated on strengthening the country’s defensive capacities whilst avoiding ‘any provocation that would give Israel a pretext to attack.’<sup>219</sup> The regime defence effort notwithstanding, the military balance remained highly unfavourable for Jordan. As a British official commented shortly before the Six Day War, ‘if Israel wanted, it could snatch the

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<sup>217</sup>Hinnebusch and Schmidt 2009, 14.

<sup>218</sup>See Tal 2002, 18; IMF 2011; and V. Lucas and Richter 2012.

<sup>219</sup>Tal 2002, 36. See also Day 1986, 82.

West Bank within hours.’<sup>220</sup> The challenging geostrategic context is precisely summarised by British Ambassador Charles Johnston who, analysing the Jordanian situation in retrospect, commented that ‘not a single foreign observer in Amman [...] believed that, even with British and American help, the Jordanian monarchy had a chance of surviving.’<sup>221</sup>

In addition, Jordanian territory covered large areas that at least some in the Israeli leadership considered an essential part of Greater Israel, the annexation of which thus was a legitimate political goal.<sup>222</sup> The Jordanian elites therefore perceived Zionism as particularly expansionist<sup>223</sup> – a feeling which was reinforced by the official line of the Israeli government. For instance, when King Abdullah was assassinated in 1951, the Israeli Prime Minister, Ben Gurion, contemplated the possibility of attacking Jordan.<sup>224</sup> His public views on Jordan were not very reassuring either, stating that ‘Jordan was not viable as an independent state and should therefore be divided.’<sup>225</sup> Finally, Israeli raids into Jordanian territory, some of which provoked by operations of Palestinian resistance fighters against Israel, became very frequent after 1951.<sup>226</sup> In total, Jordan’s geographical location and military weakness meant that Hussein was generally fearful of Israeli expansionism and therefore anxious to maintain an as high level of deterrence as possible.<sup>227</sup>

As for Jordan’s resource endowment, the regime was bereft of notable exportable resources and had to rely on external donors to allay the financial burden of national defence. Foreign aid was thus of enormous importance for the Jordanian government and came to cover large parts of the regime’s expenditures, mostly dedicated to the armed forces.<sup>228</sup> For instance, between 1957 and 1967, the US paid an annual economic and military aid of ap-

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<sup>220</sup>Tal 2002, 116.

<sup>221</sup>Peters and P. Moore 2009, 268.

<sup>222</sup>According to UN General Dag Hammarskjöld, Israel would consider itself incomplete until moving its frontiers eastwards to the Jordan river. See Tal 2002, 78.

<sup>223</sup>Day 1986, 85.

<sup>224</sup>Shlaim 2007, 36.

<sup>225</sup>ibid., 116.

<sup>226</sup>This includes an Israeli raid on the village of Qibya in 1953 and on Qalqiya in 1956. See Tal 2002, 6.

<sup>227</sup>Robins 2004, 122.

<sup>228</sup>Peters and P. Moore 2009, 209.

proximately \$55 million.<sup>229</sup> Following the 1973 War, aid even became the primary source of income for the regime, amounting to 86 per cent of government revenue in 1979.<sup>230</sup> These figures notwithstanding, it would be wrong to depict the Jordanian regime as resource-rich. Rather, it was highly resource-dependent, having to rely on external streams of revenues to finance the state's most basic functions, such as security.<sup>231</sup> The country's fundamental vulnerability to a superior external power, threatening the very existence of the regime, remained, despite foreign aid.

### *Summary*

The three cases of poor states at war illustrate in an exemplary way how a challenging geostrategic environment can (i) critically undermine a high welfare effort and impair generous social policies, as in the case of Egypt; (ii) negatively effect social policies when incentives to provide welfare are less pronounced, as in the case of Syria; and (iii) financially destabilise a regime even without any incentives for welfare provision.

## **Rich States at Peace**

### *Algeria*

The geostrategic environment in which the Algerian regime emerged in the early 1960s mirrors the situation of Morocco in that external threats and confrontation were present, but they were not perceived as existential. This meant that, given the regime's broad support coalition, the Algerian regime had both the incentives and the ability to provide social welfare, which made social spending the key fiscal priority for Algeria after independence. Besides, analysing the country's revenue streams in the decade after independence shows that Algeria was not resource-abundant when it laid the foundations for its welfare state and hiked up social spending in the decade after independence. Thus, the Algerian case

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<sup>229</sup>Peters and P. Moore 2009, 269.

<sup>230</sup>*ibid.*, 270.

<sup>231</sup>IMF 2011; and V. Lucas and Richter 2012.



further weakens claims that the regime ‘only’ provided social welfare because of its rich oil resources.

Regarding external threats, the Algerian ruling elites perceived Morocco as a greater threat to Algeria, rather than vice-versa, due to Morocco’s military superiority.<sup>232</sup> This perception was reinforced by Morocco’s expansionist foreign policy. Since 1958, the monarchy had officially endorsed claims put forward by the nationalist movement to restore the country’s historic frontiers, including Western Sahara and Mauritania. As such an expansion would have increased Moroccan territory by 60 per cent, these claims certainly concerned the Algerian regime although, arguably, there was an understanding that Morocco’s stance was more rhetoric than real policy given the Spanish and French position on the territories south of Morocco. The conflict thus triggered an enduring rivalry between both countries but, due to its limited scope, was inconsequential for Algeria’s budget making. In fact, the government took steps to reduce defence expenditures in the wake of independence. Having to maintain an army of 880,000 right after independence, security-related expenditures represented a considerable burden on the budget that the government was eager to get rid of.<sup>233</sup> Indeed, by the early 1970s, the share of defence in the budget had fallen from 15 to 8 per cent.<sup>234</sup>

These spending cuts were also a consequence of the regime’s dire financial situation in the decade after independence, which stands in contrast to the usual portrayal of Algeria as a resource-rich country.<sup>235</sup> Certainly, after the discovery of oil in 1958 and the beginning of exportation a decade later, Algeria became one of the world’s major oil exporting nations. However, it is crucial to recognise that, until the early 1970s, most oil revenues did not accrue to the state budget but were captured by foreign, first and foremost French, companies. Owing to the legal arrangements in place – the Algerian government did, in fact, not own the country’s national resources until their nationalisation in 1971 – Algeria

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<sup>232</sup>Damis 1985, 141.

<sup>233</sup>Stora 2001, 137.

<sup>234</sup>IMF 2011; and V. Lucas and Richter 2012.

<sup>235</sup>See, for example, Lowi 2009.

earned in the early 1960s four to five times less than other oil exporters.<sup>236</sup> For instance, out of 4,800 million Dinars of net profits in 1963, the government only received 220 million, a mere 4.6 per cent.<sup>237</sup> As a percentage of total revenues, hydrocarbon taxes amounted to less than 10 per cent in the early 1960s and not more than 20 per cent until 1970.<sup>238</sup> Insufficient to cover even capital expenditures, most oil revenues had to be spent on the amortisation of foreign investments in the oil industry after independence.<sup>239</sup>

It was only due to a policy of financial austerity and substantial French aid that the government was kept financially afloat in the first few years after independence.<sup>240</sup> For example, the French government agreed to pay the salaries of Algerian civil servants out of its own budget in the first two years after independence. It was only after the nationalisation of oil in 1971 that the regime experienced a real oil bonanza, the effect of which was amplified by the concomitant spike in the world market prices. Between 1973 and 1974, the state budget effectively doubled.

In summary, this means that the rapid expansion of social expenditures in the decade after independence cannot be imputed to any form of resource abundance as it occurred *before* rent streams inflated the state budget. Most remarkably, the expansion thus occurred in a general climate of austerity which affected all types of public expenditures save the realm of social welfare. This points to coalitional incentives as the key explanatory factor.

### *The Pahlavi Regime*

The geostrategic environment in which the Pahlavi regime was formed in the early 1950s was free of major external threats. As a matter of fact, Iran did not experience any major or even minor armed conflicts in the first decade after the Shah's restoration in power in

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<sup>236</sup> Francos and Séréni 1976, 234.

<sup>237</sup> Bennoune 1988, 99.

<sup>238</sup> Ageron 1991, 135.

<sup>239</sup> Aïssaoui 2001, 12.

<sup>240</sup> D. Ottaway and M. Ottaway 1970, 85.

1953. By virtue of its size and substantial natural resources, Iran was a powerful regional actor and thus had to fear relatively little from its, mostly less developed, neighbours. Yet, owing to its narrow support coalition, the regime lacked an incentive to provide extensive welfare and, instead, spent most of its resources on the country's army, which, as described in the foregoing section, was a key pillar of the Shah regime. This meant that, by the late 1960s, Iran had 'the biggest and most modern army in the Persian Gulf'<sup>241</sup> and had replaced Britain as the new hegemon in the region.<sup>242</sup> The smaller skheidoms of the Gulf even considered Iran the region's new 'policeman.'<sup>243</sup>

This is not to mean, though, that the regime's external relations were free of antagonism. Smaller in size but rich in resources, Iraq was certainly regarded as primary challenger to Iranian hegemony in the region.<sup>244</sup> This rivalry was fuelled by a simmering border conflict along the Shatt al-Arab river. In theory, the dispute had been resolved by the Iranian-Iraqi Treaty of 1937, yet the Shah refused to fully recognise the terms of the treaty. The antagonism was reinforced by the overthrow of the Iraqi King at the hands of Colonel Qasim in 1958, which the Shah regarded as sponsored by communism.<sup>245</sup> In 1960, an armed conflict between both countries was only averted at the very last minute.<sup>246</sup> Reminiscent of two Russian occupations of Iran during both World Wars, the regime also considered the bordering Soviet Union as a latent threat.<sup>247</sup> However, its adamant allegiance to the West and, most notably, the US effectively shielded the Shah from potential Soviet expansionism.

Regional hegemony could only be achieved thanks to Iran's abundant oil reserves. Since the time of the Shah's father, Reza Pahlavi, Iran's most important source of income has been oil.<sup>248</sup> During the Shah's rule, between 60 and 70 per cent of the country's foreign

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<sup>241</sup>Cottrell 1978, 418.

<sup>242</sup>Lenczowski 1978, xxii; and Halliday 1979, 251.

<sup>243</sup>Ansari 2007, 224.

<sup>244</sup>Cottrell 1978, 402.

<sup>245</sup>ibid., 416.

<sup>246</sup>ibid., 414.

<sup>247</sup>Griffith 1978, 387.

<sup>248</sup>Katouzian 1981, 113.

exchange earnings stemmed from resource exports, which gave him ample financial leeway to finance his lavish defence budget.<sup>249</sup> Revenues had only dipped noticeably during the Mossadeq period immediately prior to the Shah's seizure of power as a result of the British oil boycott. Following Mossadeq's overthrow, the Shah regime benefited from a rapid rise of oil income, supporting a rapid economic recovery from 1953 until 1958.<sup>250</sup> To give an example, oil revenues rose from 34 million \$US in 1954 to 181 million in 1956 to 358 million in 1960.<sup>251</sup> In total, rent flows increased 100 times between 1953 and 1975.<sup>252</sup>

### *Summary*

The juxtaposition of two rich countries at peace underlines the insignificance of abundant resources for social spending in the absence of a political incentive. Whilst the financial situation, at least since the first oil boom in the early 1970s, left both regimes with ample resources to distribute, social policies differed markedly as the Algerian regime was catering to a broad regime coalition, including lower and middle classes, whilst the Shah used his oil income to become a military hegemon in the Persian Gulf.

## **Rich States at War**

### *The Islamic Republic of Iran*

The case of the Islamic Republic of Iran is unique in its combination of a severe external threat, threatening the survival of the nascent regime, and an abundance of exportable resources, most notably oil. It is only this combination of circumstances that made it possible for the regime to expand both social spending and commit large sums to the protracted war effort with its neighbour, Iraq. The Islamic Republic is thus the critical case to demonstrate the crucial importance of a resource endowment in adverse geostrategic

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<sup>249</sup>Abrahamian 2008, 169.

<sup>250</sup>Issawi 1978, 153.

<sup>251</sup>IMF 2011; and V. Lucas and Richter 2012.

<sup>252</sup>Stobauch 1978, 248.

contexts.

Considering external threats first, the Islamic Republic of Iran emerged in a hugely challenging geostrategic environment. The stake was clearly regime survival as Iraq's president, Saddam Hussein, had made clear that his goal was to overthrow the nascent Iranian regime.<sup>253</sup> In terms of material and humanitarian costs, the 'Iran-Iraq War from 1980 until 1988 was the greatest and most costly conflict in the Modern Middle East, and one of the longest inter-state wars in the 20<sup>th</sup> century.'<sup>254</sup> Over 600,000 people lost their lives and more than 1,000,000 Iranians and Iraqis were displaced in the course of the conflict.<sup>255</sup> The total costs of the war amounted to over 300 billion \$US, of which about 100 billion incurred to Iran.<sup>256</sup> These costs represented an enormous financial burden on the state budget, with war-related expenditures consuming between 33 and 40 per cent of the government budget.<sup>257</sup>

However, war making left social spending unaffected. On the contrary, the expansion of military expenditures occurred alongside a boost of welfare spending. Whilst social spending amounted to 29 per cent of the budget when the Shah left the country, it stood at 43 per cent by the end of the Iran-Iraq War.<sup>258</sup> Crucially, this twin expansion was financially only possible thanks to the country's abundant resources. As Amjad points out, oil revenues 'enabled the government to fund the development plans and the distribution of welfare among the poor and victims of the war, hence securing their support.'<sup>259</sup> Similarly, Abrahamian remarks that a constant influx of oil rents enabled the expansion of state spending after 1979.<sup>260</sup>

Oil was crucial to finance this double commitment. Responding to the funding constraints imposed by the breakout of the war, Iran significantly increased its oil production

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<sup>253</sup> Arnold 2009, 49.

<sup>254</sup> Halliday 2005, 106.

<sup>255</sup> S. E. Ibrahim 1998, 230.

<sup>256</sup> Amuzegar 1993, 304-5.

<sup>257</sup> Bakhash 1990, 245.

<sup>258</sup> IMF 2011; and V. Lucas and Richter 2012.

<sup>259</sup> Amjad 1989, 151.

<sup>260</sup> Abrahamian 2008, 169.

between 1981 and 1983, scaling up oil revenues from 12 billion to 20 billion \$US.<sup>261</sup> Income levels subsequently dropped, reaching a low of 6 billion \$US in 1986, yet this contraction could be compensated by the vast foreign exchange reserves – over 13 billion \$US – that the previous regime had accumulated.<sup>262</sup> Unlike other regimes in the region, Iran’s foreign debt was very small,<sup>263</sup> which, of course, can also be imputed to the country’s abundant natural resources. Importantly, though, the financial constraints of the war effort pushed the regime to also use elements of ‘cheap social policies,’ in particular the expropriation of the fortune of the Shah and Iran’s richest families, to finance welfare distribution toward the poor.

In sum, the Iranian case proves crucial evidence for my portrayal of resource endowment as a gateway condition for an authoritarian welfare state. While economically, the costs of the war provided a strong incentive to reduce the burden of non-war related expenditures, politically, the regime felt a strong incentive to cater to its lower and middle class constituencies by providing extensive social welfare. Without the support of oil income, the expansion of welfare would have been rather short-lived and the regime would have been unable to eschew the dilemma of ‘guns or butter.’

### **The Causal Logic Formalised: A Qualitative Comparative Analysis**

While the foregoing comparative narratives provide rich empirical details and have been written with diligence to the historiographical nuances in the literature, the narrative and, by extension, the cogency of the argument crucially rely on my reading of these sources. I therefore conclude the empirical analysis of this chapter by providing a more formal statement of the causal logic underpinning my argument using Qualitative Comparative

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<sup>261</sup> Kanovsky 1987, 242.

<sup>262</sup> Bakhash 1990, 177.

<sup>263</sup> *ibid.*, 177.

Analysis (QCA).<sup>264</sup> Providing a transparent and replicable procedure for cross-case comparison, the following QCA thus provides a useful robustness check and summary of the argument.

Table 3.4 summarises the causal conditions and the outcome in set-theoretic terms, with scores of 1 signifying full membership in a set and scores of 0 full absence from a set. Scores above the threshold of 0.5 are understood to designate differences in degree, whereas scores on different sides of the threshold are understood to indicate differences in kind. To derive the set scores, I almost exclusively rely on publicly available datasets and use transparent and replicable measurement criteria, the details of which are spelled out in Appendix B.

Country	Intra-elite conflict (C)	Salient communal cleavages (SCC)	External threat (ET)	Resource abundance (RA)	Welfare effort (W)
Algeria	0.66	0.27	0.40	1.00	0.72
Egypt	1.00	0.09	1.00	0.08	0.37
The Shah Regime	0.05	0.13	0.20	0.66	0.20
The Islamic Republic of Iran	1.00	0.16	1.00	1.00	0.57
Jordan	0.05	0.58	1.00	0.05	0.37
Morocco	0.05	0.40	0.40	0.28	0.25
Syria	0.66	0.71	1.00	0.05	0.14
Tunisia	1.00	0.00	0.00	0.09	0.68

Table 3.4: Membership Scores in Causal Conditions and Outcome

*Note:* Following convention, the presence of a condition will be shown by a capital letter; the absence by lower-case letter.

In view of my argument, I perform two tests on the above data. In a first step, I explore whether intensive intra-elite conflict and the absence of salient communal cleavages are

<sup>264</sup>For an introduction to QCA, see Ragin 2008b; and Schneider and Wagemann 2012. I am fully aware of the ongoing debate about QCA and the arguments of both sides. However, when used as a way to summarise patterns in data coupled with a number of robustness tests like in this chapter, the method seems a useful addition to the foregoing narratives. For critiques of QCA, see Lieberman 2004; Hug 2013; S. R. Lucas and Szatrowski forthcoming; and D. Collier 2014. For a riposte addressing the identified shortcomings, see Skaaning 2011; Marx and Dusa 2011; Eliason and Stryker 2009; and Kurtz 2013.

both individually and jointly necessary conditions for a high welfare effort. In a second step, I test whether the causal pathways outlined above emerge from the QCA. Specifically, I expect intra-elite conflict and the absence of salient communal cleavages to combine either with mild external threat or resource abundance to produce a high welfare effort. Conversely, I expect weak intra-elite conflict, salient communal cleavages, or a strong external threat coupled with resource scarcity to be sufficient for a low welfare effort.

	Consistency	Coverage
Absence of external threat (et)	0.53	0.58
Resource abundance (RA)	0.61	0.63
Intra-elite conflict (C)	0.78	0.58
Absence of salient communal cleavages (scc)	1.00	0.58
Intra-elite conflict AND absence of salient communal cleavages	0.78	0.67

Table 3.5: Test of Necessary Conditions for a High Welfare Effort

Table 3.5 displays the results of the tests for necessity in the case of a high welfare effort. The findings broadly confirm my hypotheses. With a consistency score of 1, salient communal cleavages seem to be an important impediment to extensive welfare distribution. Depending on the acceptable consistency threshold for necessary conditions, intra-elite conflict alone can also be considered necessary for a high welfare effort. Yet Schneider and Wagemann have cautioned against accepting consistency scores lower than 0.9 in the case of necessary conditions.<sup>265</sup> The relatively low consistency score of intra-elite conflict is the result of a comparatively high welfare effort in low-spending regimes relative to their score of intra-elite conflict. In other words, if intra-elite conflict were indeed a consistently

<sup>265</sup>Schneider and Wagemann 2012, 143.



necessary condition, we would expect a lower welfare effort score in countries without intra-elite conflict. The lower consistency score could result from imprecise measurement or a systematic underestimation of low-level elite conflict. Theoretically more interesting, however, it also indicates that elite conflict alone may not be the only motivation for elites to broaden support coalitions. With regard to salient communal cleavages, however, the finding is unambiguous as they seem to clearly undermine the formation of broad coalitions. Finally, the coverage scores of necessary conditions make it possible to distinguish relevant from trivial necessary conditions, such as air to breath for the occurrence of war. In QCA, irrelevance is indicated by coverage scores in the vicinity of 0,<sup>266</sup> which is not the case for any of the necessary conditions tested here.

Table 3.6 reports the results of the sufficiency test. The table contains two types of solution terms, which are both logically possible and consistent with the data, but differ in their degree of complexity and precision.<sup>267</sup> The complex solution does not make any simplifying assumptions regarding logical remainders, that is, combinations of conditions that are empirically not observed in the data. The parsimonious solution minimises the solution formula to the shortest logical form possible, assuming that the unobserved combinations would not contradict the solution term.

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<sup>266</sup>Goertz 2006, 92.

<sup>267</sup>Schneider and Wagemann 2010, 408.

Causal paths	Complex solution	Parsimonious solution	Uniquely covered cases
C*scc*et → W	0.81		Tunisia
+	(0.18)		
C*scc*RA → W	0.86		Islamic Republic of Iran
	(0.25)		
C*et → W		0.81	
+		(0.18)	
C*RA → W		0.79	
		(0.25)	
Joint coverage	0.66	0.66	
Joint consistency	0.79	0.75	

Table 3.6: Test of Sufficient Conditions for a High Welfare Effort

*Note:* Unique coverage in parentheses; Quine-Cluskey algorithm used for minimisation; \* = logical AND; + = logical OR; → = IMPLIES.

Turning to the substantive implications of the complex solution, the analysis shows that two distinct paths lead of a high level of social spending in authoritarian regimes. Both necessitate the joint presence of a strong intra-elite conflict and the absence of salient communal cleavages. In addition to that, the analysis highlights the critical importance of two gateway conditions, that is, either a substantial resource endowment or the absence of external threats, to enable elites to build an authoritarian welfare state. For both trajectories, the consistency values are fairly good. When dealing with macro-level data, Ragin recommends a cut-off value of at least 0.80 because imprecision in the calibration is potentially higher than for micro-level data.<sup>268</sup> Both paths fulfil this criterion. Regarding the coverage of the solution terms, both solution terms cover about two-thirds of the observed welfare effort.

Turning to the parsimonious solution, the solution suggests that whenever intra-elite conflict coincides with abundant resources or with weak external threats, social spending will be high. Although the conciseness of the solution is appealing, consistency scores for the rentier path are lower and joint consistency drops down to 0.75. Furthermore, the

<sup>268</sup>Ragin 2008a, 136.

solution terms seems to contradict the previous analysis of necessity, which identified the absence of salient communal cleavages as a highly consistent necessary condition. Looking at the truth table, one can see that this surprising minimisation is only possible because the two regimes with salient communal cleavages – Jordan and Syria – are causally overdetermined. Jordan lacked a strong intra-elite conflict and Syria was resource-scarce facing a strong external threat. In other words, the QCA suggests the addition of further data; specifically, cases with strong intra-elite conflict and no external threat but salient communal cleavages would be particularly insightful to examine the importance of communal cleavages for the argument at hand.

Turning to the negative outcome, i.e. a low welfare effort, Table 3.7 summarises the findings of the analysis. As before, the table reports a complex and a parsimonious solution. Substantively, the expected pattern emerges from the analysis. Indeed, the absence of intra-elite conflict and the joint presence of a strong external threat and lacking resources are sufficient to bring about weak welfare efforts, as the parsimonious solution suggests. Regarding the effect of salient communal cleavages, the analysis is again inconclusive for the same reason as before, that is, the cases in point (Jordan and Syria) are causally overdetermined. In Appendix B , I present an array of robustness tests using different cross-over thresholds and introducing systematic measurement error in the outcome, with no substantial effect on the results. Taken together, the results of the QCA provide additional support for the central argument of this chapter.

## Conclusion

Causal paths	Complex solution	Parsimonious solution	Uniquely covered cases
SCC*ra*ET $\rightarrow$ w	1.00		Jordan
+	(0.12)		
c*scc*et $\rightarrow$ w	0.97		The Shah Regime, Morocco
+	(0.25)		
C*ra*ET $\rightarrow$ w	0.83		Egypt
	(0.12)		
c $\rightarrow$ w		0.79	
+		(0.26)	
ra*ET $\rightarrow$ w		0.80	
		(0.25)	
Joint coverage	0.77	0.78	
Joint consistency	0.91	0.84	

Table 3.7: Test of Sufficient Conditions for a Low Welfare Effort

*Note:* Unique coverage in parentheses; Quine-Cluskey algorithm used for minimisation; \* = logical AND; + = logical OR;  $\rightarrow$  = IMPLIES.

## III. CONCLUSION

This chapter has shown that the divergent welfare outcomes in labour-abundant MENA regimes are a corollary of (a) different coalitional incentives, shaped by elite rivalries and salient communal cleavages, and (b) the geostrategic environment of these coalitions, which is determined by external threats and their resource endowment. Whilst the coalitional underpinnings of these regimes provide the necessary incentives to distribute social welfare broadly, the regimes' environment crucially influences their ability to do so. Confirming the presence of the causal conditions in a way consistent with my theoretical argument, the foregoing case narratives have also provided evidence of the causal mechanism linking intra-elite conflict and communal cleavages to coalitional outcomes. Linking these coalitions, in turn, with social policies and spending will be the subject of in-depth case studies later in this thesis. Regarding the regimes' geostrategic environment, I have also shown how the perception of external threats as a danger to regime survival compelled regimes to boost their defence effort, which critically affected their ability to provide social welfare.

## *Conclusion*

As the case of the Islamic Republic of Iran demonstrates, only abundant resources make it possible to escape a dilemma between ‘butter or guns.’ The analysis has furthermore yielded a number of insights that are worth pointing out.

First, intra-elite conflict and communal cleavages often had their origins in antecedent conditions that preceded the period of regime formation.<sup>269</sup> Regarding intra-elite conflict, personal rivalries, frequently framed in ideological terms, played an important role. Yet not least important were the contingent processes of decolonisation that most countries went through. Divisions as a result of a long-lasting war, such as in Algeria, or a harsh crackdown of colonial authorities on the nationalist movement, as happened in the case of Tunisia, laid the basis for virulent intra-elite strife once the colonial powers had left. Elite cohesion, on the other hand, mainly occurred whenever elites did not have a power base outside ‘the palace’ and thus feared that they would be sidelined if they defected. Intra-communal cleavages obviously hinged on the presence of different communities within the country. Yet, again, the salience of communal cleavages was often the outcome of ethnic differentiation carried out at the hands of colonial authorities.

Second, it is striking that the aspiring elites who built these regimes very rarely represented clearly delineated constituencies at the moment of regime formation. Rather, acting strategically in a context of heightened insecurity about effective support bases, the elites chose or sometimes even came to create the constituencies of their support coalition. As much as Bourguiba was not a representative of labour, Khomeini did not represent the urban lumpen-proletariat when he arrived in Tehran shortly after the ouster of the Shah. Although the presence of an organised actor in demand of social welfare, most notably labour unions like the UGTT in Tunisia, certainly reinforced the regime’s commitment to welfare distribution, social policies in all high-spending regimes were instrumental in engendering societal groups in demand of the continuation of these policies, a point which

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<sup>269</sup> Slater and E. Simmons 2010, 889, define antecedent conditions as ‘factors or conditions preceding a critical juncture that combine with causal forces during a critical juncture to produce long-term divergence in outcomes.’

## *Conclusion*

will be analysed in later chapters.

Third, given the highly strategic context of (post-independence) power struggles, ideological predilections, if present among elites, were most often set aside and gave way to the more urgent imperative of building a viable support coalition. A good case in point is the Islamic Republic, where the clerical core constituency of Khomeini was not particularly fond of populist redistribution, yet the necessities of his power struggle with the rivalling elite groups inside the revolutionary coalition induced Khomeini to overcome these ideological impediments.

# 4

## Social Pacts over Time

This chapter uses time-series cross-sectional (TSCS) data to analyse social spending in labour-rich MENA regimes between 1963 and 2005. Building on the insights of the previous chapter, it takes the explanation of divergent welfare trajectories one step further by bringing the dynamic variation of spending back into the analysis. Importantly, this chapter does not seek to provide an alternative explanation of high welfare efforts in authoritarian regimes. Rather, the following analyses should be considered complementary to foregoing chapters. Mindful of Barbara Geddes' advice that it is often more persuasive to show multiple flawed tests of an argument than to aim for one perfect one,<sup>1</sup> the following statistical analyses set out to test observable implications of the proposed theoretical framework. If the theory were true, which patterns should we see in the variation of longitudinal spending data? This is the question this chapter tries to answer.

The analytic shift to the dynamic aspects of welfare spending might come at a surprise given that I have argued at length that variation of spending over time was outweighed by the persistent cross-regime differences in the MENA region. This still holds true. Alignments of societal actors and the formation of support coalitions during critical junctures gave authoritarian regimes varying incentives to provide social welfare and placed them on long-term spending trajectories that have conditioned the development of social policies

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<sup>1</sup>Geddes 2003, 40.

in the last four decades. Yet the path-dependence of social pacts should not obliterate the marked socio-economic changes and political challenges the region has gone through since the early 1960s. If social pacts are as powerful a causal factor as I claim, they should have visible effects on the way different regimes deal with similar socio-economic shocks and political events. In other words, responses to dynamic changes in the socio-economic and political environment are conditioned by the particular welfare trajectory of an authoritarian regime, which itself is underpinned by different types of coalitions. And the following analyses of spending patterns over time aim to bring these differences to light.

The chapter is divided into four sections. Section 1 examines whether there is a visible trade-off between social and defence spending and whether this trade-off is attenuated by the availability of abundant resource income. Section 2 focuses on the politics of retrenchment and analyses whether broad-based regime coalitions are less likely to carry out large social spending cuts. Section 3 scrutinises how different regime coalitions deal with additionally available resources and to what extent these are channelled toward social welfare. Section 4 tests whether different regime coalitions vary in their spending response to momentous and exceptional political events, that is, elections and political unrest. Section 5 concludes the chapter.

## I. ‘BUTTER OR GUNS’: IS THERE A TRADE-OFF?

Considering ‘the budget [...] the skeleton of the state,’<sup>2</sup> my theoretical argument has rested upon the assumption that political pressures and incentives will find their expression in the spending patterns of authoritarian regimes. This particularly concerns the areas of social and military spending and the inter-relation between these two. Whilst coalition types incentivise regimes to distribute in specific manners, external threats induce authoritarian rulers to channel resources toward national defence, and as the introductory chapter has argued, this takes precedence over counter-acting incentives to maintain high levels of

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<sup>2</sup>Schumpeter 1990, 100.



social spending. Only resource-abundant regimes are expected to escape this dilemma. Thus, we should see a clear trade-off between ‘butter or guns’ in labour-abundant MENA regimes, alleviated by the presence of affluent resources.

Although its intuitive appeal might make these hypotheses look like an ‘easy test,’ the global empirical evidence stands against it. While a number of studies have backed the idea of a defence-welfare trade-off – mostly in the context of the US and Europe<sup>3</sup> – most empirical research has yielded mixed findings. Based on correlation models, Wilensky has argued that defence spending can retard but not stop welfare spending.<sup>4</sup> Likewise, Russet finds no association between defence and social spending in the US between 1941 and 1979.<sup>5</sup> Hess and Mullan come to the same conclusion, analysing a large sample of developing countries.<sup>6</sup> In the MENA region, Richards and Waterbury state that there is little empirical evidence of a positive effect of reduced defence spending on social welfare.<sup>7</sup> Summarising the literature, Whitten and Williams thus claim that ‘governments do not face a trade-off between “butter” or “guns”.’<sup>8</sup>

On a theoretical level, the idea of a trade-off is also challenged by the state formation literature, which suggests – following Tilly’s assertion that ‘wars make states’<sup>9</sup> – that war-making can entail a substantial growth and expansion of the state apparatus. By consequence, the additional need for revenue could be counterbalanced by the state’s increased capacity to collect taxes, and Thies has shown that, indeed, such an effect can be

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<sup>3</sup>Griffin, Devine and Wallace 1982 find a negative relationship between civilian and military spending in post-war US; Rasler and Thompson 1985 show that defence spending displaces other types of spending in four major powers of WWII (US, UK, France, Japan); Barroso and Rodríguez 2009 provide evidence of a trade-off between welfare and defence in Spain from 1880-1960; Islam 2000 implies a trade-off in the MENA region but provides no empirical evidence.

<sup>4</sup>Wilensky 1975, 79.

<sup>5</sup>Russet 1982.

<sup>6</sup>Hess and Mullan 1988. See also Hicks and Misra 1993; Narizny 2003; Palmer 1990; and Gupta et al. 2004.

<sup>7</sup>Richards and Waterbury 2008, 350.

<sup>8</sup>Whitten and Williams 2011, 117. Evidence of a positive effect of defence spending on welfare and growth is also weak. See Hooker and Knetter 2001; and Mintz and Stevenson 1995; but see Best and Connolly 1982 for supporting evidence.

<sup>9</sup>Tilly 1985. In the European context, see also Rasler and Thompson 1985; and Ertman 1997.

found outside the context of developed countries.<sup>10</sup> In the Middle East, however, this state building effect has arguably been undermined by (i) the prevalence of conventional warfare financed, to a large extent, through externally derived resources;<sup>11</sup> (ii) the interference of external powers, which has prevented the emergence of regional hegemons;<sup>12</sup> and (iii) the fact that wars in the region have been severe, chronic, and more frequent than elsewhere.<sup>13</sup>

Thus, although warfare is not expected to entail heightened income from improved tax collection, the presence of a clear displacement effect of military on welfare spending cannot be taken for granted in view of the empirical literature. The following two hypotheses can therefore be considered a serious test of the theoretical assumption underlying my argument.

H1a: All else being equal, increases in defence spending should entail decreases in social spending.

H1b: In the presence of abundant resources, defence spending can be increased without a significant negative effect on social spending.

## **Empirical Analysis**

### *Data and Variables*

To measure a regime’s level of welfare spending, two main indicators are used.<sup>14</sup> *Welfare/GDP* measures welfare spending as a share of the country’s GDP. *Welfare p.c. (logged)* represents the logged per capita value of welfare spending in constant 2005 \$US, adjusted for power of purchase.<sup>15</sup> Welfare spending comprises both current and capital expenditures in the following areas: education, health, housing, and social pro-

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<sup>10</sup>Thies 2004.

<sup>11</sup>Gongora 1997.

<sup>12</sup>Lustick 1997.

<sup>13</sup>Lu and Thies 2012.

<sup>14</sup>Table 8.21 in Appendix C provides a descriptive summary of the main variables.

<sup>15</sup>The variable is constructed by dividing the total welfare expenditures in local currency unit (LCU) by the nominal GDP in LCU. This ratio is then multiplied by GDP per capita values taken from Heston, Summers and Aten 2006.

tection.<sup>16</sup> While the former measure captures the weight of a regime’s welfare effort in the national economy, the latter indicator gives a more accurate impression a regime’s welfare output as received by the population. Since the above-mentioned hypotheses focus on a trade-off between two major portfolios in the annual budget, I also employ a third indicator in this section, *Welfare/budget*, which measures welfare spending as a share of the government’s total expenditures.

As stated in the Introduction, extending the available spending data back in time has been a particular concern of this study. Therefore, the underlying data for the dependent variable are taken from two different sources, which, combined, yield complete time-series from 1963 until 2005.<sup>17</sup> Data from 1972 onwards are taken from the functional classification of the IMF Government Finance Statistics (GFS),<sup>18</sup> which has been a widely-used data source in the comparative political economy literature. Earlier spending figures are taken from a new dataset on Global State Revenues and Expenditures (GSRE) in developing countries.<sup>19</sup> In contrast to the GFS, which is based on an annual survey sent to IMF member states, the GSRE is based on spending and revenue data from historical documents of the IMF, available in the IMF’s archives in Washington, D.C. Using the statistical information in the annual reports of the IMF’s regional departments, the GSRE offers time-series data usually available from the year of a country’s membership in the IMF.<sup>20</sup>

It is important to note that the statistical data contained in the annual reports are collected independently of the IMF’s statistical department, which produces the GFS. This has potential disadvantages. One of the downsides is that accounting standards might vary between different regional departments, which could lead to cross-country inconsistencies in the measures. However, as all data used in this chapter are taken from the same

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<sup>16</sup>The latter item includes social assistance programmes and subsidies to social security programmes.

<sup>17</sup>1963 was chosen as a starting date because two of the seven regimes, Algeria and Syria, are formed in this year.

<sup>18</sup>IMF 2011.

<sup>19</sup>V. Lucas and Richter 2012. A small number of remaining missing values for individual country years were taken from statistical yearbooks. See data note in Appendix A.

<sup>20</sup>The historical IMF documents were made available to researchers in the early 2000s, with the most recent documents being declassified after a period of five years.

regional department (Middle East and North Africa), the GSRE data should be free of cross-country distortions. Moreover, when correlated with the GFS data, the coefficients are generally very high across different measures of social spending.<sup>21</sup> Thus, considering the increased analytical leverage from a decade of additional spending data, combining both sources in one time-series panel seems justifiable.

Regarding the right-hand side of the equation, two explanatory variables are of particular interest in this section. On the one hand, *Defence/GDP*, *Defence p.c. (logged)*, and *Defence/budget* measure a regime’s defence effort in a given country year. To capture potential displacement effects between defence and welfare spending, all three variables match the unit of measurement of the dependent variable.<sup>22</sup> Data are taken from the combined GSRE and GFS. On the other hand, *Resources p.c. (logged)* measures the level of available income from exportable resources in 2007 \$US.<sup>23</sup> Providing particularly long time-series, the Haber and Menaldo data conveniently matches the period covered by my spending data. In addition, using a per capita measure is preferable to measuring resource income as a share of a country’s GDP or exports, because all of these measures are an expression of a country’s resource dependence, rather than resource abundance. Having said this, to assess the robustness of my findings I test two alternative dummy variables, indicating whether a country is a major oil exporter, in Appendix C.

As for my control variables, I seek to strike a balance between meeting the standards of the welfare state literature and employing measures that are available from the early 1960s. The latter point is crucial as the effort made to collect additional spending data would be undone if combined with data that do not cover the same time period. All of the following controls – or a subset of these – are available from 1963 and will be used throughout this chapter. Regarding socio-economic variables, the welfare state literature has highlighted a number of potential confounders affecting the level of a country’s welfare spending.

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<sup>21</sup>Correlation is between 0.8 and 0.9.

<sup>22</sup>Per capita values are derived in the same manner as described above for welfare spending.

<sup>23</sup>Haber and Menaldo 2011. The variable includes income from oil, gas, fuel, coal, and metals. Other resources, such as diamonds, are not commonly exported by MENA countries.

Following a ‘logic of industrialism,’<sup>24</sup> welfare spending could reflect the variation in a country’s GDP per capita. The underlying logic is essentially needs-driven and assumes that with increasing wealth new needs for social protection emerge, and that citizens articulate these needs vis-à-vis a responsive government.<sup>25</sup> Another mechanism through which GDP per capita can affect social spending is Wagner’s Law, which postulates that state spending increases with rising levels of wealth.<sup>26</sup> The variable *GDP p.c. (logged)* captures both of these effects. To control for the effects of economic volatility and short-run economic performance, a measure of GDP *Growth* is included. Following Rudra and Haggard, I expect the effect of growth to be pro-cyclical in my sample of developing MENA countries.<sup>27</sup> Data for both variables are taken from the Penn World Tables.<sup>28</sup> Demand for social protection could also be driven by the share of the dependent population<sup>29</sup> and urbanisation, which is generally associated with emerging middle classes, industrialisation, and labour activity.<sup>30</sup> The variables *Dependency* and *Urbanisation*, taken from the World Bank,<sup>31</sup> control for these effects.

Considering the effects of globalisation, quite some ink has been spilled on the potential effect of trade on social spending. Two causal stories, one based on compensation, the other on efficiency gains, have been put forward.<sup>32</sup> The compensation hypothesis argues that workers will demand heightened social protection in return for increasing demands

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<sup>24</sup>Kerr 1964. See also Wilensky 1975; Lindert 1994; and Obinger and Wagschal 2010. For contrary evidence, see, amongst others, Flora and Alber 1981; Baqir 2002; and Huber and J. D. Stephens 2001; and Loewe 2010 for the MENA region.

<sup>25</sup>Myles 1984.

<sup>26</sup>Wagner 1883.

<sup>27</sup>Rudra and Haggard 2005.

<sup>28</sup>Heston, Summers and Aten 2006.

<sup>29</sup>This designates people younger than 14 and older than 65 years.

<sup>30</sup>On dependency, see Wilensky 1975; D. S. Brown and Hunter 1999; and Rudra 2002. Gandhi 2008 finds no effect of dependency in a sample of autocracies. On urbanisation, see Avelino, D. S. Brown and Hunter 2005.

<sup>31</sup>World Bank 2010c.

<sup>32</sup>This distinction is made by Garrett 2001. Using formal modelling, Adserà and Boix 2002 argue that both outcomes are possible depending on domestic political dynamics.

of competitiveness in an open economy.<sup>33</sup> In contrast, the efficiency hypothesis argues that welfare spending will come under pressure as a result of increased pressures from a competitive, globalised economy.<sup>34</sup> While this study is agnostic with regard to the direction of the effect, the importance of trade openness is recognised by including a variable *Trade* in the regression, measuring the sum of imports and exports as a share of a country’s GDP. The Penn World Tables provide these data.<sup>35</sup> As social spending can also be affected by cyclical shocks in the pattern of imports and exports, which frequently entail liquidity problems,<sup>36</sup> I also control for a country’s *Current Account Balance*, with data provided by the World Bank.<sup>37</sup>

A final set of socio-economic variables controls for resource constraints, partly stemming from economic volatility.<sup>38</sup> The variable *Output Gap* measures a country’s deviation from its long-term growth pattern in percent and, thereby, unexpected economic shocks and the fluctuation in available resources. Data are taken from the Penn World Tables<sup>39</sup> and the variable was constructed by applying a Hodrick-Prescott filter. Similarly, the variable *Debt Service*, taken from the World Bank,<sup>40</sup> accounts for the share of a country’s GDP spent on the reimbursement of foreign debt. Potentially alleviating financial constraints, *Foreign Aid p.c. (logged)* measures the amount of foreign aid per capita accrued to a regime with data from the World Bank.<sup>41</sup> And the variable *Tax Income/GDP* captures the variation in the total income from taxes available to a regime. Data for this

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<sup>33</sup>See, for instance, Cameron 1978; Katzenstein 1985; and Rodrik 1998. Avelino, D. S. Brown and Hunter 2005 provide supportive evidence in the context of Latin American economies. Nooruddin and J. W. Simmons 2009 find a compensation effect in the case of democracies. Rudra 2004 provides corroborating findings comparing developed and developing countries.

<sup>34</sup>See, for instance, Wibbels 2006. Kaufman and Segura-Ubiergo 2001 and Segura-Ubiergo 2007 find a negative effect of trade openness on social spending in the context of Latin America. Rudra and Haggard 2005 provide evidence for an efficiency effect in the case of autocracies, whilst Gandhi 2008 finds no such effect.

<sup>35</sup>Heston, Summers and Aten 2006.

<sup>36</sup>Nooruddin and J. W. Simmons 2009.

<sup>37</sup>World Bank 2010c.

<sup>38</sup>Kaufman and Segura-Ubiergo 2001; and Segura-Ubiergo 2007 emphasise the importance of fiscal constraints.

<sup>39</sup>Heston, Summers and Aten 2006.

<sup>40</sup>World Bank 2010c.

<sup>41</sup>ibid.

variable comes from the combined GSRE and GFS datasets.<sup>42</sup>

Alongside socio-economic variables, the literature has also pointed to important political determinants of social spending, two of which are controlled for in the regression. *Polity* captures a regime’s level of democracy and, most importantly, the degree to which the executive is subject to political control. The data source is Marshall and Jaggers.<sup>43</sup> In view of the literature, higher levels of democracy are expected to be associated with higher levels of social spending.<sup>44</sup> The binary variable *IMF* indicates whether a regime is carrying out an IMF adjustment programme in a given country year. Frequently associated with prescriptive spending cuts, IMF programmes are expected to have a negative impact on welfare spending.<sup>45</sup> The data are taken from Vreeland, updated by Dreher and Gassebner.<sup>46</sup>

This list of control variables is far from exhaustive. While a number of additional variables are tested in robustness tests later on, other common controls are omitted on purpose. An indicator measuring the strength of labour<sup>47</sup> is excluded because labour has found to be rather subdued in authoritarian contexts<sup>48</sup> and good indicators are hard to come by.<sup>49</sup> The non-democratic context in combination with bad data also leads me to exclude measures of unemployment,<sup>50</sup> inequality and poverty,<sup>51</sup> institutional veto players,<sup>52</sup> and different electoral systems and party affiliations.<sup>53</sup> Colonial legacies are time-

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<sup>42</sup>V. Lucas and Richter 2012; and IMF 2011.

<sup>43</sup>Marshall and Jaggers 2010.

<sup>44</sup>See, for instance, Haggard and Kaufman 2008.

<sup>45</sup>Nooruddin and J. W. Simmons 2006.

<sup>46</sup>J. R. Vreeland 2003; and Dreher and Gassebner 2012.

<sup>47</sup>On labour and the welfare state, see, amongst others, J. D. Stephens 1979; Esping-Andersen 1990; Hicks 1999; Hicks and Misra 1993; Hicks, Misra and Ng 1995; Korpi 1974, 1983, 1985; Korpi, O’Connor and Olsen 1998; and Huber and J. D. Stephens 2001.

<sup>48</sup>Kim and Gandhi 2010.

<sup>49</sup>As a result of, oftentimes coercive, state corporatism, unionisation rates do not adequately reflect the strength of labour. Alternative indicators, such as developed by Rudra 2002, overemphasise the importance of structural variables and fail to provide data for all regimes analysed in this study.

<sup>50</sup>On social spending and unemployment, see, for instance, Huber and J. D. Stephens 2001.

<sup>51</sup>See, for example, Moene and Wallerstein 2001.

<sup>52</sup>On veto players and welfare states, see Immergut 2010; and Huber, Ragin and J. D. Stephens 1993.

<sup>53</sup>See, for example, Persson and Tabellini 2000; and Kaufman and Segura-Ubiero 2001.

invariant and thus captured by the country fixed effects.<sup>54</sup> Development strategies<sup>55</sup> are not controlled for because (i) they have historically been relatively similar across the region, relying on state-led growth and some form of import substitution;<sup>56</sup> (ii) development strategies affect the type of welfare spending, rather than its level; (iii) varying levels of openness associated with different development strategies are captured by the *Trade* variable. For similar reasons, the specific skills distribution within a regime is also not included.<sup>57</sup>

### *Estimation Strategy and Model*

To estimate the potential trade-off between defence and welfare spending, I use a lagged dependent variable (LDV) model with the following functional form:

$$Y_{it} = \beta_0 + \beta_1 Y_{it-1} + \beta_2 \textit{Defence spending} + \beta_4 X_{it} + N_i + \varepsilon_{it},$$

where  $Y_{it}$  represents the level of social spending,  $\beta_0$  is a constant,  $Y_{it-1}$  is the one-period lag of the dependent variable,  $X_{it}$  is a vector of control variables,  $N_i$  are regime fixed effects, and  $\varepsilon_{it}$  represents the error term. As unobserved heterogeneity is assumed to exist between regimes in addition to heterogeneity across countries, regime fixed effects are used instead of the more common country fixed effects. Following DeBoef and Keele,<sup>58</sup> I started with the most general autoregressive distributed lag (ADL) model and then tested for possible simplifying restrictions, yielding the above LDV model. Just like a general ADL, the LDV model assumes that both sides of the equation are in a long-term equilibrium, which can be disturbed by short-term shocks.

With added regime fixed effects, the model is rather conservative and focusses on the

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<sup>54</sup>See the following sub-section. On colonial legacy and social welfare, see Barbone and Sanchez 1999; Flora and Alber 1981; and Bailey 2004.

<sup>55</sup>On the link between development strategies and the welfare state, see Frazier 2006; Wibbels and Ahlquist 2011; and Haggard and Kaufman 2008.

<sup>56</sup>Richards and Waterbury 2008, chapter 7.

<sup>57</sup>On skill formation and the welfare state, see Hall and Soskice 2001; and Iversen 2005.

<sup>58</sup>De Boef and Keele 2008.



variation within each regime.<sup>59</sup> Having the lag of the dependent variable on the right-hand side purges the model from serial correlation.<sup>60</sup> The standard errors are corrected for heteroskedasticity in the panel.<sup>61</sup> The regression is estimated using ordinary least squares (OLS). I am aware that autoregressive models combined with country fixed effects make the parameter estimates liable to bias.<sup>62</sup> However, given an average length of 37 years per time series, the bias becomes very small and alternative estimators have been found to perform worse in the presence of long time series.<sup>63</sup>

### *Main Findings*

Assessing the existence of a trade-off between welfare and defence spending, Table 4.1 presents the results for hypothesis H1a. Each column represents one of the three measurements of social and defence spending, that is, social spending as a share of the budget, as a share of GDP, and on a per capita level. Substantively, the results suggest that there is, indeed, a noticeable displacement effect of defence spending on social welfare. Considering column 1, a one-percent increase of defence spending in the budget entails a 0.14 drop in welfare spending. In column 2, the results for *Welfare/GDP* point in the same direction, yet are just beyond conventional levels of statistical significance ( $p=0.121$ ). The logged per capita values in column 3 suggest that a one-percent increase in defence spending per capita is associated with a 0.04 percent decrease in social spending.<sup>64</sup> Whilst, in particular, the latter results might seem negligible in size, it is important to note that these coefficients represent only the short-term effect of defence spending. The long-run effect is captured by the long-run multiplier (LRM), which is shown in Table 4.2.<sup>65</sup> Comparing

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<sup>59</sup>A Hausman test suggests the use of regime fixed effects.

<sup>60</sup>An Arellano-Bond test indicates that there is no remaining serial correlation of a higher order.

<sup>61</sup>N. L. Beck and Katz 1995. Panel-specific heteroskedasticity was detected using a modified Wald test.

<sup>62</sup>Nickell 1981.

<sup>63</sup>N. L. Beck and Katz 2011.

<sup>64</sup>If both sides of the equation are logged, the results are best interpreted in terms of percentage changes. See Gurajati 2003, 181-82.

<sup>65</sup>The confidence bounds of the LRM were calculated analytically, using the formula provided by De Boef and Keele 2008, 192.

the average LRM with the average marginal effect, it becomes clear that the long-term effect is two to three times larger than the short-term effect.

Moreover, in reality defence spending is rarely ever increased by one percentage point only; rather, in response to changes in the external environment, defence spending is subject to important fluctuations, the effect of which are best illustrated using graphical simulations.<sup>66</sup> For better clarity, I only present graphs using *Welfare/budget*; plots using alternative measurement can be found in Appendix C. Figure 4.1a displays the effect of a one-year hike in defence spending from its mean value to its maximal value over a period of eight years. As we can see, the short-term increase in defence spending has a remarkable impact on social expenditures. What is more, spending levels take a considerable time to recover back to initial levels (about eight years), although defence spending soared up for one period only.

The effect of permanent changes in defence spending are shown in Figure 4.1b. Taking average levels of social and defence spending as a starting point, the graph displays the effect of three different scenarios – high, moderate, and low defence spending<sup>67</sup> –over a period of 15 years. The effects of the high-spending scenario are particularly drastic. After two years only, social spending levels are nearly halved and, by the end the 15-year period, welfare is allocated a meagre 8 per cent of the budget, compared to over 30 per cent in the first period.

The effects of a gradual increase of defence spending from its minimal to its maximal level, spread over a period of 10 years, are displayed in Figure 4.1c. As expected, rising levels of defence spending have a noticeable displacement effect on welfare spending. Interestingly, the crowding-out effect kicks in rather slowly and a downward bending of the spending curve can only be observed toward the end of the ten year period as spending

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<sup>66</sup>All graphs displaying the effects of dynamic changes over time were computed using the *dynsim* package in Stata, developed by Whitten and Williams 2012. The package is based on the *clarify* package by G. King, Tomz and Wittenberg 2000.

<sup>67</sup>In the case of *Welfare/budget*, this means 5, 25, and 60 per cent of the budget spent on defence. All chosen values have historically been observed in labour-abundant MENA regimes.

levels decline with a marked temporal delay. Moreover, leading on to hypothesis H1b, the graph suggests that, at least in the short-run, welfare spending increases *in parallel to* defence spending – an effect that might be more sustained in resource-abundant regimes.

Measurement of Independent Variable	Mean value	Upper bound	Lower bound
Welfare/budget	-0.38705395	-0.37155393	-0.40255397
Welfare/GDP	-0.10259431	-0.09490089	-0.11028773
Welfare p.c. (logged)	-0.10987351	-0.10339406	-0.11635295

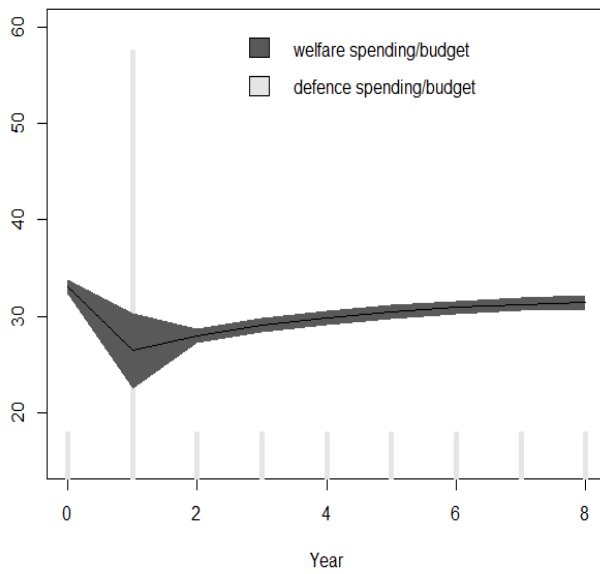
Table 4.2: Long-run Effects of Defence on Welfare Spending

Table 4.1: Trade-Off between Welfare and Defence Spending

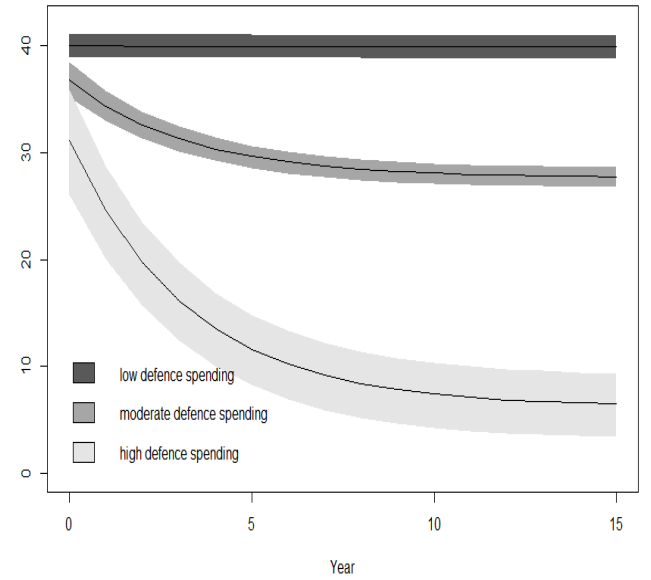
	(1) Welfare/budget	(2) Welfare/GDP	(3) Welfare p.c. (logged)
Welfare Spending $t-1$	0.657*** (0.0536)	0.488*** (0.0572)	0.566*** (0.0519)
Defence Spending	-0.133*** (0.0452)	-0.0525 (0.0338)	-0.0477* (0.0245)
Resources p.c. (logged)	0.263 (0.176)	0.128** (0.0576)	0.0161** (0.00682)
GDP p.c. (logged)	-0.402 (1.688)	-0.455 (0.494)	0.447*** (0.0769)
Growth	-0.0261 (0.0477)	-0.0238 (0.0148)	0.00187 (0.00188)
Dependency	0.0828 (0.135)	-0.0609 (0.0442)	-0.00725 (0.00540)
Urbanisation	0.0132 (0.112)	0.0523 (0.0330)	0.00289 (0.00402)
Trade	0.00750 (0.0187)	0.00722 (0.00620)	0.00106 (0.000704)
Current Account Balance	0.0594 (0.0533)	-0.117*** (0.0190)	-0.0128*** (0.00212)
Output Gap	0.100 (2.993)	1.322 (0.933)	0.230** (0.0988)
Debt Service	-0.0389 (0.118)	0.0150 (0.0314)	-0.00135 (0.00410)
Foreign Aid p.c. (logged)	0.163 (0.267)	0.0911 (0.0741)	0.0110 (0.00961)
Tax Income/GDP	0.0987 (0.113)	0.0766** (0.0333)	0.0123*** (0.00390)
Polity	0.275* (0.159)	0.0407 (0.0428)	-0.00367 (0.00517)
IMF	-0.686 (0.632)	0.175 (0.201)	0.0196 (0.0235)
Observations	298	296	296

Autoregressive OLS model with regime fixed effects. Panel-corrected standard errors in parentheses.  
Constant and FE coefficients omitted. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

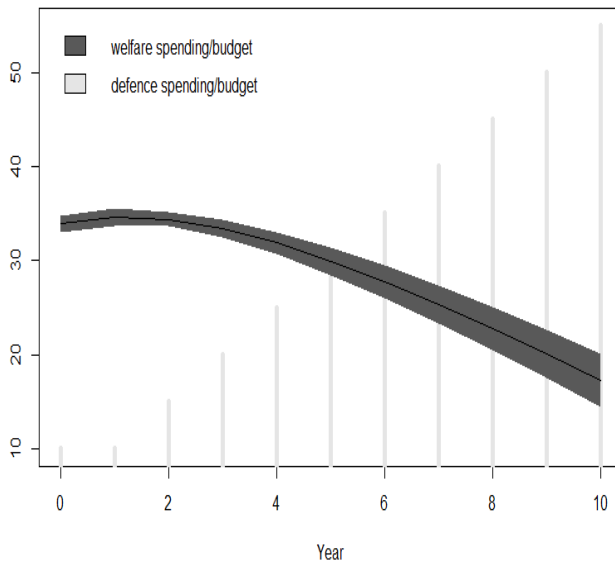
*‘Butter or Guns’*



(a) Effect of Short-term Hikes in Defence Spending



(b) Effect of Permanent Changes of Defence Spending



(c) Effect of Gradual Changes of Defence Spending

Figure 4.1: Effect of Defence Spending on Social Spending as % of Budget  
*Note:* Shaded area indicates 95-percent confidence bounds.

The presence of such a counter-effect is shown in Table 4.3. The presented models

are identical to Table 4.1 above, with the exception that they now include an interaction term between defence spending and the measure of resource abundance, *Resources p.c. (logged)*.<sup>68</sup> As before, defence spending has a significant negative effect on welfare expenditures throughout all three indicators of social spending. However, this negative effect seems to be attenuated by a positive effect of the interaction term, which in the case of *Welfare/GDP* and *Welfare p.c. (logged)* is statistically significant. As the effect of interaction terms is only poorly visible by assessing the statistical significance of the constituent terms,<sup>69</sup> I again use graphical simulations for illustration. Figures 4.2a-4.2c replicate the previous scenarios for two types of regimes: resource-poor regimes are essentially non-oil exporters and are assigned the minimal empirically observed value of *Resources p.c. (logged)*; resource-rich regimes, on the other hand, derive large sums from the exports of combustible resources and are assigned the maximal empirically observed value of *Resources p.c. (logged)*.

Turning to the first graph, Figure 4.2a displays the elasticity of welfare spending to a one-year shock of defence spending for resource-poor and resource-rich regimes. In the year the shock occurs, the two regime types are indistinguishable as indicated by the overlapping confidence intervals. However, the recovery period shows marked differences in that welfare spending in resource-rich regimes reverts back rather quickly to previous levels in contrast to resource-poor regimes where welfare spending remains depressed.

Scenarios of a permanent increase of defence spending – such as during periods of heightened inter-state conflict or full-scale wars – are presented in Figure 4.2b. The plot reveals a significant difference between resource-rich and resource-poor regimes. Confirming the theoretical argument that large resource endowments allow regimes to eschew, or at least alleviate, the dilemma between ‘butter or guns,’ the graphs underline the better capacity of resource-rich regimes to shield social welfare from the negative impact of

<sup>68</sup>Due to space constraints, the coefficients for the political variables, *Polity* and *IMF*, are omitted.

<sup>69</sup>Brambor, Roberts Clark and Golder 2005, 70 point out that the overall effect can be statistically significant for some values of the modifying variable even if all constituent terms are statistically insignificant.

external conflict, expressed by increasing defence outlays. While decline occurs in both scenarios, the social spending cuts are much more pronounced in resource-poor countries.

The results are similar for a scenario in which defence spending increases more gradually (Figure 4.2c). Resource-rich regimes, again, seem better able to avoid major social spending cuts as defence spending gradually moves up. However, the positive effect of resource endowment appears to be more temporal than for alternative measurements of social spending, as both regime types, resource-rich and resource-poor, become indistinguishable after about 7 years. This notwithstanding, the statistical tests provide strong support for hypothesis H1b.

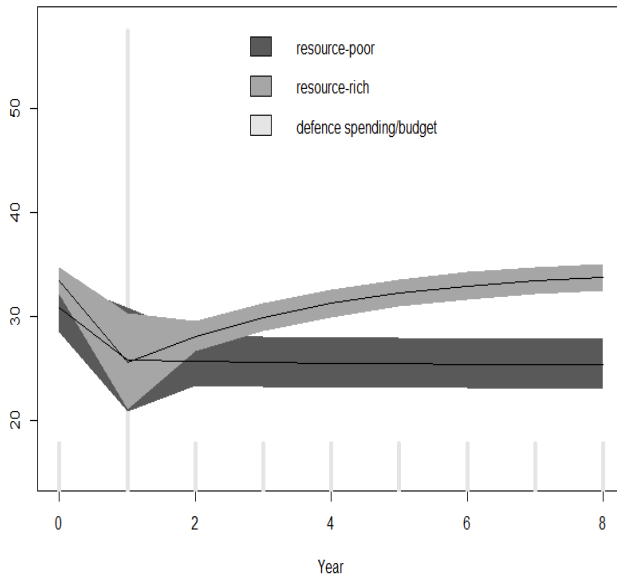
Table 4.3: Welfare, Defence, and Resource Endowment

	(1) Welfare/Budget	(2) Welfare/GDP	(3) Welfare p.c. (logged)
Welfare Spending $t-1$	0.655*** (0.0537)	0.459*** (0.0580)	0.533*** (0.0531)
Defence Spending	-0.150** (0.0621)	-0.136** (0.0578)	-0.120*** (0.0354)
Resources p.c. (logged)	0.0655 (0.434)	-0.0746 (0.115)	-0.0905** (0.0383)
Defence Spending*Resources	0.00709 (0.0130)	0.0248** (0.0122)	0.0201*** (0.00699)
GDP p.c. (logged)	-0.244 (1.712)	-0.193 (0.484)	0.538*** (0.0811)
Growth	-0.0252 (0.0479)	-0.0222 (0.0147)	0.00220 (0.00186)
Dependency	0.0512 (0.134)	-0.0898** (0.0436)	-0.00911* (0.00528)
Urbanisation	-0.0200 (0.119)	0.0293 (0.0325)	0.000696 (0.00394)
Trade	0.00575 (0.0185)	0.00380 (0.00622)	0.000634 (0.000689)
Current Account Balance	0.0622 (0.0529)	-0.116*** (0.0189)	-0.0130*** (0.00208)
Output Gap	0.199 (3.000)	0.648 (0.951)	0.116 (0.105)
Debt Service	-0.0296 (0.117)	0.0242 (0.0313)	-0.000385 (0.00399)
Foreign Aid p.c. (logged)	0.126 (0.272)	0.0737 (0.0728)	0.0187* (0.0103)
Tax Income/GDP	0.114 (0.116)	0.0860*** (0.0334)	0.0131*** (0.00385)
Observations	298	296	296

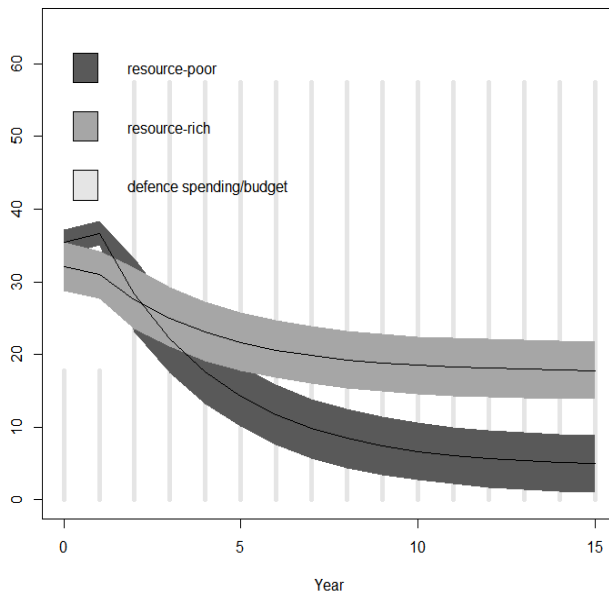
Autoregressive OLS model with regime fixed effects. Panel-corrected standard errors in parentheses.

Constant and FE coecients omitted. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

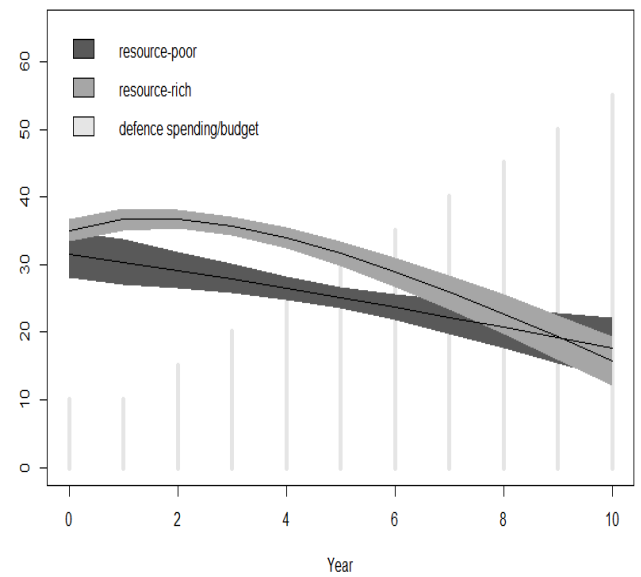




(a) Effect of Short-term Hikes in Defence Spending



(b) Effect of Permanent Changes of Defence Spending



(c) Effect of Gradual Changes of Defence Spending

Figure 4.2: Effect of Defence Spending on Social Spending as % of Budget by Resource Abundance  
*Note:* Shaded area indicates 95-percent confidence bounds.

*Robustness Tests*

To ascertain the robustness of my findings, I conduct a number of additional tests, the results of which are detailed in Appendix C. I should state from the outset that none of the tests alters the substantive findings of this section. For both hypotheses, I test the sensitivity of the results to alternative or additional control variables. More specifically, I replace the variable *Trade* by two alternative measures of *Trade Openness* and *Capital Account Openness*, taken from the CACAO dataset.<sup>70</sup> Both measures indicate the level of trade and capital restrictions on an ordinal scale ranging from 1 to 7 and 1 to 5 respectively.

Secondly, I use an alternative indicator for financial constraints, substituting the variable *Revenue/GDP* for *Tax/GDP*. The variable measures the total revenues, including non-tax revenue, accrued to the central government and is thus more encompassing than the measure of tax revenues only. Data are provided by the combined GFS and GSRE datasets.<sup>71</sup>

Finally, I add the amount of foreign direct investment as a share of GDP, *FDI*, and the real exchange rate, *Real Exchange*, as additional control variables to the regression. The former provides an additional indicator of capital account openness and could be associated with social spending cuts as foreign investors exert pressure to keep labour costs low.<sup>72</sup> The latter variable captures the effect of currency shocks on the economy, which can have a significant impact on economic activity and, by extension, on the state of public finances. Both variables are taken from the World Bank.<sup>73</sup> As some of these variables are only available since the early 1970s, I use multiple imputation to avoid the loss of country years.<sup>74</sup> For *Trade Openness* and *Capital Account Openness*, I impose a prior of high trade and capital flow restrictions in the 1960s, which is in line with the

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<sup>70</sup>Martin 2005.

<sup>71</sup>IMF 2011; and V. Lucas and Richter 2012.

<sup>72</sup>Dion 2008.

<sup>73</sup>World Bank 2010c. The real exchange rate was calculated by multiplying the nominal exchange rate in each country by the ratio of local inflation to U.S. inflation.

<sup>74</sup>Values are imputed using the *Amelia II* package by Honaker and G. King 2010.

secondary literature on trade in the MENA region.<sup>75</sup>

Regarding hypothesis H1b, I also test two binary indicators of resource abundance. The rationale behind testing a dummy variable instead of a continuous measure of resource income is that the latter can overemphasise the effect of income fluctuations. Even during periods of relatively depressed world market prices for oil, oil-exporting MENA regimes have had a higher capacity to acquire additional resources, either from accumulated savings or by using their resource endowment as a security to contract cheap loans on the international financial market. Both effects might be better captured by a dummy indicator for resource abundance.

The first indicator, *Resource Abundance 1*, codes all of Algeria, the Shah Regime, and the Islamic Republic of Iran as resource-abundant for the whole period from 1963 up until 2005. As this indicator is perfectly collinear with the added regime fixed effects, I interact the resource dummy with defence spending without adding the dummy variable as a constituent term.<sup>76</sup> The second indicator, *Resource Abundance 2*, is identical to the previous one, except that Algeria is coded resource-abundant only from 1970, following the nationalisation of oil. In this case, *Resource Abundance 2* is kept as a constituent term in the interaction model. Both indicators yield the same positive effect countering welfare contraction from higher defence outlays.

## II. PROTECTING COALITIONS: WELFARE RETRENCHMENT ACROSS COALITION

### TYPES

In labour-abundant MENA regimes, the political incentives emanating from broad-based authoritarian support coalitions led to an expansion of welfare spending that, typically within the decade after the regime's formation and geostrategic circumstances permitting, set them apart from their narrow, elite-based counterparts. This expansion happened in

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<sup>75</sup>Noland and Pack 2007, 105.

<sup>76</sup>See Halaby 2004, 258; and Wooldridge 2002, chapter 10 for technical details.

a generally supportive geo-economic environment of post-WII reconstruction, low interest rates and strong global growth rates.<sup>77</sup> From the mid-1980s, the economic conditions of labour-abundant MENA economies had worsened as state-led development strategies of all regimes were coming under pressure from a deteriorated macro-economic outlook, coupled with rising unemployment, heightened fiscal constraints, and liquidity crises. This compelled all regimes to carry out economic adjustment policies which challenged domestic patterns of resource distribution and, thereby, the very foundation of the underlying coalitional structure. The predominant narrative in the MENA literature holds that this process ushered in a phase of post-populist authoritarianism in which regimes retreated from their welfare responsibilities.<sup>78</sup>

These claims do not withstand empirical scrutiny. Looking at the end result of the process, social spending levels in the mid-2000s stood at levels similar to the heyday of the so-called populist era.<sup>79</sup> This is remarkable as, arguably, pressures to tighten budget constraints were even higher for high-spenders than for low-spenders. The reason why high-spenders prevented major welfare retrenchment lies, again, in the underpinning coalitional structure. As the literature on institutions teaches us, coalitions, as expressions of specific constellations of political power, will create institutions that maintain their power.<sup>80</sup> Thus ‘storing’ their power resources in institutions,<sup>81</sup> coalitions ‘favor the reproduction of the political and allocational regime.’<sup>82</sup> Therefore, coalitions not only offer advantages to those included in times of spending expansion, they also offer better protection in times of spending compression.<sup>83</sup> In other words, coalitions regulate the distribution *and the protection* of power, and thus ‘mediate how economic interests translate into adjustment policies.’<sup>84</sup>

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<sup>77</sup>The economic environment was arguably less propitious for the Islamic Republic of Iran.

<sup>78</sup>Hinnebusch 2006, 385. See also Bozarslan 2011; Hinnebusch 2010; and S. J. King 2010.

<sup>79</sup>IMF 2011; and V. Lucas and Richter 2012.

<sup>80</sup>Ikenberry 1994; and Knight 1992.

<sup>81</sup>Korpi 1985.

<sup>82</sup>Pepinsky 2008a, 450.

<sup>83</sup>T. Cook 2002, 26.

<sup>84</sup>Pepinsky 2009, 9.

As coalitional structures create positive feedback effects for those included,<sup>85</sup> the costs for switching coalitions and altering the patterns of domestic resource allocation become higher the longer coalitions are in power.<sup>86</sup> Lacking an institutionalised mechanism of coalition (re-)formation like in democracies, the pillars of a support coalition are thus more difficult to substitute for autocratic rulers.<sup>87</sup> Moreover, welfare states have a tendency to create their own constituencies beyond their initial group of supporters as groups in society that were not initially targeted come to benefit from extensive, often universal social policies.<sup>88</sup> Given that all labour-abundant regimes were exposed to similar economic pressures to adjust, the varying protective power of different coalitional structures should be traceable in the patterns of social spending cuts over time. I thus advance the following hypothesis 2:

H2: The longer broad-based coalitions are in power, the less likely become major welfare retrenchments.

## **Empirical Analysis**

### *Identifying Periods of Retrenchment*

While the welfare state literature has argued that the politics of retrenchment is a distinctive process,<sup>89</sup> there is no definitive conceptualisation of what exactly constitutes a period of welfare retrenchment. Apart from case studies, comparative quantitative analyses of welfare cut-backs have pointed to a number of important challenges when identifying periods of retrenchment.<sup>90</sup> First, periods of retrenchment must be distinguished from momentary fluctuations of spending levels as a result of economic downturns in the business cycle

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<sup>85</sup>Ritchie 2010, 18.

<sup>86</sup>Pepinsky 2009, 17.

<sup>87</sup>Martin 2005, 29.

<sup>88</sup>Pierson 1994, 2; and Thelen 2003, 216.

<sup>89</sup>Pierson 1994.

<sup>90</sup>Three papers have studied welfare retrenchment using statistical tests, all of them exclusively in an OECD context. Korpi and Palme 2003 examine retrenchment between 1975 and 95 in 18 OECD countries. Hicks and Zorn 2005 look at retrenchment periods from 1978 to 1994 in all OECD countries. Fernández 2012 studies retrenchments in pension policies in 19 OECD countries from 1981 until 2004.

or structural socio-economic changes. The former point is mostly relevant for nations with extensive unemployment insurance which entail a countercyclical movement of social spending levels in periods of rising unemployment. More relevant in the context of developing nations are changes in the demographic structure, such as the maturation of the age pyramid, which are associated with declining demands for certain types of social spending. For instance, having pushed for full primary enrolment following independence, developing countries can reduce education spending at later stages without palpable side-effects for the population. The latter point leads to the second dimension of retrenchment, which is noticeability. For retrenchment to be a political process involving conflict and divergent interests, it must have an effect on, at least parts of, the population. In other words, retrenchment must be doubly painful, for politicians and the population alike.

Taking these two dimensions into account, I closely follow the coding proposed by Hicks and Zorn<sup>91</sup> and conceptualise welfare retrenchment as a combination of sustained and substantial cuts in per capita welfare spending. As per capita measures best capture the effect of spending as felt by the population, it is preferable to operationalising retrenchments based on contractions in welfare effort (spending as share of GDP or the budget).<sup>92</sup> I use the following formula to identify periods of retrenchment:

$$\frac{\text{Social per capita spending}_{it+k} - \text{Social per capita spending}_{it}}{\text{Social per capita spending}_{it}} < c,$$

where  $k$  denotes the duration of the decline and  $c$  indicates the cut-off point below which a cut-back is coded as retrenchment. Thus, larger values of  $k$  indicate more sustained periods of retrenchment, while larger values of  $c$  correspond to deeper spending cuts. Based on the variation in their spending data, Hicks and Zorn propose to focus on values of  $k=2$  and  $k=3$ , and choose values of  $c$  between -0.04 and -0.06.<sup>93</sup> When examining all cut-backs of per capita welfare spending in my own data, it turns out that in labour-abundant MENA

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<sup>91</sup>Hicks and Zorn 2005, 641-644.

<sup>92</sup>More refined data, such as net replacement rates used by Korpi and Palme 2003, are unfortunately not available.

<sup>93</sup>Hicks and Zorn 2005, 642.

regimes spending cuts are rather deep whenever they occur. Considering spending cuts occurring for a minimum of two subsequent years, reductions all exceeded 10 per cent, averaging 28 per cent over the whole period. More interesting variation can be found with regard to the duration of spending cuts. Similar to the pattern noted by Hicks and Zorn in OECD countries, periods of retrenchment rarely exceeded three subsequent years in my sample; and cut-backs in a single year seem too ephemeral to consider them events of retrenchment.

In the light of this pattern, I distinguish between two types of retrenchment: *Retrenchment* denotes periods of a minimum of two subsequent years of spending cuts; *Sustained Retrenchment* denotes spending cuts of at least three subsequent years. Subsequent years of cut-backs are treated as one connected retrenchment event, with the first period of spending reduction treated as the event onset. Table 4.4 gives an overview of retrenchment periods in the sample. It should be noted that the coding of sustained retrenchment corresponds more closely to periods of economic adjustment and hardship highlighted in the MENA literature.

Regime	Years	Event type
Algeria	1988-90	sustained retrenchment
	1995-96	retrenchment
	2004-05	retrenchment
Egypt	1961-62	retrenchment
	1973-74	retrenchment
	1977-78	retrenchment
	1995-97	sustained retrenchment
The Shah Regime	1965-66	retrenchment
The Islamic Republic of Iran	1980-81	retrenchment
	1984-87	sustained retrenchment
	1965-66	retrenchment
Jordan	1983-85	sustained retrenchment
	1989-92	sustained retrenchment
	1969-70	retrenchment
Morocco	1983-85	sustained retrenchment
	1995-97	sustained retrenchment
	1977-78	retrenchment
Syria	1984-90	sustained retrenchment
	2003-04	retrenchment
	1972-73	retrenchment
Tunisia	1987-88	retrenchment

Table 4.4: Incidences of Welfare Retrenchment in Labour-Abundant MENA Regimes

### Estimation Strategy and Model

I analyse the occurrence of retrenchment events using a Cox proportional hazard model. The Cox model has been used as the standard model in the literature when it comes to analysing welfare retrenchment.<sup>94</sup> The model takes the following form:

$$h(t) = h_0(t) \exp^{X_{it}\beta},$$

where  $h_0(t)$  is the baseline hazard and  $X_{it}$  denotes a vector of, possibly time-varying, covariates that affect the base line hazard in a multiplicative form. In contrast to parametric survival models, the Cox model has the advantage that the overall shape of the hazard rate does not have to be specified prior to the analysis. This comes with the drawback

<sup>94</sup>See Korpi and Palme 2003; Hicks and Zorn 2005; and Fernández 2012.



that expected absolute durations cannot be modelled because the model only uses the partial likelihood function. The Cox model can thus only indicate relative changes in the likelihood of an event, rather than estimating the absolute probability of its occurrence.

As periods of retrenchment can occur multiple times within a country and prior periods of retrenchment are likely to have an impact on the probability of subsequent retrenchment, I use a stratified Cox model that estimates a separate baseline hazard for each event.<sup>95</sup> However, as stratification strains the degrees of freedom and reduces the number of possible control variables, I also report results without stratification. As the probability of an event might be heterogeneous across cross-sectional units, that is, regimes in my case, frailty models have been proposed to account for unobserved heterogeneity.<sup>96</sup> However, akin to conventional random effects regressions, these models require a certain minimum of cross-sectional units, which my sample of eight regimes unfortunately does not provide. Finally, it should be noted that all standard errors are robust and clustered by regime.

### *Data and Variables*

The key explanatory variable in this section is a count variable called *Broad Coalition Duration*, which accounts for each year a regime has been based on a broad-based support coalition. In the case of narrow coalitions, the variable takes the value of 0. Note that broad regime coalitions are not limited to authoritarian welfare states, but denote all regimes that have experienced initial intra-elite conflict in the absence of salient intra-communal cleavages.<sup>97</sup> Whilst not all broad-coalition regimes become high-spenders, it is still plausible to assume that, given their support base, they will seek to shield social spending from major cutbacks, regardless of the specific spending level.

As for control variables, limited degrees of freedom as a result of stratification allow only for the inclusion of a subset of the standard controls. Selection was based on theor-

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<sup>95</sup>Box-Steffensmeier and Zorn 2002.

<sup>96</sup>Box-Steffensmeier, De Boef and Joyce 2007.

<sup>97</sup>These are Algeria, Egypt, the Islamic Republic of Iran, and Tunisia.

etical grounds and considerations of model fit. If not stated otherwise, sources and coding of the variables are identical to the previous model. Adding *Output Gap* to the regression, I control for positive and negative shocks from the long-term growth pattern of a regime. Taking into account both trend and deviations from it, the variable is better suited to capture the volatility of the macro-economic environment than growth rates alone. As social spending cut-backs have often been prescribed by the IMF, I also include the *IMF* dummy in the equation. Externally derived resources might also provide considerable respite in moments of financial pressures. I therefore include the variables *Resource p.c. (logged)* and *Foreign Aid p.c. (logged)* in the regression. Finally, I control for structural changes in the socio-economic environment, which could alter the demand for social spending. This is done by adding *Dependency* and *Urbanisation* to the regression.

In the non-stratified model, I include a number of additional controls. *Defence Spending*, measured on a logged per capita basis, accounts for potential effects of the external threat environment mediated through the defence budget. *Debt Service* and *Current Account Balance* account for financial constraints stemming from the external economic environment. And considering potential efficiency pressures from increased openness to the world market, I also include *Trade* in the extended set of control variables.

### *Main Findings*

Table 4.5 presents the estimation results. Columns 1 and 2 report the coefficient for *Retrenchment* as dependent variable; columns 3 and 4 contain the results for *Sustained Retrenchment*. Positive coefficients increase the hazard rate and, by consequence, reduce the expected duration. In other words, they make retrenchment more likely. Conversely, negative coefficients can be understood to increase duration and make retrenchment less likely. The results provide at least partial support for hypothesis H2. When periods of retrenchment and sustained retrenchment are combined in one dependent variable, the duration of a broad coalition does not seem to have an effect on the risk of retrenchment.

In other words, broad coalitions fail to protect their support base from temporally more confined, yet possibly painful, periods of social spending cuts. However, broad coalitions appear to provide a powerful protection of social spending against longer, more sustained periods of spending adjustment. In both columns 3 and 4, the coefficient of *Broad Coalition Duration* is highly statistically significant, meaning that every additional year under a broad coalition reduces the risk of major retrenchments.

As before, the substantive implications of the model are best explored graphically. Figure 4.3 displays the percentage change of the risk of retrenchment associated with one more year under a broad coalition. To keep the number of graphs manageable, I use the stratified model only. The graph using the non-stratified model differs only marginally and is shown in Appendix C. The plot suggests a rather exponential reduction of risk, in which the risk of retrenchment declines rapidly in the early years after regime formation. For example, after 5 years only, the model suggests that the average risk of retrenchment is reduced by over 60 per cent. On the whole, the figure highlights the importance of coalition type for retrenchment. The longer a broad-based authoritarian support coalition is in power, the lower the risk that such a regime will carry out major social spending cuts.

Table 4.5: Coalition Type and Welfare Retrenchment

	(1) Retr.	(2) Retr.	(3) Sustained Retr.	(4) Sustained Retr.
Broad Coalition Duration	-0.00631 (0.0162)	-0.00640 (0.0258)	-0.114** (0.0473)	-0.221*** (0.0723)
Defence Spending	0.959 (0.845)		1.178* (0.657)	
Resources p.c. (logged)	0.124 (0.107)	0.0292 (0.105)	-0.148* (0.0843)	-0.140 (0.286)
Dependency	0.0191 (0.101)	-0.0952 (0.107)	0.481 (0.328)	0.727* (0.395)
Urbanisation	-0.0392 (0.0345)	0.00293 (0.0340)	0.187* (0.100)	0.113** (0.0538)
Trade	-0.00171 (0.0105)		-0.0582** (0.0256)	
Current Account Balance	-0.0238 (0.0355)		-0.00360 (0.116)	
Output Gap	-5.782 (4.214)	-2.701 (2.646)	-3.530 (2.419)	-15.78** (7.330)
Debt Service	0.0320 (0.0520)		0.237*** (0.0595)	
Foreign Aid p.c. (logged)	0.0942 (0.282)	0.0845 (0.220)	-1.362*** (0.337)	-1.001* (0.525)
IMF	1.232** (0.537)	1.265** (0.538)	1.046 (1.138)	2.998** (1.278)
Observations	296	305	296	305

Non-stratified Cox model in columns 1 and 3. Stratified Cox model in columns 2 and 4.

Standard errors are robust and clustered by regime. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

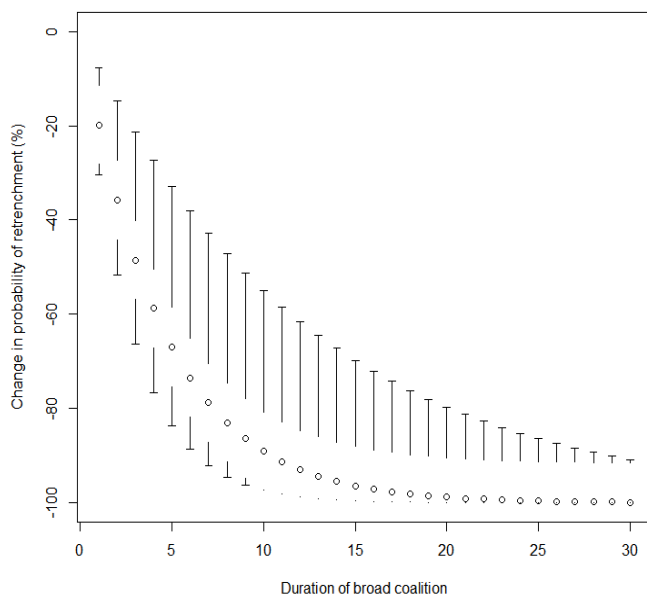


Figure 4.3: Percent Changes in the Risk of Retrenchment by Year of Broad Coalition Duration  
*Note:* Whiskers indicate 95-percent confidence bounds. Graph based on the stratified model.

### Diagnostic Tests

To better adjudicate between both models, I carry out a number of diagnostic tests probing the underlying assumptions of the model. One of these assumptions is that covariates will have a proportional and constant effect, invariant across time (proportional hazards, PH). If this is not the case (non-proportional hazards), it could mean that certain variables only have an effect until a certain point of time or that the strength of the effect varies over time. A test of the proportional hazard assumption, based on Schoenfeld residuals, is presented in Table 4.6. P-values below 0.10 indicate that the assumption is violated for a particular covariate. The comparative test shows that the results of the non-stratified model should be viewed with caution. As the risk of retrenchment seems to depend on previous retrenchment period – which is modelled by the stratification parameter – the non-stratified model yields results violating the PH assumption. Substantively, this corroborates my findings as the stratified model provides stronger support for hypothesis H2.

Variable	Prob. $> \chi^2$ (non-stratified)	Prob. $> \chi^2$ (stratified)
Broad Coalition Duration	0.5495	0.3795
Output Gap	0.0288	0.4270
IMF	0.0288	0.1590
Resources p.c. (logged)	0.6403	0.6080
Dependency	0.0480	0.1196
Urbanisation	0.0402	0.9352
Foreign Aid p.c. (logged)	0.9140	0.1232
Defence Spending	0.0667	
Debt Service	0.0454	
Current Account Balance	0.0542	
Trade	0.0191	
Global test	0.4452	0.8950

Table 4.6: Test of Proportional Hazard Assumption

Another diagnostic test for Cox models uses the distribution of the Cox-Snell residuals. As the residuals should exhibit a unit exponential distribution, the Cox Snell residuals can be considered a good indicator of model fit. Figure 8.6 in Appendix C shows the distribution of the residuals for both models. In line with the previous test, the distribution of the residuals suggests that the stratified model more adequately fits the data.

### III. DISTRIBUTING TO COALITIONS: SHARING WINDFALLS ACROSS COALITION

#### TYPES

If coalitions condition the way in which resources are preserved in periods of macro-economic readjustment, they should also have an impact on how windfalls are distributed in periods of economic expansion. The early literature on rentier states in the Middle East adopted a rather mechanistic view on this issue as oil rents were quasi-automatically associated with public policies of welfare distribution. To compensate for their lack of political legitimacy, Arab rentier states were expected to use their resource income for the

subsidisation of large parts of their population.<sup>98</sup> This argument was extended to other forms of rents, such as strategic or locational rents,<sup>99</sup> which were attributed the same welfare effect as resource income.<sup>100</sup> More recently, the MENA literature has come to challenge this allocational determinism of rents. Yom, for instance, supports a ‘revisionist’ theory of rentierism that views rents as an intervening variable, the political impact of which is mediated by further conditions.<sup>101</sup> In the same vein, Herb points out that ‘oil does not mechanically predict outcomes, even when oil arrives in similar quantities in similar situations.’<sup>102</sup> Comparative work outside the MENA region has also contributed to a more nuanced view of rents that pays greater attention to the interests of rulers under various political conditions.<sup>103</sup>

In line with the revisionist work on the rentier state, I hold that the distribution of windfalls from resources and other forms of rents critically hinges on the type of underlying authoritarian support coalition. Providing incentives to either distribute broadly or to a narrow elitist clientele, coalitions structure the political economy of resource allocation in authoritarian regimes. Given that, it can be expected that broad-based coalitions channel additional resources derived from windfalls toward social spending; coalitions based on a narrow constituency, by contrast, experience a lower need for extensive side-payments and, considering their core supporters, are likely to prefer other types of spending to hand out favours and spoils. I primarily focus on windfalls from non-tax revenues because they are politically unconstrained, that is, they have not been levied from a group in society that expects some form of services in return. Furthermore, taking into account that patterns of distribution have a tendency to become institutionalised and create positive feedback effects on the group of beneficiaries, I expect the constraining effect of coalitions to grow

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<sup>98</sup>See Beblawi 1987; and also Schlumberger 2008b.

<sup>99</sup>For an overview of different types of rents, see Knowles 2005, 5.

<sup>100</sup>M. Beck 2007a.

<sup>101</sup>Yom 2009, 219. See also Peters and P. Moore 2009.

<sup>102</sup>Herb 2009, 391. For other, more nuanced approaches to rents, see Crystal 1989; Herb 1999; Richter 2007; and Hertog 2010.

<sup>103</sup>Smith 2007. See also Dunning 2008; and Richter 2012b.

over time. This finds expression in hypothesis H3:

H3: The longer broad-based coalitions are in power, the more windfalls from resources and other rents should be channelled toward social spending. This should set them apart from narrow support coalitions.

## **Empirical Analysis**

### *Data and Variables*

I use *Welfare/GDP* as independent variable in this section as it most adequately reflects how resources are channelled to different sectors in the national economy.<sup>104</sup> To capture income from windfalls, I test two different variables which conceptualise windfalls in slightly different ways. Taking into account income from exportable resources only, *Resources p.c. (logged)* is theoretically more closely aligned to the early stages of the rentier state literature, which predominantly focussed on oil. *Rents p.c. (logged)* takes a more encompassing approach to the concept of windfalls. Taken from the GSRE dataset,<sup>105</sup> the variable measures, on the one hand, all income derived from primary commodities, such as oil, coal, and phosphates. Technically, this can be tax or non-tax revenues, depending on the specific tax regime for the extractive industry in each country. On the other hand, the variable takes into account other forms of royalties, for instance derived from strategic location, such as transport royalties in the case of the Suez canal or pipeline royalties in the case of Jordan. The latter variable is thus better able to capture windfalls in regimes that are not strictly resource-abundant.

To measure the duration of broad-based support coalitions, I use the count variable *Broad Coalition Duration* as described in the previous section. As for my control variables, I use the set of standard socio-economic and political variables as described in Section 1.

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<sup>104</sup>If not stated otherwise, the data sources and coding of all variables are as described in Section 1.

<sup>105</sup>V. Lucas and Richter 2012.



*Estimation Strategy and Model*

Given that the effect of windfalls is expected to be contingent upon the duration of broad support coalitions, I propose an interaction model to test hypothesis H3. Using the same LDV model as before, the equation takes the following functional form:

$$Y_{it} = \beta_0 + \beta_1 Y_{it-1} + \beta_2 Windfalls + \beta_3 Broad\ Coalition\ Duration + \beta_4 Windfalls * \\ Broad\ Coalition\ Duration + \beta_5 X_{it} + N_i + \varepsilon_{it},$$

where  $Y_{it}$  represents the level of social spending,  $\beta_0$  is a constant,  $Y_{it-1}$  is the one-period lag of the dependent variable,  $X_{it}$  is a vector of control variables,  $N_i$  are regime fixed effects, and  $\varepsilon_{it}$  represents the error term. The model is estimated using OLS with Beck-Katz panel-corrected standard errors.<sup>106</sup> As before, Nickel bias is expected to be small given the presence of long time-series and, thus, OLS is the preferred estimator. First-order serial correlation is purged by the inclusion of a lagged dependent variable and higher-order serial correlation has not been found.<sup>107</sup>

*Main Findings*

Results are displayed in Table 4.7. To improve the clarity of the regression output, coefficients for all control variables are omitted from the table. As stated before, it is difficult to substantively interpret an interaction model purely from inspecting the sign and significance of the coefficients. To assess the interactive effect of both variables, I turn again to the simulation of meaningful quantities of interest, using graphical support to illustrate the findings.

This is done in Figure 4.4. The graphs depict the percentage change of welfare spending as a share of GDP for a scenario in which windfalls rise from the mean observed level to the maximally observed level. This simulation seeks to capture the situation of regimes that see their income from rents markedly increase. Taking into account the conditional effect

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<sup>106</sup>N. L. Beck and Katz 1995.

<sup>107</sup>An Arrellano-Bond test was used to rule out serial correlation of a higher order.

Table 4.7: Windfalls, Coalition Type, and Welfare Spending

	(1) Welfare/GDP	(2) Welfare/GDP
Resources p.c. (logged)	0.185*** (0.0595)	
Rents p.c. (logged)		1.209*** (0.241)
Broad Coalition Duration	0.153*** (0.0513)	0.327*** (0.0815)
Interaction	-0.0112 (0.00685)	-0.0379*** (0.0115)
Observations	296	296

Autoregressive OLS model with regime fixed effects. Panel-corrected standard errors in parentheses. Constant and FE coefficients omitted. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

of coalition type, the percentage change is shown for three kinds of coalitions: a narrow coalition, a broad-based coalition after 15 years, and a broad-based coalition after 55 years.<sup>108</sup> The whiskers around the point estimates represent 95-percent confidence bounds. The graph uses *Resources p.c. (logged)* to measure windfalls. A nearly identical graph using the alternative rent indicator, *Rents p.c. (logged)*, can be found in Appendix C.

<sup>108</sup>All chosen values are empirically observed in the sample.

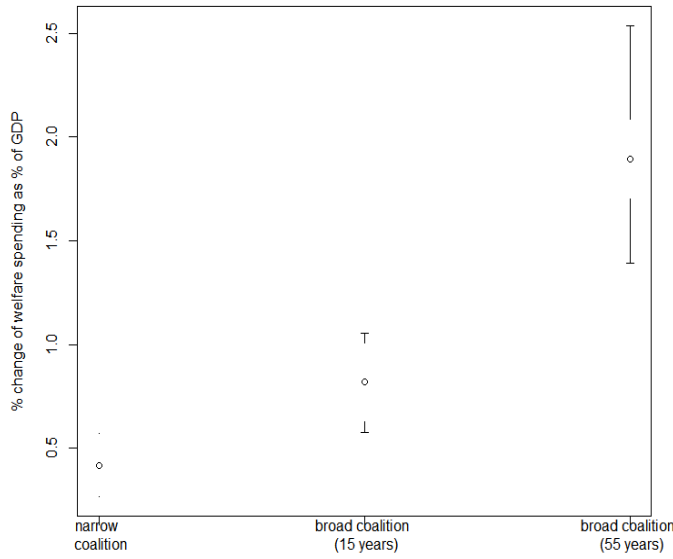


Figure 4.4: Effect of a Change from Mean to Maximal Levels of Windfalls by Coalition Duration  
*Note:* Whiskers indicate 95-percent confidence bounds. The graph uses *Resources p.c. (logged)* to measure windfalls.

Substantively, the graphs back up my intuition that coalition type matters for the distribution of windfalls. Considering *Resources p.c. (logged)*, the average effect of a rent ‘bonanza’ on welfare spending is just below 0.5 per cent, whilst for middle-aged broad coalitions it equals 1, and for long-standing broad coalitions about 2 per cent. Moreover, judging by the confidence bounds, the effect is statistically different in all three regimes. As for *Rents p.c. (logged)*, I also find a positive conditional effect of broad coalition duration, albeit less pronounced than in the case of resource rents. The average effect of a boost in rent income increases as broad coalitions become older and networks of distribution more established. In addition, the difference between a broad and a narrow coalition in the way they channel rent income becomes more pronounced for old broad coalitions. Thus, while in the early stages of broad coalitions, differences in the allocation of ‘extra money’ might not be as stark, they become increasingly visible as broad coalitions mature.

As in Section 1, I carry out a number of additional tests to assess the robustness of this finding. This includes the test of alternative indicators for trade openness and financial constraints. I also included a number of additional variables, such as foreign direct investment as a share of GDP and the real exchange rate. To avoid costly data loss as a result of listwise deletion, I multiply imputed missing values in the additional control variables. This concerns mostly the period of the 1960s, for which not all indicators are available. The results of these tests can be seen in Appendix C. Simulation results based on the altered model specification yielded substantively similar results.

#### IV. RESPONDING TO COALITIONS: POLITICAL MOBILISATION AND SOCIAL SPENDING ACROSS COALITION TYPES

A final set of observable implications from my theoretical argument concerns the extent to which different coalitions use social spending to respond to mass political mobilisation. This builds on the claim that authoritarian regimes are selectively responsive, depending on the underlying support coalition.<sup>109</sup> Mass mobilisation should be understood here in the double-sense of (i) masses mobilising to voice their discontent, that is, large-scale social unrest; and (ii) the mobilisation of masses by the regime in the context of authoritarian elections. If in broad coalitions – as I have repeatedly claimed – large segments of the population matter for the regime whilst in narrow coalitions they do not, we should observe a differential use of social spending in these momentous and eventful political contexts.

Let us, first, consider the logic for large-scale unrest. Since in broad cross-class coalitions the support of the population is vital for the survival of the regime, mass discontent, as expressed by large demonstrations, strikes, or riots, should matter for the ruler.<sup>110</sup> Put

<sup>109</sup>Albrecht and Frankenger 2010. See also Geddes 2004.

<sup>110</sup>See Zarate Tenorio 2014 for a similar argument.

differently, in view of a major constituency revolting against her, the autocratic ruler of a broad coalition is expected to calm the waves and propitiate disaffected demonstrators. Given that, as I have argued in the theory section, social spending can be considered ‘the cement’ by which broad coalitions are held together, autocratic rulers in such coalitions should be inclined to use social spending to appease the masses. Conversely, in the case of a narrow coalition, mass discontent emanates from a group that is not vital for the survival of the regime. If not contained, mass mobilisation certainly represents a potential danger, yet it emanates from the regime’s periphery, not from its centre.

The logic is similar for coalition types and social spending in the context of elections. The reason why authoritarian regimes hold elections is diverse,<sup>111</sup> but whenever they exist, they become a focal point of political mobilisation in which the regime seeks to mobilise the support of core constituencies.<sup>112</sup> As a moment of potential vulnerability in an otherwise relatively controlled political environment, authoritarian elections can thus induce incumbents to use public expenditures to build electoral support,<sup>113</sup> particularly if the regime fears elite splits or other forms of electoral manipulation are more costly.<sup>114</sup> Given different profiles of core supporters in narrow and broad regimes, elections in broad-based regimes should be accompanied by noticeable increases of social spending. Narrow coalitions, by contrast, should either use different types of spending – subsidies to entrepreneurs or tax reliefs might come to mind – or even refrain from fiscal manipulation altogether. Either way, social spending should not receive heightened attention by these regimes during elections. Taken together, this leads to hypotheses H4a and H4b:

H4a: Popular discontent leads to an increase of social spending in broad-based and not in narrow coalitions.

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<sup>111</sup>For an overview, see Geddes 2005; and Gandhi and Lust-Okar 2009.

<sup>112</sup>See Brownlee 2011 for the MENA region; and Magaloni 2006 for the case of Mexico.

<sup>113</sup>The literature on political budget cycles (PBCs) in authoritarian regimes is rather scarce. Blaydes 2010 finds evidence for PBCs in Egyptian elections under Mubarak. Pepinsky 2007 detects fiscal manipulation in Malaysian elections. Analysing a global sample of non-OECD countries, Eibl and Lynge-Mangueira 2014 find that PBCs occur under the conditions of limited executive controls and sufficient electoral uncertainty.

<sup>114</sup>Reuter and Gandhi 2010; and Pepinsky 2007.

H4b: Elections coincide with an opportunistic increase of social spending in broad-based and not in narrow coalitions.

## **Empirical Analysis**

### *Data and Variables*

The dependent variable is *Welfare/GDP*, and controls are identical to the previous section and do not require further attention. However, a few comments on the measurement of political mobilisation are in order. The variable *Mass Crisis*, based on data from the Cross-National Time Series Archive,<sup>115</sup> provides annual counts of incidences of popular discontent in the form of riots, anti-government demonstrations, and general strikes. The binary variable *Election* indicates whether an election, either presidential or parliamentary, occurred in a given country year. Data are taken from the Nelda dataset.<sup>116</sup> Finally, in contrast to previous sections, the above hypotheses do not imply an effect of broad coalition *duration*. I therefore use a dummy variable, *Broad Coalition*, that indicates the type of authoritarian support coalition.

### *Estimation Strategy and Model*

To test the hypotheses, I use the same LDV model as before. The model takes the following functional form:

$$Y_{it} = \beta_0 + \beta_1 Y_{it-1} + \beta_2 \text{Mass Crisis/Election} + \beta_3 \text{Mass Crisis/Election} * \\ \text{Broad Coalition} + \beta_4 X_{it} + N_i + \varepsilon_{it}.$$

where  $Y_{it}$  represents the level of social spending,  $\beta_0$  is a constant,  $Y_{it-1}$  is the one-period lag of the dependent variable,  $X_{it}$  is a vector of control variables,  $N_i$  are regime fixed effects, and  $\varepsilon_{it}$  represents the error term. In contrast to previous interaction models,

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<sup>115</sup>Banks 2011.

<sup>116</sup>Hyde and Marinov 2011.

the indicator of coalition type is not included on the right-hand side of the equation. This is because, using regime fixed effects, the time-invariant coalition dummy is perfectly collinear with the fixed effects dummies and, thus, cannot be estimated separately. Its effect is captured, however, by the fixed effect coefficients.<sup>117</sup>

### *Main Findings*

Table 4.8 presents the regression results. All control variables have been omitted from the table to improve the clarity of the output. To illustrate the results, I also provide two marginal effects plots in Figure 4.5. Given the set-up of the regression model, the coefficients are relatively easy to interpret. Regarding hypothesis H4a, one incidence of popular discontent is associated with an increase of social spending of about 0.06 per cent in the case of narrow coalitions. However, in view of the weak significance of *Mass Crisis* at the 90-percent level only, it is not entirely certain whether social spending is, in fact, hiked up in response to mass demonstrations. In broad coalitions, the average marginal effect of popular discontent on social spending is about three-times higher, approximating 0.20 per cent of GDP, and the lower confidence bound lies above the zero line (see Figure 4.5a). This means that mass crises in broad coalitions are clearly associated with a rise in social spending, whilst this is not the case in narrow coalitions. In addition, an additional significance test shows that narrow and broad coalition are statistically different from each other, despite the marginal overlap of their confidence intervals. The results can thus be considered weak evidence in support of H4a. Note that in both types of coalitions, the average effect might seem relatively small; yet considering that *Mass Crisis* is a count variable with an observed range of 0 to 34, it becomes clear that social spending hikes induced by popular mobilisation can be considerable.<sup>118</sup>

As for budget cycles during authoritarian elections, the coefficient of *Election* and the

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<sup>117</sup>Halaby 2004, 258.

<sup>118</sup>In broad coalitions, the maximal average effect would be 6.8 per cent; in narrow coalitions, 1.7 per cent of GDP if *Mass Crisis* takes the maximal value.

interaction term marginally fail to reach conventional levels of statistical significance, with p-values of 0.12 and 0.11 respectively. Putting this aside for a moment, the direction of the signs of both coefficients is interesting and suggestive of a divergent pattern of electoral manipulation depending on regime types. Whilst in narrow coalitions, elections seem to be associated with a *decrease* in social spending, in broad coalitions elections entail an *increase* in social spending. Yet, as both confidence intervals cross the zero-line and thus overlap (see Figure 4.5b), we cannot be certain that elections have a different effect across coalition types and that this effect will be positive. Apart from a suggestive pattern, the results thus provide no evidence in support of hypothesis H4b.

Table 4.8: Popular Mobilisation and Social Spending by Coalition Type

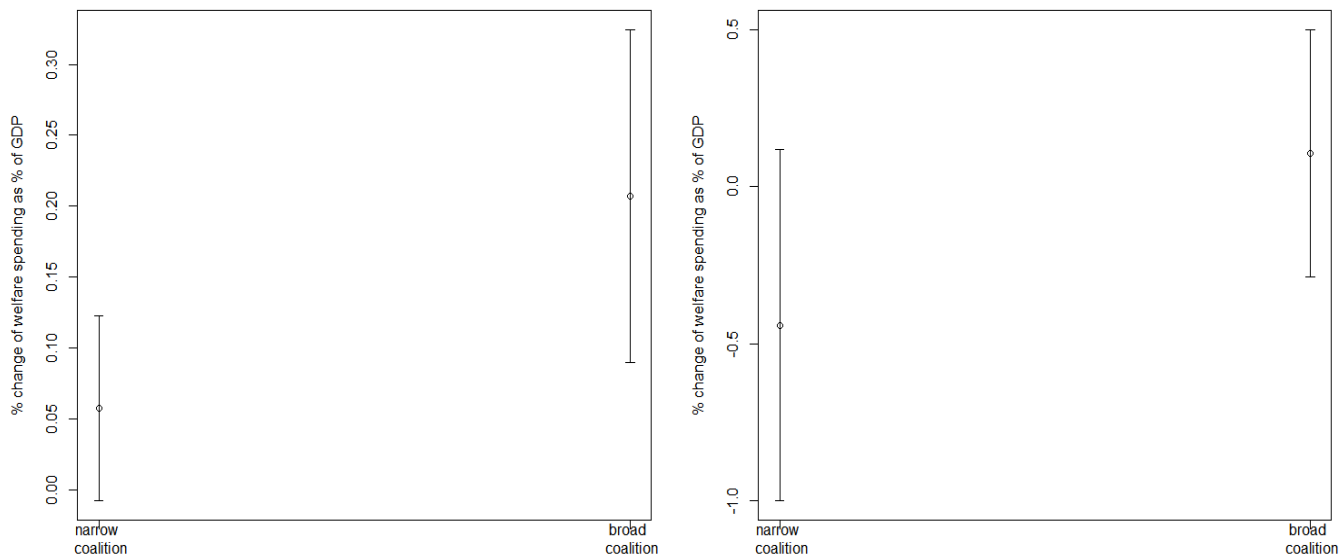
	(1)	(2)
	Welfare/GDP	Welfare/GDP
Mass Crisis	0.0574*	
	(0.0333)	
Mass Crisis*Broad Coalition	0.150**	
	(0.0715)	
Election		-0.441
		(0.285)
Election*Broad Coalition		0.547
		(0.343)
Observations	292	296

Autoregressive OLS model with regime fixed effects.

Panel-corrected standard errors in parentheses.

Constant and FE coefficients omitted. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$





(a) Marginal Effect of Mass Crisis by Coalition Type

(b) Marginal Effect of Election by Coalition Type

Figure 4.5: Popular Mobilisation and Social Spending by Coalition Type

*Note:* Whiskers indicate 95-percent confidence bounds.

### Robustness Tests

Robustness tests are carried out in a fashion identical to previous sections, with results being shown in Appendix C. Whilst the findings regarding hypothesis 4b remain inconclusive, it is noteworthy that two of the three robustness tests provide evidence portending budget cycles in broad coalitions.

## V. CONCLUSION

This chapter has derived a number of observable implications from my theoretical framework and tested them empirically, using social spending data from 1963 until 2005. All tests were guided by the overarching question whether the variation of spending over time would be consistent with the predictions derived from my theory. In the causal logic of this thesis, the chapter has thus sought to highlight implicit theoretical assumptions and,

by subjecting them to empirical scrutiny, aimed to gain additional leverage for my theoretical argument. Whilst the analysis has not traced the causal mechanisms underlying my argument – this will be the subject of the next two chapters – the above tests could have seriously challenged the proposed argument, failing supportive empirical findings. I therefore invite the reader to ask herself how plausible the argument would be, if some or even all of the foregoing hypotheses had been found wrong.

The first assumption tested is that defence spending tends to displace social spending and, as a result of this crowding-out effect, confronts autocratic rulers with a dilemma of ‘butter or guns.’ The second assumption is that different social pacts, embedded in broad or narrow regime coalitions, played a critical role not only for the initial divergence of social spending, but also critically shaped its subsequent evolution over more than four decades. This is because, as I have argued earlier, coalitions are the central structure underpinning both the political economy of distribution and securing the overall political stability of the authoritarian regime. Moreover, these coalitions are self-reinforcing in the sense that, once formed, they engender institutions that maintain and protect the power position of those included. Given that, they should be *the* crucial driving force of social spending.

Turning to the individual sections, a number of key findings stand out. First, Section 1 has demonstrated the detrimental effect of military spending on social welfare in labour-abundant regimes. Long-term effects of sustained periods of high defence outlays have been shown to be fatal for social expenditures in the context of limited resources. By contrast, provided the availability of ample resource income, the dilemma of ‘butter or guns’ can be avoided or, at least, significantly alleviated. In other words, resource abundance gives regimes crucial respite if the external environment is threatening and pushes for high military outlays. Given the centrality of this trade-off in the overall argument, these findings significantly increase the empirical plausibility of my theory and its validity in the context of labour-abundant MENA regimes. The section also presents the first empirical

test of the ‘butter or guns’ association in the Middle East and, by providing robust evidence in its favour, challenges the emerging consensus in the literature disputing the existence of such a trade-off.

Sections 2 and 3 have highlighted the protective and distributive effect of coalition types. The sections provide evidence that the difference between broad and narrow coalitions critically affects autocrats’ incentives to (a) cut back social spending, and (b) to share the spoils of rents with large segments of the population. Regarding spending cuts, I found that broad coalitions shield their population from sustained periods of welfare retrenchment. As for rents, broad coalitions seem to channel additional resources to a greater extent toward social welfare than narrow coalitions. This provides further support to a revisionist version of the rentier state theory. In line with my theoretical argument, these patterns become more accentuated with the duration of authoritarian support coalitions as networks of patronage and distribution become institutionalised over time.

Finally, Section 4 examined the impact of coalition type on social spending in the wake of large popular mobilisation, specifically during protests and authoritarian elections. Here, empirical evidence is much weaker and, against my expectations, no sign of social spending budget cycles could be found in broad coalitions. As for fiscal responses to mass protests, I found that broad coalitions do indeed hike up spending to appease public discontent; yet this pattern, albeit weaker and rarer, is also observed for narrow coalitions.

# 5

## Tunisia

Previous chapters have focused on the macro-level and on broadly comparative arguments. I have established an association between patterns of regime formation and subsequent welfare provision, and demonstrated the effect of regime coalitions on spending over time using statistical analysis. This case study draws the attention to the underlying causal mechanisms of these patterns. By analysing the Tunisian authoritarian welfare state as a case study, this chapter has a dual purpose.

On the one hand, I seek to substantiate the proposed association between early intra-elite conflict and welfare provision by retracing the foundation of the Tunisian welfare state. To do so, I use a broad array of sources, including official documents from the Tunisian National Archives; correspondences between Tunisian government and the IMF from the IMF Archives; and the Tunisian press. The analysis is further informed by interviews with a number of the ‘founding fathers’ of Tunisian social policies, including former ministers and trade unionists. Moving to the micro-level also enables me to tackle rival hypotheses that cannot be refuted by macro-level analysis. This mainly concerns the role of the authoritarian ruler and his ideas in shaping social policies, which, as detractors might claim, could have been the driver of welfare provision. Finally, parts of the analysis should be read as a parallel comparison to the Egyptian case, following in the next

chapter, especially with regard to the role of ‘cheap social policies.’ I therefore include cross-references where appropriate. In anticipation of the following analytic narrative, my argument regarding the foundation of the Tunisian welfare state can be summarised as follows: First, Bourguiba was sceptical about extensive welfare provision and it would be wrong to ascribe to him the sole authorship for Tunisia’s social policies. Second, the Tunisian labour union, UGTT, was the trailblazer of the country’s welfare state, yet its privileged position in the regime coalition and the imposition of its programmatic ideas on the ruling party could only happen as a result of intra-elite conflict. Elite factionalism was thus instrumental in bringing about a powerful pro-welfare coalition.

On the other hand, this chapter seeks to elucidate the mechanisms of path dependence that have prevented the Tunisian welfare trajectory from ‘steering off track.’ As outlined in the introduction, path dependence was the outcome of, first, societal groups being able to successfully mobilise against welfare cuts and structural reforms. In doing so, these groups could capitalise on initial advantages achieved in the early stages of welfare development which had a positive impact on their capacity to mobilise. In line with analysis of welfare dynamics elsewhere, my account also demonstrates that some of these pro-welfare constituencies were in fact a product of the welfare state itself. I illustrate this mechanism using two major episodes of attempted spending cuts and reform in the area of education and social security. The second mechanism of path dependence highlights the role of unintended beneficiaries, that is, groups in society who inadvertently came to benefit from social policies. Taking the example of food and energy subsidies, I can show that well-connected business actors have become major beneficiaries from these policies and, thereby, turned into an important stakeholder in the status quo. Alongside a narrative account, I also use simple regression techniques to make this case.

The chapter proceeds as follows. Section 1 presents my analytic narrative of the foundation of the Tunisian welfare state. Section 2 illustrates the mechanisms of path dependence, using the examples mentioned above. A final section concludes the chapter.

## I. THE FOUNDING OF THE TUNISIAN WELFARE STATE

This section retraces the historical origin of the Tunisian welfare state, in particular in the fields of labour market policies, education, health, and social security. The aim is not, however, a detailed description of the country's social policies. My goal is rather to trace the claimed association between Tunisia's early intra-elite conflict and welfare provision using a range of primary and secondary sources. By analysing in greater detail Bourguiba's own stance toward welfare provision, I seek to reinforce my claim that Tunisia would not have embarked on its welfare trajectory without the foundational moment of elite conflict. Likewise, my account of early Tunisian social policies focuses on conflictual episodes which highlight Bourguiba's reluctance to make, what were in his views, too extensive welfare commitments. Finally, my analysis also highlights the role of the Tunisian labour union, UGTT, in the establishment of the Tunisian welfare state, which was equally conditioned by early elite factionalism.

### **Bourguiba's Position in the Ideological Battlefield for a Post-colonial Order**

Bearing in mind the pivotal role that Bourguiba played in the struggle of national liberation and the one-party state established after independence, it is understandable that accounts of Tunisian post-independence politics have often narrowed down to a study of the leader's mindset and character. Brown, for instance, suggests that historians turn to Bourguiba's records to explain the country's post-colonial political trajectory.<sup>1</sup> In a similar vein, Willis attributes Tunisia's remarkable development record to Bourguiba's altruism which 'was genuine rather than a convenient rhetorical cover.'<sup>2</sup> This ruler-centric narrative of Bourguiba as the 'mover and shaker' contrasts, however, with a style of governing that his former ministers have described as 'non-interventionist' and 'governing

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<sup>1</sup>L. C. Brown 2001, 47.

<sup>2</sup>Willis 2012, 52.

from above.’<sup>3</sup> According to former Minister of Social Affairs, Mohamed Ennaceur, Bourguiba refrained from micro-managing his ministers and mostly intervened in the context of conflict of interests.<sup>4</sup> Likewise, Ahmed Mestiri, who held various ministerial positions under Bourguiba, states that Bourguiba gave his collaborators ‘large freedom of manoeuvre.’<sup>5</sup> Far from being a lone decider, Bourguiba considerably relied on his entourage in the policy-making process.<sup>6</sup> In fact, his deteriorating illness since the early 1970s forced him to spend, at times extended, periods abroad during which the business of government was left to the Prime Minister and his cabinet. Thus, to state that ‘Bourguiba’s ideological convictions cannot be separated from those of his entourage’<sup>7</sup> seems a rather accurate depiction and suggests that Bourguiba was open toward and influenced by political currents around him.

This is all the more true considering that Bourguiba lacked a firm ideological framework that could have guided his socio-economic policies.<sup>8</sup> On social issues, his discourse was dominated by general notions of equality and fraternity, and he rarely broached concrete socio-economic problems.<sup>9</sup> In September 1956, he prided himself at the general conference of the Tunisian labour union federation, UGTT, not to have any ideology: ‘I loudly proclaim that I am an adversary of all ideology. [...] Because I’m not prisoner of any political doctrine, I have complete freedom of manoeuvre.’<sup>10</sup> Fundamentally pragmatic and dreading the idea of ‘noxious class struggle’ that could disrupt national unity, Bour-

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<sup>3</sup>Personal interview with Driss Guiga, Hammamet, 17 June 2013. Guiga was Minister of Social Affairs and Public Health (1969-73), Education (1973-76), and Interior (1980-84) under Bourguiba.

<sup>4</sup>Personal interview, Tunis, 21 May 2013. Ennaceur was Minister of Social Affairs (1974-77, 1979-85) under Bourguiba.

<sup>5</sup>Personal interview, Tunis, 11 June 2013. Mestiri was Minister of Justice (1956-58), Finance and Commerce (1958-60), Defence (1966-68), and Interior (1970-71).

<sup>6</sup>Personal interview with Mohamed Sayah, Tunis, 16 May 2013. Being a leading figure of the Neo-Destour party, Sayah held several ministerial positions, amongst others Public Works (1971-73) and Housing (1980-83).

<sup>7</sup>Personal interview with Ahmed Ben Salah, Gabes, 27 April 2013. Ben Salah was Minister of Health (1957-61) and Social Affairs (1958-61) before becoming ‘super-minister’ of Finance, Planning, Economic Affairs (1961-69), and Education (1968-69). He was ousted in September 1969.

<sup>8</sup>Hopwood 1992, 85. Mansour Moalla, a former Minister of Finance under Bourguiba, also reports that Bourguiba had, in general, only a limited interest in economics. See Moalla 2011, 177.

<sup>9</sup>Temimi et al. 2000, 145.

<sup>10</sup>Bourguiba 1974b, 185.

guiba repeatedly voiced his apprehension of UGTT-advocated ‘socialism’ in the run-up to independence.<sup>11</sup>

As former minister and political companion, Driss Guiga, puts it, Bourguiba’s true ideology was development and his primary aim for Tunisia to join the league of developed nations.<sup>12</sup> In this regard, far from being left-wing, the concrete evidence we have about Bourguiba’s ideas about how to achieve development in fact portends a pro-business strategy. Prior to independence, he proposed in a letter to his party companion Hédi Nour, later Minister of Finance, to rely on large landowners and big businesses – most of which collaborated with the French – for post-independence modernization.<sup>13</sup> Accordingly, Bourguiba expressed his support for economic liberalism early after independence, proclaiming: ‘Our political programme is liberal. We have to give capital full freedom of circulation.’<sup>14</sup> Similarly, his statement that ‘every consumer who does not produce is a parasite’<sup>15</sup> casts a rather right-wing light on his views toward welfare provision. Thus, from what we know about Bourguiba’s personal preferences, it seems rather inaccurate to extrapolate a strong desire to build an extensive welfare state. A notable exception in this respect is the field of education, for which Bourguiba’s interest has been well documented.<sup>16</sup> Having had the privilege to study at the best schools in Tunisia and France, Bourguiba viewed the eradication of illiteracy and the expansion of basic education to the masses as an invaluable prerequisite to develop Tunisia and instil a strong sense of unity in the young nation.<sup>17</sup>

Party supporters from Bourguiba’s home base, the Sahel, were equally wary of massive state-led welfare distribution. Mainly consisting of petit bourgeois landowners and merchants,<sup>18</sup> Neo-Destour members from the Sahel were anxious to prevent political measures

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<sup>11</sup> Interview with Mohamed Ennaceur, Tunis, 21 May 2013.

<sup>12</sup> Personal interview, Hammamet, 17 June 2013.

<sup>13</sup> Quoted in Hermassi 1972, 118.

<sup>14</sup> B. Mestiri 1983, 205.

<sup>15</sup> Bourguiba 1974c, 315.

<sup>16</sup> Hopwood 1992, 83; and Allman 1979, 59.

<sup>17</sup> Perkins 1997, 57-58.

<sup>18</sup> Anderson 1986, 232.



that would significantly increase their tax burden. At the national level, recent estimates suggest that up to 70 per cent of the party's membership consisted of small merchants and artisans in the urban areas, and subsistence farmers in rural Tunisia<sup>19</sup> – all of which shared the same concern about an exuberant tax burden after independence. Regarding large capital-owners, the Neo-Destour party had established important business ties prior to independence, and entrepreneurs, such as the founder of the first Tunisian bank, Mohamed Chenik, were important funders of the party.<sup>20</sup> Thus, merchants, landowners, and entrepreneurs represented important constituencies within the party.<sup>21</sup>

Unlike Bourguiba, whose own ideas about a socio-economic post-colonial order remained rather vague, these business constituencies, organised in the *Union tunisienne de l'artisanat et du commerce* (Tunisian Union of Craft and Commerce; UTAC) and the *Union générale des agriculteurs tunisiens* (General Union of Tunisian Agriculturalists; UGAT), developed an adamantly liberal, pro-capital programme for post-independence Tunisia, for which they lobbied within the party and vis-à-vis the last Tunisian government under the protectorate.<sup>22</sup> Documents from the Tunisian National Archives reveal the extent to which the business community was worried about post-independence taxation and an expansion of the state apparatus. In a political motion addressed to the Council of Ministers from September 1955, the UTAC denounced the – in hindsight rather minimalist – bureaucracy of the Protectorate as 'too costly' and a major source of the country's financial difficulties.<sup>23</sup> In the same vein, the 'exorbitantly large budget of the state' exceeded, in the UTAC's view, the contributive capacity of Tunisian businesses. Significantly, the same motion called for a five year moratorium on any new recruitment in the public sector. Reflecting the pro-capital programme advocated by the Tunisian business community,

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<sup>19</sup>Bechri and Naccache 2003, 10-11; and Kraïem 2011, 29.

<sup>20</sup>C. H. Moore 1965, 34.

<sup>21</sup>Alexander 2010, 69.

<sup>22</sup>Led by head of the Tunisian Chamber of Agriculture, Tahar Ben Ammar, between August 1954 and April 1956, this government comprised independent Tunisian ministers alongside Neo-Destour members and trade unionists. Until August 1955, the portfolios of Finance, Public Works, Education, and Interior were controlled by the French.

<sup>23</sup>Tunisian National Archives 1955a.

the motion thus called for a minimalist state, based on low taxation and minimal state interference.

At the opposite end of the ideological spectrum, the Tunisian labour union federation, UGTT, had also been working, since its inception in 1946, on a detailed socio-economic programme for the post-independence period. Under the aegis of left-leaning union intellectuals, such as Mahmoud Messadi and Ahmed Ben Salah, and inspired by the Scandinavian model of the welfare state,<sup>24</sup> this programme attributed a primary importance to the question of social policies and welfare provision.<sup>25</sup> For example, in March 1951 the SG of the UGTT, Farhat Hachet,<sup>26</sup> declared at the UGTT's Fourth National Congress: 'Social security is one of our central demands, [alongside] the fight against unemployment, redundancy payments for workers, [...] free health care for workers and their families, [...] and the establishment of a pension system for elderly workers to protect them from starving and misery.'<sup>27</sup> And similarly to the business organisations, the UGTT carried out extensive political lobbying to make itself heard in government circles. Based on the motions addressed to the government preserved in the Tunisian National Archives, the union's post-independence programme appeared to be on full collision course with the business community. For instance, in August 1955, the UGTT called upon the government to hasten and intensify the recruitment of teachers to guarantee the enrolment of all children, and to establish a fully-fledged social security system for the public and private sector, including small businesses and agriculture.<sup>28</sup> Thus, by independence in March 1956, the UGTT had developed the programmatic profile of a social-democratic party, which was at loggerheads with the liberal economic programme advocated by UTAC and UGAT.<sup>29</sup>

In sum, a number of important points emerge from this cursory overview. First,

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<sup>24</sup>Garas 1956. These ideas came to the UGTT mainly through its representatives in the International Confederation of Free Trade Unions (ICFTU), which was dominated by Scandinavian unions.

<sup>25</sup>Eqbal 1967, 89.

<sup>26</sup>Hachet was assassinated one year later by extremist French colonialists.

<sup>27</sup>Aicha 1989, 89.

<sup>28</sup>Tunisian National Archives 1955b.

<sup>29</sup>Kraïem 2011, 25.

Bourguiba was not a lone decider; rather, he was influenced to a considerable extent by his entourage, which opened the door to interest politics and political lobbying. Second, while Bourguiba cared profoundly about education, he otherwise lacked a coherent framework of ideas that could have guided his post-independence social policies. Third, Bourguiba's preferences for Tunisia's future socio-economic order clearly lay right of the centre and accorded with the majority of the Neo-Destour membership on economic liberalism, driven by a private-sector initiative and supported by pro-business policies. This means that the Tunisian welfare trajectory cannot be explained with mere reference to Bourguiba. Fourth, both business and labour had developed diametrically opposed programmes with regard to post-war development. They fundamentally differed on questions regarding the role of the state in the economy, public employment, and taxation.

When discussing the formation of the labour-middle class regime coalition in the following subsection, it is therefore important to keep in mind that a mobilised constituency against extensive welfare provision existed prior to independence and that Bourguiba's own preferences sympathised with their socio-economic programme. It thus seems reasonable to entertain the counterfactual that, had a different regime coalition formed after independence, it is unlikely that Tunisia would have embarked on a path of extensive and costly welfare provision. In addition, it is important to consider that Bourguiba's ideas of educational expansion might have clashed with and possibly been scaled down by a pro-business development programme, supported by the right-wing constituencies within the Neo-Destour.

### **Intra-elite Conflict and Labour's Foothold in Power**

In view of Bourguiba's apprehension of labour's socio-economic programme, it is understandable that Bourguiba first sought to resolve the conflict with his competitor, Salah Ben Youssef, internally, rather than risking an alliance with an 'uneasy bedfellow' such as the UGTT. To recall, the conflict between Bourguiba as president of the Neo-Destour

party and his secretary general, Salah Ben Youssef, formally revolved around the issue of independence. Whilst Bourguiba accepted the French offer of partial independence, arguing that this represented an intermediate step, Salah Ben Youssef fervently insisted on immediate complete independence from the former colonial power. In reality, the conflict between the two represented a struggle between two ambitious leaders who both laid claim to power in the emerging post-colonial state. Despite their seemingly irreconcilable differences, Bourguiba still made an attempt to appease Ben Youssef in order to prevent a rift within the party. Preferring co-optation over conflict, Bourguiba offered him to head the next government in return for his approval of the French offer.<sup>30</sup>

Yet Ben Salah refused and instead chose to rally Tunisia's conservative and business constituencies with the clear aim of outbidding Bourguiba. His coalition included the Tunisian *haute bourgeoisie* organised in the Neo-Destour's elitist predecessor party, the Old Destour,<sup>31</sup> as well as the royal family of the Bey, who were promised by Ben Youssef a preservation of their financial status.<sup>32</sup> Frightened by the UGTT's ideas about land reform and a break-up of the large estates, the landed elite and rural notables, represented by the Agricultural Union, UGAT, also rallied behind Ben Youssef.<sup>33</sup> Similarly, Tunisia's merchant class, especially those from Ben Youssef's home region Djerba, feared the new tariff agreements included in the proposed Franco-Tunisian agreement and were thus susceptible to Ben Youssef's call.<sup>34</sup> His radical pan-Arabic and religious discourse also attracted the majority of Tunisia's old religious elite and its main institution, the Zitouna mosque, as well as urban youths, in particular in the capital, Tunis.<sup>35</sup> Overall, the French secret services estimated at the time that 40 per cent of the Neo-Destour's members supported Ben Youssef.<sup>36</sup>

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<sup>30</sup>Allani 1999, 140.

<sup>31</sup>Julien 1976, 1516.

<sup>32</sup>Oualdi 1999, 54.

<sup>33</sup>Sghaier 2011, 28-29.

<sup>34</sup>Oualdi 1999, 54.

<sup>35</sup>C. H. Moore 1965, 63.

<sup>36</sup>Cited in Oualdi 1999, 67.

In contrast to an imploding Neo-Destour party, labour could field this struggle from a position of strength. The UGTT's membership was concentrated in strategic sectors, such as mining, and the urban centres.<sup>37</sup> In addition, its considerable size – the union claimed 180,000 members at independence<sup>38</sup> – made the UGTT the only organisation that could rival the Neo-Destour in terms of organisational capacity. Its options in this conflict were thus manifold: it could conceivably launch its own political party, seek an equal share of government responsibility with the Neo-Destour, or become a strong pressure group without any political affiliation.<sup>39</sup> In any event, a victory of Ben Youssef's coalition needed to be averted as this would have been detrimental to the union's interests.<sup>40</sup> Conversely, the UGTT's leadership, in particular its Secretary General, Ahmed Ben Salah, clearly grasped the opportunity that the rift within the Neo-Destour presented to labour as it would enable the union to secure its political influence in the post-independence period.<sup>41</sup> In this regard, Ben Salah was convinced that the union was best served if it directly oversaw the execution of its socio-economic programme and participated in government.<sup>42</sup> Ultimately, by imposing its socio-economic reform programme onto a battered Neo-Destour party, the UGTT hoped to form an 'organic union' with the party and transform it along the lines of the British labour party.<sup>43</sup>

For Bourguiba, forming an alliance with the UGTT and embracing its socio-economic programme was a tactical response to the aggravating conflict within the Neo-Destour – an assessment which is shared both by academics<sup>44</sup> and protagonists of the time, such as former minister Tahar Belkhodja<sup>45</sup> and, importantly, labour activists such as Ben Salah himself.<sup>46</sup> Prior to independence, Bourguiba had expressed his disapproval of the UGTT's

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<sup>37</sup>Eqbal 1967, 144.

<sup>38</sup>Bellin 2002, 93.

<sup>39</sup>Eqbal 1967, 144

<sup>40</sup>ibid., 146-47.

<sup>41</sup>Hermessi 1990, 134.

<sup>42</sup>Eqbal 1967, 154.

<sup>43</sup>Bechri and Naccache 2003, 10; and Toumi 1989, 43.

<sup>44</sup>Amongst others, Guelmami 1996, 259; and Haddad 2011, 70.

<sup>45</sup>Belkhodja 1998, 76.

<sup>46</sup>Interview with Ahmed Ben Salah in Borsali 2008, 35.

programmatic ideas on many occasions,<sup>47</sup> and had agreed with Ben Youssef on implementing a liberal economic order before their conflict fully broke out.<sup>48</sup> The alliance thus ‘reflected shared interests more than a shared philosophy.’<sup>49</sup>

To seal the deal with the UGTT, Bourguiba offered the union’s leadership to adopt its socio-economic programme as the Neo-Destour’s official doctrine. In return, the UGTT’s would host the party’s conference in the mining town of Sfax since Bourguiba was unable to ensure a safe place to run the party’s congress.<sup>50</sup> Tunis, the capital, was under the tight control of the Youssefist camp. This agreement between the UGTT and Bourguiba constituted a first major victory for the union. While the conference, held in November 1955, finalised the exclusion of Ben Youssef from the Neo-Destour party, the UGTT, under the auspices of Mustapha Filali, was given the chairmanship of the party’s social and economic affairs committee, which was responsible for drafting the Neo-Destour’s socio-economic programme. Its report, which was approved by the party’s plenary assembly, represented an amalgamation of the UGTT’s various ideas about post-independence development. Concerning economic policies, the report called for interventionist policies in favour of the country’s poor, including a tighter control of large foreign companies, a fiscal reform, the redistribution of large estates to poor peasants, and the establishment of agricultural cooperatives.<sup>51</sup> As for social policies, the report urged a massive expansion of the public sector, particularly in the areas of health and education, and called for a public employment programme to attenuate unemployment.<sup>52</sup> When the UGTT refined the report and turned it into a full-fledged programme at its Sixth National Congress, held in 1956, it also contained admonishing lines toward private businesses, warning them ‘not to interfere in the political affairs of the country.’<sup>53</sup>

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<sup>47</sup>Bechri and Naccache 2003, 10-11.

<sup>48</sup>Borsali 2008, 34.

<sup>49</sup>Alexander 2010, 38-39.

<sup>50</sup>Haddad 2011, 44.

<sup>51</sup>Oualdi 1999, 39-40; and Eqbal 1967, 162.

<sup>52</sup>Tunisian National Archives 1956a.

<sup>53</sup>Tunisian National Archives 1956c.

For the Neo-Destour, this step was troublesome. Adopting the UGTT's programme had pushed the Neo-Destour far to the left of the Tunisian political spectrum and the new-born labour-party alliance could not belie its inherent contradictions. For instance, whilst the socio-economic programme of the party called for an increased taxation of businesses, the congress also passed a motion encouraging the state to lower the taxes for the productive sector.<sup>54</sup> Moreover, when Bourguiba was presented with the full-fledged version of the UGTT's programme, he reportedly tore it apart and threatened Ahmed Ben Salah: 'This is communism, Ahmed! I won't let you do that.'<sup>55</sup> In an attempt to attenuate the UGTT's radical programme and to prevent a further drifting of the party to the left, Bourguiba therefore sought to back-pedal. This mainly concerned the area of economic policies. For instance, upon forming his first government, Bourguiba reassured capital owners of his respect for private property and sought to encourage private investment by improving the business climate and giving businesses fiscal advantages. He also, until 1960, resisted calls for a state-led investment plan and the imposition of capital controls demanded by the UGTT.<sup>56</sup> To reign in the critical labour union – the UGTT had heavily criticised Bourguiba's first budget for 'following a capitalist logic [of balancing] revenue and expenditures'<sup>57</sup> – Bourguiba further instigated a split within the UGTT in order to enforce Ahmed Ben Salah's resignation.<sup>58</sup> The outcome of this struggle over economic policies was, for the first four years after independence, a moderately liberal economic policy based on private-sector initiative.

Importantly, however, Bourguiba's attempt to renege on his commitments was only partially successful as 'his authority remained limited by the obligation to preserve the socio-political coalition that had allowed him to take power.'<sup>59</sup> On the one hand, he still needed the UGTT to put down the Youssefist guerilla uprisings that flared up in Southern

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<sup>54</sup>Le Parti Neo-Destour 1955.

<sup>55</sup>Borsali 2008, 31; see also A. Mestiri 1999, 208; and Zribi 2011, 110.

<sup>56</sup>Moalla 1992, 259.

<sup>57</sup>UGTT 1956, 8.

<sup>58</sup>Bessis and Belhassen 1989, 45.

<sup>59</sup>Khiari and Lamloum 2000, 378.

Tunisia following Ben Youssef's ouster.<sup>60</sup> On the other hand, the UGTT also used the window of opportunity to get a strong foothold in the executive. Not only was Ahmed Ben Salah brought back as Minister of Health only shortly after his toppling as UGTT secretary general in 1956, the labour union also managed to occupy a vast array of key positions in the administration. At the governmental level, the first all-Tunisian cabinet formed in September 1955 comprised three ministers from the UGTT.<sup>61</sup> The first cabinet under Bourguiba formed in April 1956 included four members of the UGTT,<sup>62</sup> and in 1957 and 1958, two former leaders of the UGTT joined the government: Ahmend Ben Salah and Mahmoud Messadi respectively.<sup>63</sup> Henceforth, all Ministers of Social Affairs would either be from the UGTT or have close ties to it.<sup>64</sup> At the party level, the UGTT saw two of its Executive Bureau members included in the Neo-Destour's Political Bureau, whilst the newly formed business association, the *Union tunisienne de l'industrie, du commerce, et de l'artisanat* (Tunisian Union of Industry, Commerce, and Crafts; UTICA) could file only one member. The old business organisations, UTAC and UGAT, had been dissolved because of their support for Ben Youssef.<sup>65</sup> And when in 1964, the party enlarged their Political Bureau, the UGTT could increase the number of representatives to eight, whereas the UTICA was still only represented by its president. At the level of the presidency, the director of the Presidential cabinet (Abdullah Farhat) was also a union member until his replacement in 1963 by Bourguiba's son. At the legislative level, three out of five Vice-Presidents of the Constituent Assembly were unionists, in addition to 35 deputies out of 98. In Tunisia's first parliament (1959-63), the UGTT further took control of the

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<sup>60</sup>Liauzu 1996, 211-12.

<sup>61</sup>These were Ezzeddine Abbasi (Public Works), Fathi Zouhir (Social Affairs), and Chadly Rhaïem (Post and Telegraph).

<sup>62</sup>Ministers from the UGTT were Mustapha Filali (Agriculture), Ezzeddine Affasi (Public Works), Mahmoud Khiari (Post and Telegraph), and Lamine Chebbi (Education)

<sup>63</sup>Former UGTT SG Ahmed Ben Salah first joined as Minister of Health in 1957 before adding the Ministry of Social Affairs in 1959. From 1961 until 1969, he was 'super-minister' of Finance, Economic Affairs, and Planning. Mahmoud Messadi was former head of the influential teachers union and joined as Minister of Education.

<sup>64</sup>Charfi 1989, 87.

<sup>65</sup>Debbasch and Camau 1974, 49.



influential Financial, Economic, and Social Affairs Commission, representing 23 out of 30 members. Rachid Sfar, who was Director of General Taxation in the Ministry of Finance after independence and later became Prime Minister, thus described the relationship of the government with the UGTT at the time as one of ‘permanent consultation.’<sup>66</sup> On balance, the outcome of this struggle between the UGTT and Bourguiba was an implicit compromise whereby, until Bourguiba’s espousal of the UGTT’s ideas of planned economic development in 1960, economic policies followed a liberal trajectory while the UGTT was given nearly free hand in the realm of social policies, as we will see in the next section.

In summary, the intra-elite conflict between Bourguiba and Ben Youssef enabled the UGTT to expand its influence in a manner that would have been unthinkable with a united Neo-Destour party. Bearing in mind the ideological orientation of Bourguiba and the party at large, the UGTT could have never imposed its socio-economic programme onto a Neo-Destour in better order.<sup>67</sup> Rather, as Bourguiba’s subsequent attempts to alter the deal demonstrate, the alliance with labour was born out of the necessity to outcompete the Youssefist camp. Seizing the opportunity, the UGTT used its clout to make itself indispensable in the emerging state institutions and managed to manoeuvre itself in a position where, in the words of former minister Driss Guiga, ‘the Neo-Destour was permanently obliged to accommodate the union [and] no reform was made without consulting them.’<sup>68</sup> Moreover, as the old business associations were dissolved and the newly formed UTICA kept a very low profile,<sup>69</sup> the UGTT was left with no major business counterpart to wrangle over reforms. As the following section will show, this compromise laid the foundation for the Tunisian welfare state.

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<sup>66</sup>Personal interview, Tunis, 30 June 2013. After holding a number of administrative and ministerial positions, Sfar was Prime Minister from July 1986 until October 1987.

<sup>67</sup>Hermessi 1990, 134-35; and Belhadi 2011, 643.

<sup>68</sup>Personal interview, Hammamet, 17 June 2013.

<sup>69</sup>Oualdi 1999, 107-8.

### **Intra-elite Conflict and Welfare Provision**

This subsection specifically traces the effect of elite factionalism on social policies and welfare expenditures after independence. In this regard, it is important to distinguish the *direct effects* of the intra-elite conflict on social policies from the *indirect effects*. While the former represent an immediate response of the government to the factional infighting in the form of social spending, the latter are the result of the UGTT's predominance in the field of social policies as a result of intra-elite conflict.

#### *Direct Effects*

The most notable social policy measure that can directly be attributed to the conflict between Bourguiba and Ben Youssef was the establishment of the *Caisse nationale du centre et du sud* (National Fund for the Centre and the South), set up by decree in November 1956. Representing the first large-scale public investment project of Bourguiba's newly formed government, the Fund's primary aim was to invest in social and infrastructural projects in the inner regions of Tunisia, such as the building of health centres and hospitals, the improvement of sanitation, and schools. Stricken by poverty and long time neglected by the colonial authorities, these regions had become a stronghold of the Youssefist movement and constituted an important area of retreat for Ben Youssef's guerilla fighters, the *fellaghas*. The government allocated 300 millions francs to the fund – the equivalent of Tunisia's entire housing budget for the financial year 1956-57.<sup>70</sup>

The government's intentions with regard to the Fund are clearly expressed in the administrative note, called 'synopsis of motives,' preserved in the Tunisian National Archives.<sup>71</sup> The note gives a clear reference to the Youssefist uprising and is worth being quoted at length:

'The Southern regions represent a favourable terrain for the hostile propa-

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<sup>70</sup>Spending figures for the period 1955-57 are taken from Tunisian National Archives 1957a.

<sup>71</sup>Tunisian National Archives 1956b.

ganda against the government. [...] Only a forceful intervention on the part of the state can quickly allay this dangerous distortion between North Tunisia and the Centre and the South. The psychological impact that the Fund will have on the populations benefiting from it will certainly put paid to the pernicious actions of the government's enemies amongst the populations of the South.'<sup>72</sup>

Whilst it is difficult to ascertain whether the desired effect was achieved, the creation of the Fund underlines the government's concern to regain popularity amongst Ben Youssef's supporters and the strategic role social policies played in this respect.

### *Indirect Effects*

The more consequential effects of the intra-elite conflict on welfare policies were indirect, however. By propelling the UGTT into a position of power from where it could implement its progressive social policy agenda, the intra-elite conflict not only allowed for the implementation of a vast array social policies and the increase of welfare expenditures, but also – as we will see later in this chapter – created a powerful constituency that would fight for a continuation of these policies in the long run. Specifically with regard to social policies, protagonists of the time unequivocally acknowledge the formative impact of UGTT on the Tunisian welfare state. According to former Minister of Social Affairs, Mohamed Ennaceur, 'the social reforms would not have happened without the support of the UGTT.'<sup>73</sup> Similarly, Ahmed Mestiri states that 'the social legislation was implemented thanks to the UGTT.'<sup>74</sup>

The forceful role that the labour union played in the field of social policies crucially relied on its socio-economic programme. While its implementation was initially hampered

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<sup>72</sup>Tunisian National Archives 1956b.

<sup>73</sup>Personal interview, Tunis, 21 May 2013. Ennaceur was secretary of state in the Ministry of Health and, later, Social Affairs under Ahmed Ben Salah. He later became Minister of Social Affairs himself.

<sup>74</sup>Ahmed Mestiri, Tunis, 11 June 2013. Mestiri held various ministerial positions after independence, amongst others, Finance and Defence.

in the field of economic policies, the UGTT ministers in power freely used the union's socio-economic programme as a template for their social policy reforms.<sup>75</sup> As representatives of the UGTT in government, these ministers made sure that the union's demands were heard, but compared to other ministers, they could also be easily held accountable for by the union's rank and file, which put them under particular pressure to deliver. Ben Salah's speech at the 1956 UGTT congress is exemplary in this respect, stating that '*Our* ministers hold to their credit important achievements concordant with *our* programme.'<sup>76</sup>

Delivering in the field of social policy was all the more important because the union explicitly avoided making wage demands, essentially in the first decade after independence.<sup>77</sup> Conscious of the inflationary cycle that wage demands might entail, the labour union was seeking an alternative way to have workers partake in the benefits of development.<sup>78</sup> In this regard, the final report of the UGTT's 1956 congress states that 'due to the limited resources available [...], an immediate improvement of the living standard is not possible. Therefore, the UGTT recommends measures that make it possible for the workers to have a share in the growing national revenue, by, amongst others, a generalisation of education and social security.'<sup>79</sup> It is thus important to realise that, for the UGTT, increasing social expenditures were viewed as a compensation for the compression of wages. Regarding welfare expenditures more specifically, the UGTT represented the driving force behind the expansion of the welfare budget. According to Mohamed Sayah, who was head of the Student Union at the time and in 1964 joined the Neo-Destour's Political Bureau, 'the UGTT exerted constant pressure to increase social spending'<sup>80</sup> – financed primarily from higher taxes.<sup>81</sup> Major fields of legislative activity and spending expansion were labour market policies and labour laws, education, health, and social security, which shall

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<sup>75</sup>Guelmami 1996, 269; Nerfin 1974, 45; and Tunisian National Archives 1957b.

<sup>76</sup>ibid., emphasis added.

<sup>77</sup>Ben Salah 2008, 44.

<sup>78</sup>Eqbal 1967, 258.

<sup>79</sup>UGTT 1956.

<sup>80</sup>Personal interview with Mohamed Sayah, Tunis, 16 May 2013.

<sup>81</sup>IMF 1959, 1.

be scrutinised in turn.

*Labour Laws and Labour Market Policies* Improving the conditions of agricultural workers had long been a particular concern for the UGTT, not least to gain a foothold in the agricultural sector. Under the Protectorate, the union had therefore elaborated a number of proposals aiming at the regulation of a sector that had hitherto escaped the oversight of the state:<sup>82</sup> wages were entirely unregulated, lay-offs were arbitrary and exempt from any form of redundancy payment, day labouring was the predominant form of employment. Unsurprisingly, proposals to regulate the sector had met with staunch resistance from a vociferous farmers association UGAT prior to independence. Bourguiba himself was sceptical and initially insisted that the rules should only be applied to workers who had been continuously in employment for some time.<sup>83</sup> With the UGAT dissolved in 1956 and the union at the helm of the Ministry of Social Affairs, however, the way was now free for a new labour code for agricultural workers. Enacted by two decrees in 1956, the code comprised a minimum wage, established a number of bonuses, such as for dangerous work, limited the hours of work, and obliged employers to pay redundancy money. Equally important was a new code for government employees, that came into force in the same year. Whilst introducing an improved pay scheme for civil servants,<sup>84</sup> the code heralded a wave of recruitment into the civil service. Underlining the importance of public sector expansion for labour, the UGTT's SG thus boasted in January 1957 to 'have recruited 4,000 civil servants to replace the French officials. These are now 4,000 families out of misery. [And] there are still many vacant positions.'<sup>85</sup>

Another area in which the union's imprint became clearly visible were active labour market policies. Since the end of World War II, unemployment had become a widespread phenomenon, in particular across the country's inner regions. In response to that, the

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<sup>82</sup>Eqbal 1967, 161.

<sup>83</sup>Bourguiba 1974a, 63-64.

<sup>84</sup>Eqbal 1967, 179.

<sup>85</sup>Tunisian National Archives 1957b.

UGTT had since 1946 called upon the state to actively intervene in the labour market to combat unemployment.<sup>86</sup> Yet, to reach this aim, the UGTT had to overcome Bourguiba's apprehension that a government-run employment programme might too easily transform into public alimentation of the unemployed, with little incentive for production.<sup>87</sup> Besides, giving all unemployed a job was considered way too costly in view of the government's limited resources. To accommodate these points, the UGTT-led Ministry of Public Works developed a food-for-work programme, which gave unemployed general interest jobs in return for a basic meal and a minimal salary. Initially equipped with relatively modest resources, the programme rapidly expanded in scope given persistent unemployment and, according to an IMF report from 1962, had by the early 1960s 'become a considerable burden on the Treasury.'<sup>88</sup>

*Education* There was a widespread consensus in the newly formed regime coalition that education should be a major priority of reform after independence. As a result, educational policies were much less conflictual than other areas of social policy. In fact, in the run-up to independence, Bourguiba and the UGTT Federation of Teachers had formed a preliminary agreement regarding the broad outline of the new educational system.<sup>89</sup> Yet, despite widespread agreement, the role of the UGTT was still crucial both in moulding the shape of the new educational system and in accelerating the pace of expansion.

Regarding the nature of the new educational system, it is important to note that Bourguiba did not have a thought-out idea of what a post-colonial education system could look like. He had a strong interest in education, but lacked a concrete plan of reform. The UGTT, by contrast, had been elaborating a detailed plan of educational reform since the late 1940s. At its second congress in 1949, the union voiced its first concrete demands in the field of education, calling for a generalisation of education to all Tunisians and the

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<sup>86</sup>Eqbal 1967, 243.

<sup>87</sup>Personal interview with Mohamed Ennaceur, Tunis, 21 May 2013.

<sup>88</sup>IMF 1962b, 1-2. Unfortunately, I was unable to obtain detailed annual spending figures for the programme.

<sup>89</sup>C. H. Moore 1965, 53-54.

abrogation of all school fees.<sup>90</sup> Later in the same year, the UGTT's Federation of Teachers under the leadership of Mahmoud Messadi presented the French authorities with a detailed plan of educational reform.<sup>91</sup> The reform proposal was structured around four major principles: a unification of the educational system, which was, at the time, fragmented into the French-only, a mixed, and a Tunisian-only stream and heavily skewed in favour of the former; free access to education without charge; expansion of education to all social classes; and the Arabisation of education which was to replace French as the primary language of instruction.<sup>92</sup> With regard to Arabic, it is important to note that this demand was more than just a nationalist demand to restore Tunisian national identity. It also served a very practical purpose, for by making Arabic the main language of instruction, teaching positions would be much more accessible for Tunisians, in particular UGTT members. In October 1955, the Secondary Teachers Union reiterated labour's demand for educational reform by submitting another detailed report to the first Tunisian Minister of Education, Jallouli Farès, in which it also called for the creation of a Tunisian university and explicitly demanded free secondary education.

Considering the preliminary work that UGTT had done, Bourguiba, when he formed his first cabinet in April 1956, called upon unionists from the Federation of Teachers to head the Ministry of Education. Thus, two former heads of the teachers union held the position from 1956 until 1968: Lamine Chebbi (1956-58) and Mahmoud Messadi (1958-68). Both had worked very closely within the UGTT on the union's educational reform project and drafted considerable parts of it. UGTT members also represented the majority in the technical commissions that forged the details of the reform.<sup>93</sup> As a result, the UGTT's draft proposal and the final law were nearly identical documents.<sup>94</sup> The reform unified all co-existing educational institutions in a national system, which included the

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<sup>90</sup>Haddad 2011, 59; and Al-'Usbua 1949.

<sup>91</sup>Temimi et al. 2000, 158.

<sup>92</sup>Sraïeb 1968; and personal interview with Mustapha Filali, Gabes, 19 June 2013. Filali was member of the Federation of Teachers and co-author of the draft.

<sup>93</sup>Ayachi 2000, 63.

<sup>94</sup>Temimi et al. 2000, 158.

previous French-only section as well as religious schools previously run by the Zitouna mosque.<sup>95</sup> Compulsory for all, primary education was to take six years at the end of which pupils could obtain a certificate conditional upon passing a test. The system further established a three-year lower-secondary stream, which had a vocational character, and secondary education, which could lead to higher education. To enter middle-school or secondary education, pupils had to pass an entrance examination.<sup>96</sup> Following the continental European model, the system was highly stratified with a number of dead-ends and increasing selection after primary education. Regarding Arabisation, it should be noted that the UGTT was much keener on this point than Bourguiba himself, who was anxious not to sever the links with the former colonial power.<sup>97</sup> It thus represented a ‘concession’ of Bourguiba to the union.<sup>98</sup>

As for the expansion of spending, the role of labour was equally important. First, in coordination with the UGTT, the student union, *Union générale des étudiants tunisiens* (General Union of Tunisian Students; UGET), launched an assault on all remaining school and tuition fees in 1956.<sup>99</sup> This explicitly included secondary education fees, not only higher education, and thus overlapped with a demand the UGTT Secondary Teachers Federation had voiced in October 1955. The ensuing student strikes profoundly angered Bourguiba as he was unwilling to give in to their demands.<sup>100</sup> Yet, in face of a combined UGET and UGTT demand, he eventually gave in and by the end of 1956, tuition fees for secondary education had been abolished.<sup>101</sup> Second, the union managed to couple the educational reform with a substantial pay rise for teachers, which was also in line with the above-mentioned new code for public servants. This responded to a concrete demand on the part of schoolteachers who had vociferously expressed their discontent with their

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<sup>95</sup>Duwaji 1967, 74.

<sup>96</sup>For an overview, see Sraïeb 1968.

<sup>97</sup>Mohamed Mzali cited in Slim et al. 2010, 194. Mzali was head of Chebbi’s cabinet in the Ministry of Education and later Prime Minister from 1980 until 1986.

<sup>98</sup>Eqbal 1967, 163-64.

<sup>99</sup>Le Petit Matin 1956.

<sup>100</sup>Ayachi 2003, 72.

<sup>101</sup>ibid., 72.



remuneration.<sup>102</sup>

Third, and most importantly, the UGTT successfully pressured for a much more rapid expansion of the educational system, based on a massive hiring wave of teachers and a sustained construction campaign for new schools. To fully appreciate the union's contribution in this regard, it is important to note that – though being in favour of educational reform – Bourguiba had opted for a liberal economic policy. In budgetary matters, this meant that Bourguiba, in collaboration with his Minister of Finance, Hédi Nour, insisted on having a balanced budget. In line with this strategy, Nour declared in January 1956 that the Tunisian state lived above its means and, therefore, a policy of austerity was required.<sup>103</sup> This policy of fiscal discipline meant a direct collision course with the UGTT. In fact, at its 1956 congress, the union called for a rapid expansion of enrolment and the immediate hiring of 1,700 teachers and the building of the same number of schools.<sup>104</sup> In the medium term, its plan envisaged complete primary enrolment within nine years, starting in 1957, involving the recruitment of 16,000 teachers between 1957 and 1964 and the construction of 16,000 class rooms. The plan targeted a share of education of 25 per cent in the budget.<sup>105</sup> Thus, the union and Bourguiba disagreed on the speed at which expansion should occur, whilst agreeing on the objective.

This disagreement consequently resulted in a fierce bargaining within the government, in which Bourguiba sought to contain the UGTT's pressure for fiscal expansion.<sup>106</sup> This hesitation as to how fast to expand education is also reflected in education spending, which in the period from 1956 to 1960 fluctuated between 12 and 19 percent, with the low point being reached in 1960. In fact, the massive expansion of educational expenditures to levels of up to 30 per cent by 1972 only started after Bourguiba had abandoned his cautious fiscal policy and given the UGTT 'green light' to devise a 10-year public investment plan starting

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<sup>102</sup> C. H. Moore 1965, 170.

<sup>103</sup> Tunisian National Archives 1957a.

<sup>104</sup> UGTT 1956.

<sup>105</sup> *ibid.*

<sup>106</sup> A. Mestiri 1999, 132-33.

in 1961. While it is impossible to ascertain whether Bourguiba would have been willing to boost public investment in education to these levels without the UGTT, his hesitation until 1960 and his concerns for macroeconomic stability suggest that the spending increase might have been more moderate.

*Health and Social Security* The Tunisian social security system has been a distinct feature of the Tunisian welfare state, exceeding coverage rates of 90 per cent in the mid-2000s.<sup>107</sup> The origin of this system can be clearly traced back to the UGTT's influence on social policies after independence. To begin with, the establishment of a comprehensive social security system, including health insurance and pensions, had been one of the union's core demands, as visible in the resolutions of its 1949 congress.<sup>108</sup> While public sector workers had, on the eve of independence, a relatively comprehensive health insurance and pension scheme,<sup>109</sup> the UGTT's demand mainly targeted private sector workers, who at the time only benefited from family allowances and a minimal workmen's compensation scheme for accidents.<sup>110</sup> To improve their condition, the union proposed at its 1956 conference the establishment of a comprehensive social security institution for all workers – including the agricultural sector – which would cover work accidents, health, family allowances, housing benefits, as well as pensions. In addition, the union called for the creation of a national health service to cover those without health insurance.<sup>111</sup>

Since the issue of social security represented a contentious issue for parts of the Neo-Destour party and employers, the UGTT had to implement this programme gradually over the period from 1956 until 1971. The first step consisted in granting a sectoral pension fund to mining workers, a key constituency of the UGTT, and establishing an insurance-based

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<sup>107</sup> See Chapter 2.

<sup>108</sup> Guelmami 1996, 268.

<sup>109</sup> In 1898, the French authorities had introduced the *Société de prévoyance des fonctionnaires*, covering pensions, maternity, and sick leave. The system was completed by a health insurance scheme in 1951.

<sup>110</sup> Family allowances, introduced in 1918, granted a lump-sum benefit for every child. The workmen's compensation scheme was created in 1921.

<sup>111</sup> Tunisian National Archives 1957b.

compensation system for work-related accidents and illnesses in 1957.<sup>112</sup> Both measures had been part of the initial agreement with Bourguiba in the run-up to the Sfax conference and hence met with no significant political opposition. The next step consisted in extending the existing social insurance system of the private sector to include new benefits, most notably health, pensions, and life insurance benefits. To this end, Ahmed Ben Salah, Minister of Health and Social Affairs since May 1958 and former SG of the UGTT, elaborated an extensive draft proposal that he presented to the cabinet in early 1959.<sup>113</sup> In cabinet, however, the draft law got a rather cold reception from Bourguiba, who was concerned that the law would overburden Tunisian employers. Questioning whether it was actually the right moment to introduce this piece of legislation,<sup>114</sup> Bourguiba made it clear that he would not agree to a social security system that either included pensions or invalidity benefits in the scheme.<sup>115</sup> Opposition against the law also formed from within the business community. In the eyes of country's business association, UTICA, Tunisia could not afford the luxury of social insurance. In particular small shopkeepers and artisans would be unable to carry the financial burden, in addition to the disruptions caused by the law's regulatory aspects, such as paid holidays and sick leave.<sup>116</sup> Again, Bourguiba expressed his sympathies for the employers' position, stating that the draft law was 'not appropriate for this kind of activities [small businesses and crafts]' and would therefore 'deal a deathblow to Tunisian crafts, which are already struggling.'<sup>117</sup>

Despite the resistance, Ben Salah was able to use the UGTT's leverage to pass a trimmed-down draft law without pensions and life insurance benefits through cabinet and submit it to parliament in October 1960. There, the law was subject to another round of fierce negotiations between business representatives and the UGTT in the chamber's finance commission. In a compromise with UTICA, the UGTT abandoned its demand

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<sup>112</sup>Ben Romdhane 2006, 36; and Eqbal 1967, 163-64.

<sup>113</sup>C. H. Moore 1965, 192.

<sup>114</sup>Borsali 2008, 68.

<sup>115</sup>C. H. Moore 1965, 192.

<sup>116</sup>ibid., 193.

<sup>117</sup>Bourguiba 1974d, 165.

to pay child benefits up to the age of 21 instead of 20 and, for the time being, excluded the agricultural sector from the scheme. The business sector also managed to negotiate a reduction of the employer's contribution in the mining and building sector to 15 per cent from 27.5 and 22.5 per cent respectively.<sup>118</sup> To compensate for the loss, the UGTT effected a 5 per cent salary increase across all sectors and made employers pay all contributions – both their own and those of employees – for a transitional period.<sup>119</sup> Most importantly, the union ensured that the scheme would not only cover the insured person, but also all dependent persons, normally children and the spouse. On the whole, the social insurance law passed in 1960 represented a major victory of the UGTT over both UTICA and, to a certain extent, Bourguiba.

Having overcome the initial resistance and laid the legislative foundations for social security, the UGTT found it easier to improve and expand the system in the course of the 1960s. In 1963, benefits increased substantially and students were allowed to join the scheme free of charge in 1965.<sup>120</sup> Yet, from labour's viewpoint, two major shortcomings persisted: the exclusion of the agricultural sector and the exclusion of pension benefits. Accordingly, the Executive Committee issued a report in 1964 urging the government to extend the coverage of social security and to include old-age pensions.<sup>121</sup> The reasons for the government's hesitation were financial. Including pensioners would add a group of claimants to the regime who had only paid into the scheme for a short period, if at all, and extension would thus require assistance out of the general budget. Similarly, adding agricultural workers, in addition to the logistical problems, would add a group that was more liable to work accidents and was more likely to claim health insurance benefits. The union thus had to wait for the right moment to push its demand. Eventually, the strong growth performance in the late 1960s allowed them to put the issue back on the table and, after negotiations in a joint UGTT-UTICA commission formed in 1967, the

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<sup>118</sup>Eqbal 1967, 239-40.

<sup>119</sup>La Presse 1960, 1961.

<sup>120</sup>Al-Amal, 1963.

<sup>121</sup>Haddad 2011, 139.

government incorporated permanently employed agricultural workers in 1970 and added pension benefits in 1971.<sup>122</sup> The measures cost the Tunisian treasury about 2.3 million dinars, equivalent to a 1.1% increase in the social spending budget.

The expansion of public health care was intimately related to the social security dossier. As described above, the union had in 1956 encouraged the establishment of a tax-based public health care system for those without social security coverage. This meant that expenditure for public health were to rise until the social security system had fully expanded. In this regard, it was again key for the UGTT to have access to the budget-making process. The union therefore invested considerable effort in building an extensive network within the public health care organisation. According to Driss Guiga, who was head of the Budget Office in the Ministry of Health at the time, the union was heavily involved in the drafting of the budgets as it ‘had the best information about what was going on on the ground.’<sup>123</sup> Their influence was reflected in the rapid increase of health expenditures.

*A Comparative Note With Regard to Egypt: Defence and ‘Cheap Social Policies’*

As described in Chapter 3, Tunisia’s geographic location and size prevented it from being drawn into the geopolitical conflicts pervading the Middle East. Hence, the country’s leadership felt no need to invest extensively in the country’s armed forces. As Bourguiba himself stated, Tunisia only needed ‘a tiny army [...] to satisfy national prestige.’<sup>124</sup> Interestingly, the UGTT’s 1956 conference had also warned that the army should not take too big a part of the national budget as this would have complicated their plans in the realm of social welfare.<sup>125</sup> In the early 1960s, the UGTT needed to reinforce this position by steering away Bourguiba from joining the US-led CENTO defence alliance, also known as ‘Baghdad Pact,’ which the US urged Tunisia to do. According to Ahmed Ben Salah, ‘super-minister’ at the time, joining CENTO would have been very detrimental to the gov-

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<sup>122</sup>Adam 1970; and Monastiri 1971.

<sup>123</sup>Guiga 2013, 31.

<sup>124</sup>Bourguiba 1976, 176.

<sup>125</sup>UGTT 1956.

ernment's welfare effort, which is why they dissuaded Bourguiba from doing so.<sup>126</sup> This stands in contrast to Egypt where – as we will see – the perceived necessity to bolster defence crowded out welfare, not the other way around.

Another important difference from Egypt was the absence of what I have called 'cheap social policies' in Tunisia. This is particularly visible in the area of social security. While in Egypt – as we will see in the next chapter – social security was established with the aim of increasing national saving, which could then be utilised to finance the country's development and defence effort, the Tunisian social security system had in comparison a purely social character. Several pieces of evidence support this claim. Firstly, in a note from the Council of Ministers discussing the future strategy to improve Tunisia's borrowing capacity, social security is not mentioned at all.<sup>127</sup> Secondly, the Tunisian government established a number of saving funds parallel to the social security system, the unique purpose of which it was to boost the available income for investment. In 1956, the *Caisse nationale d'épargne* (National Savings Fund) was established, which by the end of 1972 had amassed savings worth 5 per cent of the government budget.<sup>128</sup> In 1959, the government created the *Société nationale d'investissement* (National Investment Organisation; SNI), a public equity company with shares held by Tunisian nationals, public sector institutions, and foreign investors.<sup>129</sup> The surplus of the social security system was out of direct government control and invested in bonds of banks and the post.<sup>130</sup> The investment of social security funds in public development projects was made possible only in 1973,<sup>131</sup> in sharp contrast to Egypt which immediately channelled the social security surplus toward its development programme upon the inception of the scheme in 1955. Finally, as opposed to Egypt, the extensions of social security to new beneficiary groups is uncorrelated with

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<sup>126</sup>Personal interview, Gabes, 27 April 2013.

<sup>127</sup>Tunisian National Archives 1957c.

<sup>128</sup>IMF 1972, 78.

<sup>129</sup>ibid., 29.

<sup>130</sup>Guelmami 1996, 555-56.

<sup>131</sup>ibid., 706.

balance of payment crisis.<sup>132</sup> This suggests that in Tunisia new groups were not included as a remedy for cash crises.

### **Summary**

This section has sought to substantiate one of the central claims of this thesis, which is the link between intra-elite conflict and social spending. To summarise the key points of this section, I showed in a first step that it would be erroneous to attribute the rapid expansion of welfare distribution in post-independence Tunisia solely to Bourguiba. In fact, against the background provided by the foregoing, it is safe to say that Bourguiba was ideological not predisposed to massive welfare distribution and, as a result, turned out to be an impediment to welfare state expansion that needed to be overcome. Second, and related to the previous point, I argued that the UGTT would have never been able to impose its social policy agenda onto the Neo-Destour party, had the party not been shattered by the intra-elite conflict between Ben Youssef and Bourguiba. Third, despite Bourguiba's attempts to renege on his commitments to labour, the UGTT successfully managed to seize the opportunity presented by the intra-elite conflict to gain a foothold in the state institutions, which in the following enabled it to implement its social policy agenda and thereby laid the foundations of the Tunisian welfare state. As Table 5.1 shows, the UGTT left its mark on nearly all fields of social policy after independence, with notable repercussions on the country's long-term social expenditures. After analysing the foundational moment of Tunisia's welfare trajectory in this section, the next section will illustrate the mechanisms that have allowed the country to stay 'on track.'

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<sup>132</sup>The insignificant regression results together with the results for Egypt are presented in the next chapter.

<b>UGTT-led Post-Independence Welfare Reforms</b>	
<i>Measure</i>	<i>Spending implication</i>
New code for agricultural workers	None
New code for government employees	Substantial increase of remuneration, including for employees in the field of education and health
Establishment of public works programme	Substantial increase of outlays for active labour market policies
Educational reform	Accelerated hiring of teachers and school building, and pay increases for teachers
Expansion of public health care organisations	Substantial expansion of health expenditures
Social security legislation	Though system based on payroll taxes, successive additions of new groups of beneficiaries were partly financed through the state; long-term implications once funds started to run deficits in the 1980s
Introduction of retirement benefits for mine workers	Until establishment of public pension scheme in 1970, costs shouldered by the state
Housing cooperatives for workers	Government grant of 300 million francs

Table 5.1: Foundational Social Policy Reforms (1956-71)

## II. STAYING ON TRACK: MECHANISMS OF PATH DEPENDENCE IN THE TUNISIAN

### WELFARE STATE

This section seeks to illustrate the mechanisms of path dependence that have contributed to the perpetuation of the Tunisian welfare trajectory beyond its founding moment. As lined out in the introduction, I emphasise two mechanisms to explain the persistence of



high welfare distribution in Tunisia.

On the one hand, the establishment of generous social policies has conferred an initial advantage on a number of societal actors which has increased over time as the size of these groups has become bigger. This initial advantage has taken different forms. Some groups, such as pupils and students, have been a privileged recipient of state resources. Other actors, such as the labour union, have established themselves as the privileged interlocutor of the state when it comes to social policies, giving them an advantage in terms of voice and access. Finally, new constituencies, such as teachers and the public health care workers, were in fact created by the welfare state itself and, similar to target groups of social policies, have become privileged recipients of resource streams. Being part of the regime's support coalition, these actors have, in sum, seen their power resources reinforced with the expansion of the welfare state and could then mobilise these resources in the face of potential divergence from the welfare trajectory, such as large spending cuts and structural reforms.

On the other hand, the Tunisian welfare states has brought about a number of completely unintended beneficiaries, who are neither target groups of social policies nor welfare providers, such as teachers and health service workers. Rather, these groups have tapped into what could be called 'regulatory rents' generated by the welfare state, that is, financial advantages stemming from market regulations that have been implemented to facilitate welfare provision. As we will see, the subsidisation of food items and energy products has involved massive regulatory interventions on the part of the state in order to control domestic prices, which, in turn, has generated lucrative opportunities for business. This effect was reinforced by the fact that politically connected entrepreneurs have found it much easier to access these rent streams and, utilising their access to political decision making, guarantee their continuation.

## **Protecting the Status Quo and Pushing for Expansion: Education and Social Insurance Reform**

The mobilisation of constituencies against path divergence and in favour of expansion of social policies has occurred on different scales since the foundation of the country's welfare system. The following two episodes thus represent examples of, what I consider, important moments of potential divergence from the country's welfare trajectory. To give an impression of the range of pro-welfare constituencies involved, I focus on two different policy areas, which are education and social security.

### *Educational Expansion and Reform*

Following a decade of educational expansion since the 1958 reform, there was growing discontent with the country's educational system in government circles by the late 1960s. Rapidly increasing enrolment rates had pushed educational expenditures to what, in the eyes of the government, was barely financially sustainable.<sup>133</sup> In 1968, educational spending reached 8.2 per cent of GDP, which was one of the highest rates in world.<sup>134</sup> Accordingly, Minister of Finance Hédi Nouria pointed to the 'considerable pressure on the [financial] possibilities of Tunisia'<sup>135</sup> emanating from the elevated education bill. In addition, expansion had not necessarily been accompanied by high completion rates as a relatively high number of pupils dropped out of education before graduation.<sup>136</sup> Finally, the rising number of Tunisians with primary education had created considerable knock-on effects as an increasing number of pupils sought to continue their education at the secondary and tertiary level.

Seeking a solution to the engulfing education bill, the government formed an inter-

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<sup>133</sup>Monastiri 1974, 525.

<sup>134</sup>Sraïeb 1971, 410.

<sup>135</sup>Monastiri 1971, 424

<sup>136</sup>For example, the cumulative drop-out rate for primary education amounted to 40 per cent in 1971. See UNESCO 2015.

ministerial commission in November 1969 to elaborate a set of concrete proposals.<sup>137</sup> The timing seemed propitious as Bourguiba had just ousted Ahmed Ben Salah and reverted Tunisia's development paradigm away from state-led planning back to private-sector growth. Two main themes dominated the recommendations made by the commission, published in May 1970: First, whilst primary education was considered to be a right, secondary and tertiary education were deemed a privilege which only a limited number of Tunisians should have access to.<sup>138</sup> This was in line with an earlier statement by Bourguiba that the generalisation of secondary education was financially not possible.<sup>139</sup> Second, the commission emphasised the need for savings in the education budget and improve its financial efficiency. In terms of concrete proposals, it was therefore envisaged to (a) decrease the number of secondary pupils by 1976; (b) increase selection to and within secondary education; (c) reign in the costs at the level of tertiary education, by excluding students who took longer than three years to obtain a degree, reduce the growth rate of university students to 5.4 per cent by 1979, and reduce the number of scholarships, considered 'too generous and comprehensive.'<sup>140</sup> In addition, it was also envisaged to reduced the success rates of higher education students by 5 to 10 per cent, from levels ranging between 48 and 28 per cent.<sup>141</sup>

Shortly after their announcement, these measures met with significant resistance, however. Mobilised by the Tunisian Student Union, UGET, students started to turn out in numbers against the proposals with the beginning of the 1970/71 academic year and thus launched the biggest student protest since independence.<sup>142</sup> As the UGET was also open to secondary students, the union was able to mobilise considerable numbers and maintain protests throughout 1971 and 1972. Whilst their ire was directed at the concrete measures which they rejected, more fundamentally the students feared, in the words of historian

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<sup>137</sup>Sraïeb 1971, 401.

<sup>138</sup>Al-Bakoush 2010, 90.

<sup>139</sup>CDN 1970, 14.

<sup>140</sup>Sraïeb 1971, 400-14.

<sup>141</sup>Bougra 2012, 71-72.

<sup>142</sup>See, amongst others, Monastiri 1971 and for a description of the events.

Abdel-Jelil Bouqra, that the proposals constituted a first step toward a reversal of ‘the project of 1958’ – that is, the democratisation of education.<sup>143</sup> Riposting to the government’s idea to guarantee Tunisians only primary education, the UGET thus declared that secondary and higher education should also be considered a right for all Tunisians.<sup>144</sup>

According to Driss Guiga, who was Minister of Health until 1973 before taking up the Ministry of Education until 1976, the government was quite impressed with the vehemence of the students’ response.<sup>145</sup> As ad hoc measures to appease the students – such as reintegrating 594 out of 817 students who had been suspended from university for taking longer than three years<sup>146</sup> – had only little effect, the government discretely decided to suspend the application of these measures and look for alternative saving options, without, however, officially repealing them.<sup>147</sup> As a result, none of the announced reduction targets of the government were met. Regarding the intake of secondary students, numbers in fact rose from 190,000 in 1971 to 250,197 in 1979.<sup>148</sup> Similarly, the percentage of repeaters at the secondary level only dropped from 29 to 22 per cent in the same period. Finally, instead of reducing the growth rate of tertiary education, the number of university students rose dramatically from 10,347 in 1971 to 28,971 by the end of the decade, representing annual growth rates well above the targeted 5.4 per cent.

More discrete, yet not less effective, resistance against the reform also emerged from inside the teachers corps organised by the UGTT.<sup>149</sup> The union had two main concerns: First, it feared that too abrupt a reduction or even a stop of the hiring rates of teachers would have a negative effect on both the working conditions of existing teachers, who were suffering under the burden of high student numbers, and aspiring teachers, who had anticipated to join the civil service.<sup>150</sup> The union thus successfully lobbied for a smooth

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<sup>143</sup>Bouqra 2012, 70.

<sup>144</sup>Al-Bakoush 2010, 90.

<sup>145</sup>Personal interview, Hammamet, 17 June 2013.

<sup>146</sup>Sraïeb 1971, 413.

<sup>147</sup>Personal interview with Driss Guiga, Hammamet, 17 June 2013.

<sup>148</sup>If not stated otherwise, the following figures are all taken from UNESCO 2015.

<sup>149</sup>Personal interview with Driss Guiga, Hammamet, 17 June 2013.

<sup>150</sup>ibid.

continuation of the hiring process. As a matter of fact, growth rates of the teachers corps exceeded the growth rate of students in the period from 1971 until 1979. At the secondary level, the number of teachers increased by 67 per cent (from 7,361 to 12,262) compared to a student growth rate of 31 per cent. At the tertiary level, the contrast was even starker with the number of teaching staff increasing by 500 per cent (from 600 to 3,646) compared to a student increase of 179 per cent. Thus the bulk of the savings in the educational budget which occurred over the period had to come from a sharp reduction of capital expenditures.<sup>151</sup>

The second major concern of the union was related to the status of low-skilled primary teachers, the *moniteurs*. Given the lack of personnel immediately after independence, these teachers had been hired on a provisional basis pending the availability of more qualified native teaching staff. Being low-skilled – many *moniteurs* had only completed lower-secondary education – these teachers received a very low salary and, not fully integrated in the civil service, they had no access to the social security system. Overall, their status can be described as rather precarious and the UGTT had unsuccessfully lobbied for their full integration in the civil service in the early 1960s, when the government had revised the legal code for primary school teachers.<sup>152</sup> Countervailing the government's attempt to reduce spending, the UGTT decided to renew this demand in the early 1970s and put considerable pressure on the Minister of Education, Driss Guiga, to regularise their situation.<sup>153</sup> In terms of numbers, the 4,200 *moniteurs* represented about a fifth of the total primary teaching staff and giving them full status would entail considerable costs, including a substantial salary rise in addition to the state's contribution to social security. It is noteworthy that this demand was pushed in a general context of saving and cost reduction. When the government showed reluctance, the UGTT remained steadfast and threatened with strikes, should the government not respond to their demand.<sup>154</sup> Given

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<sup>151</sup>Personal interview with Driss Guiga, Hammamet, 17 June 2013.

<sup>152</sup>La Dépêche 1961.

<sup>153</sup>Slim et al. 2010, 190.

<sup>154</sup>Personal interview with Driss Guiga, Hammamet, 17 June 2013.

the volatile situation at universities, the government eventually decided to satisfy their request and *moniteurs* were upgraded to full teacher status in 1975.

With regard to my causal argument, the episodes analysed above represent illustrative examples of how the Tunisian welfare trajectory was prevented from going ‘off track.’ In the case of the student protest, it was the mobilisation of beneficiaries that averted a considerable curtailing of access to secondary and higher education. Against Bourguiba’s exhortation that universal secondary education would overstretch the country’s resources, expansion of secondary education continued unabated and, in the year of Bourguiba’s ouster in 1987, secondary enrolment stood at 40 per cent.<sup>155</sup> In the case of the UGTT, it was also stakeholders in the status quo that mobilised for the continuation of spending. When mobilising against spending reductions, the UGTT certainly benefited from its privileged access to decision-making. It could thus capitalise on an initial advantage it had gained in the early stages of the Tunisian welfare state.

#### *The 2004 Universal Health Care Reform*

Tunisia’s recent overhaul of its health insurance system represents another good example to illuminate the mechanisms of path dependence in the Tunisian welfare system. Passed in August 2004, the reform merged the health insurance of civil servants, the *Caisse nationale de retraites et de prévoyance sociale* (National Pension and Social Welfare Fund; CNRPS), and private sector employees, the *Caisse nationale de sécurité sociale* (National Social Security Fund; CNSS), into the new *Caisse nationale d’assurance maladie* (National Health Insurance Fund; CNAM). Unifying the country’s two biggest social security funds with millions of beneficiaries, the reform constituted without any doubt the biggest social policy reform since the introduction of the country’s social security system in 1960. Launched in 1996 and stretching over a period of eight years, negotiations about the reform involved the UGTT, the employers association UTICA, as well as representatives

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<sup>155</sup> UNESCO 2015.

of the private health care sector. The duration and long-winded character of the law's elaboration gives an impression of the economic and political stakes that were at play. For my purposes here, the reform represents an exemplary case where stakeholders in the status quo – in this case, the UGTT – fundamentally transformed the nature of the reform to their advantage and thus averted systemic change in the Tunisian health care system by preserving its public, distributive character.

To fully understand the positions of the involved actors, it is important to briefly situate the CNAM in the context of previous reform attempts. In fact, the 2004 reform was not the first attempt to unify Tunisia's private and public sector insurance system. In 1986, the Tunisian government had passed a law providing for a unified pension fund covering all employees in the public and the private sector. The reason for the reform were economic. While the private sector scheme exhibited large surpluses, the more generous public sector scheme had started to operate at a deficit in the mid-1980s. It was therefore hoped that by merging both funds, the deficit would be wiped out and the new fund would stand on a more sustainable financial footing. This would have entailed an alignment of the more generous public sector scheme on the private sector fund.<sup>156</sup> However, the reform encountered severe resistance on the part of public sector workers, who opposed the benefit cuts that would have followed the 'downgrading' of their scheme.<sup>157</sup> Led by the UGTT's section for financial sector workers, public sector employees launched a strike lasting for three months and, as a result, achieved the effective shelving of the reform.<sup>158</sup> This, of course, did not solve the problem that the public sector scheme continued to exhibit a deficit, biting into its savings, and that different regimes with unequal benefit structures continued to coexist alongside each other. By the mid-1990s, the situation was such that, in the words of Naceur El Gharbi, 'everybody was discontent.'<sup>159</sup>

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<sup>156</sup>Personal interview with Mohamed Ennaceur, Tunis, 21 May 2013. Ennaceur was Minister of Social Affairs from 1974 to 1977, and again from 1979 until 1985. The attempted reform was prepared by his successor.

<sup>157</sup>Vittas 1997, 6.

<sup>158</sup>Ben Dhiab 1986, 883.

<sup>159</sup>Personal interview, Tunis, 2 July 2013. Naceur El Gharbi was the first CEO of the CNAM from 2004 until 2009. He was a key figure in the negotiations leading to the CNAM's creation.

In February 1996, the government therefore launched a second attempt to merge the public and private sector scheme, this time in the area of health care. The roadmap adopted by the Council of Ministers envisaged the progressive fusion of both schemes, the coverage of all essential costs by the new-built insurance, and the outsourcing of additional costs beyond the basic coverage to complementary private insurances.<sup>160</sup> At this point, it is very important to understand the context and the motives of the government when the reform was first launched in order to fully appreciate the subsequent transformation that the reform project underwent. The first motive was clearly to reduce the escalating costs of the system, which required increasing financial support out of the general budget. This objective had already been spelled out in Tunisia's 7<sup>th</sup> Development Plan (1987-1991), which had called for more private participation in the health care costs to preserve the financial balance of the social security funds.<sup>161</sup> In the early 1990s, Tunisia had just completed an IMF-led structural adjustment programme and the years between 1992 and 1995 showed a meagre growth record, which reinforced the government's willingness to reduce the costs. The second motive, which is visible in the government's above-mentioned roadmap, was to restructure the public health care system, such that the state would provide a basic coverage which could then be topped up by private insurances. In other words, the reform initially aimed at a greater privatisation of the system. The third motive was to guarantee the long-term financial stability of the system. This should be achieved by negotiating an increase of the monthly payroll contributions to ensure the financial viability of the new system.

Yet, from the very beginning these economic motives of reform coexisted with, and contradicted, the political objective to turn this reform into a political success for the regime. By introducing a universal health insurance for all Tunisians, the relatively new leadership – Ben Ali had taken over in 1987 – sought to emphasise its social character.<sup>162</sup> It

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<sup>160</sup> Kasmi 2008a, 14.

<sup>161</sup> Republic of Tunisia 1987, 336-37.

<sup>162</sup> Personal interview with Ridha Kechrid, Tunis, 12 June 2013. Kechrid was Minister of Health from 2004 to 2007 and closely involved in the negotiations about the CNAM.



is also important to bear in mind that Ben Ali had a strong interest in coming to peace with the UGTT – after a very conflictual relationship with the UGTT at the end of Bourguiba’s tenure – and endeavoured to turn the UGTT into a support constituency of his regime.<sup>163</sup> When comparing these initial objectives with the final outcome presented in the following, it becomes clear that the economic motives gradually gave way to the political imperative not to alienate a core constituency of the regime.

The reason for this shift was the labour union’s leverage in the negotiation process. This is not only the assessment of the UGTT itself,<sup>164</sup> but also of the government representatives<sup>165</sup> and the private health care representatives, whom I interviewed in Tunis.<sup>166</sup> According to Ali Jebira, the reform’s purpose gradually became to ‘please the UGTT’,<sup>167</sup> and the union managed to introduce a number of ‘populist measures,’ while successfully marking out its ‘red lines’ which the government was not supposed to cross.<sup>168</sup> Although the bargaining involved occasional public threats of strikes, such as in January 2005,<sup>169</sup> the UGTT mostly relied on its political weight, its ties with the respective ministries, its accumulated expertise in the area – the UGTT elaborated several reports and expert notes along the way – and its experience in negotiating with the government.<sup>170</sup> It certainly also benefited from a change in the overall economic climate, which by the early 2000s was much more favourable and gave the government more distributive leeway. Let us look at the changes to the initial proposal in turn.

First, in contrast to the 1986 reform, the UGTT averted an alignment of the more

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<sup>163</sup>Personal interview with Moncer Rouissi, Tunis, 22 May 2013. Rouissi held various ministerial portfolios, amongst others Social Affairs (1989-91) and Employment (1992-2001), and was a personal advisor of former President Ben Ali.

<sup>164</sup>Personal interview with Ali Ben Romdhane, Tunis, 2 May 2013. Romdhane was deputy secretary general during the negotiation period.

<sup>165</sup>See personal interviews with Ridha Kechrid and Naceur El Gharbi above.

<sup>166</sup>Personal interview with Ali Jebira, Tunis, 3 July 2013. Jebira is head of the *Syndicat tunisien des médecins spécialistes libéraux* (Syndicate of the Independent Specialist Doctors; STMSL) and, in this function, participated in the negotiations.

<sup>167</sup>ibid.

<sup>168</sup>ibid.

<sup>169</sup>Al-Sabah 2005.

<sup>170</sup>Personal interview with Ali Ben Romdhane, Tunis, 2 May 2013.

generous public sector scheme onto the private sector one. Whilst the government had not been explicit on this point in the initial 1996 roadmap, its position in the negotiations was to achieve a middle-ground position which would have entailed some upgrading of the private sector scheme coupled with some benefit reductions for public sector employees.<sup>171</sup> Yet, the UGTT rejected this position as a ‘race to the bottom’<sup>172</sup> and made it clear that no reform could be made at the expense of past achievements in the area of health care and coverage.<sup>173</sup> When asked by the author whether the government feared a wide-spread strike within the public sector, one of the chief negotiators of the government responded: ‘There are 45,000 civil servants on a very generous scheme. We had to let them continue.’<sup>174</sup> Aligning the private sector employees with the more generous public sector benefits structure, the reform thus entailed a substantial upgrading of the private sector scheme. Similarly, the union obtained the maintenance of a number of special regimes within the public sector, such as for works doctors or employees of insurance funds.<sup>175</sup>

Second, the union made sure that the reform would be accompanied by a substantial improvement of the public health care system in the form of a public investment programme. This measure aimed to alleviate the UGTT’s concerns that the reform would be carried out at the expense of the public health care sector.<sup>176</sup> Since one of the objectives of the reform was to make the private health sector accessible to those covered by the CNAM, the UGTT feared that the public health sector would be exposed to disloyal competition from a much better equipped private sector. Ultimately, the public sector would be obliged to introduce fees for its services to keep up, which would lead to the establishment of a ‘two-class health care system.’<sup>177</sup> Throughout the negotiations, the UGTT was adamant about this point, declaring that ‘the improvement of the public health care

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<sup>171</sup> *ibid.*

<sup>172</sup> *ibid.*

<sup>173</sup> Al-Sh’ab 2006b.

<sup>174</sup> Personal interview with Naceur El Gharbi, Tunis, 2 July 2013.

<sup>175</sup> *Le Quotidien* 2008a.

<sup>176</sup> Personal interview with Ridha Kechrid, Tunis, 12 June 2013.

<sup>177</sup> *Le Quotidien* 2008b.

sector is an absolute priority, without which there won't be any reform.'<sup>178</sup> Concretely, the labour union demanded a modernisation of public hospitals, new medical equipment, especially for the country's A & E departments, and more personnel.<sup>179</sup> Obviously, these demands went completely against the initial objective of cost reductions. Eventually, the government agreed to invest two billion dinars for the modernisation of public health care. Given that, in 2005, total state expenditures amounted to about 10 billion dinar, the volume of the programme was substantial and the government was only able to finance the programme with the support of a financial grant from the EU.<sup>180</sup>

Third, while the UGTT had to concede higher payroll contributions for civil servants, private sector employees, and pensioners, it successfully cushioned the financial impact of the increase. On the one hand, the union made sure that increases were introduced gradually over a three- to five-year period and not be revised for five years once the agreed level was attained.<sup>181</sup> On the other hand, contributions rose only moderately and in greater proportions for employers than employees. For instance, for civil servants, the previous contributions of 1 per cent of monthly salaries went up to 2.75 per cent, whilst the state's contribution increased from 1 to 4 per cent.<sup>182</sup> Importantly, these moderate rates could only be achieved because the fees private doctors could charge to patients covered by the CNAM were set at levels below the Tunisian market rates. Voicing their discontent, private doctors thus complained that they had to 'give up about a third of their income in "an effort of solidarity"'.<sup>183</sup> While this statement seems slightly exaggerated, it is true that the moderate contributions could only be achieved because the costs were partly shifted onto the private health care providers.

Fourth, also in relation to the private health care sector, the unions were insisting on

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<sup>178</sup>Deputy SG Bouzriba cited in *Le Temps* 2006.

<sup>179</sup>*Le Temps* 2008; Al-Sh'ab 2006b; and Al-Sh'ab 2006a.

<sup>180</sup>Personal interview with Ridha Kechrid, Tunis, 12 June 2013.

<sup>181</sup>Personal interviews with Ridha Kechrid and Naceur El Gharbi, Tunis, 12 June and 2 July 2013.

<sup>182</sup>World Bank n.d., 85. It is noteworthy that, as of 2013, the CNAM was already running deficits.

<sup>183</sup>*Femmes* 2007.

the need for a third-party payment system.<sup>184</sup> This meant that if insured persons decided to use a private sector provider, the patient would not be obliged to pay in cash; rather, the provider would have to invoice the CNAM and claim back its expenses. In the words of the UGTT's chief negotiator, Ridha Bouzriba, a third-party system would represent a 'tranquility premium' for patients, allowing them to use the private health sector without having to advance the costs and fear being financially overburdened.<sup>185</sup> Private doctors, on the other hand, feared that they would be stuck with costs in case the CNAM refused full reimbursement. Despite publicly expressing their concern about this system,<sup>186</sup> their bargaining power was not strong enough to overcome this 'red line' in the negotiations.<sup>187</sup> For the UGTT, the introduction of third-party payment represented an important achievement as it could take credit for having opened the private health care sector to low- and mid-income employees.

In sum, the 2004 reform was a major victory for Tunisia's trade union. Using its bargaining power and supported by propitious economic conditions, the UGTT managed to reverse nearly all of the initial reform objectives. An increasing privatisation of the Tunisian health care system was averted; financial charges for employees were kept low; costs of reform were outsourced to private sector providers; and the public health care system was given a financial boost. This meant that the fundamental character of the Tunisian health care system with the state as the major provider and funder of health care was successfully kept in place. In comparison to private health care providers for whom the CNAM reform often meant financial losses, the UGTT could also draw on its past experience in striking deals with the government and its privileged access to power, which itself was partly a consequence of Tunisia's particular welfare trajectory.

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<sup>184</sup> Personal interview with Naceur El Gharbi, Tunis, 2 July 2013.

<sup>185</sup> *Le Temps* 2007.

<sup>186</sup> *Le Temps* 2005.

<sup>187</sup> Personal interview with Ali Jebira, Tunis, 3 July 2013.

### **Intended and Unintended Beneficiaries: The Subsidy Conundrum**

Thus far, examples of mobilisation against spending cuts and systemic reforms have mostly involved the target groups of social policies, such as students or workers benefiting from social security. Resistance against spending cuts has also involved providers of social welfare, such as teachers, who – though not target groups of welfare provision – are an integral part of the welfare state. This section draws the attention to a further mechanism of path dependence involving groups that were neither initially targeted by social policies, nor are they welfare providers. To the extent that these groups can become major beneficiaries from social policies and thus have an interest in their continuation, these spill-over effects are an important additional mechanism that contributes to the perpetuation patterns of distribution over time.

Importantly, networks of unintended beneficiaries are not as conspicuous and, as a result, their association with welfare policies is often ignored.<sup>188</sup> However, their discrete nature should not deceive us over their political influence. Especially when regime insiders – that is, actors with a privileged access to the centre of political decision-making – are able to tap into resource streams generated by social policies, they can become major veto players able to fend off attempts to change the status quo. This dynamic is particularly visible with regard to food and energy subsidies in Tunisia. As it is argued in this section, the particular combination of targets groups hostile to reform and insider capture of subsidy streams has undermined major reforms.

#### *The Tunisian Subsidy System: A Brief Overview*

Like most other MENA countries, Tunisia entertains an extensive system of food and energy subsidies. Regarding food products, price controls for basic food items, such as bread and sugar, were first introduced in June 1959 in an attempt to keep wages stable and secure the provision of affordable food to low-income groups.<sup>189</sup> To put the food subsidy system

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<sup>188</sup>Blatter and Buzzell 2013, 4-5.

<sup>189</sup>IMF 1962b, 7-8.

on a more solid financial basis, the Tunisian government created a special subsidy fund in May 1970, the *Caisse générale de compensation* (General Compensation Fund; CGC), which today subsidises four main groups of products: wheat and derivative products, such as flour, bread, pasta, and couscous; vegetable oils; milk; and sugar. In terms of their relative weight, wheat derivatives have since the 1980s represented the bulk of Tunisia's food subsidy bill, ranging between 50 and 75 per cent of the total.<sup>190</sup> At its inception, the CGC was deliberately designed as a mechanism of redistribution because it was financed through taxes on 'luxury goods,' such as alcohol.<sup>191</sup> In reality, the distributional effect of food subsidies has often been regressive as high-income groups over-proportionally consume subsidised goods.<sup>192</sup>

Whilst the technical details of the compensation system are complex, the CGC basically fixes prices of basic food items below the world market price and then compensates local producers for the difference between the local and the world market price.<sup>193</sup> In case local production is not sufficient to satisfy domestic demand, the CGC compensates for the import of either the final consumption good, such as sugar, or the import of inputs, such as wheat, which is then distributed to local producers. Though the importation of food products has been liberalised since the mid-1990s, the quasi-totality of these imports is made through public and para-statal institutions, such as the *Office des céréales* (Wheat office; OC) and the *Office du commerce de Tunisie* (Tunisian Office of Commerce; OCT), which controls all sugar imports into Tunisia. Para-statal organisations are also involved in the local collection and distribution of subsidised goods. It is important to note that, with the exception of sugar, food items are in principle only subsidised if they are destined for final consumption. However, substantial leakages occur along the production and distribution chain as producers and sellers divert subsidies toward non-subsidised products

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<sup>190</sup> CRES 2013, 12.

<sup>191</sup> Khaldi 1995, 346.

<sup>192</sup> World Bank 2012a, 45; and IMF 2014, 91.

<sup>193</sup> For a good overview, see World Bank 2006b.

or sell them on the black market.<sup>194</sup>

In terms of their financial weight in the budget, food subsidies have between 1970 and 2010 amounted to 2 per cent of Tunisia's GDP, or 6.3 per cent of the country's budget, on average. This broadly represents Tunisia's total outlays for health care in the same period. However, as Tunisia has never been self-sufficient and has had to rely to a large extent on food imports from the international market, outlays for food subsidies have exhibited considerable fluctuations (see Figure 5.1), reflecting the volatility in international food prices. At moments of rapid food price inflation, the subsidy bill can easily double within a short period of time, which makes the budget highly vulnerable to the vagaries of the international market. It should also be noted that the CGC has been running deficits since 1974 because the earmarked taxes on 'luxury' goods have not proved sufficient to finance Tunisia's food subsidy bill<sup>195</sup> – despite the introduction of new 'luxury' taxes. An important part of the subsidy bill has therefore been financed through the general budget.

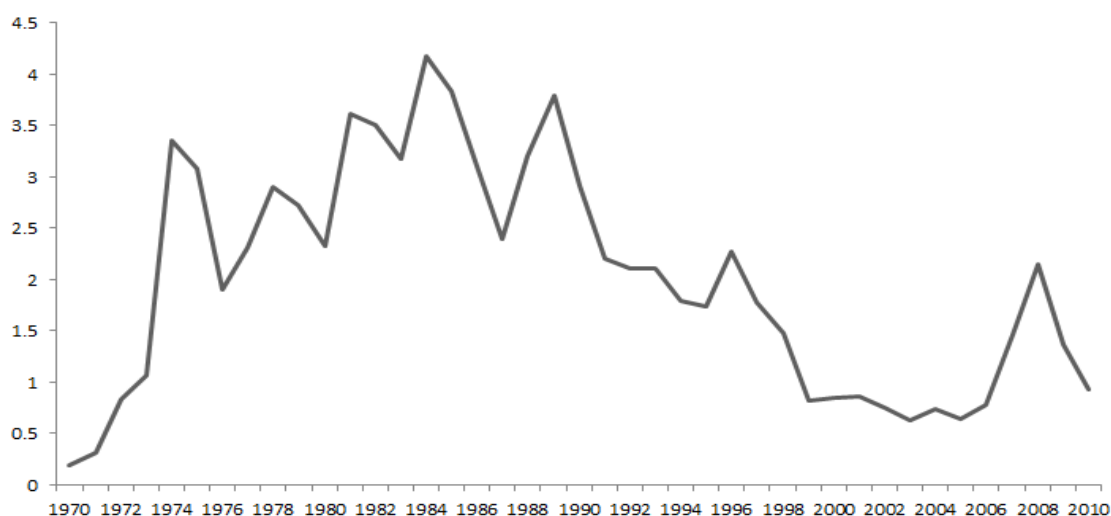


Figure 5.1: Expenditures for Food Subsidies as % of GDP, 1970-2010  
Source: Adaab and Elloumi 1997; and Banque Centrale de Tunisie 2015.

In addition to food subsidies, Tunisia has also established a system of extensive energy subsidies in the form of cheap electricity, gas, and petrol. Since the state has acted as a

<sup>194</sup>IMF 1997, 31.

<sup>195</sup>Ben Dhiab 1982, 590.

quasi-monopolist in the production and provision of energy, energy subsidies take the form of a monopolist price setting by the state, with prices generously below the level of the world market. In contrast to food subsidies, however, Tunisia was a net energy exporter from the early 1970s until the late 1990s and was able to provide cheap energy from its own domestic resources in this period. With falling production levels and increasing consumption, the country has turned into a net importer of energy in the late 1990s, having to import about 17 per cent of its energy needs between 2000 and 2010.<sup>196</sup> Coupled with a general increase in world energy prices during the 2000s, the Tunisian government has had to spend an increasing amount on the subsidisation of energy, amounting to about 1 per cent of GDP between 2004 and 2010 (see Figure 5.2). In response, the authorities introduced an automatic indexing mechanism of local energy prices on the world market price in 2009,<sup>197</sup> which was repealed shortly after the uprisings in 2011. Similar to food subsidies, energy subsidies are primarily regressive in terms of their distributional impact, with the bulk of subsidies being reaped by high-income households and energy-intensive industries.<sup>198</sup>

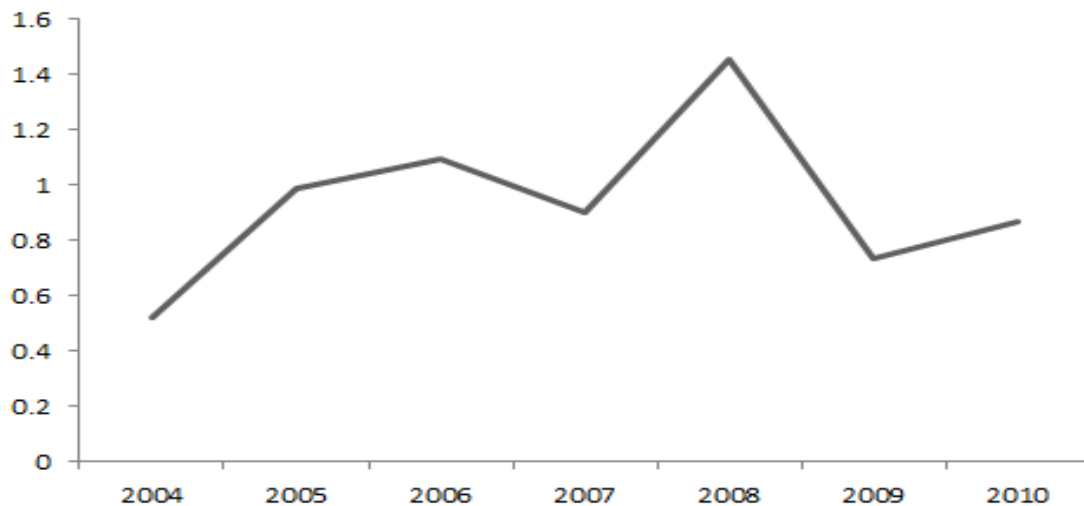


Figure 5.2: Expenditures for Energy Subsidies as % of GDP, 2004-10  
Source: Republic of Tunisia 2013.

<sup>196</sup>World Bank 2012b.

<sup>197</sup>Fattouh and El-Katiri 2012, 20.

<sup>198</sup>IMF 2014, 18; and Blatter and Buzzell 2013.



In comparison with other social policies, the subsidisation of food and energy has been the most problematic of all. First, while food and energy subsidies have used up a considerable part of Tunisia's resources, their distributional impact has been regressive as better-off citizens disproportionately benefit from the system. Second, having to rely on the world market to satisfy the local demand for cheap food and energy, subsidy expenditures have proven to be highly volatile and put considerable pressure on fiscal resources during periods of rapid price inflation. Yet, reforming the system has proven politically risky due to resistance of intended and unintended beneficiaries. Let us look at both groups in turn.

*The Told Story: Mobilised Beneficiaries*

Similar to other countries,<sup>199</sup> food riots in response to subsidy cuts forced the Tunisian government to repeal the measures and, by setting a historical precedent, have left an enduring political legacy that has complicated further attempts of reform. The Tunisian episode of food riots lasted from December 1983 until January 1984. Representing 'the worst violence since independence',<sup>200</sup> protests left about 100 people dead and caused considerable devastation as a result of rioting and plundering.<sup>201</sup> The background of the protests were government measures announced in mid-December 1983 to increase the prices of subsidised goods. In view of rapid price hikes on the international market, subsidisation had become very costly in the early 1980s, representing over four per cent of GDP (see Figure 5.1). As a result, the government was looking for a way to alleviate the costs incurred from the subsidy bill. Initially, the cabinet envisaged to gradually increase prices over a period of ten years in order to reach parity with world market prices by the early 1990s. At this point, the CGC was supposed to be abolished.<sup>202</sup> Yet, according to Mohamed Ennaceur, who was Minister of Social Affairs at the time,<sup>203</sup> adjustment

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<sup>199</sup>Walton and Seddon 1994.

<sup>200</sup>World Bank 1996, 28.

<sup>201</sup>ibid., 28.

<sup>202</sup>Moalla 2011, 380.

<sup>203</sup>Personal interview, Tunis, 21 May 2013.

measures were sped up under the pressure of Prime Minister Mohamed Mzali, who sought to impress President Bourguiba by demonstrating his ability to achieve rapid and effective reforms.<sup>204</sup> Thus, the price increases announced in December 1983 were considerably larger than initially envisaged, on average between 70 and 90 per cent.<sup>205</sup> For bread, prices more than doubled.<sup>206</sup> In haste, the government also committed the mistake to launch the compensation measures consisting of wage increases and targeted social transfers *after* the implementation of the price increases,<sup>207</sup> and there was no clear communication strategy to prepare the public.<sup>208</sup>

Shortly after the measures were announced, riots erupted in poor neighbourhoods of Southern Tunisia and rapidly spilled over to the country's industrial centres of Sfax, Gafsa, and the capital, Tunis.<sup>209</sup> It is important to note that these riots generally had a spontaneous character and were driven by what could be called labour market outsiders living in the poor urban quarters: small shopkeepers, seasonal workers, students, and young unemployed teenagers.<sup>210</sup> The latter group in particular resented the measure as they almost exclusively relied on food subsidies.<sup>211</sup> In view of the public discontent, Bourguiba first announced to reduce the price increase by 50 per cent, before scrapping the measure entirely a few days later. Importantly, this episode left a profound mark in the regime's collective memory which has made it difficult to tackle subsidies ever since. For example, Monceur Rouissi, former minister and personal advisor to President Ben Ali, described the subsidy issue as a 'nightmare for all successive governments, too sensitive to be reformed.'<sup>212</sup> Recently declassified IMF documents also reveal the impact of food riots on the government. Therein, the government justifies its hesitation with regard to social policies

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<sup>204</sup>Note that this occurred against the backdrop of a looming succession to Bourguiba.

<sup>205</sup>Kraïem 2011, 441.

<sup>206</sup>Bechri and Naccache 2003, 30.

<sup>207</sup>ibid., 30.

<sup>208</sup>Blatter and Buzzell 2013, 16.

<sup>209</sup>World Bank 1996, 28.

<sup>210</sup>ibid., 28.

<sup>211</sup>Kraïem 2011, 441.

<sup>212</sup>Personal interview, Tunis, 22 May 2013.

by their ‘marked social sensitivity [that was] now apparent.’<sup>213</sup>

Remarkably, having negotiated a substantial wage increase for its members in compensation for subsidy cuts, the UGTT had remained on the sideline during the food riots. This does not mean, though, that the union would be a neutral actor in future attempts to reform. On the contrary, following the riots, the union immediately tightened its stance vis-à-vis future price increases. In August 1984, it called upon the government to ‘stop its policy of price liberalisation and impose stricter control on prices.’<sup>214</sup> In a similar vein, the former deputy SG of the UGTT, Ali Ben Romdhane, stated in a personal interview with the author that the subsidy system was a ‘red line’ that the government should not attempt to cross.<sup>215</sup> The former head of the employers association, Hédi Jilani, also highlights the UGTT’s role as a veto player. When asked whether any government would ever attempt to abolish the CGC, he replied: ‘Never! The UGTT is adamant to keep it and constantly lobbies for its maintenance. Also, there would be riots across the country. No government would ever dare do that.’<sup>216</sup>

Taken together, the legacy of violent unrest instigated by Tunisia’s urban poor, coupled with a strong labour union ready to defend the subsidy system, have represented serious impediments for successive governments to carry out comprehensive reform. By consequence, changes to the existing system – such as the introduction of a self-targeting system<sup>217</sup> – have been discrete and left the fundamental architecture of the system intact.

### *The Untold Story: Unintended Beneficiaries and Political Connections*

Yet the subsidy system has not only persisted because successive governments have feared the ire of ordinary citizens. Subsidies have also come to benefit a number of politically well-connected entrepreneurs, who have turned into an influential lobby in favour of the current

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<sup>213</sup>IMF 1987a, 30.

<sup>214</sup>Réalités 1984.

<sup>215</sup>Personal interview, Tunis, 2 May 2013.

<sup>216</sup>Personal interview, Tunis, 13 June 2013.

<sup>217</sup>World Bank 1996.

system. To understand this point, it is important to briefly explain how manufacturers and merchants benefit from the system in place.

Regarding energy, it is first and foremost the energy-intensive sectors that reap an important part of the energy subsidies. These include, on the one hand, energy-intensive manufacturing sectors, such as cement, textiles, and chemical products. On the other hand, energy subsidies disproportionately benefit companies in the transport and logistics sector, which heavily rely on subsidised fuel.<sup>218</sup> As regards food subsidies, two mechanisms make the system particularly profitable for insider firms. First, the food subsidy market is highly regulated and companies wanting to operate in the sector have to apply for government licences.<sup>219</sup> Whilst obtaining such a licence is difficult and generally requires political connections,<sup>220</sup> once companies have made it into the market, they face relatively little domestic competition as Tunisian authorities have been quite restrictive about access and international competitors are disadvantaged as a result of Tunisia's high tariffs on food imports. The low number of operating companies is testament to this restrictive access policy: 28 flour mills, 13 vegetable oil refineries, 10 milk factories, 9 pasta factories, 3 couscous factories, and 2 sugar factories operated in 2014 in a country of 11 million people.<sup>221</sup> The licensing policy also applies to service providers along the distribution chain, such as the collectors of wheat.

Second, and related to the first point, companies operating in a subsidy-related sector have a guaranteed profit based on the allocated government quotas. In fact, firms have no pressure to operate cost-effective as the government pays the producers a fixed profit margin above the unit cost. Mark-ups are generally given out rather generously and profit margins in the region of 15 per cent are not uncommon.<sup>222</sup> Regarding the sugar sector, the business sector also benefits from the subsidisation of sugar as an input, which means

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<sup>218</sup>Blatter and Buzzell 2013, 29.

<sup>219</sup>The following description is based on World Bank 2006b; World Bank 1996; and IMF 1997.

<sup>220</sup>Personal interview with Maher Kallel, Tunis, 18 June 2013. Kallel is a board member of the Poulina Group, one of Tunisia's biggest conglomerates with various subsidiaries in the food industry.

<sup>221</sup>APII 2014.

<sup>222</sup>World Bank 1996, 5-6.

that biscuit, chocolate, and soft drink manufacturers receive one of their main ingredients at a rate subsidised by the Treasury. According to a business insider, about 80 per cent of all sugar is used for industrial purposes, not for final consumption.<sup>223</sup> Again, the number of firms operating in the sector is relatively low, comprising 12 biscuit and 7 chocolate factories.<sup>224</sup>

Regarding the political clout of these business actors, it is difficult to exactly gauge and document their influence. Unlike the lobbying of the UGTT which frequently involves communication with their members and the public at large, business lobbying operates exclusively behind close doors. Actors privy to the government-business interaction confirm, however, that companies indeed have significant lobbying potential. According to Moncer Rouissi, who was, amongst others, member of the ruling party's Central Committee from 2003 until its dissolution in March 2011, business actors are 'an important lobby, difficult to keep in check.'<sup>225</sup> Maher Kallel portrays the subsidy-related sectors as 'being pervaded by businessmen with strong connections to the centre of power.'<sup>226</sup> While this anecdotal evidence provides preliminary support, my case would be considerably strengthened if I could demonstrate that actors with *well-known* political connections were more likely to operate in the subsidy sector. If true, this could be interpreted as implicit evidence for their interest in the subsidy system and, by extension, its continuation. And, indeed, both qualitative and quantitative evidence supports this claim.

*Qualitative Evidence* Table 5.2 summarises the activities of politically connected businessmen in sectors related to food subsidies before the ouster of President Ben Ali in January 2011. To identify actors with political connections to the regime, I used three different sources: internal documents of the market research company German Trade In-

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<sup>223</sup>Personal interview with Maher Kallel, Tunis, 18 June 2013.

<sup>224</sup>APII 2014.

<sup>225</sup>Personal interview, Tunis, 22 May 2013.

<sup>226</sup>Personal interview, Tunis, 18 June 2013.

vestment;<sup>227</sup> an internal report of the German-Tunisian Chamber of Commerce;<sup>228</sup> and the reports published by the Tunisian Ministry of Finance on confiscated companies after the Tunisian Revolution.<sup>229</sup> Company-related information is taken from the Orbis database.<sup>230</sup> In combination, these sources yield a rather complete picture of the extensive networks that existed between certain businessmen and the Presidential palace. The documents also reveal the different ways in which entrepreneurs established connections to the regime: Kinship relations by virtue of being part of the presidential families, Ben Ali and Trabelsi, or established through intermarriage played an important role. Other actors co-invested with the presidential family and made their inroads into the political centre of power as business associates. Finally, membership in the ruling party's influential Central Committee represented a third route through which political connections were established.

Actor	Company	Type of Political Connection	Sector
Sofiane Ben Ali	Fermes laitières	Kin: Ruling family	Milk
Belhassen Trabelsi	Ste UTIQUE pour la promotion agricole Al Baraka; Tunisie Sucre	Kin: Family of Leila Ben Ali, Ben Ali's second wife; part of ruling family	Milk and sugar
Ben Jemaa family	Elbene industrie; Ste régionale des industries laitieres; Ste tunisienne d'engrais chimiques	Party: Late Mohamed Ben Jemaa was member of the RCD Central Committee	Milk, sweets, and wheat collection

<sup>227</sup>German Trade Invest 2011.

<sup>228</sup>German-Tunisian Chamber of Commerce 2011.

<sup>229</sup>Republic of Tunisia 2015.

<sup>230</sup>Bureau van Dijk 2013.

### *Mechanisms of Path Dependence*

Hamdi Medded	Centrale laitiere de Cap Bon; Centrale laitiere du Nord SA; Centrale laitiere Sidi Bouzid, subsidiaries of Delice SA; Ste tunisienne des industries alimentaires; Ste des boissons du cap bon SA, subsidiary of Delice SA	Associate: Business partner of Sakher Materi, son-in-law of President Ben Ali	Milk and soft drinks
Ben Ayed family	Med Oil Company; Ste des industries alimentaires et meunieres SIAM II; Générale industrielle des produits alimentaires GIPA SA	Party: Abelwahab Ben Ayed, CEO of the Poulina group, was member of the RCD Central Committee	Vegetable oil, flour, couscous, pasta, and sweets
Boujbel family	Ste des huiles Borges Tunisie SA	Associate: Business partners of Trabelsi family	Vegetable oil
Hachicha family	Ste Cristal-Tunisie; Ste meuniere tunisienne	Associate: Business partners of Maroune Mabrouk, Ben Ali's former son-in-law	Vegetable oil, flour, couscous, and pasta
Imed Trabelsi	Agrimed	Kin: Family of Leila Ben Ali, Ben Ali's second wife; part of ruling family	Vegetable oil

*Mechanisms of Path Dependence*

Taoufik Chaibi	Les Grands Moulins de Gabes, subsidiary of UTIC group; Biscuiterie Méditerranéenne, subsidiary of UTIC	Kin: Uncle of Slim Zarrouk, husband of one of Leila Ben Ali's relatives	Flour, couscous, pasta and sweets
Moncef Mzabi	Ste minoterie de la Soukra	Associate and party: Business partner of Sakher Materi, son-in-law of President Ben Ali; Mzabi was also member of the RCD Central Committee	Flour, couscous, and pasta
Ben Ghorbal family	Compagnie africaine des pates alimentaires	Associate: Business partner of Sakher Materi, son-in-law of President Ben Ali	Flour, couscous, and pasta
Marouane Mabrouk	Ste tunisienne de biscuiterie, Ste tunisienne de chocolaterie et de confiserie SA, Ste Sotuchoc	Kin: Ben Ali's former son-in-law, ex-husband of Cyrine Ben Ali	Sweets
Ben Yedder family	Grande fabrique de confiserie orientale, subsidiary of Amen group	Associate and party: Business partners of Ben Ali and Trabelsi family; Rachid Ben Yedder was also member of the RCD Central Committee	Sweets



Ben Gaied family	Société de produits	Kin: Mehdi Ben Ghaid is	Sweets
	industriels de	Ben Ali's son in law, married	
	pâtisserie et	to Halima Ben Ali	
	alimentaires)		

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Table 5.2: Politically Connected Actors in Sectors Related to Food Subsidies

Source: Politically connected actors are identified based on German Trade Invest, 2011; German-Tunisian Chamber of Commerce, 2011; and Republic of Tunisia, 2015. Business information is taken from Bureau van Dijk, 2013 and online research.

Regarding their activity in subsidy-related sectors, their presence can be described as pervasive. In the milk sector, eight out of ten milk factories in the country were in the hand of business cronies with political connections. Hamdi Medded, for example, was a major business partner of Ben Ali's son-in-law, Sakher El Materi, and shareholder in his Zitouna Bank. He had also jointly purchased 25 per cent of Tunisia's mobile phone provider Tunisiana with El Materi. Similarly, five of the thirteen refineries producing vegetable oil were in the hands of politically connected entrepreneurs. The sector is particularly interesting as all three types of connections are present: The Ben Ayed family was represented by Abdelwahab Ben Ayed in the RCD's central committee; the Boujbel and Hachicha families were important business partners of the Trabelsi family; and Imed Trabelsi was Ben Ali's next of kin. In the sugar sector, Belhassen Trabelsi, brother of Ben Ali's wife, Leila, obtained the permission to build Tunisia's second only sugar factory, which effectively undermined the state's monopoly of sugar production. And sugar as a subsidised input also benefited businesses in the sweets sector, the majority of which was in the hands of connected businessmen.

The picture is similar as regards energy subsidies. Following UNIDO's classification of energy-intensive industries,<sup>231</sup> I was able to identify nine crony actors in energy-intensive sectors. A number of them, such as Hédi Jilani and Maroune Mabrouk, operated in

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<sup>231</sup> UNIDO 2010.

Tunisia's long-standing textile sector. Another particularly telling example is the Carthago cement factory established by Belhassen Trabelsi. Not only did Trabelsi acquire the land for his factory for a ludicrously cheap amount, he also had 15 kilometres of railway built straight to his factory – at the expense of the public Treasury.<sup>232</sup> 'The family' was also active in Tunisia's transport and logistic sector, running, amongst others, a private airline and a water carriage company. On the whole, it appears that politically connected actors had a solid grip on sectors benefiting from Tunisia's food and energy subsidy system.

Actor	Company	Type of Political Connection	Sector
Taoufik Chaibi	Cartonnerie Tunisie, Ste tunisienne des emballages modernes SA, subsidiaries of UTIC group	Kin: Uncle of Slim Zarrouk, husband of one of Leila Ben Ali's relatives	Paper
Moez Trabelsi	Confection moderne	Kin: Family of Leila Ben Ali, Ben Ali's second wife, ruling family	Textiles
Hédi Jilani	Groupe Hédi Jilani	Kin and party: Father of Zohra Jilani, married to Belhassen Trabelsi; Jilani was also member of the RCD Central Committee	Textiles
Marouane Mabrouk	Tuntex	Kin: Ben Ali's former son-in-law, ex-husband of Cyrine Ben Ali	Textiles

<sup>232</sup>Jeune Afrique 2012.

### *Mechanisms of Path Dependence*

Moncef El Materi	Adwya	Kin: Two sons of Moncef El Materi married daughters of Ben Ali	Chemical products
Belhassen Trabelsi	Carthago Cement Company	Kin: Family of Leila Ben Ali, Ben Ali's second wife, ruling family	Cement
Mourad Trabelsi	Med Sea	Kin: Family of Leila Ben Ali, Ben Ali's second wife, ruling family	Transport and logistics
Imed Trabelsi	Med Business Holding	Kin: Family of Leila Ben Ali, Ben Ali's second wife, ruling family	Transport and logistics
Slim Zarrouk	Opat, Ste MAS	Kin: Husband of one of Leila Ben Ali's relatives	Transport and logistics

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Table 5.3: Politically Connected Actors in Energy-intensive Sectors

Source: Politically connected actors are identified based on German Trade Invest, 2011; German-Tunisian Chamber of Commerce, 2011; and Republic of Tunisia, 2015. Business information is taken from Bureau van Dijk, 2013 and online research. Classification of energy-intensive industries taken from UNIDO, 2010.

*Quantitative Evidence* To test the robustness of the link between subsidies and crony activity, I also run a number of simple logistic regressions. This is to ascertain that cronies were indeed over-represented in subsidy-related sectors as opposed to other sectors of the economy and that their presence in these sectors was not due to an unobserved confounder, such as high tariff rates. The dependent variable, *Crony Activity*, measures whether a politically connected actor is present in a given sector of the Tunisian economy. The binary variable is taken from a new dataset on crony activity in pre-revolutionary Tunisia by Eibl

and Malik,<sup>233</sup> which measures crony activity in all manufacturing sectors based on the above-mentioned sources. The level of aggregation is the 4-digit level of the UNCTAD ISIC 3.1 classification and thus relatively detailed, distinguishing 168 manufacturing sectors. The variable is time-invariant and codes the presence of cronies for the last decade under President Ben Ali. To capture the effect of energy subsidies, I use a binary variable, *Low intensity*, which takes the value of 1 if energy intensity in a sector is low, and 0 otherwise. The classification of sectors by energy intensity is provided by UNIDO.<sup>234</sup> With regard to food subsidies, I use two dummy variables. The first one, *Direct food*, measures whether a sector is directly involved in the provision of subsidised food items. The second variable, *All food*, includes all sectors in the previous variable plus those sectors that benefit from subsidised food inputs.<sup>235</sup>

To control for potential confounders, I include a couple of control variables.<sup>236</sup> *Tariff average*, taken from the WITS database,<sup>237</sup> measures the average most-favoured nation tariff in a given sector in the last decade of Ben Ali. The variable captures the level of protection of a sector from international competition. *Imports* indicates the value of total imports in current US\$ as import penetration might also deter cronies from entering. The variable is taken from UNIDO's Indstat database.<sup>238</sup> Both variables are available for the years of 2003, 2004, 2005, and 2008. The model is a pooled cross-sectional logistic regression with standard errors clustered at the 4-digit sector level.

The results presented in Table 5.4 confirm the impression gained from the qualitative evidence that Tunisian crony capitalists have made considerable inroads into subsidy-related sectors. In view of columns 1-3, it appears that cronies are significantly more likely to be present in sectors with medium-high energy intensity; sectors involved in the subsidy

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<sup>233</sup>Eibl and Malik 2015.

<sup>234</sup>UNIDO 2010.

<sup>235</sup>A summary of these sectors is available in the Appendix D.

<sup>236</sup>The number of available control variables is limited by the scarcity of data at the sectoral level. The results should thus been viewed as merely descriptive of an empirical pattern.

<sup>237</sup>World Bank 2013.

<sup>238</sup>UNIDO 2013.

production; and sectors that additionally benefit from subsidised inputs. The finding remains robust when controlling simultaneously for energy intensity and food subsidies, as shown in the full model in column 4. To illustrate the strength of the subsidy effect on cronies, Figure 5.3 presents the predicted probability of crony presence by energy intensity and a sector's involvement in food subsidies. Notably, the average probability of cronies to be present in sectors with medium-high energy intensity is about ten times higher than for low-intensity sectors. As for food subsidies, the average probability of crony presence nearly doubles when a sector is related to food subsidies. In combination, these findings present strong evidence that politically connected actors do indeed reap substantial benefits from the Tunisian subsidy system and, by extension, have a solid interest in its continuation.

Table 5.4: Crony Presence and Subsidies

	(1)	(2)	(3)	(4)
Low intensity	-3.370*** (0.517)			-3.373*** (0.522)
Direct food		1.491** (0.683)		
All food			1.491** (0.683)	1.317* (0.732)
Tariff average	0.0148 (0.0137)	0.0207 (0.0203)	0.0207 (0.0203)	0.00289 (0.0158)
Imports (log)	0.332** (0.168)	0.0615 (0.125)	0.0615 (0.125)	0.371** (0.180)
<i>N</i>	172	172	172	172

Logit model with robust standard errors in parentheses; constant omitted.

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

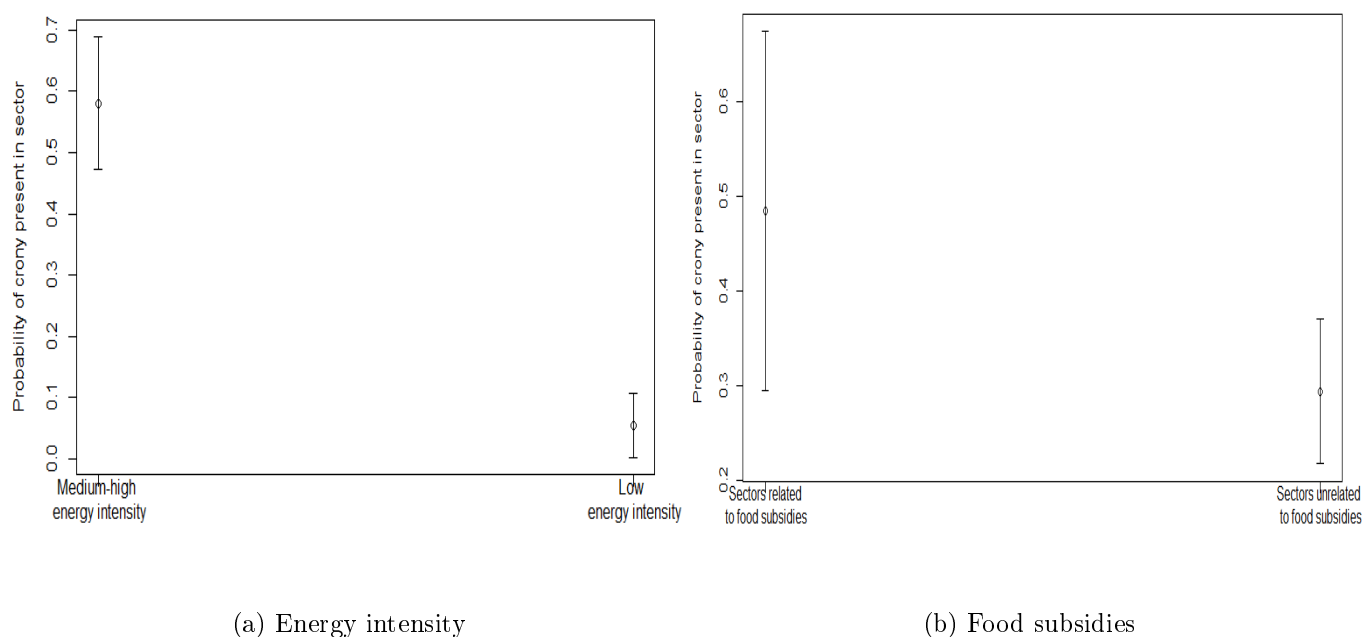


Figure 5.3: Effect of Energy Intensity and Food Subsidies on Probability of Crony Presence  
*Note:* Whiskers indicate 95-percent confidence bounds. Marginal effects based on the full model presented in column 4 of Table 5.4. All variables were set to their observed values.

## Summary

This section has demonstrated the mechanisms of path dependence that have kept the Tunisian welfare state on its post-independence trajectory. They have involved a number of different actors (see Figure 5.4). On the one hand, we have seen the beneficiaries of social policies rallying against government attempts to cut spending, as in the case of the 1970s student protests, or attempts of structural reform which would have affected the level of welfare provision, as in the case of the 2004 health insurance reform. These pro-welfare constituencies were partly a product of the Tunisian welfare trajectory itself, which validates the claim made elsewhere that welfare states indeed create their own constituencies.<sup>239</sup> This partly applies to the student protests and, most certainly, to the teachers union lobbying for an upgrade of low-level teaching staff. Regarding labour more

<sup>239</sup>Pierson 1994.

specifically, I have been able to show that the UGTT was not only the key actor in the foundation of Tunisia's authoritarian welfare state, but has also represented an important veto player against spending cuts and structural reforms. In this respect, the union could capitalise on early advantages gained from its privileged position in the political system, as well as its far-reaching network into the state apparatus.

On the other hand, mechanisms of path dependence have also involved unintended beneficiaries, more specifically well-connected businessmen who came to tap into resource streams generated by welfare provision. The presented evidence suggests that some of Tunisia's most powerful entrepreneurs, including the presidential family themselves, benefited from the country's extensive subsidy system. And although it is more difficult to exactly document how these actors prevented divergence from the status quo, their access to decision-making coupled with their interest in the continuation of subsidies certainly made them a powerful lobby group.

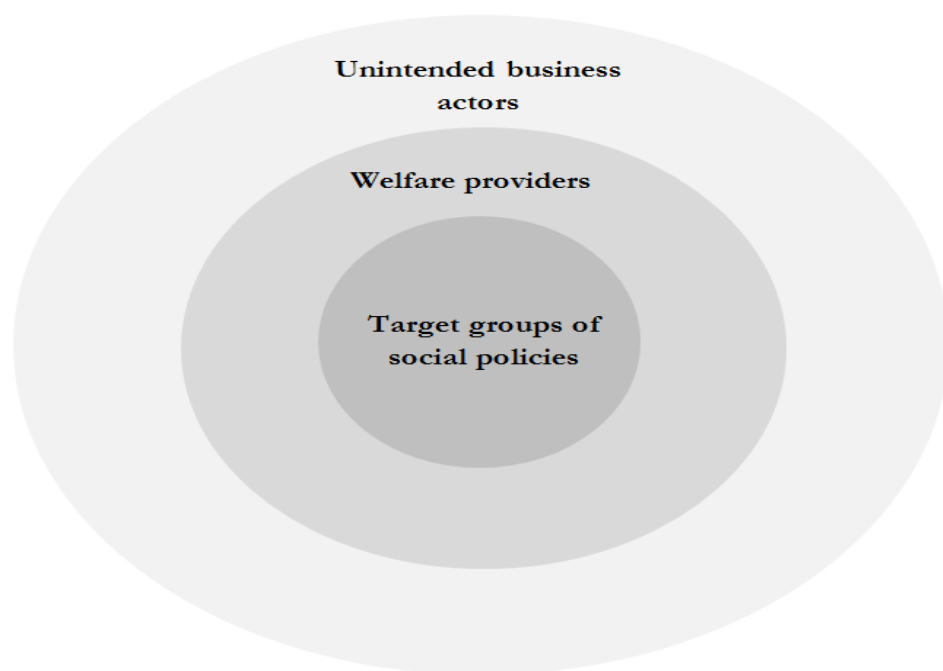


Figure 5.4: Welfare Constituencies

### III. CONCLUSION

This chapter pursued two goals. The first one was to give an analytic account of the foundation of the Tunisian welfare state by focussing specifically on the link between early elite conflict and welfare provision. In line with my theoretical claim, intra-elite conflict was indeed instrumental for Tunisia to embark on a path of extensive welfare provision. This conclusion rests on three key findings from my process tracing exercise: One, Bourguiba was not naturally inclined toward welfare provision and, as a result, would have preferred to form a regime coalition which economically would have leaned to the right of the political spectrum. Two, the conflict with his opponent Ben Youssef compelled him to look for an ally which he found in the Tunisian labour union. Three, the union could use this window of opportunity to get a solid foothold in power which it later used to expand welfare provision. Four, Bourguiba's unsuccessful attempts to renege on his commitments suggest that another outcome, less favourable for welfare provision, would have been the outcome had the leadership of Tunisia's ruling party remained cohesive on the eve of independence. Granted, Tunisia's labour union, the UGTT, maybe represents a special case of workers' capacity to organise in the Middle East. However, the foregoing analysis strongly suggests that they would not have been able to impose their programme without the window of opportunity provided by divided elites. In the broader explanatory logic of this thesis, these findings provide important insights into the causal mechanisms underpinning the observed covariation of early intra-elite conflict and welfare provision, and thus lend credibility to the overall argument.

The second goal of this chapter was to provide illustrative evidence of the causal mechanisms that underpin the marked path dependence of Tunisia's welfare trajectory. In this regard, my account highlights the ability of actors who have benefited from welfare provision to avert divergence. Their capacity for collective action, in turn, built on an accumulated advantages these groups had gained from early welfare state development. In the case of labour, the UGTT had preserved significant routes to access the centre of



political decision making, and its experience in the area of social policies and bargaining with the state gave it an advantage over other actors. This is particularly visible in the 2004 CNAM reform where the UGTT managed to outsource costs of the reform to private sector health care providers. My analysis has also demonstrated the importance of unintended beneficiaries who inadvertently came to benefit from social policies. Specifically, using both qualitative and quantitative evidence, I have shown that crony capitalist gained major stakes in the country's subsidy system and thus turned into an important gatekeeper standing in the way of reform. Taken together, both mechanisms underline a central tenet in the literature: welfare states indeed create their own, intended *and* unintended, constituencies.

# 6

## Egypt

This chapter analyses the origin's of Egypt's welfare trajectory and demonstrates the causes of its path dependence. The focus is on teasing out the causal mechanisms underlying the macro-level variation and, by the same token, examining the validity of the causal claims developed in this thesis. In many ways, this chapter represents a structured focused comparison<sup>1</sup> with the preceding Tunisia case study. Given that both regimes differ in a single causal factor – the presence of a severe external threat present in Egypt – I expect a specific pattern to emerge from this process tracing analysis.

On the one hand, like in Tunisia, the combination of intra-elite conflict in the absence of salient communal cleavages should prompt regime elites to broaden their coalition by providing social welfare. As most historical actors of this time period have passed away, I substantiate this causal mechanism relying on the memoirs of members of the initial ruling circle, which give us a unique insight into the motives of the regime-building elites. Demonstrating the ideological ambiguity of the ruling elite, in particular Nasser, I also rule out ideology as a pertinent explanation for the origins of Egypt's welfare regime.

On the other hand, in contrast to Tunisia, the nascent regime in Egypt emerged in a much more hostile geostrategic environment where threats to regime survival emanated both from within and outside the country. Following my argument, consequent changes

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<sup>1</sup>George and Bennett 2005; see also Slater and Ziblatt 2013.

in the regime's threat perception should undermine a sustained high welfare effort as the regime, in the absence of resource rents, needed to allocate considerable funds to national defence. Using primary and secondary sources, I show the shift in the regime elites' threat perception and, based on cabinet minutes from the National Archives, present a 'smoking gun' test<sup>2</sup> of the suggested trade-off between defence and welfare.

Finally, I provide evidence that the resulting social policies primarily relied on 'cheap' social policies, which are characterised by underfunding, the prominence of 'free' social policies, the use of windfalls, and a design which turns social policies into a source of funding. To do so, I rely on qualitative evidence, in part stemming from archival material, and a number of simple regressions that test observable implications of 'cheap' social policies.

Regarding mechanisms of path dependence, the following analysis highlights important similarities with Tunisia but also points to the effect of different welfare and regime formation legacies on processes of path dependence. While I find that welfare constituencies have successfully averted attempts at retrenchment, using the example of health care and subsidy reforms, they have lacked the political impetus to shift Egypt on a high-spending trajectory past the 1979 peace treaty with Israel. This lack of a path-changing peace dividend is also imputable to the legacies of war and a defence policy which has turned the Egyptian military into another important stakeholder, fighting for the preservation of its privileges. As in Tunisia, I further show the importance of unintended beneficiaries of social policies for explaining path dependence. Yet, again, legacies of Egypt's geostrategic environment have shaped the nature of unintended beneficiaries, with the army being one of the major beneficiaries.

The chapter proceeds as follows. Section 1 presents an analytic narrative of the origin of Egypt's welfare regime, demonstrating the causal effects of intra-elite conflict and external threat and the resulting 'cheap' social policies. Section 2 elucidates mechanisms of path

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<sup>2</sup>Van Evera 1997; and Mahoney and Goertz 2006.

dependence which have prevented major changes of welfare spending in either direction. Section 3 concludes the chapter.

## I. TOO MANY COMMITMENTS: THE ORIGIN OF EGYPT'S WELFARE REGIME

This section consists of three main parts. In the first part, I demonstrate the ideological ambiguity of the regime-building elites by pointing out their ideological diversity, the lack of a clear political programme, the reliance on a 'trial and error' strategy, and their scepticism toward left-wing policies which translated into markedly pro-business policies in the aftermath of the coup. In the second part, I process trace the link between intra-elite conflict and welfare spending, relying on a range of primary and secondary sources. In the third part, I focus on the effects of Egypt's strong external threats on welfare spending by showing how a change in the regime elites' threat perception lead to higher spending for national defence, which – as cabinet minutes reveal – was perceived by the regime as a trade-off between 'butter or guns.' I also provide qualitative and quantitative evidence suggesting that, to 'square the circle,' the regime predominantly relied on 'cheap' social policies.

### **The Free Officers' Ideological Ambiguity**

Much has been written about Nasser's role in shaping Egypt's political and socio-economic order after the July 1952 coup at the hand of the Free Officers Movement (FOM). His pivotal role has found expression in the term *Nasserism*,<sup>3</sup> which – akin to socialism, liberalism, or Marxism – suggests a coherent body of ideas inspiring a plan of action to transform and modernise society. Naturally, Nasserism should then provide the explanation for Egypt's particular welfare trajectory. While I do not question the tremendous importance of Nasser, I would submit that Nasserism, in a sense, *is* the Egyptian welfare

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<sup>3</sup>See, amongst others, Abdel-Fadil 1980; Craissati 1989; and Awad 1975.

trajectory and thus cannot sufficiently explain the nature of welfare distribution in Egypt. To support this claim, I highlight a number of elements that undermine an explanation based on ideology and ideas.

First, it is important to note that the FOM – comprising about 300 members before the coup<sup>4</sup> – was ideologically highly diverse. Its leadership, which later formed the Revolutionary Command Council (RCC) after the coup, comprised members of the Muslim Brotherhood, such as Abdel Moneim Adel Rauf and Rashad Mehanna,<sup>5</sup> the Communist organisation HADETO, such as Uthman Fawzi and Ahmad Hamrush,<sup>6</sup> Marxists, such as Khaled Mohi Eddin, and members of the right-wing nationalist Young Egypt Party.<sup>7</sup> Nasser himself had joined the Muslim Brotherhood but left in 1949 as a result of a growing divide between nationalists and Islamists.<sup>8</sup> Including ‘partisans of existing civilian parties and advocates of military rule, socialists and free traders, admirers of the West and violent anti-imperialist,’<sup>9</sup> the FOM was thus characterised by notorious ideological eclecticism, born out of the necessity to prevent rifts within the movement.<sup>10</sup>

Second, resulting from its ideological diversity and the precipitation in the run-up to the coup, the FOM lacked a clear political, let alone socio-economic, programme apart from the operational plans for the coup itself.<sup>11</sup> In fact, when Khaled Mohi Eddin drafted a programme for the movement in September 1951, Nasser was most reluctant. He particularly resented the formulation of nationalists demands in leftist, anti-imperialist terms which, in his view, might discredit the FOM in the eyes of the British and Americans and trigger a military intervention, should the FOM take power.<sup>12</sup> By consequence, the movement had rather minimalist objectives when it seized power in July 1952: ending the British military

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<sup>4</sup> Aclimandos 2001, 8

<sup>5</sup> Vatikiotis 1978, 85.

<sup>6</sup> Aclimandos 2004, 510.

<sup>7</sup> Perry 2004, 91.

<sup>8</sup> Aclimandos 2001, 7.

<sup>9</sup> Sadowski 1991, 55. See also Tignor 1992, 293.

<sup>10</sup> Kandil 2012b, 198; and Beattie 1994, 68.

<sup>11</sup> Bayat 2006, 135; Beinín and Lockman 1988, 437; and Waterbury 1983, 49.

<sup>12</sup> Aclimandos 2004, 653-54.

presence in the Suez canal zone; purging the bureaucracy and political parties, notably the ruling nationalist Wafd party, of corruption; removing the King's agents from within the military; and implementing a land reform which would cut back the political power of the rural notability, which was rightly viewed as an impediment to development.<sup>13</sup> Having achieved these goals, the plan was, according to RCC member Kamal Eddin Hussein, to return to the barracks and allow parliamentary politics to resume.<sup>14</sup> On balance, the FOM was certainly guided by a desire for full national independence and modernisation,<sup>15</sup> yet there was no plan to carry out a transformative, welfarist socio-economic programme.<sup>16</sup>

Third, and related to the former, in the aftermath of the coup the RCC acted mostly based on the principle of 'trial and error.'<sup>17</sup> This is best summarised by Nasser himself who, in 1962, declared that in the first ten years they had followed a practice predominantly based on experimentation.<sup>18</sup> Similarly, Nasser admitted that the Free Officers had 'extracted [their] ideologies from the details of the events [they] passed through.'<sup>19</sup> Their adaptability is visible, for instance, in their attitude toward the monarchy the abolition of which they only pursued once they sensed the popularity of the measure.<sup>20</sup> Likewise, Nasser is reported to have offered the government to the Wafd party and restore pre-coup parliamentary life if they accepted land reform and removed certain politicians.<sup>21</sup> It is thus important to understand that post-coup politics opened the door up wide to strategic political interaction and tactical alliances, priming over ideology.

Fourth, Nasser and the RCC more generally were, at least initially, highly sceptical of left-wing ideologies and, as a result, their economic policies were largely pro-business, underpinned by a certain apprehension of organised labour. Regarding their scepticism to

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<sup>13</sup> Aclimandos 2004, 509, 700, 1054; and R. Stephens 1971, 118.

<sup>14</sup> Cited in Jawhar 1975, 14.

<sup>15</sup> Rodinson 1968, 87.

<sup>16</sup> Kandil 2012b, 281.

<sup>17</sup> Ramadan 1975, 80; and Vatikiotis 1978, 126.

<sup>18</sup> Cited in Aclimandos 2004, 1275.

<sup>19</sup> Cited in Be'eri 1970, 392.

<sup>20</sup> Aclimandos 2004, 835.

<sup>21</sup> R. Stephens 1971, 118. See also Aclimandos 2004, 1001.

leftist ideas, it is important to note that the concept of socialism did not feature at all in the early documents published by the Free Officers after the coup, such as Nasser's *Philosophy of the Revolution* or Sadat's *Revolt on the Nile*.<sup>22</sup> Only by 1958, the regime began to appropriate the notion of socialism to legitimise its policies.<sup>23</sup> Nasser only gradually came to perceive himself as leftist while his initial stance is probably best described as nationalist.<sup>24</sup>

In economic matters, the RCC adopted a liberal, pro-business strategy following the coup. As RCC member and Minister of National Guidance, Gamal Salem, put it: 'We are not Socialists. I think our economy can only prosper under free enterprise.'<sup>25</sup> Accordingly, the nascent regime adopted a number of measures to bolster private sector investment: repealing a law restricting foreign ownership of Egyptian companies to 49 per cent; lowering business taxes and exempting foreign companies from business and export taxes; rescheduling business debts; raising tariffs; and declaring a general amnesty for all tax evasion committed since 1947 if the capital were repatriated.<sup>26</sup> Egyptian industrialists were also encouraged to advise the government in the newly founded National Development Council.<sup>27</sup>

These policies were backed by influential actors in government and the RCC, such as Sayyid Marci, Minister of Agriculture, or RCC member Abdel Moneim Amin, who supervised the Ministry of Social Affairs. In their view, Egypt should follow the route of economically conservative developmentalism allowing for rapid industrialisation based on a cheap workforce. Organised labour was not to play a major role in this strategy. In fact, the repression of left-wing labour unions was deemed an essential part of this strategy. A strike of textile workers in August 1952 was violently repressed and two of its ringleaders executed. In a similar vein, Sayyid Marci argued that agricultural workers should not

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<sup>22</sup>Nasser 1956; and El Sadat 1957.

<sup>23</sup>Lenczowski 1966, 36. See also Nordlinger 1977, 188.

<sup>24</sup>Beattie 1994, 159; and Bayat 2006, 143-44.

<sup>25</sup>Quoted in O'Brien 1966, 68.

<sup>26</sup>Aclimandos 2004, 1286; Posusney 1997, 42-43; S. Cook 2012, 45; and Owen and Şevket 1998, 128-29.

<sup>27</sup>Sabhi 2002, 152.

be given the right to join unions.<sup>28</sup> And Amin openly advocated the establishment of a 'industrial' dictatorship supervised by the military.<sup>29</sup> The draft labour law, which was prepared under his supervision, echoed this stance by outlawing any right to strike and facilitating lay-offs. In this form, the draft law was agreed on in a joint session of the cabinet and the RCC in March 1953. Nasser had voted in favour, with only one dissenting voice from Khaled Mohi Eddin. When the latter threatened to resign from the RCC, Nasser gave in and the law was amended to forbid arbitrary dismissals because of union activity.<sup>30</sup> Unlikely to have been motivated by the workers' cause, the primary reason for Nasser's about-face was to avoid splits within the RCC. Unsurprisingly, being courted by accommodating economic policies, the initial response of capitalists to the coup was positive, albeit cautious, welcoming the tight control over labour and the sidelining of the land-owning notability.<sup>31</sup>

These liberal economic policies after the coup represented more than a policy orientation. Rather, they should be viewed as a first attempt at coalition formation. By distributing favours to industrial capitalists and sectors of the old bourgeoisie, it seems that Nasser sought to enlist the backing of capital and transform them into an important pillar of his nascent regime.<sup>32</sup> Industrialisation, not extensive welfarism thus were the primary goals of the RCC as they seized power.<sup>33</sup> The September 1952 land reform, which is often used as evidence for a latent left-wing position of the RCC, does not alter this assessment. On the one hand, the adopted reform was very modest compared to previous proposals and the RCC had originally favoured the taxation of land in lieu of redistribution.<sup>34</sup> On the other hand, the amount of arable land redistributed was very modest,

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<sup>28</sup>Beinin 1989, 79.

<sup>29</sup>As recorded in Mohi El Din, 1995, 139-40.

<sup>30</sup>This episode is reported in two autobiographies of RCC members: Hamrush 1983, 151; and Mohi El Din 1995, 139-42.

<sup>31</sup>Kandil 2012b, 195.

<sup>32</sup>Craissati 1989, 60. See also Tignor 1992.

<sup>33</sup>Wahba 1994, 76.

<sup>34</sup>Sabhi 2002, 149; and Ramadan 1976, 16-17.



with estimates ranging between 8.5 and 12.5 per cent.<sup>35</sup> Finally, the implementation of the law was such that proprietors were given various possibilities to evade redistribution, for instance, by selling off land to family members.<sup>36</sup> The reform's main goal was thus political, i.e. to eliminate the landed aristocracy – whose opposition the RCC was certain of – as a powerful political actor in Egypt.<sup>37</sup> With ideology as a doubtful cause of Egypt's welfare trajectory, strategic interaction and elite factionalism provide a more pertinent explanation as we will see in the following.

### **In Search for a Constituency: Intra-Elite Conflict, Coalition Building, and Welfare Provision**

To understand the critical importance of intra-elite conflict for Nasser's decision to build a lower-middle cross-class coalition and the role of welfare provision in this process, it is important to recall the circumstances of the split that disunited the RCC following the coup. The conflict revolved around a personal rivalry between the nominal head of the RCC and, since June 1953 President of the new-born Republic, Muhammad Naguib, and the de facto leader of the RCC and FOM, Gamal Abdel Nasser. Major General Naguib was widely known as a war hero from the 1948 Palestine War and chosen by the FOM as a figurehead to lend the coup plotters increased legitimacy in the eyes of the population. Yet, not contenting himself with his ceremonial role, Naguib soon began to broaden his support by reaching out to various societal groups – at the great displeasure of the RCC. As RCC member Kamal Eddin Hussein put it, 'all he [Naguib] had to do was to drive from his home to his office, surrounded by motorcycles, under the applause of the bystanders [...] He visited hospitals, charities, distributed money [...] And we were toiling long and

<sup>35</sup> Aclimandos 2004, 1277-78; and Matzke 2008, 45.

<sup>36</sup> Sadowski 1991, 63.

<sup>37</sup> Barnett 1992, 83. At this point, it should also be noted that a number of social policies are often wrongly ascribed to the Nasser regime. Compulsory education from the age of seven to twelve (adopted in 1923), free primary education (in 1944), and free secondary education (in 1950) were all implemented before the Free Officers took power. See Ayubi 1978; Faksh 1973; and Mabro 1974.

hard under tons of work and no one knew about it.'<sup>38</sup>

In his attempt to enlist political and popular support, Naguib had a number of advantages. First, he was much better known to the population which 'considered him the leader of the Revolution and their saviour [...] The people didn't know yet the members of the RCC and their service for the country.'<sup>39</sup> Second, being of Sudanese origin, Naguib enjoyed a particular high popularity in Sudan, which at the time was part of Egypt and the RCC was keen to retain as part of its territory. 'Do not forget Sudan and the influence Naguib has with the Sudanese, with whom he is very popular,' Nasser was told by a Sudanese officer. 'Any exclusion of Naguib would lead to Sudan's secession from Egypt.'<sup>40</sup>

Alongside his attempt to court 'the masses,' Naguib targeted a number of specific societal actors to build his power base. These included the Muslim Brotherhood, with whom Naguib entered into extensive contacts in December 1953 to 'liquidate' the RCC.<sup>41</sup> Representing the most effective civil society organisation at the time,<sup>42</sup> the Brotherhood was vital to provide 'foot soldiers' for urban mobilisation. A second pillar of his coalition represented the old political parties, first and foremost the Wafd party, which were lured into the coalition by the promise to restore an electoral system.<sup>43</sup> By the same token, he managed to bring on his side the majority of Egypt's middle-class intelligentsia, notably the Lawyers and Press Syndicates, as well as students.<sup>44</sup> Finally, and most importantly, Naguib also commanded the loyalty of significant parts of the armed forces, which stood ready at his defence.<sup>45</sup>

The conflict came to a head in early 1954, culminating in the notorious March Crisis, which heralded the victory of the RCC and Nasser over Naguib. This episode highlights the magnitude of the rift that divided the military junta and the stakes for the actors involved.

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<sup>38</sup>Cited in Aclimandos 2004, 1079.

<sup>39</sup>RCC member Abdelatif Baghdadi in his memoirs. See Baghdadi 1977, 80.

<sup>40</sup>Episode recorded in the memoirs of RCC member Khaled Mohi Eddin. See Mohi El Din 1995, 184.

<sup>41</sup>Aclimandos 2004, 1091.

<sup>42</sup>Beattie 1994, 58.

<sup>43</sup>Aclimandos 2004, 1173.

<sup>44</sup>Gordon 1992, 125.

<sup>45</sup>Aclimandos 2004, 1162.

Two aspects are particularly noteworthy here. The first one were massive demonstrations, led by the Muslim Brotherhood and joined by other actors of the Naguib camp, following the announcement of Naguib's resignation on 25 February 1954 in protest of the RCC's undermining his presidential powers.<sup>46</sup> According to RCC member Salah Salem, 'the country [was] on the brink of explosion'<sup>47</sup> at this point, and Salem urged Nasser that he 'must notify them to announce Naguib's return, otherwise the country will rise in revolt against us!'<sup>48</sup>

The second aspect is the important splits within the armed forces that became visible immediately after Naguib's announcement and pushed the country to the brink of a civil war, which would have made 'Black Saturday, the burning of Cairo in January 1952, look like "child's play."<sup>49</sup> As armoured vehicles and truckloads of soldiers took position around Naguib's house to protect him, the cavalry and armoured officers – whose headquarters were a stone's throw away from the RCC – demanded the immediate reinstatement of Naguib, and the All-Sudanese Frontier Force threatened to mutiny. Meanwhile, units loyal to the RCC encircled the cavalry in a climactic military stand-off.<sup>50</sup>

Naguib was reinstated as President a couple of days after his resignation, but the denouement of this crisis only came in late March. At that point, the RCC had improved its grip on the army and persuaded the Muslim Brotherhood to temporarily remain on the sidelines. Mirror-imaging the February incident, the RCC announced its dissolution and a return of Egypt to the previous electoral system. This was followed by a three-day general strike of labour unions, which paralysed the country from 26 to 29 March and paved the way for the RCC's return to power. Taken by surprise and diminished in size, Naguib's coalition remained immobilised at this point and left the way open for the RCC to finally sideline Naguib. As the Egyptian historian Tawfiq Aclimandos points out, the

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<sup>46</sup>Gordon 1992, 127.

<sup>47</sup>Cited in Aclimandos 2004, 1154.

<sup>48</sup>Quoted in Mohi El Din 1995, 204.

<sup>49</sup>Ihsan Abdel Quddous, the editor-in-chief of the Al-Ahram newspaper at the time, reporting to the US embassy as quoted in Gordon 1992, 152.

<sup>50</sup>Vatikiotis 1985, 381; and Aclimandos 2004, 1130-55.

three-day strike was the crucial turning point in this struggle for power and it was the alliance with the working class that brought 'salvation' for Nasser and the RCC.<sup>51</sup>

*Tracing the Mechanism: Intra-elite Conflict and Welfare Provision*

In this subsection, I provide evidence for a causal link between intra-elite conflict and social spending – a central mechanism of my argument. The repercussions of intra-elite conflict on welfare spending were extensive in Egypt and represented the key driver behind the nascent regime's early social policies up until the mid-late 1950s. Unfolding in two subsequent stages, social policy measures comprised a first stage of mainly pro-active social spending to counter Naguib and a second stage in which the regime sealed a social policy bargain with labour unions. Since all the key actors of this period have passed away, I crucially rely on the autobiographies and memoirs of RCC members to unveil the motivation behind the regime's early welfare effort.

Regarding the first stage of pro-active spending, two RCC members – Khaled Mohi Eddin and Abdelatif Baghdadi – have written extensively on the motives driving the RCC's social policy strategy and highlighted the important role of intra-elite conflict in this context. One particularly insightful passage in Mohi Eddin's memoirs is worth quoting at length:

'The Revolutionary Command Council began to consider ways and means to gain popularity with the masses to counter Nagib's popularity and to meet any domestic or foreign conspiracy. One move was to confiscate the possessions of the Muhammad Ali dynasty and transferring that enormous wealth to a council called the Services Council. The funds were allocated to building schools and health clinics in the various villages. That project was of vital importance. It was a tremendous step for Egypt, for within the period of a few years there was a school and a clinic in almost every village.'<sup>52</sup>

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<sup>51</sup> Acimandos 2004, 1171.

<sup>52</sup> Mohi El Din 1995, 168. See also Baghdadi 1977, 79-89.

Redistributing the fortune of the former royal family among the Egyptian population, the Council for Social Services (CSS) represented the regime's major social policy initiative in the 1950s. Its aim was clear: building a popular constituency for the RCC and undermining Naguib. The CSS's competences were quite large. Charged with the overall planning of the regime's social policies, the Council drew up health, educational, and social projects, provided the funding and supervised their execution.<sup>53</sup> Aiming to build one school every day, the CSS' main activity consisted in the establishment of Combined Centres (*al-wahdat al-mugamma'a*) offering, social, medical, health, and educational facilities.<sup>54</sup> The Council also funded a vast array of public housing projects.

Whilst being 'cheap' from the regime's perspective as the money was appropriated rather than acquired through costly taxation,<sup>55</sup> the CSS brought welfare expenditures in Egypt to an hitherto unprecedented level. To understand the extent of the spending boost, it is important to bear in mind the total value of the King's fortune. While estimates in published sources vary between 50 and 75 million Egyptian pounds (EGP),<sup>56</sup> recently disclosed cabinet minutes reveal that the volume of transferred property was in fact much larger. In a session especially dedicated to the confiscated royal properties,<sup>57</sup> the money – transferred in two tranches into the state budget – is estimated at 68.4 and 61.1 million EGP. This was the equivalent of 62 per cent of Egypt's *total* government expenditures in the financial year 1952/53 or 13.7 per cent of the country's entire GDP. The availability of these vast financial resources was reflected in the country's welfare budget, which increased by over 60 per cent from 57 million in 1951 – the country's last pre-coup budget – to 91.9 million in 1953. In sum, the CSS represented a major shift in the Egypt's social spending trajectory. What is more, it constituted the first major attempt to extend social services to the Egyptian countryside, which was reflected in the regime's success in increasing

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<sup>53</sup>IMF 1956, 23-24.

<sup>54</sup>Vatikiotis 1961, 131.

<sup>55</sup>More on the regime's strategy of 'cheap social policies' in the next section.

<sup>56</sup>See Neguib 1955, 271; and IMF 1956, 23-24.

<sup>57</sup>The session was held on 14 October 1953. See Egyptian National Archives 1953b.

primary school enrolment from 45 (1950) to 65 (1960) per cent within a decade.<sup>58</sup>

The CSS was assisted in its efforts by a second organisation established by the RCC, the Liberation Rally. This political platform, which was set up following the ban of all political parties in 1953, has often been portrayed in the literature as a political failure for its inability to provide the regime with a ruling party.<sup>59</sup> This assessment overlooks, however, that the primary aim of the Rally was not the fostering of political activity, which the regime feared, but the distribution of social services. And in that respect, the organisation represented an effective second pillar of the RCC's social policy strategy alongside the CSS. Pursuing the same goal of undermining Naguib,<sup>60</sup> the Rally targeted in particular the urban working class by providing worker health centres, a number of hospitals uniquely available to workers, and a Republican Workers Bank which provided cheap housing loans.<sup>61</sup> In addition, the Rally launched a first attempt at a workers' health insurance.<sup>62</sup> Finally, the Rally was also vital in establishing a relationship with the country's labour unions and paved the way for the RCC's bargain with labour in 1954.

This bargain constituted the second important element in the RCC's strategy to outbid Naguib. Just like the Liberation Rally, this bargain has at times been misrepresented as a simple manoeuvre on the part of Nasser to bribe the leadership of Egypt's transport unions into staging a paralysing three-day general strike.<sup>63</sup> However, this depiction of the 1954 events is historically inaccurate. In fact, individual workers were not paid to participate in the demonstrations and the financial support extended to the unions was used to facilitate the logistics of the strike, not as a bribe.<sup>64</sup> Moreover, portraying the March 1954 strikes as a simple short-term manoeuvre belies the important social policy components that were included in the deal between the RCC and workers. As Aclimandos points out, 'having

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<sup>58</sup>Faksh 1973, 239.

<sup>59</sup>Hopwood 1993, 89.

<sup>60</sup>Dekmejian 1971, 30.

<sup>61</sup>Personal memoirs of Ahmad Tu'aymah, the first head of the Rally. See Tu'aymah 1999, 70-73.

<sup>62</sup>*ibid.*, 70-73.

<sup>63</sup>According to an oft-cited anecdote, Nasser apparently boasted about his success to have 'bought' the workers for 4,000 EGP. See, for instance, Mohi El Din 1995, 228.

<sup>64</sup>See a comprehensive discussion of this point in Aclimandos 2004, 1190.

weighed the different 'offers' made by both sides, the group (and at its head political entrepreneurs) that had the most sufficient resources at this point in time – that is, the workers who, thanks to their strategic position, could paralyse the country – chose a camp and made it triumph.<sup>65</sup>

In fact, it is important to note that both sides – Naguib and Nasser – extended offers to the labour unions in March 1954. Naguib's camp offered the unions a labour party, with a leadership position for the head of the transport union, Al-Sawi. This party would allocate the workers a favourable share of the 'booty,' meaning material compensation.<sup>66</sup> In the eyes of the workers, Naguib's offer had two major drawbacks, however: On the one hand, Naguib's camp included a number of actors – most notably the old Wafd party – that the unions considered reactionary and inimical to their interests. On the other hand, the offer was subjected to the vagaries of electoral democracy which Naguib's camp campaigned for.<sup>67</sup> By contrast, with the RCC vouching for a continuation of the 'Revolution' and against a return to democracy, workers were more confident about the RCC's capacity to actually deliver. As one of the participants in the negotiations with the RCC points out, workers 'were all convinced that the Revolution would improve the standard of living of workers and satisfy their demands.'<sup>68</sup> Retrospectively, this assessment turned out to be correct. As union leader Al-Sawi pointedly put it in a later interview, the regime 'made laws that protected workers' rights and insured their lives.'<sup>69</sup>

In terms of concrete concessions to labour, the RCC's offer comprised three main elements:<sup>70</sup> First, public sector employees received more generous bonuses, wage hikes, and a reformed recruitment and promotion system. Second, the RCC ensured the increased provision of social services, in particular health services which were highly popular in

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<sup>65</sup> Aclimandos 2004, 191.

<sup>66</sup> Ramadan 1975, 118-19; and Aclimandos 2004, 1188. Unfortunately, I was unable to uncover the specific content of these material incentives.

<sup>67</sup> *ibid.*, 1191.

<sup>68</sup> Cited in Ramadan 1976, 213.

<sup>69</sup> Ramadan 1975, 119.

<sup>70</sup> This information is taken from the memoirs of RCC member Abdeltatif Baghdadi 1977, 172. See also Beattie 1994, 98; and Posusney 1997, 56.

rural areas, and a special building fund for public schools. Further measures included earmarked spending for housing in poor neighbourhoods, as well as a housing loan scheme in which the government guaranteed to take over interest rate payments for low-income workers.<sup>71</sup> Third, and most importantly, the RCC promised to introduce a comprehensive social insurance scheme for workers, including a pension scheme and health insurance. Introduced in 1955 and discussed in greater detail in the following section, this scheme and its extensions in the late 1950s and early 1960s constitutes one of the most important legacies of the Nasser regime in the realm of social legislation.

In sum, as the foregoing analysis has made clear, workers joined Nasser's ranks only under certain conditions<sup>72</sup> – conditions that would shape the country's social policy trajectory in the years to come. Moreover, the repercussions of the March 1954 crisis proved to be long-lasting as it 'helped shape Nasser's own conception of the social bases of his support.'<sup>73</sup> Whilst the RCC had been courting different societal groups since its seizure of power in July 1952, it lacked a clear understanding of its key constituencies in society before March 1954. In this respect, the crisis represented an important moment of learning for the regime elite as – in the words of RCC member Gamal Salim – it allowed the RCC to identify 'friend and foe.'<sup>74</sup> In a context of urban mobilisation, quite clearly, capitalists turned out to be a rather ineffective coalition partner. With the Egyptian entrepreneurial bourgeoisie remaining quietly on the sidelines or openly supporting Naguib, the RCC realised that it needed a more effective pillar of support to remain in power. Nasser's conclusions from the March 1954 crisis were therefore clear: the Revolution had come back 'on the shoulders of the workers,'<sup>75</sup> and the regime needed populist redistributive measures to keep the coalition with workers and peasants in place.<sup>76</sup> Having been seeking

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<sup>71</sup>IMF 1954, 35,38.

<sup>72</sup>Salim 1976, 102.

<sup>73</sup>Baker 1978, 34.

<sup>74</sup>Salim 1976, 50.

<sup>75</sup>Ramadan 1976, 220.

<sup>76</sup>Hinnebusch 1985, 23.



a class to represent,<sup>77</sup> Nasser had found 'his' class in March 1954.

### **Squaring the Circle: External Threat and Welfare Distribution**

Having demonstrated the link between elite factionalism and social spending, this subsection traces the second important causal mechanism of my argument: the trade-off between welfare and defence. While findings from previous chapters have demonstrated a strong negative correlation between welfare and defence, this subsection provides evidence that this trade-off was indeed perceived as such by the regime's leadership. In addition, based on cabinet minutes from the Egyptian National Archives, the following analysis elucidates the reasons why the regime privileged defence over welfare. In a second step, I illustrate how the particular combination of a severe external threat and a strong incentive to distribute has led to what I call 'cheap social policies' in the absence of alternative resource rents. To do so, I use both qualitative and quantitative evidence.

#### *Butter vs. Guns: Tracing the Mechanism*

To demonstrate how the trade-off between 'butter or guns' worked out in the Egyptian case, it is, in a first step, important to establish how changes in the external environment – specifically increasing hostility between Egypt and Israel – changed the regime's threat perception and created a heightened incentive to invest in national defence. In this respect, it should be recalled that Israel did not figure prominently among the RCC's concerns when they seized power in 1952. Interviewed by a fellow Free Officer in 1983, Muhammad Naguib points out that Egypt and the Free Officers were keen on getting rid of the British, whereas Israel was initially not important.<sup>78</sup> In fact, wanting neither peace nor war, the Free Officers exhibited a certain ambivalence vis-à-vis Israel,<sup>79</sup> and their major focus was domestic, not foreign politics. A key indicator of this low level of threat perception was

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<sup>77</sup> Abdel-Fadil 1980, 109.

<sup>78</sup> Hamrush 1983, 436.

<sup>79</sup> Aclimandos 2004, 1346; and Barnett 1992, 84.

the 'heavy cuts in expenditure on defence'<sup>80</sup> carried out between 1952 and 1954.

Two key events fundamentally altered the threat perception of the regime: the Gaza raid in February 1955 and the Suez Crisis in late 1956. The former was a surprise attack carried out by the Israeli army against an Egyptian military base in the Gaza strip – then under the control of the Egyptian authorities – in which 38 Egyptian soldiers were killed. The latter represented a tripartite attack on Egypt at the hands of France, Britain, and Israel starting in October 1956, which led to the temporary occupation of the Suez Canal zone and the Sinai peninsula. While the former represented a military provocation, the latter was a clear attempt to topple the Nasser regime, for immediately after the beginning of the first air raids, British Radio Cyprus called upon Egyptians to rise against the regime.<sup>81</sup> In combination, both events signalled to the regime that a serious threat to its survival would come from the outside.

This change of perception is reflected in statements from the regime's leadership. For example, Abdelatif Baghdadi, who was part of the regime's inner circle, states in his memoirs that the Gaza raid pushed the RCC to increase armament and defence spending.<sup>82</sup> And Nasser himself declared to a British journalist in April 1957 that 'the Gaza raid changed this idea [of low defence spending] in one night' as he realised that Egypt needed weapons to defend its territory.<sup>83</sup> Accordingly, defence expenditures experienced a rapid expansion, amounting to 116 per cent between 1955 and 1960 in absolute terms, whereas social expenditure only rose by 39 per cent in the same period.<sup>84</sup> Putting these outlays into broader perspective, defence expenditures consumed yearly about two thirds of what was spent in the first 5-year plan altogether.<sup>85</sup> Beginning in 1962, Egypt's military intervention in Yemen in support of a socialist uprising further increased the upward pressure on defence outlays, such that on the eve of the 1967 War, defence expenditures amounted

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<sup>80</sup>IMF 1954, 15.

<sup>81</sup>Dawisha 2003, 179.

<sup>82</sup>Baghdadi 1977, 171. See also Mohi El Din 1995, 131.

<sup>83</sup>Al-Bahrani 2010, 145.

<sup>84</sup>Calculations based on my own data.

<sup>85</sup>Al-Jiritli 1974, 42.

to nearly 12 per cent of the country's GNP.<sup>86</sup> To alleviate the burden on the budget, the regime was compelled to introduce an additional Defence Tax on direct income and business taxes.<sup>87</sup> Yet, the mounting defence burden could only be shouldered by forsaking other commitments of the regime, which brings me to the heart of the 'butter and guns' mechanism.

*The Inside Perspective: Closed-door Discussions of Welfare and Defence* Micro-level evidence of the defence-welfare trade-off is not abundant, but it exists. Closed-door discussions documented in cabinet minutes represent such a 'smoking gun' test of the causal mechanism and, in the following, I rely on minutes from cabinet meetings held between 14 and 15 of July 1959 to demonstrate the regime's inside perspective on this trade-off.<sup>88</sup> As mentioned before, existing evidence is spotty due to the secretive nature of these documents and the poor state of archives more generally. Having said this, the very nature of a 'smoking gun' test makes a single piece of evidence highly valuable. To avoid confusion, I should add that the chosen cabinet meeting occurred in the context of the United Arab Republic (UAR) – the merger of Egypt and Syria between 1958 and 1961 – and therefore included Syrian ministers and references to Syria.

For our purposes, the relevant passages in the minutes revolved around an argument between the Chief of Staff of the Army, Abdel Hakim Amer, and Nasser on the one hand, and civilian ministers, mainly from the Syrian side, on the other. A central issue in this discussion was the size of the army and defence expenditures relative to the government's welfare effort. Akram al-Hourani, the Syrian Vice President of the UAR at the time, noted that the size of the defence budget constituted more than half of the budget and that it had not been reduced as previously agreed: 'The budget for domestic and external security represent 58 per cent of the budget, whereas the budget of the the Ministry of Education represents 20 per cent. This means that for all other Ministries there is only

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<sup>86</sup>Waterbury 1983, 95.

<sup>87</sup>Barnett 1992, 88.

<sup>88</sup>All citations and references are taken from Egyptian National Archives 1959a.

20 per cent of the budget left.<sup>89</sup>

Following Al-Hourani's remarks, the Minister of Health, Bashir Al-Azma, launched another scathing critique of the proposed budget. His statements are particularly indicative of the perceived trade-off between welfare and defence and are thus worth being quoted at length:

'I think that the expenditures for the army will have [negative] repercussions on the street. If the money was spent to improve healthcare, the social situation and culture, both the army and the people will benefit. But the man on the street doesn't understand the increasing expenditure for weapons. Why don't we evaluate the budgetary allocation for the armament of the army according to its needs? [...] In many areas there are no [social] services at all, except for Damascus and Aleppo. There are vast areas where there is not even an ambulance. The people desire an improvement of their conditions, so that it is possible to keep the internal front cohesive.'<sup>90</sup>

On the opposite side of the argument stood the Chief of Staff of the Armed Forces, Abdel Hakim Amer. Representative of the regime's security concerns, his response to the foregoing criticism reveals that – whilst being cognisant of the strains high defence expenditures imposed on the general population – the regime essentially considered the external threat to survival greater than the internal one. Interrupting Al-Azma, Amer stated: 'The army needed new weapons. I know that the deployment along the borders is costly. However, the external front is more important than the internal one. If we do not keep our defence up high, we might be overrun and there will not be any internal front to worry about. The people will have to understand the sacrifices they have to make in this situation.'<sup>91</sup>

Interestingly, Nasser had not intervened in the discussion until this point and had left

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<sup>89</sup>Egyptian National Archives 1959a, 11.

<sup>90</sup>*ibid.*, 13.

<sup>91</sup>*ibid.*, 14.

it to Amer to fend off the ministers' criticism. Yet, upon further insistence from Al-Azma, Nasser decided to put his foot down and ended the discussion, not without revealing an interesting second motive driving the UAR's defence spending: 'Enough! What you are saying might be tenable if we were going to increase defence spending, but the situation was already like that before the union. And, anyway, how could we deprive the army so quickly of its privileges?'<sup>92</sup> This suggests that defence spending was, at least partly, motivated by a strategy to pamper the army, probably in view of avoiding coups. In any event, the statement underlines the difficulty of reducing defence expenditures – a point I will return to later in this chapter.

Taken together, this episode in the cabinet meeting, albeit brief, provides important evidence in favour of the mechanism underpinning the negative correlation between defence and welfare. Whilst it is clear that the spending focus on the army was politically controversial within the regime's leadership and an alternative strategy relying on social spending to bolster domestic legitimacy was discussed, external threats to survival were perceived as being more pressing and hence priority was given to defence.

### *Cheap Social Policies*

Facing conflicting spending incentives since the mid-1950s and lacking important resource rents, the regime thus had to 'square the circle' in order to meet both the expectations emanating from its domestic support base and the perceived necessity to keep the security budget at high levels. As I have argued earlier, this combination of circumstances results in the implementation of 'cheap' social policies. Such policies feature four main characteristics: insufficient financial commitment; a strong reliance on 'free' social policies distributing rent-generating statutory rights to lower and middle classes; the use of wind-falls to finance social expenditures; and devising social policies that alleviate the regime's shortage of resources. I now demonstrate each of these characteristics in the case of Egypt.

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<sup>92</sup>Egyptian National Archives 1959a, 14.

*Insufficient Financial Commitment* Underfunded social policies are a necessary but insufficient criterion to identify 'cheap' social policies as low spending levels can also occur in the absence of a spending incentive. As Egypt's spending trajectory was analysed in a previous chapter, I simply recall the major points here.

Regarding aggregate welfare expenditures, it is important to note that, following a period of rapid expansion, the share of social spending in the budget started to decline visibly with the change in the regime's threat perception in 1955 (see Figure 6.1). On the eve of the 1967 War, welfare spending amounted to barely a fifth of total expenditures, whereas it had reached nearly 45 per cent in 1954 – levels generally characteristic of high-spenders. Regarding specific social policies, another way to gauge the extent of insufficient funding is to look at the discrepancy between targeted and actual social spending for Egypt's development plan. In the field of education, a reform commission set up in 1957 had recommended the building of 225 schools every year to achieve full enrolment within a 30-year time frame. With 100 schools built on average between 1957 and 1987, actual construction activity lagged way behind the target goal, however.<sup>93</sup> Funding shortages also became an increasing problem in the area of higher education in the late 1950s as underlined by the Minister of Education, Kamal Eddin Hussein, who, in a debate on the country's draft budget for 1960, underlined the state's 'serious financial problems to finance higher education.'<sup>94</sup>

Similar discrepancies can be found with regard to Egypt's health care policies. Of the 194 health care units to be built under the first 5-year plan, only 20 units were opened, amounting to ten per cent of the target. Overall, the regime had envisaged to operate 2,550 health care units across the country by 1965. Yet, again, actual numbers fell considerably short of the target. By 1965, 581 units had been built, revealing a 77 per cent shortfall.<sup>95</sup>

<sup>93</sup> Figures are taken from Ratib 1998, 168. See also Al-Fiqi 1966, 242; Faksh 1973, 239; and Assaad 1997, 87.

<sup>94</sup> Cited in Qindil 1991, 386.

<sup>95</sup> Baker 1978, 221; see also Pawelka 1985, 206.

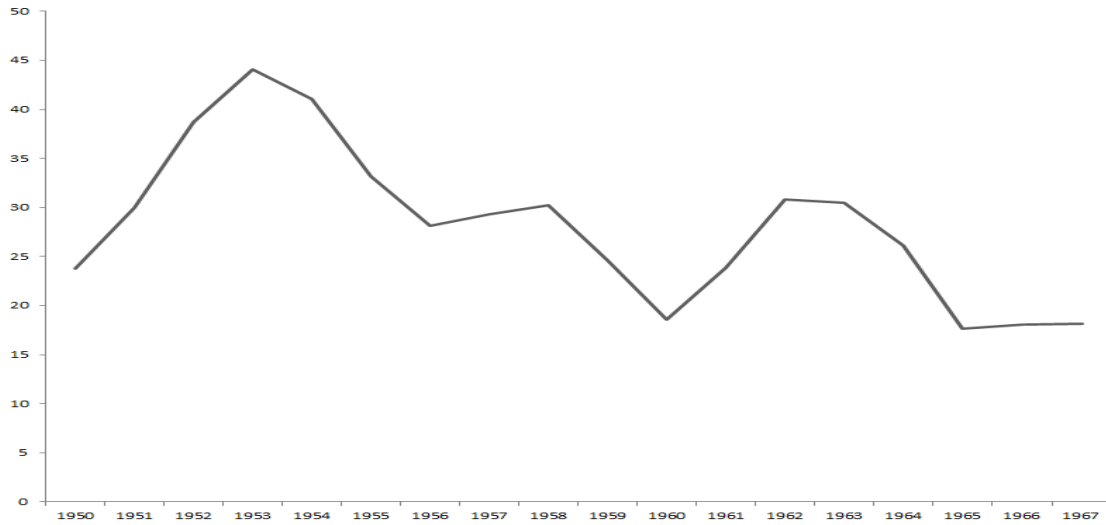


Figure 6.1: Expenditures for social welfare as % of the budget, 1950-67  
Source: IMF 2011; and V. Lucas and Richter 2012.

*‘Free’ Social Policies* Another prevalent feature of the regime’s social policies were what I call ‘free’ social policies. Instead of distributing material resources, these social policies generate rent streams by conferring statutory rights on workers. Underpinned by extensive public interventions in the real estate and labour market, these policies generally entail no or only very limited financial commitments for the state. Instead, the costs of these fringe benefits are outsourced to third parties, such as private sector employers and property owners, which makes them highly attractive for a regime struggling with severe resource constraints. To be sure, fringe benefits are by no means unique to Egypt and can also be found in the case of high-spenders, such as Tunisia. That said, the intensity and frequency of rent-generating market interventions in Egypt, in the absence of high spending levels, makes them a distinct feature of ‘cheap’ social policies. It should also be noted that the bulk of social policies associated with the Nasser era consists of this type of ‘free’ social policies, which sets Egypt apart from the policy trajectory of high-spending welfare states.

Looking at the summary of policies shown in Table 6.1, extensive market interventions occurred in two areas. On the one hand, the regime implemented a series of legislation which heavily regulated the property market and imposed strict controls on landlords.

Enacted for the first time in 1952, shortly after the RCC came to power, rent controls became a popular policy instrument that the regime used with increasing frequency as resources for social spending became scarcer. Underpinned by a strong populist undertone emphasising the need for 'fair rents',<sup>96</sup> these policies conferred considerable benefits on the growing number of urbanites in search of affordable housing. Importantly for the regime, these measures did not necessitate any additional outlays as the costs were passed on to private landlords who, at that time, represented the bulk of property owners in the country. The establishment of Rent Assessment Committees in 1962 further prevented rents from being adjusted to inflation as these committees were heavily skewed in favour of tenants. As a result, Egypt did not witness the rapid rise in urban rents which usually accompanies phases of accelerated urbanisation. This came at a huge advantage for the growing number of urban workers and civil servants, and at the detriment of property owners who saw the returns on property practically reduced to nothing.<sup>97</sup>

The second area for 'free' social policies was the labour market. Similar to rent controls, many of the labour market regulations that the regime introduced were fiscally neutral but proved to be highly popular. For instance, the regime introduced paid holidays for private sector employees for the first time in 1952, granting 14 days per year after one year's employment and 21 days for employees with more than ten years of employment.<sup>98</sup> In parallel, the regime gradually extended the number of national holidays from 5 in 1952, to 7 in 1959, and finally to 14 in 1961.<sup>99</sup> In the same vein, the statutory sick pay was increased sixfold from 30 days at 50 per cent of wages introduced in 1952, to 180 days with nearly full wages by 1961. Labour market reforms furthermore restricted the number of legal working hours, introducing a 42-hours week in 1961 without loss of pay.<sup>100</sup> Finally, the Unified Labour Code of 1959 significantly improved employment security by lowering the

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<sup>96</sup> Abdel-Fadil 1980, 123.

<sup>97</sup> Harik 1997, 176.

<sup>98</sup> Abdel-Fadil 1980, 30.

<sup>99</sup> Mabro and Radwan 1976, 136.

<sup>100</sup> O'Brien 1966, 136.



probationary period to three months, increasing the hurdles for lay-offs, and introducing redundancy payments for both voluntary and involuntary termination of employment.<sup>101</sup> In terms of the costs of these reforms, it needs to be said that – to the extent that an increasing part of urban formal sector employment was taken over by the state, in particular after the large-scale nationalisations of 1961 – the costs of these labour market regulations could only be partly outsourced to the private sector. That said, the majority of these measures, such as the reduction of working hours, did not entail higher public spending and if so, such as in the case of sick pay, the outlays were partly offset by the improved ability to tax public sector employees.<sup>102</sup> It is also important to note here that these measures disproportionately benefited urban employees in the formal sector, whereas working conditions in the rural and informal sector did not improve at a similar rate.

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<sup>101</sup> Issawi 1963, 56; and Mabro 1974, 154.

<sup>102</sup> O'Brien 1966, 188.

<b>'Free' Social Policies, 1952-1972</b>	
<i>Rent reduction and control</i>	
Law 199/1952	15 per cent rent reduction for buildings constructed between 1944 and 1952
Law 55/1958	20 per cent rent reduction for buildings constructed after 1952
Law 168/1961	20 per cent rent reduction extended to buildings constructed after 1958
Law 46/1962	Establishment of the Rent Assessment Committees to regulate property rents
Law 83/1965	30 per cent rent reduction for properties constructed after 1962
<i>Fringe benefits and labour market policies</i>	
Decree of 1952	Introduction of paid holidays and sick pay
1959 Unified Labour Code	Reduction of probationary period; extension of number of public holidays; introduction of redundancy money; increase of paid sick leave up to 180 days; reduction of working hours;
'Socialist' Decrees of 1961	Reduction of working hours; limitation of right to work overtime; increase of paid holidays, sick pay, and redundancy money; extension of number of public holidays; establishment of Workers' Councils representing employees on company boards
Law of 1972	Improvement of sick leave provisions and introduction of bonus pay for hazardous work

Table 6.1: Rent Control and Labour Market Policies (1952-1972)

*The Use of Windfalls* The third component of regime's strategy of 'cheap' social policies was the extensive use of windfalls to finance social expenditures. As opposed to funds raised through taxation, reaping windfalls is economically less costly and politically expedient in that the government can freely use this non-tax revenue to appease societal demands and bolster its domestic legitimacy without having to jeopardise national defence.<sup>103</sup> Two main mechanisms for generating windfalls have been prominent in the case of Egypt:

The first mechanism consisted of large-scale confiscations which occurred in two waves. The first wave, carried out in 1953, confiscated the fortune of the Egyptian royal family by transferring the family's assets as tax revenue into the state budget. In total, the measure expropriated the riches of 407 royal family members and brought 24 royal palaces, 48,000 farms, yachts, and bank deposits under the control of the state.<sup>104</sup> As stated above, their equivalent value was estimated at 13.7 per cent of Egypt's GDP. The second wave occurred in the wake of the 1956 Suez Crisis. In reaction to the tripartite military attack by Britain, France, and Israel, the Egyptian government confiscated properties owned by British and French nationals as well as the country's Jewish population.<sup>105</sup> In terms of its scope, the measure represented an hitherto unprecedented appropriation of property by the state. More than 15,000 establishments were expropriated, including all British and French banks and insurance companies, such as Barclays Bank, in addition to a large number of industrial and commercial companies, such as the Egyptian assets of Shell.<sup>106</sup> Tignor estimates the total value of expropriated assets at 1 billion \$US, the equivalent of 2.89 billion EGP.<sup>107</sup> This value amounts to 250 per cent of Egypt's GDP and nine times its total government expenditures in 1956. Relative to the annual revenue from the nationalisation of the Suez Canal (22.2 million EGP),<sup>108</sup> this transfer of wealth

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<sup>103</sup>Morrison 2009.

<sup>104</sup>Essam El-Din 2002.

<sup>105</sup>For a good summary of the events, see Tignor 1992.

<sup>106</sup>Vatikiotis 1985, 393; and Owen 1991, 367.

<sup>107</sup>Tignor 1992, 276. I applied the official exchange rate to the US dollar to derive this value.

<sup>108</sup>Owen 1991, 365.

can only be described as enormous.

The second mechanism consisted of nationalisations of domestic industrial assets, carried out in several waves between February 1960 and March 1964. In the process, the regime nationalised the country's entire cotton trade, all banks and insurance companies owned by nationals, and the majority of Egypt's industrial and commercial property, including timber, cement, copper, and electricity production as well as transport.<sup>109</sup> The most important asset that the government appropriated was the Bank Misr, the deposits of which exceeded one billion EGP.<sup>110</sup> Moreover, Bank Misr was one of Egypt's biggest industrial and commercial holding companies, whose affiliated companies accounted for 20 per cent of the country's industrial output.<sup>111</sup> According to former Minister of Finance, Abdel-Aziz Hegazy, who was a consultant for the Ministry of Finance at the time, the nationalisations flooded the fisc with much-needed resources and, furthermore, facilitated the collection of taxes and the appropriation of profits.<sup>112</sup> Taken together, 'these nationalisations substantially alleviated the government's present fiscal problems.'<sup>113</sup>

While the importance of these expropriations for Egypt's industrial development has been recognised,<sup>114</sup> their importance in the field of social policies has largely been overlooked. Yet, combined qualitative and quantitative evidence presented below suggest that windfall money was an integral part of the regime's strategy to finance social policies. Regarding qualitative evidence, there are a number of archival documents highlighting the role of expropriations in supporting the regime's welfare effort. Most importantly, these unveil the importance of the King's fortune to fund social projects, as described above. Alongside these large-scale projects, cabinet minutes from the Egyptian National Archives also document the frequent recurrence to expropriations for smaller-scale projects. Table 6.2 summarises all confiscations carried out for social purposes in 1953-54. The table is

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<sup>109</sup>Craissati 1989, 70.

<sup>110</sup>Abdel-Malik 1968, 140.

<sup>111</sup>O'Brien 1966, 125.

<sup>112</sup>Personal interview, Cairo, 28 January 2013.

<sup>113</sup>Barnett 1992, 98.

<sup>114</sup>G. Amin and Nawwar 2006, 88.

illustrative of a widespread practice by which the government used expropriations of land and real estate to expedite the expansion of Egypt's educational system. Importantly, this overview only represents a snapshot of the total amount of expropriations carried out and, though spotty, cabinet minutes throughout the 1950s contain references to confiscations such as the ones described herein.<sup>115</sup> Whilst it is unclear from the documents whether the owners of these properties received compensation, it is safe to assume that these measures helped alleviate the fiscal pressures weighing on the government.

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<sup>115</sup>See, for example, Egyptian National Archives 1955b; Egyptian National Archives 1958; and Egyptian National Archives 1959b.

<b>Confiscations and Social Policies, 1953-1954</b>	
<i>Cabinet Session</i>	<i>Expropriation Measure</i>
2 September 1953	Confiscation of 3 empty buildings in Cairo after the owner refused to rent them out to the Ministry of Education
8 September 1953	Confiscation of 7 other buildings and land by the Ministry of Education
13 September 1953	Confiscation of 1 empty building and land by the Ministry of Education
18 October 1953	Confiscation of 1 building and land for educational purposes
4 November 1953	Confiscation of land by the Ministry of Social Affairs
11 November 1953	Confiscation of land for educational purposes
2 December 1953	Expropriation of two buildings and land by the Ministry of Education
23 December 1953	Confiscation of land for educational purposes
20 January 1954	Confiscation of a building and land to construct a school after the owner's refusal to extend the tenancy contract with te Ministry of education
30 June 1954	Confiscation of a building of educational purposes

Table 6.2: Confiscation Measures for Social Purposes (1953-54)

Based on this qualitative evidence, I carry out a simple regression analysis to investigate the link between windfalls and social policies in Egypt more systematically. My analysis is guided by the following intuition: If indeed the regime deliberately used windfalls to finance additional outlays for social welfare, we should find, *ceteris paribus*, a positive association between incidences of expropriation and social expenditures. These spending

hikes in the wake of expropriations are expected to be short-term, considering their highly discretionary, one-off nature.

To test this claim, I run a number of simple error correction models (ECMs), using Egypt's welfare expenditures as a share of GDP as the dependent variable.<sup>116</sup> To cover all expropriation events of the Nasser period, I use a long time series from 1952 until 2010. A nice feature of ECMs is that they allow me to distinguish between the short-term and long-term effects of expropriation events and thus align with my theoretical interest. Another advantage of ECMs is that they are fully general dynamic models and hence do not impose any potentially invalid parameter restrictions.<sup>117</sup> To facilitate comparison across models, I use the same set of control variables as in Chapter 4 and all variables are taken from the same sources.<sup>118</sup> The only addition to previous models is the *Expropriation Act* variable. The variable is taken from Hajzler, who in turn extended the datasets compiled by Kobrin and Minor.<sup>119</sup> An expropriation act is defined as 'the involuntary divestment of assets of any number of direct investment firms, within a given 3-digit industry and in a given year.'<sup>120</sup> In its current form, Hajzler's expropriation dataset comprises all events between 1960 and 2006, which means that I needed to extend the data forwards and backwards to cover the full time period under investigation. To do so, I used the above-cited secondary sources, in particular Tignor, Owen, Abdel-Malik, and Essam El-Din.<sup>121</sup>

The regression results are presented in Table 6.3 below. Column 1 presents a baseline model with a restricted set of core controls. Columns 2-4 then successively add *Foreign*

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<sup>116</sup> Findings are similar when using social spending as a share of the budget. Results using this alternative measure are presented in Appendix E.

<sup>117</sup> De Boef and Keele 2008.

<sup>118</sup> I refrain from logging the GDP per capita, aid, and rent income variables. Given that this is a one-country analysis, there was no need to correct for skewness, which I ascertained using histograms. Also the R-squared of models with non-logged variables was about 12 per cent higher, indicating a better model fit.

<sup>119</sup> Hajzler 2011; Minor 1994; and Kobrin 1980.

<sup>120</sup> Hajzler 2011, 122.

<sup>121</sup> Tignor 1992; Owen 1991; Abdel-Malik 1968; and Essam El-Din 2002. I also experimented with an alternative variable accounting for the number of expropriated firms. Results are similar but due to expected high measurement error, the findings are much more noisy, which is why I refrain from presenting them here.

*Aid p.c.*, *Dependency*, and *Output Gap* as additional controls. Typically for an ECM, all covariates are added in lagged and first-differenced form. While the former represents the more long-term effect of a variable, the first difference gives an impression of the variable's short-term effect. Note that the model also includes the lag of the dependent variable to capture spending inertia and control for autocorrelation. As in previous analyses, I use panel-corrected standard errors.<sup>122</sup>

Turning the attention to the variable of interest, *Expropriation Act*, the findings support my prior. As expected, the occurrence of an expropriation event is strongly and positively associated with an increase in welfare expenditures. More specifically, the model suggests that a change in the *Expropriation Act* variable increases social spending by 0.7 per cent of GDP on average. Given that average social spending change in Egypt amounts to 0.11 per cent of GDP, an increase of this magnitude represents a considerable boost in welfare expenditures. Furthermore, the results indicate that, in line with my initial intuition, the effect of expropriation acts is not long-lasting. In fact, aside from being insignificant, the coefficient of the lagged *Expropriation Act* variable is very small, ranging between 0.02 and 0.14 per cent. This indicates that only very little of the initial spending boost is carried over into the next period. Finally, since expropriation events became increasingly rare, with the last one taking place in 1995, the findings are chiefly driven by the high number of expropriations in the 1950s and 1960s.

The magnitude and the short-term nature of the expropriation effect is also visible in the Impulse Response Function (IRF) shown in Figure 6.2.<sup>123</sup> The graph simulates the expected change of welfare expenditures in the event of a change of *Expropriation Act* from 0 to 4, which corresponds to the empirically observed minimum and maximum values. As we can see, large-scale expropriations of this level hike up average social spending by 7.3 percentage points. Considering Egypt's mean spending level of around 10 per cent, this increase indeed represents a massive spending bonanza. Following a boom-bust cycle,

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<sup>122</sup>N. L. Beck and Katz 1995.

<sup>123</sup>As before, I use the dynsim package by Whitten and Williams 2012 to simulate the IRF.



spending change then reverts back to its average levels in absence of further expropriations as almost none of the effect is preserved in Year 2.

On the whole, the combination of qualitative and quantitative evidence presented in the foregoing illustrates the important role of windfalls for social policies in Egypt. In view of the findings, it seems indeed that the regime followed a deliberate strategy to use windfalls in order to boost its popularity by increasing social spending. With threat levels and defence spending unchanged, however, these spending hikes only had a short-term effect as they were unable to fundamentally alter the structural constraints of the regime.

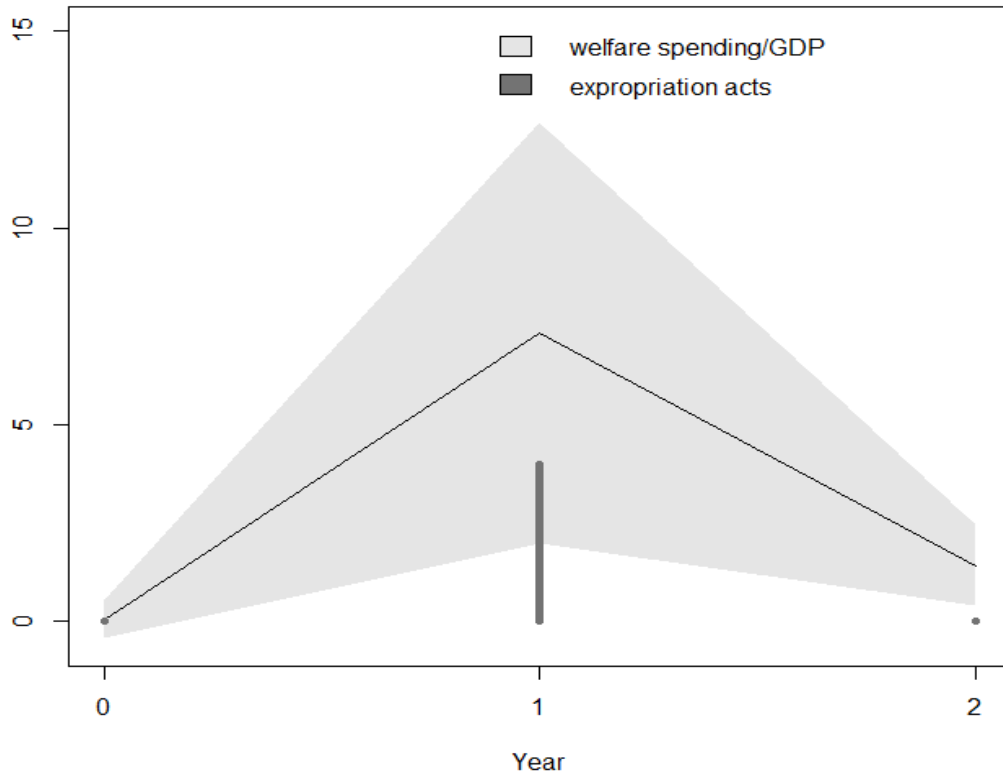


Figure 6.2: Effect of Expropriation Acts on Welfare Spending  
*Note:* Shaded area indicates 95-percent confidence bounds.

*Alleviating Shortage of Resources* The last defining feature of ‘cheap’ social policies is the designing of social policies such that they alleviate the shortage of resources and

Table 6.3: Expropriations and Welfare Spending as % of GDP

	(1)	(2)	(3)	(4)
Welfare Spending $t-1$	-0.501*** (0.0922)	-0.507*** (0.0911)	-0.440*** (0.0931)	-0.461*** (0.0894)
$\Delta$ Expropriation Act	0.708** (0.333)	0.694** (0.329)	0.674** (0.306)	0.680** (0.300)
Expropriation Act $t-1$	0.0207 (0.433)	-0.0190 (0.429)	0.0850 (0.401)	0.137 (0.399)
$\Delta$ GDP p.c.	0.00310 (0.00425)	0.00381 (0.00424)	0.00394 (0.00398)	0.0237*** (0.00906)
GDP p.c. $t-1$	0.000152 (0.000262)	0.000106 (0.000261)	-0.00105* (0.000605)	-0.00201*** (0.000764)
$\Delta$ Defence Spending	-0.0593 (0.0473)	-0.0751 (0.0486)	-0.0667 (0.0454)	-0.0765* (0.0459)
Defence Spending $t-1$	0.0582** (0.0281)	0.0574** (0.0283)	0.0419 (0.0307)	0.0262 (0.0300)
$\Delta$ Resources p.c.	-0.000886 (0.00449)	-0.000451 (0.00444)	-0.00330 (0.00463)	-0.00494 (0.00464)
Resources p.c. $t-1$	0.0152*** (0.00400)	0.0159*** (0.00400)	0.0145*** (0.00422)	0.0117*** (0.00443)
$\Delta$ Foreign Aid p.c.		-0.00170 (0.00445)	-0.000253 (0.00427)	-0.000747 (0.00414)
Foreign Aid p.c. $t-1$		-0.00338 (0.00276)	-0.00110 (0.00294)	-0.00263 (0.00311)
$\Delta$ Dependency			-1.956** (0.781)	-2.427*** (0.774)
Dependency $t-1$			-0.320 (0.213)	-0.476** (0.230)
$\Delta$ Output Gap				-29.36** (12.40)
Output Gap $t-1$				-0.587 (4.616)
Observations	56	56	56	56

Autoregressive ECM model with panel-corrected standard errors in parentheses.

Constant omitted. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

thus support the regime's defence and development effort. Arguably, this puts the logic of distributive social policies on its head as social policies devised in such way become a mechanism of resource generation instead of resource distribution. Given conditions of resource scarcity and the need to cater to a large support base, these social policies become extremely advantageous since they enable the generation of additional revenue whilst, at the same time, bolstering domestic legitimacy. They are thus much more attractive than equivalent resource generation via taxation. In the case of Egypt, social policies of this kind occurred in two main areas.

The first area were labour market policies, more specifically, profit-sharing arrangements for workers. As part of Nasser's 'socialist decrees' implemented in 1961, the regime obliged large private and public sector firms to allocate 25 per cent of their profits to their employees in proportion to their salaries. Yet, what seemed to be a populist measure in the interest of the working classes was in fact an ill-disguised mechanism to generate more resources for welfare provision. Of the 25 per cent promised to workers, 5 per cent were to be retained by the company itself to provide social services and housing at the factory level. Another 10 per cent was recouped by the state as payment for 'central and social services'<sup>124</sup> – in other words, to finance social policies. Only 10 per cent were to be paid out directly in cash to workers and only after allowing the firms to build up reserves and deduct for depreciations. Moreover, the payment was capped at 50 EGP per worker per annum, a sum which was not adjusted for inflation and thus quickly depreciated in value.<sup>125</sup>

The second area where revenue-generating social policies were implemented was social insurance. To be sure, the financial contribution of social insurance surpluses to Egypt's economic development has been pointed out elsewhere. Abdel-Fadil, for instance, notes that the social insurance scheme has 'led to large accumulations of investible funds that

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<sup>124</sup> Wahba 1994, 85-86.

<sup>125</sup> Be'eri 1970, 417.

have been utilised to finance development projects.<sup>126</sup> Yet, the argument presented herein goes beyond making a general claim about the role of social insurance funds. Based on archival material, I show below that the generation of additional resources was, from the onset, at the heart of Egypt's social insurance legislation, rather than being a mere by-product of social legislation. I also illustrate the extent to which social insurance funds contributed to financing public expenditures, including social welfare. And, finally, I show that, given its revenue-generating nature, the extension of social insurance to new groups of beneficiaries has been associated with deteriorations of Egypt's current account balance.

Egypt's social insurance system took shape in several stages between 1952 and 1964 and has remained unchanged in its basic architecture since then. The system was first established by Law 316 of 1952, which set up a pension and savings fund for civil servants. For the first three years, the fund was rather rudimentary in that it existed in parallel to corporate insurance schemes for particular groups of civil servants, such as teachers and judges, and it was not accessible for all public sector employees. This changed in 1955 with the adoption of Law 416 which established a comprehensive public social insurance scheme comprising pensions, disability insurance, work accident insurance which had previously been privately organised, and a widow's and orphans' pension, for all public sector employees. Moreover, the law laid the foundation for social security in the private sector by setting up a provident and insurance fund providing pensions, disability, and work accident insurance. This provident fund was transformed into a full-fledged social insurance scheme for private sector employees in the wake of the 1961 reforms, which also significantly raised employers' contributions from 7 to 17 per cent. In 1959, the Public Organisation for Social Insurance was created, which added unemployment insurance for public sector employees. Finally, Law 63 of 1964 created the Health Insurance Organisation (HIO) and added health insurance coverage for public and private sector workers.<sup>127</sup> Established during the 'golden era' of left-wing Nasserism, the social insurance scheme, without any doubt, represented

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<sup>126</sup> Abdel-Fadil 1980, 119. See also O'Brien 1966, 188; and Barnett 1992, 119.

<sup>127</sup> For a good overview, see Abdel-Fadil 1980, 117-19.

a cornerstone of the regime's welfare effort.

Now, the question is whether increasing saving and thereby enhancing the financial capacity of the regime was a strategy or a by-product of social insurance legislation. A first indication that saving was indeed a pressing issue for the regime can be found in a study by the Egyptian historian Ramadan, who in 1997 published previously classified minutes of leadership meetings with Nasser.<sup>128</sup> Therein, Nasser is quoted saying that workers needed to understand the importance of saving: 'If voluntary saving does not work, then saving needs to be imposed by the government.'<sup>129</sup> A second, more detailed reference to the regime's motives can be found in the correspondence between the Ministry of Social Affairs and the Council of Ministers in the preparation of the social security legislation, preserved in the National Archives. Specifically, the explanatory notes accompanying the draft laws are particularly insightful as they uncover the regime's motives beyond the public discourse. Unfortunately, only the correspondence related to the 1952 and 1955 social insurance laws has been accessible, so the analysis comes with a caveat. That said, in the absence of any other 'smoking gun' evidence to the contrary, these archival documents carry a particular causal weight.

Regarding the 1952 law, the objective of increasing revenues features prominently in the explanatory notes. When presenting the draft law to the Council of Ministers in November 1952, the Minister of Finance pointed to the 'copious resources' that the funds will make available to the government and the extent to which this would support the national economy.<sup>130</sup> In fact, the explanatory note contains no reference at all to any social motives whatsoever. In a second note, dating from June 1953, the Ministry of Finance and Economics urged the Council of Ministers to extend social insurance to all new state employees.<sup>131</sup> Underlining the 'present conditions of austerity' – recall the conservative

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<sup>128</sup>Specifically, the minutes are from meetings of the Arab Socialist Union's (ASU) General Secretariat. The ASU, founded in 1962, was the regime's second attempt to establish a ruling party.

<sup>129</sup>Ramadan 1997, 137, 139.

<sup>130</sup>See note from 26 November 1952 in Egyptian National Archives 1953a.

<sup>131</sup>*ibid.*

economic policies after the FOM seized power – the Minister highlighted the ‘vast funding opportunities’<sup>132</sup> that would become available if social insurance were to be extended. In turn, this would help the government finance its development projects.

The same arguments for social legislation appear again in the context of the 1955 law, which extended social insurance to the private sector and thus considerably broadened its coverage. Note that this law was part of the bargain with labour as described above, so my point is certainly not that the law was entirely motivated by an economic rationale. However, the archival notes strongly suggest that economic reasons played a major role in the government’s motivation to pass the law.<sup>133</sup> Particularly insightful is an explanatory note from the Ministry of Social Affairs to the Council of Ministers from July 1955 laying out two key motives behind the draft law. First, social insurance was meant to calm down workers (‘bring a sense of stability to themselves’) and to make them more productive, so social considerations, albeit in a rather paternalistic sense, did indeed motivate the adoption of the 1955 law. Second, and important for my argument here, the generation of resources was again a key argument presented in favour of the law: ‘Given the enormous amount of money that the social insurance system will accumulate after a while, the social insurance fund will become a powerful source of money that the government can rely on to finance social reforms and economic development projects.’<sup>134</sup> Taken together, both notes demonstrate that the idea to implement social policies to fund social policies and development projects was not something the regime ‘discovered’ along the way. On the contrary, the generation of resources was a key motivation behind the social insurance legislation.

A further piece of evidence to support this claim is the ad hoc borrowings from the social security funds shown in Table 6.4. Starting almost immediately after the social insurance scheme came into operation, the loans taken from social insurance savings all

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<sup>132</sup> Egyptian National Archives 1953a.

<sup>133</sup> All references are taken from Egyptian National Archives 1955a.

<sup>134</sup> *ibid.*

occurred in the context of social policies, most notably school construction. A particularly telling example was the decision to increase pensions for public servants taken in May 1953. Technically, the entire measure amounted to a reallocation of deposits from one saving scheme to another, whilst declaring the transferred deposits additional revenue, which could thus be paid out to existing pensioners.

<b>Ad hoc Borrowing from Social Insurance, 1953-1954</b>	
<i>Cabinet Session</i>	<i>Measure</i>
22 April 1953	Ministry of Rural Affairs used surplus from social insurance to finance irrigation project
29 April 1953	1 million EGP borrowed from the savings fund for teachers to finance school buildings
6 May 1953	Exceptional increase of pensions was financed by declaring some deposits in the pension scheme additional revenue
20 September 1953	School Construction Administration was allowed to borrow 3 million EGP from the Social Insurance Fund to build schools
15 December 1954	School Construction Administration borrowed 2.5 million EGP from newly founded Pensions and Savings Fund

Table 6.4: Use of Social Security Savings for Social Purposes (1953-54)

Moving to the period in the run-up to the 1967 War until the aftermath of the 1973 War when resources were particularly scarce, Table 6.5 reveals the extent to which social insurance funds helped finance public expenditures. Based on IMF archival material,<sup>135</sup> the table shows that a quarter of Egypt's first 5-year plan and an average of 44.6 per cent

<sup>135</sup>Detailed figures for later years are unfortunately not available. However, there is ample secondary sources documenting the use of social insurance funds from the 1980s onwards. See, for instance, Helmy 2004; Roll 2010, 147-51; and Soliman 2011, 106.

of all financing needs in the 1963 to 1976 budgets were provided by social insurance funds. In the inter-war period between 1967 and 1973, transfers from social security to the budget were particularly heavy, amounting to nearly 70 per cent of financing in the 1971/72 budget. Technically loans, these transfers were amortised with a 6 per cent interest rates. Yet, according to Former Minister of Finance, Ali Lufti, interests were paid out irregularly,<sup>136</sup> and with inflation in the two digit figures for most of the the 1970s through to the early 1990s, these transfers are best described as hidden taxation.

<b>Financial Contributions of Social Insurance Funds to Public Spending, 1960-76</b>			
<i>Spending Programme</i>	<i>Amount (in million EGP)</i>	<i>Size of Contribution (in % of total financing needs)</i>	<i>Source</i>
5-year Plan 60/61-65/66*	385	24	IMF 1962a
State Budget 1963/64	69.8	35	IMF 1966
State Budget 1964/65	100.1	44.8	IMF 1966
State Budget 1965/66	131.7	25.6	IMF 1967
State Budget 1966/67	148.8	36.4	IMF 1967
State Budget 1967/68	173.4	47.4	IMF 1967
State Budget 1968/69	161.5	40.3	IMF 1969
State Budget 1969/70	172	31.8	IMF 1970
State Budget 1970/71	188	65.5	IMF 1973
State Budget 1971/72	202	69.4	IMF 1973
State Budget 1973	229	52.5	IMF 1973
State Budget 1974	256.6	49.5	IMF 1974
State Budget 1975	376	50.6	IMF 1975
State Budget 1976	290	21.8	IMF 1976

Table 6.5: Social Insurance Funds and Public Spending (1960-76)

\* The National Planning Act of January 1957 created a new National Planning Committee (NPC) with the mandate to draft a comprehensive Five-Year Plan for the fiscal years 1960/1-1964/5. See Craissati 1989, 63.

Based on the foregoing, I resort to quantitative methods to test whether the extension of social security coverage in Egypt systematically correlates with difficulties in the country's

<sup>136</sup>Personal interview, Cairo, 26 February 2013.



current account. The intuition here is the following: If the regime systematically used the social insurance mechanism to counterbalance balance of payments problems by increasing domestic saving, we should expect drops in Egypt's currency reserves to be associated with coverage extensions in the social security scheme. To test this conjecture, I use a simple logit regression with a binary indicator, *Extension*, accounting for any extension of legal social insurance coverage in the public or private sector between 1952 and 2010. In the absence of any readily available dataset for this variable, I coded it myself using secondary sources.<sup>137</sup>

On the right hand side, the key variable of interest is *Reserves*, taken from the IMF International Financial Statistics (IFS),<sup>138</sup> which measures the percentage change in Egypt's foreign currency reserves relative to the previous period. In light of my priors, I expect falling reserves to be associated with a higher probability of coverage extensions and vice-versa. Regarding control variables, the selection of appropriate controls is complicated by the fact that coverage extensions are poorly theorised and, hence, the choice of an appropriate set of control variables is unclear. In the absence of strong theory, I opt for a similar set of socio-economic and political controls as in previous spending regressions. Following Carter and Signorino,<sup>139</sup> I add time polynomials to account for dynamic time effects. Finally, I use robust standard errors and lag all right-hand side variables by one time period to prevent endogeneity concerns.

The findings are reported in Table 6.6. As before, Column 1 presents a restricted model with a set of core variables, while Columns 2-4 add further controls.<sup>140</sup> Focussing on the negative and highly significant coefficient of the *Reserves* variable, the results are in line with my expectations. They suggest that as reserves increase, the adoption of legislation extending social security coverage becomes less likely. Conversely, with diminishing reserves, the extension of coverage becomes more likely. Notably, the *Reserves*

<sup>137</sup>My main sources were Abdel-Fadil 1980; IDSC 2006; World Bank 1991; and Selwaness 2012.

<sup>138</sup>IMF 2015.

<sup>139</sup>Carter and Signorino 2010.

<sup>140</sup>Robustness tests adding additional covariates are presented in Appendix E.

variable is the only covariate that systematically correlates with coverage extensions, while the pattern for control variables in the main table and the robustness checks in Appendix E is much more variable.

To gauge the magnitude of the effect, I plot the predicted probabilities of coverage extensions by percentage changes of currency reserves shown in Figure 6.3. Whilst the range of percentage changes – from -150 to +150 per cent – seems large, reserve swings of this magnitude have empirically been observed in Egypt. Substantively, the graph highlights the growing likelihood of coverage extension as reserves start to shrink, which is indicated by the increasing slope of the graph left of the zero change line. At the mean level of reserve changes, which lies at 5 per cent, the probability of extensions amounts to about 20 per cent. Two standard deviations to the left, at -80 per cent, the average probability doubles to 40 per cent. Whilst these values should be taken with caution in view of the spreading confidence intervals, the results suggest that the extension of social insurance coverage was used by the regime to allay current account pressures – a finding in line with my argument about ‘cheap’ social policies.

Table 6.6: Current Account Crises and Social Insurance

	(1)	(2)	(3)	(4)
Reserves $t-1$	-1.609** (0.809)	-1.583** (0.741)	-1.681** (0.757)	-2.007*** (0.746)
GDP p.c. $t-1$	-0.000387 (0.00105)	-0.000250 (0.00104)	0.000125 (0.00137)	-0.000752 (0.00164)
Growth $t-1$	-5.955 (8.032)	-6.006 (7.935)	-5.895 (7.847)	-11.14 (9.241)
Revenue/GDP $t-1$	-0.0243 (0.0733)	0.0112 (0.0816)	0.0331 (0.103)	0.0840 (0.118)
Foreign Aid p.c. $t-1$	0.00446 (0.00575)	0.00499 (0.00592)	0.00600 (0.00559)	0.00698 (0.00533)
Output Gap $t-1$	0.00945 (0.00762)	0.00935 (0.00774)	0.00864 (0.00813)	0.0150 (0.0111)
Trade $t-1$		-0.0516 (0.0591)	-0.0750 (0.0723)	-0.0971 (0.0726)
Dependency $t-1$			0.272 (0.519)	0.225 (0.561)
IMF $t-1$				1.772 (1.277)
Years in office $t-1$	0.726 (0.593)	0.824 (0.545)	0.862 (0.573)	1.085 (0.674)
Years in office <sup>2</sup> $t-1$	-0.0815 (0.0622)	-0.0903 (0.0557)	-0.0931 (0.0578)	-0.121* (0.0707)
Years in office <sup>3</sup> $t-1$	0.00191 (0.00166)	0.00212 (0.00146)	0.00226 (0.00154)	0.00315* (0.00188)
Observations	58	58	58	58

Logit model with robust standard errors in parentheses.

Constant omitted. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

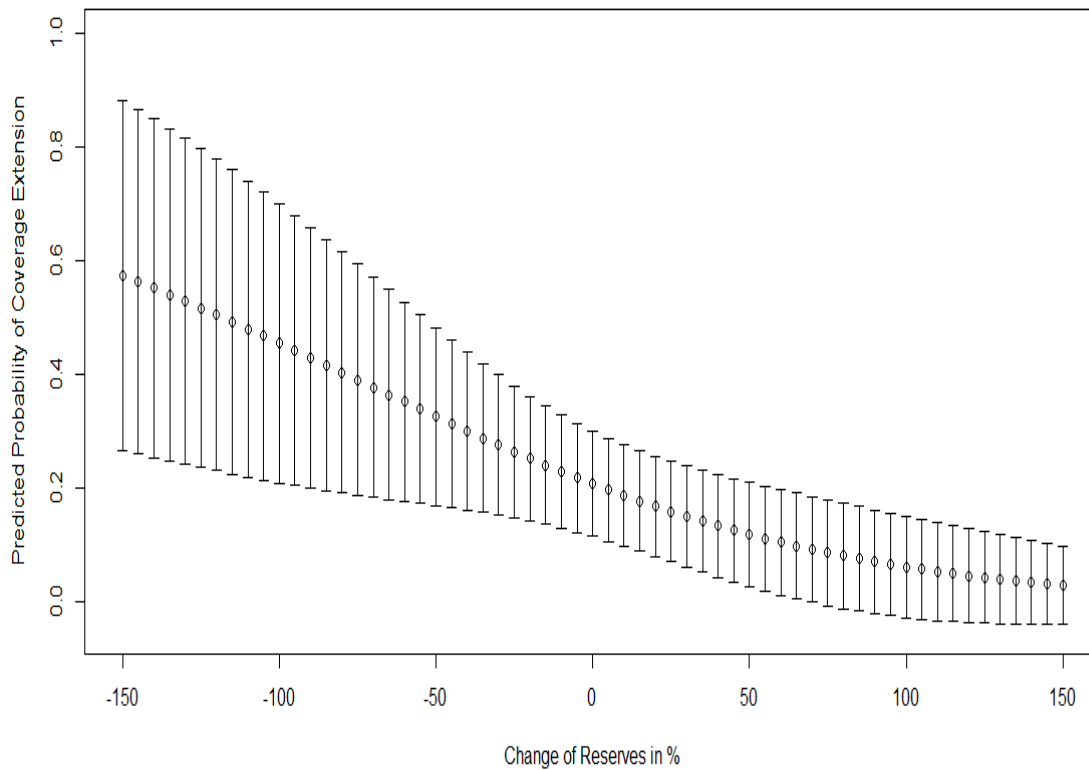


Figure 6.3: Predicted Probability of Extension of Social Insurance Coverage  
*Note:* Whiskers indicate 95-percent confidence bounds.

*A Note on Public Employment* Despite cumulative evidence that the regime relied on a strategy of ‘cheap’ social policies, detractors might still object that Nasser implemented a costly public employment programme for young graduates, which seems to contradict the argument made here. Indeed, the government initiated an employment guarantee scheme in 1961, formalised by law in 1964, which guaranteed every university graduate and, since 1964, secondary level graduates a guaranteed job in the public sector. This is reflected in Figure 6.4 which plots the evolution of public employment and investment in Egypt between 1953 until 2003.<sup>141</sup> Notwithstanding the visible rise of public employment, particularly under Nasser, the argument about ‘cheap’ social policies should not be easily

<sup>141</sup>Note that some data points, especially for public investment, had to be linearly imputed, such that the graph should only be viewed as an illustration of the broad trend.

dismissed for the following reasons:

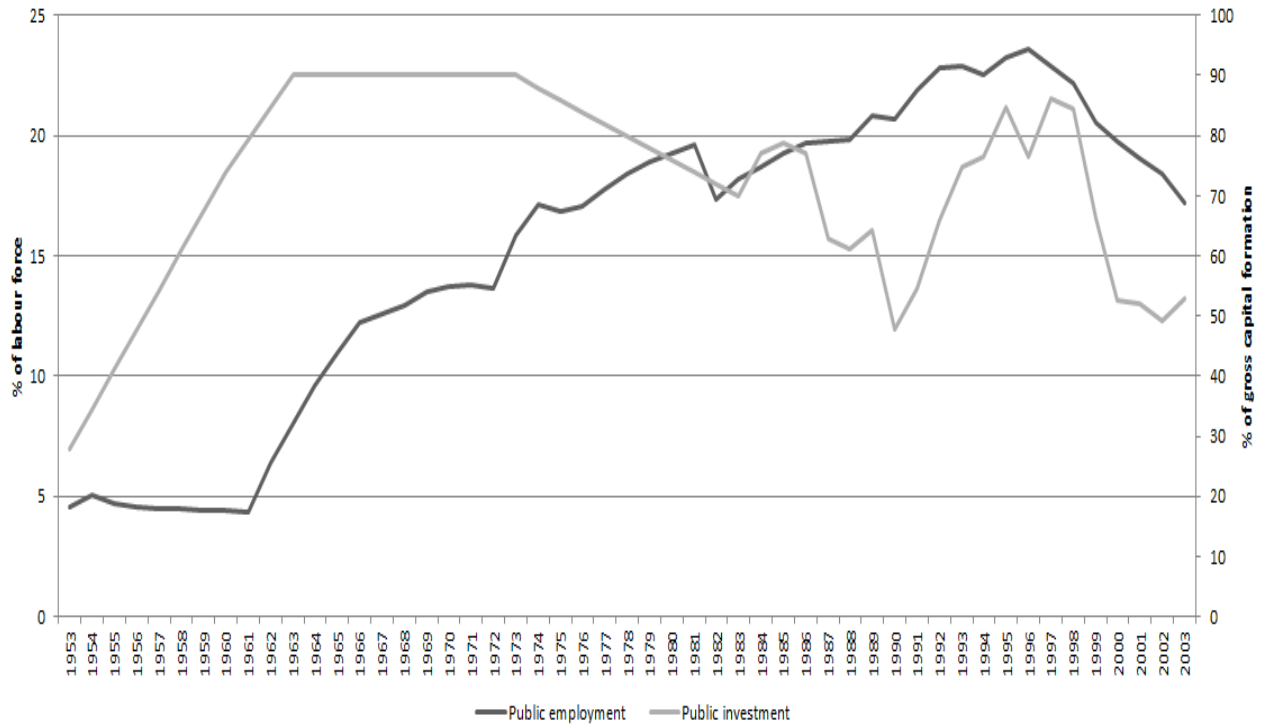


Figure 6.4: Evolution of Public Employment and Public Investment (1953-2003)

Source: IMF 2011; V. Lucas and Richter 2012; and El-Issawy 1984.

Note: Missing data linearly imputed.

First, to reiterate a point made in the Introduction, to the extent that public employment increased in the area of social welfare, the expansion has in fact been accounted for by the presented social spending figures. As for Egypt, the combined sectors of health and education accounted for over 60 per cent of public employment in the early 1970s<sup>142</sup> – the overlap between the spending and employment figures is thus considerable. Second, the employment guarantee was rather short-lived and faded out from 1978 onwards as the government began to exempt public enterprises from the scheme and gradually increased the waiting period for public sector jobs, which had reached more than five years by the late 1980s.<sup>143</sup> Even before, the government had sought to limit the annual intake of graduates by attempting to limit university enrolments to 35,000 a year.<sup>144</sup>

<sup>142</sup>Handoussa and El Oraby 2004, 2.

<sup>143</sup>Binzel 2011, 8.

<sup>144</sup>Mabro 1974, 157.

Third, while the growth of public employment from 5 to 15 per cent under Nasser was indeed remarkable, it should be noted that Egypt started from comparatively very low levels of public employment prior to the 1960s. What is more, one should bear in mind that by far the largest increase in public employment resulted from the nationalisations of nearly all industry and commerce in the early 1960s. This is reflected in the notably high levels of public investment, approximating 90 per cent in 1963. Importantly for my argument about ‘cheap’ social policies, it is safe to assume that, on balance, the nationalisations initially brought in more resources, be it in the form of appropriated profits or as a result of a better ability to tax the public sector.<sup>145</sup> Fourth, with 15 per cent by the end of the Nasser period, the level of public employment was rather modest relative to other countries and resembled ‘liberal’ OECD countries, such as the US and Australia. And even at its maximum, the Egyptian public employment was high but not exorbitant, approximating levels of ‘statist’ OECD countries, such as France. By no means did the Egyptian public employment scheme ever reach the magnitude of similar programmes in Arab Gulf countries, which, in fact, employ nearly their entire working-age population in the public sector.

### **Summary**

This section has made a number of key claims regarding the origin’s of Egypt’s welfare trajectory. First, having eliminated ideology as a credible explanation, I have established a causal link between intra-elite conflict and the regime’s incentive for welfare provision. Based on autobiographical accounts by main protagonists of the era, my analysis showed that the Free Officers’ shift to welfare distribution was driven by growing conflict within the Revolutionary Command Council. Second, I have demonstrated how this shift coincided with a simultaneous change in the regime’s threat perception, which, as a result, burdened the regime with a double-commitment to welfare and defence difficult to bear.

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<sup>145</sup> O’Brien 1966, 188. Note that I am not making any claims about the potential effects on productivity and growth in the long-run, which were most probably negative.

The resulting trade-off between ‘butter or guns’ was process-traced at the micro-level using cabinet minutes from the Egyptian National Archives. Third, I have provided both qualitative and quantitative evidence showing that this particular combination of circumstances lead to the implementation of ‘cheap’ social policies, consisting of low funding, costless regulatory market interventions, a significant reliance on windfalls, and a strategy of using social policies to generate resources, rather than distributing them. In the next section, I explain why this arrangement remained largely unchanged, even after the 1978 peace treaty with Israel.

## II. REMAINING STUCK: MECHANISMS OF PATH DEPENDENCE IN EGYPT’S WELFARE REGIME

This section draws the attention to the mechanisms of path dependence that have maintained Egypt on its welfare trajectory following the Camp David Accords in 1978. Given a noticeable change in the regime’s geostrategic environment, one could have expected a shift toward high welfare spending driven by a persistent incentive to cater to a low-middle class support coalition. In the absence of such a shift, this section turns to processes of path dependence as a possible explanation.

First, I demonstrate how the legacies of war making and external threat have transformed the army into an important veto played in the budget-making process and, by enticing debt making and costly coup proofing strategy, have considerably narrowed the regime’s fiscal margin of manoeuvre. Second, I use the examples of a failed attempt to overhaul Egypt’s health insurance in the 2000s and the subsidy system to make the case that constituencies in favour of welfare provision were only able to defend past achievements, yet were unable to enforce a higher level of welfare spending. The example of the health care reform is particularly informing as it coincides in its timing and ambition with the health insurance reform in Tunisia and thus provides an interesting case for compar-

ison. With regard to subsidies, my findings are very similar to Tunisia in that intended and unintended beneficiaries have become powerful stakeholders in the current system and successfully mobilised against systemic changes.

### **No Remarkable Peace Dividend: The Reasons**

Before discussing the peace dividend of the 1978 Camp David Accords, it is important to clarify what a ‘remarkable’ peace dividend should look like in light of my theoretical framework. Given a changed threat perception and a persistent incentive to distribute to a broad-based coalition, we would expect defence spending to decrease and welfare spending to rise after the peace accords. In Egypt, however, what happened was that defence spending only decreased with great difficulty and social spending failed to pick up. This subsection mostly addresses the former point, whilst the next subsection addresses the latter.

#### *Military Entrenchment and Continuation of Defence Spending*

There has been considerable disagreement in the literature whether or not defence spending has decreased after the end of the 1973 War.<sup>146</sup> This is certainly due to the enormous secrecy that surrounds the military in Egypt, but also reflects different reference points in comparing pre- and post-War spending. Based on my own original data, I seek to offer a middle-ground position, which partly reconciles the different accounts in the literature. To begin with, defence expenditures dropped from its absolute peak of nearly 20 per cent of GDP in 1975 to about 7.2 per cent in 1978, the year of the Camp David Accords. This reduction was partly imputable to the shedding of military personnel from highs of 900,000 after hostilities had ceased.<sup>147</sup> While this account seems supportive of the idea that there was a substantial peace dividend,<sup>148</sup> two points need to be made here.

<sup>146</sup> Compare, for instance, Kandil 2012a and Ayubi 1991, 256.

<sup>147</sup> This in line with the accounts of Kandil 2012a; Springborg 1989; and Owen 2004.

<sup>148</sup> See Cordesman 2004, 3.



First, the levels of defence expenditure between 1967 and 1975 were economically absolutely unsustainable and, in fact, brought the economy to the brink of collapse by the mid-1970s.<sup>149</sup> Rather, it seems more sensible to compare defence spending to the levels prior to the 1967 War – 7 per cent of GDP on average – when military spending was already crowding out social welfare. Second, in light of this, it should be noted that defence spending after the initial cut-back remained comparatively and persistently high, especially relative to levels of welfare high-spenders, such as Algeria and Tunisia.<sup>150</sup>

Regarding the continuing pressures for high defence spending, the reasons for this clearly lay in the military's substantial entrenchment in the state. Dominating Egypt's political elite, the army had by 1967 "extended its tentacles" into the various administrative, economic and political domains, as well as into the security apparatus.<sup>151</sup> Kandil even goes so far as to talk about a 'shadow state' run by the military.<sup>152</sup> By 1970, almost every other position in the upper echelons of the administration was occupied by the military, which gave the military important political leverage on the decision-making process.<sup>153</sup> Furthermore, Nasser's successor Sadat, though keen on demilitarising Egyptian politics, had a strong interest in keeping the army complacent as he lacked a solid power base within the regime when he took over after Nasser's surprising death in 1970.<sup>154</sup> Shortly before his assassination, Sadat appointed Field Marshal Abu Ghazala as Minister of Defence and Chief of Staff, who would become a serious competitor for Sadat's successor, Hosni Mubarak, and a ardent defender of the army's corporate interests.<sup>155</sup> The army has thus remained a key political veto player after the Camp David agreement, eager to preserve its political and economic interests.

As a result, reducing the defence budget beyond the immediate cut-backs after the

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<sup>149</sup>See Barnett's 1992 striking account of the post-war period; also Baker 1978, 136.

<sup>150</sup>Their defence spending average lies between 1.5 and 2 per cent of GDP.

<sup>151</sup>El-Sherif 1995, 15.

<sup>152</sup>Kandil 2012b.

<sup>153</sup>El-Sherif 1995, 86-87.

<sup>154</sup>Barnett 1992, 131.

<sup>155</sup>Springborg 1989, 98; Ayubi 1995, 256; and Kandil 2012b, 3970.

end of hostilities proved very difficult. This point is nicely illustrated by a quote from the former Minister of Economy, Abdel-Latif El-Sayed, who in 1977 ruled out the possibility to further cut back the defence budget: ‘There are four major things in the budget: military, investment, subsidies and debt service. Should we cut back on our military? You can’t do that. You cannot let defence go.’<sup>156</sup> The veto power of the army was also confirmed by three former ministers of Finance, Abdel-Aziz Hegazy, Ali Lutfi, and Medhat Hassanein, who respectively served as head of the Treasury under all three Egyptian presidents, Nasser, Sadat, and Mubarak.<sup>157</sup> They describe a practice whereby the military prevents a detailed discussion of the defence budget within the cabinet and instead makes direct contact with the presidency, by-passing the Prime Minister and the Ministry of Finance. Lutfi also stated that his resignation was prompted by pressure from the military as they were unhappy about proposed further cuts.

Given this distribution of power, it is little surprising that defence spending continued to hover at about 7 per cent of GDP until the late 1980s, after which it has witnessed a gradual decline.<sup>158</sup> To compensate for destruction of equipment during the war, the army successively lobbied for a replacement of the mostly Soviet weaponry with Western equipment, which proved to be much more expensive.<sup>159</sup> To illustrate, from 1975 to 1981 the army imported three times more worth in armament than it had spent between 1955 and 1975.<sup>160</sup> Continued upward pressures also resulted from a resurgence of military recruitment, which increased the army from 298,000 in 1985, to 460,000 in 1980, to 680,000 by the end of the 1990s.<sup>161</sup>

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<sup>156</sup>New York Times 1977.

<sup>157</sup>Personal interview, Cairo, 28 January, 26 and 24 February respectively. Hegazy was Minister of Finance from 1968 to 1974, Lutfi from 1978 to 1980, and Hassanein from 1999 to 2004.

<sup>158</sup>Note that these figures only include military spending financed through the state budget and not the 2 billion \$US in military aid granted after Camp David as only budgetary defence spending has a crowding out effect on welfare.

<sup>159</sup>Butter 1989, 127; and Beattie 2000, 214.

<sup>160</sup>Barnett 1992, 130.

<sup>161</sup>Ayubi 1995, 255.

*Shift to Security Expenditures as Coup-Proofing Strategy*

The army's continuing clout had a further knock-on effect on public spending patterns which undermined a reallocation of the available resources to social welfare. Considering the new president's precarious position after his succession to Nasser, coupled with his eagerness to temper the army's political influence, Sadat opted for a deliberate strategy to build up the Ministry of Interior and its security apparatus to countervail the army. Coup-proofing by staffing the security apparatus became even more vital for Sadat after he had thwarted preparations for a military coup against him in 1971.<sup>162</sup>

In financial terms, this bolstering of the regime's security apparatus absorbed an increasing share of the state budget. Between 1977 and 1985, the budget of the Interior Ministry witnessed a nearly fourfold increase from 91 million EGP in 1977 to 348 million in 1985.<sup>163</sup> This spending shift was accompanied by a rapid rise of Egypt's police force. According to figures from Kandil, the number of policemen swelled from 150,00 in 1974 to over two million by the early 2000s.<sup>164</sup> This substitution effect is visible in Figure 6.5. As shown, the decline of defence spending is entirely compensated for by a growing security budget until the mid-2000s, which means that combined spending levels of defence and security have remained nearly unchanged for most of the post-Camp David period.

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<sup>162</sup>Hinnebusch 1985, 40.

<sup>163</sup>Springborg 1989, 143.

<sup>164</sup>Kandil 2012b, 4368-69. See also Soliman 2011, 54.

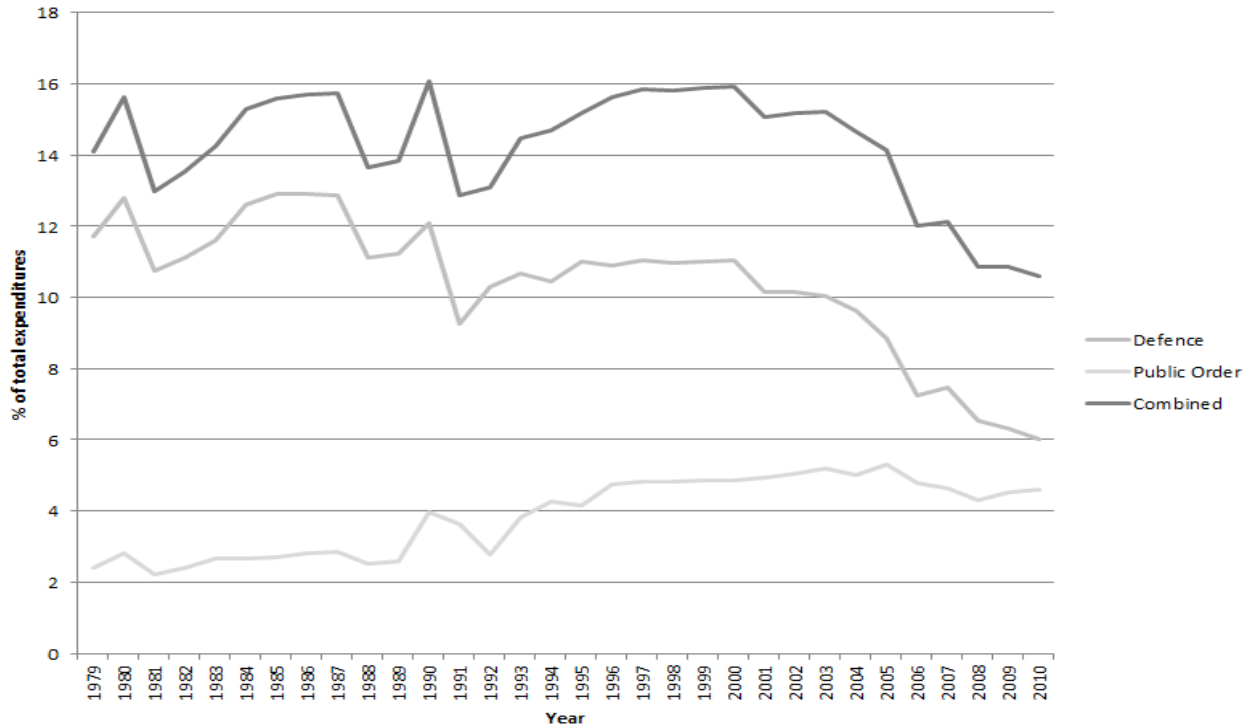


Figure 6.5: Defence and Security Spending as % of Budget  
Source: IMF 2011; and V. Lucas and Richter 2012.

### *The Rising Burden of Debt Service*

Finally, it would be wrong to assume that resources released from defence spending cuts were freely available for the regime to be invested in social welfare. As Wahid rightly points out, one of the primary reasons why the peace dividend did not trickle through was the growing burden of debt service weighing on the budget.<sup>165</sup> Again, the overflowing debt service need to be seen in the context of external threat and was thus, at least indirectly, attributable to the causal factors emphasised in my analysis. Aggravating the destruction of two wars within a period of six years was the fact that the hostilities had led to an occupation of the Sinai, which dealt a devastating blow to Egypt's three main sources of income: the Suez Canal, the Sinai oil fields, and tourism.<sup>166</sup> Lacking sufficient tax revenue to compensate for the losses, the regime thus had to rely on domestic and,

<sup>165</sup> Wahid 2009, 136-37.

<sup>166</sup> Barnett 1992, 129.

more importantly, international loans to finance its deficit. This was reflected in barely sustainable public debt ratios hovering between 100 and 140 per cent of GDP between 1979 and 1995 (see Figure 6.6).



Figure 6.6: Public Debt to GDP (1970-2010)

Source: Abbas et al. 2010.

In sum, knock-on effects stemming from the legacies of the regime's past exposure to external threat undermined a diffusion of the peace dividend into social welfare. Moreover, considering the disastrous constitution of the Egyptian economy after a decade of war preparation and destruction, constituencies in favour of an expansion of social welfare had to take a defensive posture as existing social policies came under attack from austerity-oriented governments. Looking at the mechanisms of path dependence from the perspective of welfare constituencies, the following subsection demonstrates how the mobilisation of intended and unintended beneficiaries of social policies foiled a dismantling of the existing structures of welfare distribution and thus forced the regime – both of Sadat and Mubarak – ‘to contend with the legacies of Nasserism and its commitment to the masses’

welfare<sup>167</sup> whilst lacking the resources to fully honour this commitment.

## **Too Weak to Push, Too Strong to Withdraw: Welfare Constituencies**

### **Defending the Status Quo**

This subsection analyses the beneficiaries of social policies as an additional factor explaining persistence in the Egyptian welfare trajectory after 1979. Two mechanisms are particularly important in this context: First, whilst lacking the political resources to push the regime onto a high-spending trajectory, welfare constituencies have successfully managed to fend off attempts at welfare retrenchment. Second, social policies have not only benefited the groups initially targeted. In fact, past welfare provision has engendered a powerful group of unintended beneficiaries who have come to play an important role as veto players standing in the way of any meaningful reform to the current status quo. I demonstrate these mechanisms using the example of a failed attempt to implement a major reform of the Egyptian health insurance system in the 2000s, and by analysing the Egyptian subsidy system. The latter case is particularly insightful to uncover the influence of unintended beneficiaries, which include the public sector, the army, and politically connected business elites. Looking at the same policy areas as in Tunisia, the following analysis can also be read in comparative perspective to Tunisia and I highlight commonalities and differences in the summary of this section.

### *Health Insurance Reform in the 2000s*

The attempted reform of Egypt's public health insurance system represented the single biggest reform attempt since the inception of the Egyptian Health Insurance Organisation (HIO) in 1964. Seeking to combine elements of cost-reduction and partial privatisation with the ambition to universalise health insurance to the entire Egyptian population, the reform failed for two reasons: the mobilisation of beneficiaries in favour of the status quo

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<sup>167</sup>Barnett 1992, 148.

and the inability of the regime to muster the financial resources to fund a large-scale extension of coverage to low-income segments of the Egyptian population. We can thus see elements of constituency mobilisation and ‘cheap’ social policies in the reform process.

Regarding the objectives of the reform, it is important to note that the reform was motivated by economic and political motives which, to some degree, stood in contradiction with each other. At the economic level, the reform was prompted by the realisation that the current health insurance scheme was financially unsustainable. To start with, the existing benefit package has been generous, comprising costly surgeries such as transplants, plastic surgery, and treatment abroad. What is more, benefits have neither been limited by quantity nor by costs.<sup>168</sup> This has resulted in increasingly high deficits. For instance, the difference between average premium and costs for government employees has reached 207 per cent; for pensioners, it is even higher, amounting to 336 per cent.<sup>169</sup> Loss-making since the early 2000s, the scheme had reached a deficit of 12 billion EGP shortly after Mubarak’s ouster, whilst the total budget of the HIO amounted to 4 billion EGP.<sup>170</sup>

At the political level, the reform was viewed by the regime as an important asset in Mubarak’s 2005 re-election bid in what would be the first competitive presidential elections in the country’s history.<sup>171</sup> By universalising health insurance, the regime was hoping to address a number of deficiencies in the health care system: high out-of-pocket expenditures (72 per cent) which have been driven by uninsured Egyptians opting for private health care instead of using the free-of-charge facilities provided by the Ministry of Health, the quality of which is considered very low;<sup>172</sup> and the fact that the current health care insurance exclusively insures the policyholder and not any dependants. Taken together, the measure intended to raise the social profile of the National Democratic Party

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<sup>168</sup>WHO 2005, 34.

<sup>169</sup>World Bank 2015, 44.

<sup>170</sup>Al-Masry Al-Youm 2011.

<sup>171</sup>Personal interview with Awad Tag Eddin, Cairo, 19 February 2013. Tag Eddin was Minister of Health between 2002 and 2005.

<sup>172</sup>World Bank 2015, 43; and Clark 2004a, 47. Note that these free-of-charge facilities exist in parallel to the health care facilities owned and run by the Egyptian Health Insurance Organisation. The latter are only available to persons with health insurance coverage.

(NDP) – Egypt’s ruling party.

Addressing these dual objectives, the proposed reform included measures of cost-reduction and coverage extension.<sup>173</sup> The former failed to overcome the resistance from existing vested interest groups; the latter failed because the pro-welfare constituencies inside and outside the government were too weak to mobilise necessary financial resources. Regarding cost reduction, the draft reform included three main components: First, existing benefits should be restructured into a basic benefits package, comprising a number of major diseases, such as cancer, diabetes, and hepatitis. Similar to initial reform proposals in Tunisia, additional diseases should be insured by contracting complementary private insurances.<sup>174</sup> Second, the reform envisaged a private out-of-pocket contribution of up to 30 per cent for all policy-holders depending on income, a demand which was pushed in particular by the ruling NDP party.<sup>175</sup> Third, the reform aimed for a gradual privatisation of health care facilities owned by the HIO. To this effect, the NDP sought to split off the HIO’s role as a health care provider from its function as an insurer. The idea was then to sublet 74 per cent of HIO facilities to private providers as a first step toward full privatisation.<sup>176</sup> Particularly after the appointment of Hatim Al-Gibaly as Minister of Health in 2005 – Al-Gibaly is the CEO of one of the biggest private hospitals in Egypt<sup>177</sup> – privatisation became a major priority of the reform project. Under his aegis, the HIO was transformed into a publicly listed holding company in 2007, with the idea to make it more profitable, open it to non-HIO members and private investors, and ultimately privatise it.<sup>178</sup>

These propositions met with serious resistance on the part of stakeholders in the current

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<sup>173</sup>A first draft was launched and then withdrawn in 2000. The second draft, proposed in 2002, was then discussed throughout the 2000s until Mubarak’s ouster, without having been put to a parliamentary vote.

<sup>174</sup>Clément 2007, 306; and IHS 2010.

<sup>175</sup>Khalil 2006, 93.

<sup>176</sup>Clément 2007, 322.

<sup>177</sup>Fintz 2006.

<sup>178</sup>Clément 2007, 308. Since the 2011 uprisings, all privatisation attempts have come to a hold.



system.<sup>179</sup> Whilst opposition to the law occasionally took the form of public protests – such as in December 2009 when 500 pensioners demonstrated in front of parliament demanding a withdrawal of the law<sup>180</sup> – most of it was voiced in closed-door negotiations with the ministries in charge. The first interest group to express their concern were employers who opposed the reform for its plans to increase employers' contributions to the new insurance system.<sup>181</sup> This concern was partly shared by the government itself, in particular the Ministry of Finance, because, as Egypt's largest employer, the state would have had to shoulder the financial costs of higher contributions as well. To address these concerns, the government offered to offset higher contributions by reductions in the contributions to work accident insurance and shifting the costs of sick leave to the HIO instead of employers.<sup>182</sup> The government later back-pedalled even further, offering reductions in the employers' contributions which were to be offset by higher income taxes.<sup>183</sup>

Considerable opposition also emerged from policyholders, in particular within the public sector. Organised in the Egyptian Trade Union Federation (ETUF), public sector workers expressed strong resistance against almost all aspects of the proposed law<sup>184</sup> – unsurprisingly, considering that the new insurance scheme would be much less beneficial than the old one. Out-of-pocket contributions, for instance, had last been negotiated in 1991 and were generally very low.<sup>185</sup> An increase of up to 30 per cent of the treatment costs was simply unacceptable. A second point government employees took exception to was the proposed increase of contributions, arguing that these would be primarily used to fill the government's budget deficits as happened with social insurance reserves in the

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<sup>179</sup>The following assessment is informed by interviews with Awad Tag Eddin, Minister of Health until 2005, and Kamel Maait, Deputy Minister of Finance responsible for social insurance. The interviews were conducted in Cairo on 19 February 2013 and 14 November 2012 respectively.

<sup>180</sup>American Embassy in Cairo 2009.

<sup>181</sup>Personal interview with Kamel Maait, Deputy Minister of Finance in charge of social security, Cairo, 14 November 2012.

<sup>182</sup>Clément 2007, 317.

<sup>183</sup>Personal interview with Kamel Maait, Cairo, 14 November 2012. See also IHS 2010.

<sup>184</sup>Personal interview with Awad Tag Eddin, Cairo, 19 February 2013.

<sup>185</sup>Clément 2007, 317.

past.<sup>186</sup> More importantly, they opposed the government's idea to unify the contribution system, which would have meant that the full salary of government employees would have been used as a basis to calculate the contribution, rather than just the basic salary.<sup>187</sup> The full salary comprises a number of supplementary payments and bonuses, which in some administrations can amount to 83 per cent of the basic salary.<sup>188</sup> In essence, the new calculation system would have entailed a substantial increase of employees' contributions.

Finally, current policyholders represented by ETUF and other civil society associations objected to the inclusion of new sectors under the umbrella of the HIO without adequate funding, but, as we have seen, refused to provide a major contribution to increasing funding. The following quote pointedly summarises this insider logic: 'More than 90 per cent of private, public companies and associations have their own health insurance systems [...] So why, then, deprive them of this privilege and force citizens to join a system forcing them to pay extra money in return for a lesser health service?'<sup>189</sup> To alleviate opposition to the reform, the government first resorted to co-optation by making a representative of ETUF head of the newly founded HIO holding company. Yet, according to both Kamel Maait and Awad Tag Eddin, the government remained fearful that higher contributions would lead to strikes within the public sector and the HIO itself, in particular in a context of growing labour unrest since 2008.<sup>190</sup>

Regarding the second objective, coverage extension, the government's aim was to insure the 54 per cent of the Egyptian population without any health insurance coverage and to introduce a family-based insurance system with free insurance of dependants. In view of the high poverty level within the country, the government predicted that it would have to subsidise the premiums of up to 40 per cent of the Egyptian population, which meant that about two-thirds of the planned coverage extension would have to be funded entirely by

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<sup>186</sup> Clément 2007, 318.

<sup>187</sup> Personal interview with Kamel Maait, Cairo, 14 November 2012.

<sup>188</sup> Handoussa and El Oraby 2004, 7.

<sup>189</sup> National Council of Women (NCW) representative, quoted in Reem 2010.

<sup>190</sup> Personal interviews, Cairo, 14 November 2012 and 19 February 2013.

the state.<sup>191</sup> Estimates of the exact cost varied but it seemed clear that at least 17 billion EGP were needed in addition to the current health care budget, which at the end of the Mubarak's era stood at 10 billion EGP.<sup>192</sup>

Unclear, however, was where this money should come from as increased business taxes were unpopular with employers and employees remained adamant about contributions. Even with increased taxation, an increase of the health budget by nearly 100 per cent could have only been financed by a reshuffling within the government budget, for which the Ministry of Health lacked the political clout within the cabinet. This point is made clear by former Minister of Health, Tag Eddin: 'Money was the key issue in the failure of the health insurance reform [...] Our budget was never enough and our spending lower than needed. [...] In the drafting of the budget, the Ministry of Finance would only ever give us the "leftovers".'<sup>193</sup> The faint influence of the pro-welfare constituency within the cabinet is also illustrated by a 60 per cent spending cut in the budget of the Ministry of Health in 2005 – right admits the negotiations about the health insurance reform.<sup>194</sup> Outside government, increased funding for health care was backed by the labour federation, the proposals of which were very similar to the Tunisian UGTT's proposition of an 'upgrading' of the public sector system: higher contribution for employers, construction of more hospitals, higher salaries for healthcare workers, and a boost in hiring.<sup>195</sup> Yet, unlike the UGTT, ETUF lacked the political power to push these demands through and, in the event, resigned itself to defending a beneficial status quo.

*Intended and Unintended Beneficiaries: The Food and Energy Subsidy System*

Food and energy subsidies represent another policy area where the influence of stakeholders in the status quo is particularly visible. This system of subsidisation has spawned

<sup>191</sup> Personal interview with Kamel Maaït, Cairo, 14 November 2012.

<sup>192</sup> IHS 2010. Youmna El Hamaki, former member of the NDP General Secretariat, estimates the additional costs at 40 billion EGP. Personal interview, Cairo, 23 January 2013.

<sup>193</sup> Personal interview, Cairo, 19 February 2013.

<sup>194</sup> Fintz 2006, 8.

<sup>195</sup> Clément 2007, 320.

intended and unintended beneficiaries who have a vested interest in the continuation of these subsidies. Anticipating my findings, the following analysis brings to light important parallels between Egypt and Tunisia regarding the political dynamics underpinning the subsidy system: food riots have left a deep imprint on the regime, making elites reluctant to engage in profound reforms; and beneficiaries in the production chain of subsidies have over time grown into a second pillar of support of the status quo. The following analysis follows the structure of the previous chapter by, first, presenting a succinct summary of the Egyptian subsidy system; second, demonstrating the legacy of past food riots; and, third, elucidating the stakes of unintended beneficiaries in the subsidy system. For the latter, I employ both qualitative and quantitative evidence.

*The Egyptian Subsidy System: A Brief Overview* The subsidisation of food and energy products has been a major component of Egypt's social policies. As regards food products, subsidies were first introduced in the aftermath of World War I in an attempt to temper food price inflation.<sup>196</sup> Never officially repealed and reformed by Nasser in the mid-1960s,<sup>197</sup> food subsidies are provided in two different ways: First, cheap 'baladi' bread is available to all Egyptians at a subsidised price.<sup>198</sup> It is consumed by 90 per cent of all Egyptian households on a daily basis, with 60 per cent relying predominantly on subsidised bread.<sup>199</sup> Second, ration cards offer a quota of basic food items for a maximum of four persons per card.<sup>200</sup> In the past, ration cards provided up to 20 food items,<sup>201</sup> yet gradual reforms since the 1980s have restricted quotas to five goods: tea, sugar, vegetable oil, pasta, and rice.<sup>202</sup> In return, the number of card holders has considerably grown, in particular after the government decided in 2008 to reopen registration for children born

<sup>196</sup>Omar 2012, 47; and Ahmed et al. 2001, 5.

<sup>197</sup>Sadowski 1991, 159; and Omar 2012, 48.

<sup>198</sup>There is also a partly subsidised bread produced from higher-quality 76-percent extraction flour.

<sup>199</sup>IDSC 2010, 3.

<sup>200</sup>World Bank 2010a, i.

<sup>201</sup>Omar 2012, 42.

<sup>202</sup>World Bank 2010a, 3. In 1981, the government introduced two categories of ration cards: fully subsidised (green) and partially subsidised (red) cards.

after 1989.<sup>203</sup> As of 2008, 9 out of 10 Egyptians (69.2 million) benefited from a ration card.<sup>204</sup> Proportionally, with 66 per cent ‘baladi’ bread represents the bulk of food subsidies.<sup>205</sup> Distributively, food subsidies are highly regressive, with most benefits reaped by middle- and high-income groups.<sup>206</sup> Politically, food subsidies favour large urban communities at the expense of rural areas as, in the words of former Minister of Supply, Ali Moselhi: ‘If you control Cairo, you control the whole of Egypt.’<sup>207</sup>

While the technical aspects of the subsidy system resemble the Tunisian case, it is important to note that, after significant liberalisation in the trade with food commodities, both the state and private traders operate in the procurement of wheat and rice to produce the subsidised items.<sup>208</sup> About two-thirds of the grain is purchased by the state, represented by the General Authority for Supply Commodities (GASC), with the remainder being procured by private traders.<sup>209</sup> The grain is then distributed at a subsidised price to licensed public and private mills and, in the case of wheat, bakeries purchase the resulting ‘baladi’ flour from the mills. The price bakeries pay for ‘baladi’ flour is fixed and ensures a guaranteed profit for mills. Finally, bakeries sell the ‘baladi’ bread at a fixed rate of 5 piastres (less than 1 US cent), with the GASC compensating the bakeries for the difference between production costs and market price. Given the huge difference between the market and subsidised price of flour, bakers have a strong incentive to sell flour on the black market. They also sell subsidised bread as animal feed which is more expensive than ‘baladi’ bread. Up to a third of all subsidised flour and bread is leaked in this manner.<sup>210</sup>

In budgetary terms, food subsidies have represented on average 3 per cent of GDP between 1953 and 2009. However, this average masks the enormous fluctuations of the subsidy bill over time (see Figure 6.7). While under Nasser expenditures for subsidies

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<sup>203</sup>World Food Programme 2008a, 22.

<sup>204</sup>ECES 2010, 7.

<sup>205</sup>IDSC 2010, 2.

<sup>206</sup>IDSC 2005, 12; and Aboulenein et al. 2010, 10.

<sup>207</sup>Personal interview, Cairo, 13 January 2013. Moselhi served as minister from 2005 until 2011.

<sup>208</sup>For a good overview, see Ghoneim 2012.

<sup>209</sup>World Bank 2010b, 4.

<sup>210</sup>ibid., 2; and World Food Programme 2008b.

gradually decreased and were thus neither politically nor economically considered a problem,<sup>211</sup> the subsidy bill increased more than ten-fold following the 1973 War as a consequence of rising global commodity prices. Coinciding with Egypt's post-war reconstruction, this upsurge put additional pressure on a regime scrabbling for money. From their peak at 10.5 per cent of GDP in 1982, food subsidies have since declined but the vulnerability to price shocks from the world market has continued, visible in rising expenditures as a result of global food price inflation in the late 2000s.

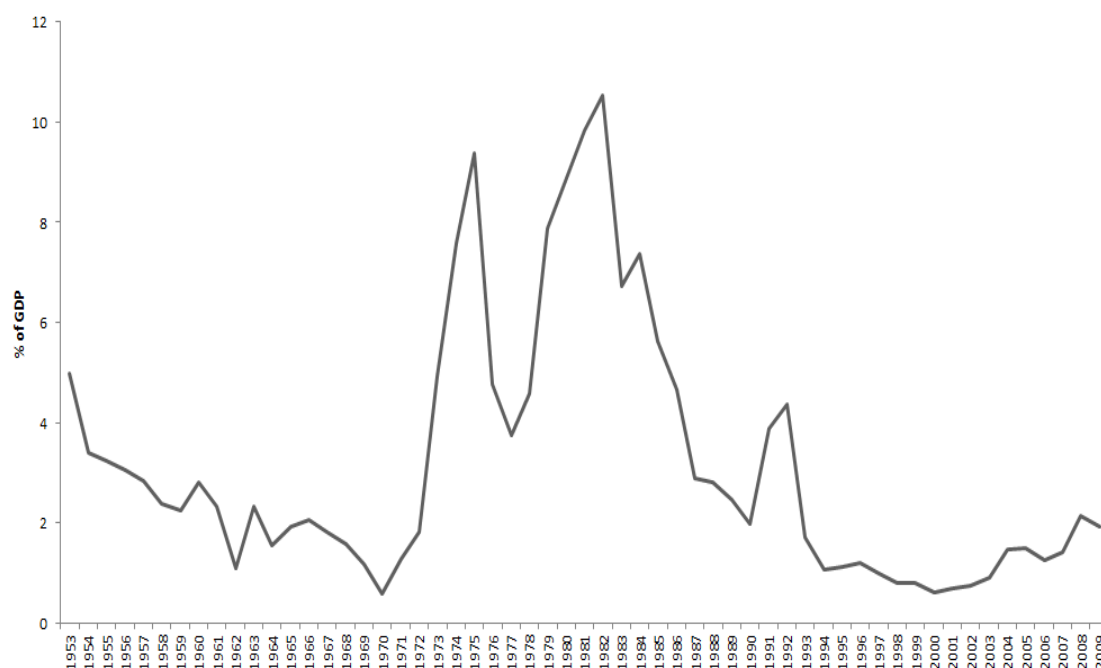


Figure 6.7: Expenditures for Food Subsidies as % of GDP (1953-2009)

Source: IMF 2011; and V. Lucas and Richter 2012.

Alongside food subsidies, Egypt has maintained an extensive system of energy subsidies, which offers energy products, such as petrol, gas, and electricity, at favourable rates below the world market price. Whilst oil and gas exports from Egypt have been declining, the country is still a net exporter of energy, which makes the calculation of energy subsidies slightly more complicated. Available estimates from the late 2000s (see Figure 6.8) show that, since the rapid increase of world energy prices since the early

<sup>211</sup>Sadowski 1991, 159.

2000s, the cost of energy subsidies has outweighed the cost for subsidised food. In terms of their distributive impact, energy subsidies disproportionately benefit the highest quintile of income groups, who reap 33 per cent compared to 3.8 per cent captured by the lowest quintile<sup>212</sup> and energy-intensive industries, such as transport and communications.<sup>213</sup>

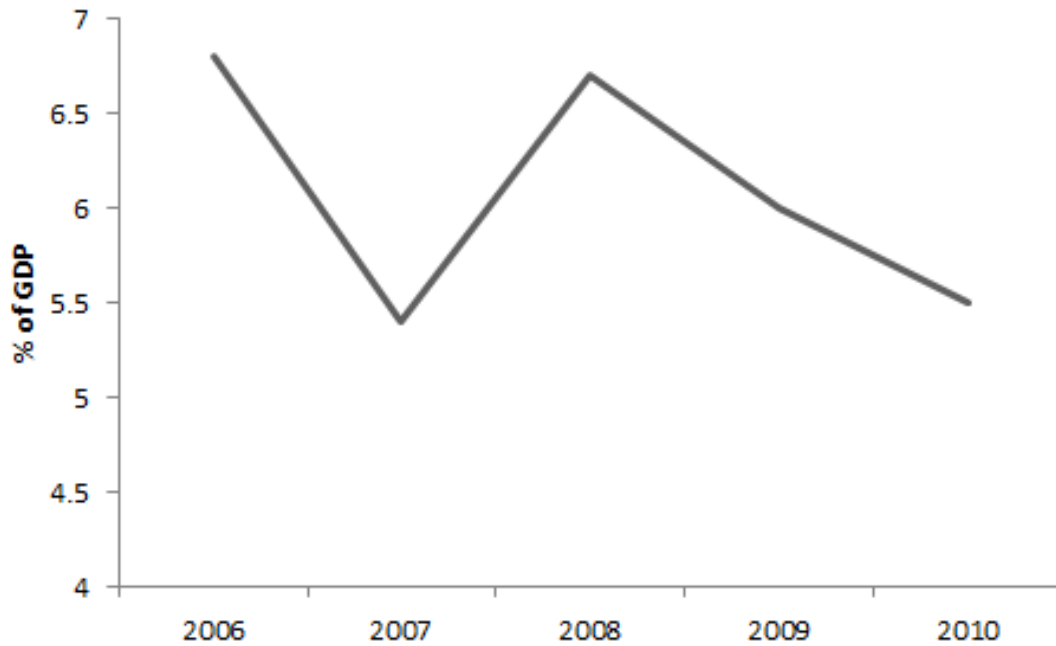


Figure 6.8: Expenditures for Energy Subsidies as % of GDP (2006-10)  
Source: Vagliasindi 2012, 205.

Overall, like in Tunisia, food and energy subsidies are suboptimal social policies, failing to reach groups in need and pushing up expenditures and over-consumption. While Egyptian governments have been fully cognisant of these facts, subsidy reform has proven difficult, if not impossible, in the face of intended and unintended beneficiaries eager to maintain the status quo. Both groups shall now be scrutinised in turn.

*The Told Story: Food Riots and Mobilised Beneficiaries* Like in Tunisia, past food riots have left a lasting effect on the regime's willingness to reform the subsidy system. The major event in Egypt dates back to 18 January 1977 when President Sadat announced

<sup>212</sup>Fattouh and El-Katiri 2012, 38.

<sup>213</sup>ECES 2010, 4.

price increases for a number of subsidised food items, such as rice, tea, and gas cylinders for households. Notably, the main subsidy for ‘baladi’ bread was left untouched,<sup>214</sup> which did not spare the regime from popular unrest, however.

Demonstrations against the measures first broke out in Egypt’s centre of steel production, Helwan, and quickly spread to the urban centres of Cairo, Alexandria, and other big cities, mobilising industrial workers, students, state employees, and, to a lesser extent, the urban poor along the way.<sup>215</sup> As demonstrations rapidly turned violent, with administration buildings and consumer centres being attacked and burnt, a state of emergency was declared in several provinces and the regime deployed the army for the first time since 1952 to quell the unrest. Rioting only stopped after Sadat repealed the measures on 20 January.<sup>216</sup> The army had to be called upon a second time when minor increases in the price of bread prompted rioting in the textile centre of Kafr al-Dawwar in 1984.<sup>217</sup>

In both incidents, the groups rallying against subsidy reductions did not primarily hail from the ranks of marginalised urban poor. On the contrary, they represented core constituencies of the regime’s lower-middle class coalition, such as industrial workers and public sectors employees.<sup>218</sup> While the short-term response consisted of repeal and spending increases,<sup>219</sup> the long-term legacy of key support groups rising up against price increases was a realisation among political elites that ‘the bread subsidy cannot be touched except at the peril of the regime.’<sup>220</sup> This legacy is conspicuous both in archival documents and interviews.

As for the former, references to the food riots are paramount in the correspondence between the Egyptian government and the IMF, which was declassified in the early 2000s.<sup>221</sup> For example, in 1987 the Egyptian government rejected the IMF’s demand for

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<sup>214</sup> Ahmed et al. 2001, 7.

<sup>215</sup> Walton and Seddon 1994, 196-97.

<sup>216</sup> Sadowski 1991, 156.

<sup>217</sup> Ayubi 1991, 229.

<sup>218</sup> Ahmed et al. 2001, 7.

<sup>219</sup> Sadowski 1991, 160.

<sup>220</sup> Waterbury 1983, 230.

<sup>221</sup> See IMF 1978; IMF 1980; IMF 1982; IMF 1987b; IMF 1988; and IMF 1989.



faster subsidy reductions, referring to ‘the delicate political and social fabric of the country’ which would necessitate gradual adjustment.<sup>222</sup> Two years later, the Egyptian Ministry of Finance again turned down an IMF demand for reductions stating that ‘the resultant price increases would [...] exceed the absorptive capacity of the population, thereby endangering social and political stability.’<sup>223</sup> Evoking the legacy of past riots, the Egyptian government repeatedly insisted that ‘the pace of reform had to be geared to the likely public reaction.’<sup>224</sup>

The same concern of not to repeat the 1977 riots also emerges from interviews with former policy-makers. According to former Minister of Finance, Medhat Hassanein, food subsidies are ‘politically way to sensitive to change them.’<sup>225</sup> Former Minister of Supply, Ali Moselhi, describes ‘a real fear’ of the government to touch the subsidy issue.<sup>226</sup> Moselhi had repeatedly suggested a reduction of subsidies to President Mubarak, but, according to Alia El Mahdy, a former member of the NDP Policies Committee, was told to ‘find another way’ and not ‘to repeat 1977.’<sup>227</sup>

*The Untold Story: Unintended Beneficiaries in the Public and Private Sector* Fear of consumer unrest is the predominant narrative to explain the persistence of subsidisation in Egypt. Though important, this narrative is incomplete without giving due attention to unintended beneficiaries from subsidies in the public and private sector. In Egypt, the untold story of the political economy of subsidy reform revolves around four key actors: public sector workers in the milling industry, commodity traders, business cronies, and the army.

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<sup>222</sup>IMF 1987b, 5.

<sup>223</sup>IMF 1989, 12.

<sup>224</sup>See, for example, IMF 1988, 19.

<sup>225</sup>Personal interview, Cairo, 24 February 2013.

<sup>226</sup>Personal interview, Cairo, 13 January 2013.

<sup>227</sup>Personal interview, Cairo, 18 January 2013.

Given continuing state dominance in the Egyptian milling sector,<sup>228</sup> public milling workers have two major stakes tied to the continuation of the system in place: jobs and pensions. Producing daily 22,000 tons of flour and 70 per cent of all subsidised flour,<sup>229</sup> Egypt's public milling sector is one of the biggest industrial employers in the country, with an estimated number of 60,000 workers employed in the production and delivery of subsidised flour.<sup>230</sup> Similar to other SOEs, employment in public mills is characterised by a high degree of overstaffing. According to estimates of the World Food Programme, Egyptian public sectors mills employ about 4.5 times the required workforce,<sup>231</sup> which has a negative impact on their cost structure and competitiveness. For instance, whilst private mills have costs of about 49 EGP per ton of flour, the costs of public mills is about 36 per cent higher (75 EGP/ton).<sup>232</sup> Thus, given their elevated labour costs compared to private sector mills, many public sector workers are expected to lose their job if the system allowed for increased competition.<sup>233</sup>

Related to that, a second major concern of public sector workers are corporate pension schemes which are tied to the public milling sector. To understand this point, it is crucial to note that public sector workers are literally stakeholders in the public milling sector. As the milling sector was transformed into public holdings in the early 1990s, minority shares ranging between 5 and 15 per cent were ceded to labour unions and public sector insurance funds, as shown in Table 6.7. These shares not only guarantee that workers benefit from the companies' profits through dividends, they, more importantly, form the basis of corporate pension funds offered to unionised workers, which represents an attractive supplement to the public pension scheme. A restructuring of the subsidy system would thus have

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<sup>228</sup>Though the milling industry was liberalised in the early 1990s and three big mills were ceded to private investors, the milling sector remains dominated by state-owned enterprises (SOEs). Organised in two publicly listed holding companies, the Holding Company for Rice and Wheat Mills (HCRWM) and the Holding Company for Food Industries (HCFI), the public milling industry consists of 126 mills, 109 of which produce the subsidised 'baladi' flour. See Kherallah et al. 2000, 90; and Mansour 2012, 4.

<sup>229</sup>World Bank 2010b, 5.

<sup>230</sup>Al-Masry Al-Youm 2009a.

<sup>231</sup>World Food Programme 2008a, 17.

<sup>232</sup>World Bank 2010b, 5.

<sup>233</sup>World Food Programme 2008a, 5.

negative repercussions on jobs and pensions, which is why public sector workers have opposed changes in the subsidy system.

<b>Company</b>	<b>Shareholder</b>	<b>Share</b>	<b>Number of employees</b>
General Company for Silos and Storage (GSSC)	Union Workers Shareholders	10%	2875
Middle and West Delta Flour Mills (WCDF)	Union Workers Shareholders	10%	4555
	Insurance Fund of Suez Canal Authority Employees; Social Insurance Fund for Governmental Sector Employees; Social Insurance Fund for Public and Private Sector Employees	NA	
South Cairo and Giza Flour Mills and Bakeries (SCFM)	Union Workers Shareholders	10%	2631
Alexandria Flour Mills (AFMC)	Union Workers Shareholders	10%	2278
East Delta Flour Mills (EDFM)	Union Workers Shareholders	10%	3880
Upper Egypt Flour Mills (UEFM)	Union Workers Shareholders	15%	NA

# Mechanisms of Path Dependence

	Insurance Fund of the	5%	NA
	Workers of Upper Egypt		
	Flour Mills Co		
North Cairo Flour Mills (MILS)	Union Workers Shareholders	6%	3352
Middle Egypt Flour Mills (CEFM)	Union Workers Shareholders	6%	3365
Extracted Oil & Derivatives Company SAE	Union Workers Shareholders	5%	2202
	Employee Shareholders	NA	
	Union		

Table 6.7: Workers Stakes in the Food Subsidy System  
Source: Business information is taken from Bureau van Dijk, 2013.

Opposition to reform was particularly visible in the late 2000s when the public milling sector successfully derailed further liberalisation of the flour market proposed by Minister of Supply, Ali Moselhi. Seeking to replace the fixed flour quotas with a tender mechanism in which private and public mills enter into competition, the reform immediately met with resistance from milling workers who feared being outcompeted by the private sector.

When a first trial of the mechanism was launched in one governorate in May 2007, workers at the Middle Egypt Mill staged a strike after they had been outbid by a private company. Eager to avoid disruptions in the bread supply, the government quickly gave in and allocated the mill the usual quota.<sup>234</sup> When the government decided to test the mechanism at a larger scale in November 2008, labour leaders accused the Ministry of Supply

<sup>234</sup> Al-Ishtiraki 2007.

to ‘destroy the public milling sector and put at risk jobs.’<sup>235</sup> Underlining their political leverage, milling workers not only threatened to stage a general strike, which would have disrupted food production, they also alarmed consumers of an ‘inevitable increase in the price of subsidised bread’ should the tendering mechanism be introduced.<sup>236</sup> Whilst their argument might be doubtful, workers indeed managed to stir the fear of urban consumers, which became increasingly hostile toward the reform and joined milling workers in a number of minor walkouts.<sup>237</sup> Milling workers also managed to mobilise opposition within the government against the reform, co-drafting a warning letter with the Ministry of Investment addressed to the Prime Minister.<sup>238</sup> Undermining their saving objective, the government pledged to compensate public mills unable to obtain a tender and further promised investments to make the sector more competitive – all in an effort to attenuate workers’ protest.<sup>239</sup> Yet, in the face of producers, consumers, and parts of the government all rallying against the reform, the Ministry of Supply lost Mubarak’s backing of the reform and was consequently forced to back down.<sup>240</sup> The idea of a tendering system was scrapped.

As regards the second group of unintended beneficiaries – local wheat and rice traders – it is important to understand that the government and a small set of traders compete in the procurement of local wheat and rice, which results in exaggerated price levels and considerable profits for the traders.<sup>241</sup>

In the case of wheat, the GASC and traders freely compete in the purchase of grain from local farmers. In the interest of encouraging domestic wheat production, the GASC further guarantees a domestic price above the world market price. Nonetheless, many farmers have preferred to sell to private traders as (a) they guaranteed a marginally higher price than the

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<sup>235</sup> Al-Masry Al-Youm 2008.

<sup>236</sup> Al-Masry Al-Youm 2009a.

<sup>237</sup> Personal interview with Ali Moselhi, Cairo, 13 January 2013.

<sup>238</sup> Al-Masry Al-Youm 2009b.

<sup>239</sup> Al-Masry Al-Youm 2009c.

<sup>240</sup> Personal interview with Ali Moselhi, Cairo, 13 January 2013.

<sup>241</sup> World Food Programme 2008a, 3.

GASC until 2008; (b) collect wheat directly from the farm whereas farmers need to ensure delivery to the GASC; and (c) unlike the government, provide cheap loans for inputs, such as fertilisers.<sup>242</sup> Having successfully outcompeted the GASC in the procurement of domestic wheat, private traders then sell the wheat back to the GASC which has the monopoly of wheat distribution for subsidised flour. To make matters worse, the GASC cannot replace locally produced wheat by imported wheat, as it is obliged to clear the Egyptian wheat market to promote domestic production. Now, if the wheat trading sector were a market with perfect competition, prices should approach the level offered by the GASC. Yet, according to former Minister of Supply Gouda Abdel Khaleq, domestic wheat trade is controlled by an oligopoly of three traders, who can use their price setting power to squeeze considerable profits out of the GASC.<sup>243</sup>

As regards rice, Egypt is self-sufficient in rice and able to export considerable amounts to the world market. Also, domestic trade and production are predominantly in the hands of the private sector.<sup>244</sup> Similar to the wheat market, however, the trade of rice is dominated by five oligopolistic companies.<sup>245</sup> As a result, traders are able to collude on a high price and sell the rice expensively to the GASC, which increases the costs for the Egyptian tax payer. This system is aggravated by the fact that rice can be stored for a long time, which means that rice traders can effectively ration the supply of rice without having to fear financial losses. Their price-setting power has led to major disruptions in the supply of rice. For instance, in early 2011, the Ministry of Supply cancelled a tender for domestic rice after prices had increased from 2900 to 4900 EGP per ton within a few months.<sup>246</sup> Again, there is an understanding that the GASC should clear the domestic rice market first, such that importing rice as long as domestically produced rice is still available, albeit expensive, is strongly opposed by the Rice Chamber of Egypt's Industrial

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<sup>242</sup>Ghoneim 2012, 11-19.

<sup>243</sup>Personal interview, Cairo, 18 November 2012. Abdel Khaleq served in the first post-revolutionary cabinet from 2011 until 2012.

<sup>244</sup>World Food Programme 2008a, 18.

<sup>245</sup>Ghoneim 2012, 25.

<sup>246</sup>Al-Youm Al-Saba'a 2011.

Union.<sup>247</sup> Lacking other alternatives, the Egyptian government imposed an export ban on rice, yet with little effect as traders have mostly kept their rice stocks hoping for higher prices.<sup>248</sup>

While the exact political influence of these trader oligopolists is hard to gauge, senior officials whom I interviewed confirmed that they were well connected within the former regime apparatus.<sup>249</sup> For instance, the former secretary of President Mubarak, Gamal Eddin Abdel Aziz, operated a business partnership with the wheat trader Venus International Company, which was then given a large number of tenders by GASC on the direct order of Abdel Aziz.<sup>250</sup> Another example is given by former Minister of Supply, Abdel Khaleq, who stated in a personal interview that traders attempted his ouster in 2011 in response to his intention to import rice and break up their monopoly.<sup>251</sup> Though anecdotal, these examples suggest that, in the absence of an effective competition law,<sup>252</sup> well-connected trader oligopolies have become an important lobby in favour of the current status quo.

The last two groups of beneficiaries are the big ‘whales of the Nile’,<sup>253</sup> that is, politically connected firms (PCFs) affiliated with business cronies and the army. As in Tunisia, the lobbying activities of these actors are difficult to observe directly and, hence, detailed process tracing is nearly impossible. I therefore seek to make the same ‘circumstantial case’ as in the previous chapter: If we can observe that actors with *well-known* political connections are active in sectors benefiting from food and energy subsidies, it is plausible to assume that they will use their influence to safeguard their privileged position if necessary. Moreover, if I can show that it is indeed the subsidies, and not alternative confounders like trade protection, that attract cronies and the army to these sectors, we have even more reason to believe that these actors will seek to block meaningful reforms in the subsidy

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<sup>247</sup> See, for instance, Al-Masry Al-Youm 2012.

<sup>248</sup> Mansour 2012.

<sup>249</sup> Personal interview with Youmna El Hamaki and Gouda Abdel Khaleq, Cairo, 21 January 2013 and 18 November 2012.

<sup>250</sup> Egypt Independent 2012.

<sup>251</sup> Personal interview, Cairo, 18 November 2012.

<sup>252</sup> A competition law was adopted in 2006 but has been rather ineffective. See Ghoneim 2012, 25.

<sup>253</sup> Sfakianakis 2004.

system.

Regarding the presence of PCFs in sectors related to subsidies, Tables 6.8 and 6.9 summarise the activity in sectors related to food subsidies for cronies and the army respectively. Tables 6.10 and 6.11 do the same for energy-intensive sectors that benefit disproportionately from cheap energy. To identify business cronies and enterprises linked to the army, I rely on a number of different sources: Crony capitalists are identified based on Stephan Roll's detailed case study of the Egyptian business elite and its political linkages.<sup>254</sup> For the army, I relied on two different sources: a recent article by Acemoglu and co-authors which uses the Zawya business database and online research to identify holding companies controlled by the Egyptian military;<sup>255</sup> and an original dataset by Eibl and Malik which identifies economic sectors with army activity based on a collection of secondary sources.<sup>256</sup> All company related information was taken from the same sources, supplemented by information from the Orbis database,<sup>257</sup> and online research. In terms of political connections prevalent in subsidy-related sectors, we can see that, among cronies, linkages to the ruling NDP party are predominant, whilst the army is directly represented in government through two ministries: the Ministry of Defence and the Ministry of Military Production.<sup>258</sup>

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<sup>254</sup>Roll 2010.

<sup>255</sup>Acemoglu, Hassan and Tahoun 2014.

<sup>256</sup>Eibl and Malik 2015.

<sup>257</sup>Bureau van Dijk 2013.

<sup>258</sup>For a concise summary of the military's economic activities, see Abul-Magd 2012a; and Abul-Magd 2013.



<b>Actor</b>	<b>Company</b>	<b>Type of Political Connection</b>	<b>Sector</b>
Mansour family	Seclam/Labanita, subsidiary of Mansour Group	Party: Mohamed Mansour was Minister of Transport (2004-11)	Tea
Sawiris family	Nile Sugar	Party: Naguib Sawiris was member of the NDP Business Secretariat and head of the Industrial Training Council	Sugar
Sallam family	Shareholders in El Fayoum Company for Sugar Industries	Party: Hussein Sallam was member of the NDP National Youth Council	Sugar
Ibrahim Kamel	National Food Company	Party: Member of NDP General Secretariat	Sugar
Moataz Al-Alfi	Egyptian Starch and Glucose Company, subsidiary of Americana Group for Food & Tourism Projects	Party: Al-Alfi's brothers served on several high-ranking NDP committees	Flour, bread, pasta, rice and wheat

Table 6.8: Politically Connected Actors in Sectors Related to Food Subsidies

Source: Politically connected actors are identified based on Roll, 2010. Business information is taken from Bureau van Dijk, 2013 and online research.

Company	Type of Army Connection	Sector
Delta Sugar Company, Al	Chairman, managing directors,	Sugar
Noubariyah Sugar Company, El	and board members of firms	
Fayoum Sugar Company, Daqahlia	affiliated with <i>Holding Company</i>	
Sugar Company, <i>all subsidiaries of</i>	<i>for Food Industries</i> are (former)	
<i>Holding Company for Food</i>	generals; Egyptian Sugar and	
<i>Industries SAE</i>	Integrated Industries Company	Flour, bread, pasta, rice and wheat
	owns part of Delta Sugar	
Egyptian Holding Company for	Company; Holding for Silos &	
Silos & Storage SAE, <i>subsidiary of</i>	Storage run by a general	
<i>Holding Company for Food</i>		
<i>Industries</i>		

General Greater Cairo Bakeries,	Flour, bread, pasta,
Wadi El Melouk Company for	rice and wheat
Milling, Wadi El Melouk Company	
for Grinding and Its Industries	
SAE, Middle Egypt Flour Mills	
Company SAE, Upper Egypt Flour	
Mills Company SAE, North Cairo	
Mills Company SAE, East Delta	
Mills Company SAE, Middle Egypt	
Flour Mills Company SAE,	
Gharbia Rice Mills, Alexandria	
Flour Mills and Bakeries SAE,	
Middle & West Delta Flour Mills	
SAE, Rice Marketing Company,	
South Cairo & Giza Mills &	
Bakeries Company SAE, United	
Flour Mills and Integrated	
Industries, United Mills Company,	
<i>all subsidiaries of Holding</i>	
<i>Company for Food Industries SAE</i>	

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Table 6.9: Army-related Companies in Sectors Related to Food Subsidies

Source: Army-related Companies are identified based on Acemoglu, Hassan and Tahoun, 2014 and Eibl and Malik, 2015. Business information is taken from the same sources.

Looking more closely at the activity of PCFs in subsidy-related sectors, the four summary tables document an extensive network of businesses operating across a range of sectors. In the food subsidy area, crony businesses have controlled important parts of sugar

manufacturing, with the Sawiris family, the Sallam family, and Ibrahim Kamel operating a range of sugar factories. Moataz Al-Alfi, who was linked through family connections to the NDP leadership, is the owner of the Egyptian Starch and Glucose Company. As one of Egypt's manufacturers of inputs for the baking industry, he has benefited indirectly from the high consumption of bread as a result of subsidisation.

Turning to the army, it should be noted that the main public holding company controlling nearly all SOEs related to the food subsidy sector – the Holding Company for Food Industries – is controlled by the Egyptian military. With retired generals acting as chairmen, board members, and managing directors of affiliated companies, the military holds important stakes in Egypt's sugar industry. What is more, by virtue of controlling the food holding, the military holds sway over the entire public milling sector as well as the country's strategic wheat reserves run by the Egyptian Holding Company for Silos and Storage. While Acemoglu et al. do not provide the technical details of how the army cashes in its share of the benefits in these sectors, based on accounts of other sectors with extensive military activity, it is plausible to assume that some of the profits are reaped by the army elite network.<sup>259</sup>

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<sup>259</sup>Acemoglu, Hassan and Tahoun 2014. For examples from other sectors, see Abul-Magd 2012b.

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<b>Actor</b>	<b>Company</b>	<b>Type of Political Connection</b>	<b>Sector</b>
Ibrahim Kamel	Kato Aromatic, The Modern Company for Manufacturing Soap and Detergent	Party: Member of NDP General Secretariat	Chemical products
Sawiris family	Egyptian Fertiliser Company OCI Nitrogen, subsidiary of Orascom Construction Industries	Party: Naguib Sawiris was member of the NDP Business Secretariat and head of the Industrial Training Council	Chemical products
El-Sewedy family	UEIC Elsewedy, United Industries, United Metals, ECMEI	Party: Mohammed El-Sewedy was a member of the NDP's Business Secretariat	Manufacture of basic metals
Ahmed Ezz	Ezzsteel, Al-Ezz Ceramics and Porcelain Company	Party: MP, Chairman of Planning and Budget Committee (2000-10)	Manufacture of basic metals, non-metallic mineral products
Mohammed Abou El-Enein	Cleopatra Group	Party: MP, chairman of Housing Committee (2000-5), Industry and Energy Committee (2005-10)	Non-metallic mineral products
Mansour family	Saint Gobain Glass Egypt, part of Mansour Group	Party: Mohamed Mansour was Minister of Transport (2004-11)	Non-metallic mineral products

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Mohammed Khamis	Oriental Weavers	Party: MP for NDP	Manufacture of textiles
Othman Abaza	Nile Cotton Trade Company)	Party: Minister of Agriculture (2005-11)	Manufacture of textiles

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Table 6.10: Politically Connected Actors in Energy-intensive Sectors

Source: Politically connected actors are identified based on Roll, 2010. Business information is taken from Bureau van Dijk, 2013 and online research. Classification of energy-intensive industries taken from UNIDO, 2010.

Company	Type of Army Connection	Sector
Misr Chemical Industries Company SAE, Egyptian Chemical Industries SAE, El Delta Company for Fertilisers and Chemical Industries, El Nasr Company for Fertilisers & Chemical Industries, Abu Kir Fertilisers and Chemical Industries SAE, Paints and Chemical Industries Company SAE, <i>all subsidiaries of the Chemical Industries Holding Company</i>	Affiliated firms run by generals; major shareholders supervised by members of the military	Chemical products
Misr Fertilisers Production Company, <i>subsidiary of Egyptian Petrochemicals Holding Company</i>	Main business partner of the military is a shareholder	Chemical products
Egyptian Ferro Alloys Company SAE, Delta Steel Mills Company SAE, Egyptian Iron & Steel Company SAE, Egyptian Copper Works SAE, El-Nasr Steel Pipes & Fitt Egyptian Ferro Alloys Company, <i>all subsidiaries of Metallurgical Industries Holding Company</i>	Subsidiaries of holding company managed by a general	Manufacture of basic metals

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National Cement Company	Affiliated firms run by generals;	Non-metalic mineral
Helwan, National Cement	major shareholders supervised	products
Company SAE, <i>both subsidiaries of</i>	by members of the military	
<i>Chemical Industries Holding</i>		
<i>Company</i>		
General Company for Ceramic and	Subsidiaries of holding company	Non-metalic mineral
Porcelain Products, Gloden Globe	managed by a general	products
Holdings Ltd, Alexandria Company		
for Refractories, <i>all subsidiaries of</i>		
<i>Metallurgical Industries Holding</i>		
<i>Company</i>		
General Company for Paper	Affiliated firms run by generals;	Paper and paper
Industry SAE, Paper Middle East	major shareholders supervised	products
(SIMO) SAE, <i>both subsidiaries of</i>	by members of the military	
<i>Chemical Industries Holding</i>		
<i>Company</i>		
Quena Paper Industry Company	Chairman, managing directors,	Paper and paper
SAE, General Company for Paper	and board members of firms	products
Industry SAE, <i>both subsidiaries of</i>	affiliated with holding company	
<i>Holding Company for Food</i>	are (former) generals; Egyptian	
<i>Industries SAE</i>	Sugar and Integrated Industries	
	Company owns part of Delta	
	Sugar Company; Holding for	
	Silos & Storage run by a general	



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The Egyptian Ethylene and Derivatives Company, Egyptian Styrene and Polystyrene Production Company, Egyptian Styrenics Company, Sidi Kerir Petrochemicals Company SAE, Egyptian Methanex Methanol Company, Tanmia Petroleum Company, <i>all subsidiaries of</i> <i>Egyptian Petrochemicals Holding</i> <i>Company</i>	Main business partner of the military is shareholder	Coke and refined petroleum products
Misr Company for Foreign Trade SAE, Abu Simble and Thebes Shipping Agency, Alexandria Container and Cargo Handling Company SAE, National Navigation Company, Delta Transport Company, Damietta Container and Cargo Handling Company, <i>all subsidiaries of</i> <i>Holding Company for Maritime and</i> <i>Land Transport</i>	Holding company partially owned by military with an admiral as chairman; managing directors and board members of affiliated firms are generals	Transport

Table 6.11: Army-related Companies in in Energy-intensive Sectors

Source: Army-related Companies are identified based on Acemoglu, Hassan and Tahoun, 2014 and Eibl and Malik, 2015. Business information is taken from the same sources. Classification of energy-intensive industries taken from UNIDO, 2010.

The situation is similar for energy-intensive sectors. Regarding cronies, a particularly

prominent example is Ahmed Ezz, the owner of Egypt's biggest steel manufacturer, Ezz-steel. Controlling 65-75 per cent of the Egyptian market,<sup>260</sup> Ezz not only dominated the Egyptian steel market, he was also present in nearly all influential committees within the NDP, including the General Secretariat and the Political Bureau. As head of the budget committee, he was a key figure in the Egyptian parliament. Producing ceramics, textiles, and glass, connected businessmen, such as Mohammed Abou El-Enein, the Mansour family, Mohammed Khamis, and Othman Abaza equally benefited from low energy prices for their energy-intensive manufacturing companies. Two of them – Mansour and Abaza – served as ministers in the last cabinet under Mubarak. Army-controlled companies are active across the whole range of energy-intensive sectors, from paper production, to chemicals, such as fertilisers and petrochemicals, to services in transportation.

While this descriptive analysis demonstrates the wide-ranging activity of PCFs in subsidy-related sectors, it is not clear whether it was actually subsidies business cronies and the army were after. In theory, their presence in these sectors could be explained by other profitability-enhancing mechanisms, such as high tariffs. To single out the significance of tariffs in explaining PCF activity across sectors, I run a number of simple logistic regressions. Parallel to the previous chapter, I use two binary indicators, *Crony Activity* and *Army Activity*, as dependent variables, indicating the activity of any of these actors at the 4-digit level of manufacturing sectors. As before, the data are taken from a novel dataset by Eibl and Malik, which, for the analysis at hand, was updated with the information from Acemoglu et al.<sup>261</sup> Regarding the explanatory variables, I focus on the effect of a binary indicator for sectors with low energy intensity, *Low intensity*, as well as an indicator measuring whether a sector is related to food subsidies, *Direct food*.<sup>262</sup> Finally, the regression uses the same controls as in the previous chapter, that is, *Tariff average*

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<sup>260</sup> Chekir and Diwan 2013.

<sup>261</sup> Eibl and Malik 2015; and Acemoglu, Hassan and Tahoun 2014.

<sup>262</sup> In Egypt, companies do not benefit from subsidised sugar for industrial purposes, which is why I do not test the effect of the variable *All food* from the previous chapter.

and *Imports*, taken respectively from the WITS and UNIDO database.<sup>263</sup> As Egypt has a number of extremely high tariffs, mainly on trade with antiquities, I exclude tariffs above 1000 per cent from the analysis.<sup>264</sup> The results are shown in Tables 6.12 and 6.13 below.

The findings are insightful in that they qualify the foregoing descriptive analysis. Starting with cronies in Table 6.12, we can see that through columns 1-3, food and energy subsidies significantly increase the probability of crony presence in any given manufacturing sector. This finding changes once we take into account the simultaneous presence of cronies and the army in a sector. Doing so is important because the presence of another politically connected actor might influence the rationale to invest in a given sector. On the one hand, cronies might avoid competition with the army and thus avoid business activity in army-dominated sectors. On the other hand, as army businesses are generally well shielded from international competition,<sup>265</sup> sectors with military presence might be considered particularly ‘safe’ and more profitable. As we see from the full model in column 4, it is the latter hypothesis that is backed up by the data. While the presence of the army increases the likelihood of crony-affiliated companies being present in a sector, food subsidies, in turn, cease to be significant and the effect of energy intensity is considerably reduced. This is also visible in the predicted probability graph in Figure 6.9a which shows only a modest difference in the average probability between low- and medium-high energy intensive sectors with overlapping confidence intervals.

Regarding army activity, the results displayed in Table 6.13 confirm the impression gained from the foregoing descriptive analysis. In fact, sectors related to food subsidies and sectors with a medium-high energy intensity are considerably more likely to exhibit economic activity by the army. This difference across sectors is shown graphically in Figures 6.9b and 6.9c. On average, the army is 20 per cent more likely to be present in

<sup>263</sup>World Bank 2013; and UNIDO 2013. For Egypt, data are available for 1997, 2002, 2004, 2005, 2006, and 2010. As in the case of Tunisia, I pool all years in a cross-sectional analysis.

<sup>264</sup>Neither the army nor cronies are present in these high-tariff sectors. I include regressions with the full tariff spectrum as robustness tests in Appendix E.

<sup>265</sup>Eibl and Malik 2015.

energy-intensive sectors. In the case of food subsidies, possible benefits from food subsidies make the army 40 per cent more likely to operate in these sectors. Note that, because of ‘tied’ data, the models for army activity were estimated using a penalised maximum likelihood procedure, which allows me to estimate the effects of energy and food subsidies simultaneously.<sup>266</sup> Also note that the results are robust to the inclusion of *Tariff averages* and *Imports* (column 1-3), as well as the simultaneous presence of cronies (column 4).

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<sup>266</sup>Regressions were run using the *brglm* package in R. Robustness tests for energy subsidies using a normal logit model are presented in Appendix E.

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Table 6.12: Crony Presence and Subsidies

	(1)	(2)	(3)	(4)
Low intensity	-0.624*** (0.165)		-0.543*** (0.168)	-0.316* (0.180)
Direct food		1.164*** (0.421)	0.940** (0.432)	0.222 (0.416)
Tariff average	0.00215 (0.00173)	0.00298* (0.00175)	0.00221 (0.00170)	0.00235 (0.00159)
Imports (log)	0.272*** (0.0497)	0.267*** (0.0488)	0.275*** (0.0497)	0.196*** (0.0516)
Army activity				1.344*** (0.183)
<i>N</i>	687	687	687	687

Logit model with robust standard errors in parentheses; constant omitted.

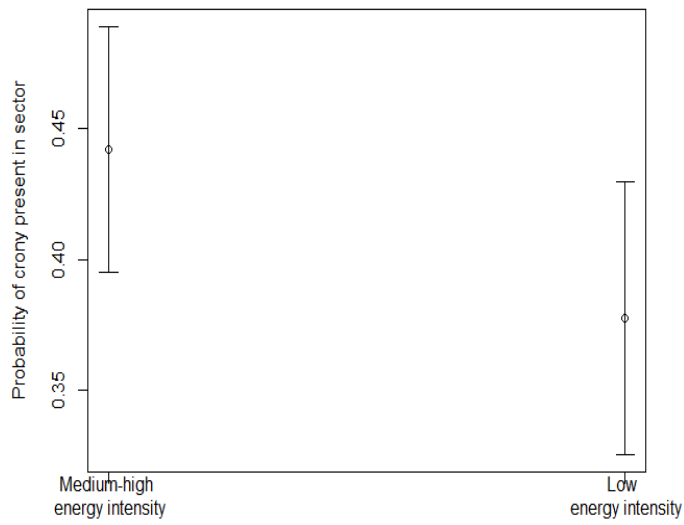
\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Table 6.13: Army Presence and Subsidies

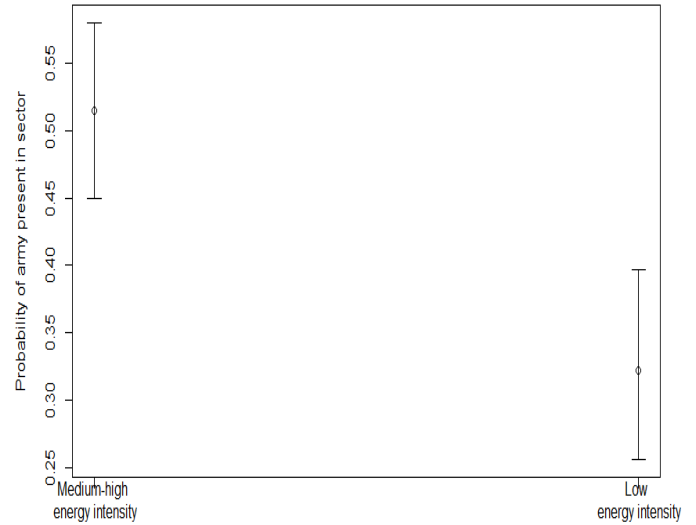
	(1)	(2)	(3)	(4)
Low intensity	-1.086*** (0.174)		-0.894*** (0.178)	-0.803*** (0.186)
Direct food		5.020*** (1.434)	4.690*** (1.436)	4.392*** (1.433)
Tariff average	0.000519 (0.00216)	0.00199 (0.00216)	0.000647 (0.00232)	-0.000219 (0.00284)
Imports (log)	0.321*** (0.0449)	0.330*** (0.0470)	0.348*** (0.0478)	0.276*** (0.0502)
Crony activity				1.298*** (0.181)
<i>N</i>	687	687	687	687

Penalised maximum likelihood logit model with standard errors  
in parentheses; constant omitted.

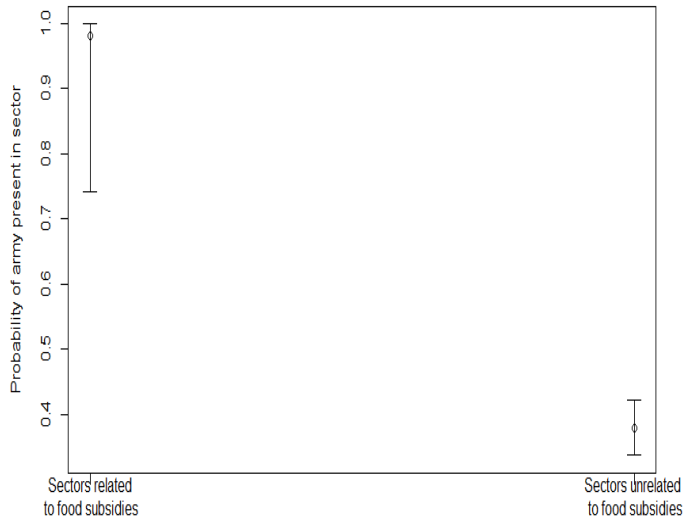
\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$



(a) Energy intensity *cronies*



(b) Energy intensity *army*



(c) Food subsidies *army*

Figure 6.9: Effect of Energy Intensity and Food Subsidies on Probability of Crony Presence  
*Note:* Whiskers indicate 95-percent confidence bounds. Marginal effects based on the full model presented in column 4 of Tables 6.12 and 6.13. All variables were set to their observed values.

## **Summary**

This section has highlighted the mechanisms of path dependence that have ensured the continuity of the Egyptian welfare trajectory, even after peace with Israel in 1978. In part, my findings concur with the previous chapter in that welfare constituencies have prevented attempts at retrenchment and successfully defended their stakes, such as in the event of subsidy reductions or the attempted privatisation and cost reduction in the area of health care in the 2000s. Using the example of the food and subsidy system, I have also been able to show that actors not initially targeted by social policies have over time become powerful stakeholders in the status quo. However, unlike the Tunisian case, the political dynamics post 1978 have been very much shaped by the legacies of pre 1978. This has been visible in the role of the army as a budgetary gate keeper, the need to counter-balance the military by boosting the security apparatus, Egypt's debilitating debt problem, and the relative weakness of welfare constituencies, which have been too weak to push for systemic change, but too strong to withdraw from past achievements.

## III. CONCLUSION

This chapter has pursued two major goals. First, it has aimed to understand the origin of Egypt's welfare trajectory by focusing on the causal mechanisms underpinning the regime's incentive and ability to provide social welfare. The above analysis supports the main line of my argument: One, I have been able to rule out ideological pre-commitments as a cause for the regime's incentive to distribute social welfare. As in Tunisia, there is ample evidence to suggest that, had the initial regime coalition remained cohesive, a rather right-wing, pro-business coalition might have been formed and, hence, social welfare might not have become a key priority. Two, I have relied on memoirs of regime insiders to substantiate the link between elite factionalism and the drive to distribute welfare as part of a lower-middle class coalition. Three, relying on secondary sources and cabinet minutes, I have



demonstrated a shift in the regime's threat perception and provided a 'smoking gun' test of the resulting trade-off between defence and welfare. Four, I have presented both qualitative and quantitative evidence supporting my claim that the combination of an incentive but the inability to provide extensive social welfare has entailed a specific type of 'cheap' social policies, which has been characterised by underfunding, the use of regulatory interventions instead of monetary goods to generate rents, the reliance on windfalls, and the design of social policies such that they generate income.

Second, the chapter has brought to light the mechanisms of path dependence underlying the persistence of social policies past 1978. In this respect, the chapter has yielded two main conclusions: On the one hand, the political dynamics of path dependence in Egypt are very similar to other cases, most notably the Tunisian case, in that we find target groups of social policies rallying against retrenchments and systemic reforms. This dynamic was both visible in incidents of riots against subsidy cuts and opposition against the 2004 health insurance reform in which *consumers* of social policies were the main actors. Likewise, social policies in Egypt have generated important rent streams for groups that are not considered target groups of social policies. This includes both the *producers* of social policies, such as workers in the production chain of subsidised goods, and powerful business actors capable of reaping the benefits from market distortions generated by social policies. In Egypt, these are commodity traders, the army, and crony businessmen. On the other hand, path dependence in Egypt reflects the origin of its welfare trajectory. This means that patterns of distribution to the military could not be easily reversed as a result of their own path-dependent dynamics. And the legacies of war making and threat have left little fiscal leeway for later spending adjustment, showing the long-lasting impact of initial path divergence.

# 7

## Conclusion

‘Why are some authoritarian governments motivated to provide social welfare programs, while others provide little in the way of public goods?’, asks Stephen Haber in an article on authoritarian government.<sup>1</sup> This study has sought to provide an answer to this question by explaining the divergent welfare trajectories in labour-abundant economies in the Middle East and North Africa. Doing so, it has pursued the dual objective of broadening our empirical knowledge of welfare provision in a region that has too often been characterised as ‘exceptional,’ whilst, at the same time, developing a theoretical argument as to when we should expect authoritarian governments to provide welfare broadly and generously to their populations. To facilitate broader application, the theoretical model was purposefully kept lean, relying on a rationalist framework that emphasises authoritarian rulers’ incentives and abilities to distribute welfare. Its key components – intra-elite conflict, communal cleavages, external threat, and resource abundance – are general enough for the argument to have a wider applicability to welfare trajectories outside the Middle East. Alongside this attempt at theory development, this study has also put to test the relevance of theories of path dependence to explain the striking persistence of welfare distribution over the last six decades in the region.

This concluding chapter is divided into two sections. Section 1 provides a concise

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<sup>1</sup>Haber 2006, 694.

synthesis of how the empirical material substantiates the initial causal claims, both with respect to the divergence and the persistence of welfare trajectories. Section 2 discusses the broader implications of this argument for a number of literatures this study speaks to.

## I. THE PUZZLES AND THE ANSWERS

The two puzzles driving this study were sketched out in the Introduction and more thoroughly presented in Chapter 2. The first one is a puzzle of *early divergence*. Based on novel social spending data going back to each regimes' foundation, I showed that the divergence of welfare trajectories occurred alongside regime formation. More specifically, I argued that patterns of welfare provision in the region diverged into three specific subtypes: authoritarian welfare states have combined *broad and generous welfare provision*, making a sustained financial effort to provide social policies to the vast majority of their population. A second type has been characterised by *broad welfare provision* only as social policies are widely accessible but they are not underpinned by persistently high funding. A third type of regimes has engaged in *minimal welfare provision*, allowing only a subset of their citizens to benefit from public welfare. Using a combination of spending and outcome data, I demonstrated that, while spending has only been consistently high in the broad and generous type, which have also scored best in terms of social outcomes, broad providers have achieved noticeable success in social outcome indicators as well, which reflects their universal access regimes. Minimal welfare providers range at the bottom with respect to both spending and outcomes.

The second puzzle is the *high persistence* of welfare trajectories. As I showed in Chapter 2, none of the regimes have changed track following the initial divergence. Granted, spending levels have shown fluctuations driven by periodic effects stemming from, for example, adverse economic circumstances or temporary changes in policy preference. Yet this should not obliterate the fact that for nearly all countries in my sample, the spending

levels in the early 1960s are highly predictive of spending in the mid-2000s.

So how have my causal claims fared in the light of the empirical material presented in this study? Let us look at divergence and persistence in turn.

### **Divergence of Welfare Trajectories**

Regarding divergence, my theoretical argument has emphasised the coincidence of matching incentives and abilities for a regime to embark on social welfare. The former are shaped by coalition building dynamics at the onset of regime formation while the latter are conditioned by the external environment. At the level of incentives, broad coalitions emerge in the presence of intra-elite conflict and the absence of salient communal cleavages and, if present jointly, provide a strong incentive for welfare provision. Conversely, a cohesive elite or salient communal divisions entail small coalitions with few incentives to distribute welfare broadly. At the level of abilities, a strong external threat to regime survival is expected to undermine the ability to provide social welfare in broad coalitions. Facing a ‘butter or guns’ trade-off, elites shift priority to security expenditures and the population accepts that because no alternative regime could credibly commit to neglecting external defence in the presence of external threats. Only an abundant resource endowment can provide the necessary resources to avert this trade-off.

In Chapter 3, I proved the viability of my theory at the macro cross-country level, demonstrating that the different types of welfare provision closely align with the patterns of authoritarian coalition formation in varying external contexts. More specifically, I showed that coalition formation in all three authoritarian welfare states – Tunisia, Algeria, and the Islamic Republic of Iran – was marked by intensive elite factionalism in the absence of salient communal divisions. In Tunisia and Algeria, welfare provision then unfolded unhindered by external threats. And Iran was able to rely on ample resources to shield welfare from warfare. In Egypt and Syria, we find the conflicting combination of strong incentives and lacking abilities. This is most conspicuous in the Egyptian case where

initial elite conflicts brought about a broad coalition, but the regime had to simultaneously respond to threats emanating from the external environment. In Syria, the incentive was somewhat ‘lop-sided’ as in-fighting elites operated in a context of heightened communal cleavages, which translated into policies marked by ethnic favouritism, although the regime also sought to honour its welfare commitment more broadly by introducing universal access policies. Yet, like in Egypt, social spending was crowded out in the face of a threatening external environment. Finally, I showed that all minimal providers lacked an initial incentive to distribute welfare, owing to either cohesive elites (Shah Regime, Morocco), salient communal cleavages, or both (Jordan).

In Chapter 4, I used evidence from longitudinal data to provide additional leverage for my divergence argument. Specifically, using a number of dynamic panel regressions, I documented the existence of a sizeable trade-off between defence and welfare spending. On the one hand, both momentary and sustained hikes in defence spending systematically entail cuts in social spending. On the other hand, social spending levels in resource-rich regimes quickly revert back to initial levels after short-term hikes in defence expenditures, which is not the case in resource-poor regimes. Moreover, a sustained high defence effort entails much less pronounced social spending cuts and only after a considerable period of time in resource-rich regimes.

In Chapters 5 and 6, I substantiated the causal mechanisms underpinning my theory at the micro-level in the case of Tunisia and Egypt. After discarding ideology as a credible explanatory factor, I demonstrated in both cases how severe intra-elite conflicts prompted Bourguiba and Nasser to engage in large-scale welfare provision, which went against their initial pro-business policies. In Tunisia, the direct effects of intra-elite conflict on social welfare were visible in the establishment of the National Fund for the Centre and the South, the foundation of which I could directly attribute to elite conflict based on archival material. The more important effects of elite factionalism on welfare were indirect, however, mediated by the labour union UGTT which could effectively take control of social

policy making as a result of intra-elite conflict. Thus, in Tunisia, intra-elite conflict served as an important door-opener for a strong pro-welfare constituency.

In Egypt, I relied on memoirs of regime insiders to demonstrate how the RCC strategically used social spending to respond to Naguib's attempt to snatch power away from them. On the one hand, they used the enormous wealth of the deposed royal family to establish a Council for Social Services with vast competences in the fields of health care, education, and housing. On the other hand, as the conflict with Naguib headed toward violent confrontation, they struck an explicit bargain with labour unions, offering considerable concessions in the form of increased social spending, a housing loan scheme, and, most importantly, the establishment of a social security system for Egyptian workers.

Regarding the security-welfare trade-off, I used declassified cabinet minutes to process-trace the mechanism, showing that elites indeed perceived a need to arbitrate between social and defence policies and, importantly, that external threats were perceived as more pressing to the regime's survival than concerns for domestic legitimacy. Moreover, I demonstrated that the conflicting mix of strong incentives and weak abilities prompted the regime in what I termed 'cheap social policies.' Specifically, I used qualitative and quantitative evidence to establish that (i) social policies were underfunded; (ii) the regime relied to a large extent on 'free' social policies, such as rent control, that outsourced the costs to third parties; (iii) systematically used windfalls to boost social spending; and (iv) designed social policies such that they would alleviate shortage of resources. To demonstrate the latter point, I relied on archival documents laying out the financial motives behind the foundation of social security in the 1950s. I also showed that social security extensions systematically coincided with current account crises in a simple regression model, strongly suggesting that social security was extended to generate more revenue. Overall, the paired comparison between Egypt and Tunisia points to differences in the external environment to explain their divergence in welfare trajectories.

## **Persistence of Welfare Trajectories**

Regarding persistence, I relied on two important mechanisms in the welfare state literature to explain path dependence. The first one can broadly be summarised as ‘constituency politics’ in that beneficiaries of social policies successfully avert deviations from the spending path in the form of systemic reforms or large-scale spending cuts. Mobilisation of these constituencies should be particularly vigorous if initial advantages conferred to these groups have been reinforced over time, for instance, because these groups grew in size or got entrenched in the state administration. The second mechanisms are spill-over effects to unintended beneficiaries who can over time become important gatekeepers against path divergence.

In Chapter 4, I provided initial cross-country evidence for these mechanisms by demonstrating the importance of coalitions to explain over-time change in social spending. More specifically, the chapter showed that periods of major welfare retrenchment are less likely in broad coalitions. Besides, broad coalitions channel additional resources in the form of unexpected windfalls systematically toward welfare and they are more willing to use distributive policies to appease mass mobilisation.

In Chapters 5 and 6, I process-traced the outlined mechanisms at the micro-level in the case of Tunisia and Egypt. In Tunisia, I chose the 1970s student protests, the 2004 health insurance reform, and the 1980s food riots to show how beneficiaries of social policies successfully mobilised to avert major spending cuts (student protests, food riots) or systemic reforms (health insurance). In both cases, the mobilisation was carried by groups that had considerably benefited from initial social policies (food subsidies), considerably grown in size (students), or gained an important foothold in the state institutions which provided important avenues for political lobbying, as the UGTT’s role in the health insurance reform demonstrates. In the latter case, a reform that started off with the objective of cost reduction was converted into a major overhaul of the public health care system and an upgrading of the private sector health insurance. With respect to unintended beneficiar-

ies, I employed investigative data on politically connected entrepreneurs in the late Ben Ali period to show how business cronies have become important beneficiaries of food and energy subsidies. Their lobbying could not be process-traced directly, yet by highlighting their interest in the subsidy system and given their known political influence, these actors should be considered important stakeholders in the system in place.

In Egypt, explaining path dependence is equivalent to explaining the absence of a major peace dividend after the country's 1978 peace treaty with Israel. Using a combination of primary and secondary sources, my explanation highlights the negative effects of past entrenchment of the military in the administration, which accounts for the 'stickiness' of defence spending in the post-1978 period. Related to that, I emphasise the regime's perceived need to counterbalance the army's influence by engaging in a coup-proofing strategy that boosted Egypt's non-military security apparatus. Finally, warfare had driven up the country's debt to barely sustainable levels, which meant that social spending now acutely competed with debt service.

In addition, I analysed the failed health insurance reform in the 2000s and the Egyptian subsidy systems to explain why social spending was not only upwardly but also downwardly rigid. Regarding the health insurance reform, I showed that – while unable to transmute the reform's outcome from cost reduction and privatisation into a major expansion of coverage and expenditure like in Tunisia – stakeholders in Egypt were able to make the reform founder in the face of a credible threat of major resistance. With respect to subsidies, I find very similar dynamics compared to Tunisia: Legacies of past constituency mobilisation in the form of food riots have made the regime reluctant to roll out major reforms. And, furthermore, a number of unintended beneficiaries have been tapping into rent streams emanating from the subsidy system, which has complicated reform. As in Tunisia, these actors comprise a conglomerate of well-connected business moguls. Yet, in addition, I demonstrated how the army, commodity traders, and workers in the milling sector have also developed important stakes in the system in place. This has turned the



subsidy system into a ‘Gordian knot’ which the Mubarak regime was unable to disentangle and unwilling to sever.

## II. BROADER IMPLICATIONS

Why is any of the forgoing of importance? This study contributes to a number of important debates that pervade the study of authoritarianism, Middle Eastern studies, and comparative politics more broadly. In particular, it elucidates when we should expect to see ‘good’ as opposed to ‘bad’ dictators; highlights the authoritarian regimes’ limited capacity for reform; calls for more attention to the embeddedness of states in external contexts for the study of comparative political economy; and rectifies a number of ‘myths’ in the study of the Middle East.

### **Good and Bad Dictators**

As the study of dictatorships historically emerged from the study of democracy, both are embedded in the same normative debates which have, at least since the second half of the last century, associated democracy with ‘good’ and autocracies with ‘bad’ governments. This has been reflected in the comparative politics and, in particular, comparative political economy literature which can partly be read as an effort to prove that democracy is not only normatively superior but also provides more desirable social outcomes. Besides, part of the literature has viewed autocracies as necessarily pro-elite, neglecting the ‘masses.’<sup>2</sup> The empirical picture, however, is not easily amenable to this conclusion as the number of contradictory findings in the literature suggest.<sup>3</sup> Echoing the uneasy fit of a dichotomous view, Haggard and Kaufman thus write that ‘authoritarian regimes can, under specified circumstances, produce positive distributive effects.’<sup>4</sup>

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<sup>2</sup>See, very prominently, Boix 2003; and Acemoglu and J. A. Robinson 2006.

<sup>3</sup>See references in footnote 8 in the Introduction.

<sup>4</sup>Haggard and Kaufman 2008, 26

This study has demonstrated what these circumstances are. Going beyond a dichotomous understanding of regime types, my argument not only confirms the existence of what I have called social dictatorships or authoritarian welfare states, it also develops a theoretical model that helps us explain when we should expect such regimes to emerge. This is certainly not to mean autocracies are more desirable than democracies. Non-welfare elements considered, one would still prefer to live in France rather than in Tunisia. Yet one would probably also prefer Tunisia over Pahlavi Iran, and that is before the end of the Ben Ali period.

There is no reason either to be overly optimistic about the prospect of finding too many authoritarian welfare states elsewhere as many causal conditions undermining the emergence of an authoritarian welfare state have also been identified as a source of authoritarianism itself: Communal cleavages and ethnic exclusion have been associated with non-democratic governments.<sup>5</sup> Likewise, the prevalence of severe external threats and conflict has also been identified as a pathway toward authoritarianism.<sup>6</sup> Finally, the significance of path dependence emphasised in this study serves as a warning against any precipitous attempt to ‘engineer’ institutional contexts favourable to the emergence of large-scale welfare provision.

Finally, recognising that the variation within authoritarian systems might be more important than differences between democracies and autocracies,<sup>7</sup> this study also hopes to contribute to a new generation of studies in the research of authoritarianism which turn the attention to different policy outcomes between autocracies, away from the question of authoritarian durability.<sup>8</sup>

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<sup>5</sup>See, amongst others, Slater 2010; and Przeworski et al. 2000, 125.

<sup>6</sup>See, for example, Gibler 2010.

<sup>7</sup>Charron and Lapuente 2011, 398; Wright 2008b, 334; and Escribà-Folch 2013, 3.

<sup>8</sup>In a similar vein, see Miller forthcoming; Richter 2012a; Hanson and Gallagher 2009; and Lai and Slater 2006.

### **Authoritarian Regimes, Constituencies, and Reform**

Another important take-away message of this study autocracies' limited capacity to reform. The popular narrative associates democracies with a fickle, wavering fashion of carrying out reform whilst autocracies are characterised by an iron-fist top-down efficiency. As the columnist Tom Friedman writes in the New York Times, 'one-party nondemocracy can just impose the politically difficult but critically important policies needed to move a society forward in the 21st century.'<sup>9</sup>

In view of my analysis of path dependence in Egypt and Tunisia – both long-standing dominant party regimes before their downfall – this narrative is in need of qualification. Instead of iron-fist policies, this study has shown authoritarian elites to be cautious, at times anxious, and extremely opportunistic when it comes to reforms. More than anything else, the subsidy conundrum illuminates best the inability of authoritarian MENA regimes to engage in systemic reforms. Despite the widely recognised inefficiency, distributive regressiveness, and economic wastefulness, neither the Tunisian nor the Egyptian government were able to muster the political courage to tackle vested interests and forge a coalition for reform. While bureaucratic sloth and incompetence play a role in that story, the key element is the regimes' inability to unravel and reconstitute regime coalitions. As we have seen, authoritarian regimes are not slow at co-opting new constituencies, but they enormously struggle to get rid of them as the stakes of losing power are prohibitively high and the regularised reconstitution of coalitions in the form of elections is blocked. Thus, when it comes to critically important policies, the findings of this study caution against betting too much on the inherent capacity of autocracies to implement them.<sup>10</sup>

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<sup>9</sup>New York Times 2009.

<sup>10</sup>For a similar finding in a large-N setting, see Giuliano, Mishra and Spilimbergo 2010.

### **Inside and Outside: Political Economy in Challenging Environments**

This study has emphasised the important linkages between domestic and international politics to fully explain divergent domestic outcomes. This goes against a strong tendency in the comparative politics and, in particular, comparative political economy literature, which more often than not puts a premium on the domestic determinants of policies whilst neglecting influences coming from the outside. While this may be warranted in the context of the OECD where complex democratic institutional arrangements provide an ample reservoir to develop fine-grained hypotheses about socio-economic outcomes. Yet, regarding autocracies, Bunce and Hozic are spot on in their assessment that ‘most authoritarian leaders are international, as well as domestic, actors [...] because the international system provides these leaders with both threats to their powers and opportunities to defend and expand them.’<sup>11</sup>

A notable exception in this respect is the literature developed around the notion of ‘systemic vulnerability.’<sup>12</sup> They argue that in a very similar constellation to regimes like Egypt, that is, strong distributive incentives in the absence of financial capacities, regimes decide to ‘go developmental’ and, in a way, grow themselves out of the dilemma between ‘butter or guns’ by gradually upgrading into high value-added export production. Now, the fact that Egypt is not anywhere near a developmental state might just be another Middle Eastern peculiarity. However, the fact that none of the regimes Doner et al. identify as developmental states (Korea, Taiwan, and Singapore) became an authoritarian welfare state<sup>13</sup> raises some doubts whether the mechanism prompting upgrading lies in the constellation of factors they attribute it to.

Still on the issue of externally embedded political economies, this study has emphasised the important effect of war-making on social policies. Not only does the MENA region provide ample evidence in favour of a trade-off between defence and welfare, this study

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<sup>11</sup>Bunce and Hozic 2015, 18.

<sup>12</sup>Doner, Ritchie and Slater 2005; and Ritchie 2010.

<sup>13</sup>On that, see Haggard and Kaufman 2008.

has also demonstrated how specific types of social policies were shaped by war and the external threats. For instance, the emergence of the Egyptian social security system can only be fully understood in the context of a regime grabbing for resources. In this sense, my conclusion echoes other findings that have highlighted the connection between warfare and social policy making.<sup>14</sup> Moreover, the developed concept of ‘cheap social policies’ provides guidance about the types of social policies one should expect in a high incentive, low ability constellation. Götz Aly’s fascinating analysis of social policies in Nazi Germany, for example, feature major elements of ‘cheap social policies’: a strong reliance on expropriations and the exploitation of social security to generate revenues.<sup>15</sup>

### **Myths and Realities in Middle Eastern Studies**

Finally, this study has a number of implications for the field of Middle Eastern Studies as it has sought to do away with a number of persistent ‘myths’ lingering in the literature. First of all, the division of the region into conservative regimes with low welfare provision and populist-progressive regimes with high welfare provision does not work, simply because the numbers do not bear out.<sup>16</sup> While all of the region’s labour-abundant monarchies fall on the side of minimal welfare providers, the region’s republics divide almost evenly into low- and high-spenders. A large part of this confusion comes from a massive Egypt bias that pervades the study of the Middle East. This might sound odd coming from an author who himself has dedicated a major part of his dissertation to the study of Egypt, but the important difference lies in the comparative aspect of this study. Whereas Egypt has often been portrayed in the literature as the epitome of welfare provision in the region,<sup>17</sup> this study has collected novel historical data showing that Egypt was never anywhere near the social spending levels of its neighbours, such as Tunisia or Algeria, not even under

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<sup>14</sup>See most prominently Skocpol 1992.

<sup>15</sup>Aly 2007.

<sup>16</sup>For a representative example of this conceptual partitioning of the region, see, amongst others, S. J. King 2010; and Loewe 2010.

<sup>17</sup>See, for example, Pawelka 1985; and Waterbury 1983.

Nasser. And while any scholar of Egypt would confirm the importance of the external environment for the regime's formation, the connection between the regime's political economy and international relations has barely been made – not in Egypt, nor elsewhere in the region.<sup>18</sup>

A second, equally pervasive myth is that welfare provision was gradually rolled back with the advent of neo-liberal political reforms since the late 1970s. As Baylouny boldly puts it, 'economic liberalization reforms in the 1980s and 1990s signalled the progressive end of state social policies for Middle Eastern non-oil countries.'<sup>19</sup> Similarly, Hinnebusch sees as 'post-populist retreat from [...] welfare responsibilities'<sup>20</sup> and a tendency of cross-regional convergence in terms of welfare provision.<sup>21</sup> Rhetorically powerful yet factually wrong, this narrative arises from two main misconceptions: First, most examples in favour of this hypothesis have been taken from countries that were never high-spenders in the first place, such as Egypt and Syria. As a result, low levels of provision are wrongly attributed to neo-liberal reforms whereas their main root – the regimes' genesis in a challenging geostrategic environment – remains obscured. Second, the narrative, again, stems from a lack of consideration for comparative data. In view of my descriptive account in Chapter 2, it is safe to say that there has neither been a sustained trend for convergence nor has there been massive welfare retrenchment. Whatever ills one seeks to attribute to neo-liberalism, welfare retrenchment in the Middle East is not one of them. More than anything else, this study therefore calls for a careful, comparative consideration of data.

The third myth that this study can safely do away with is the quasi-automatic connection between rents, specifically oil revenues, and welfare spending.<sup>22</sup> This point is best illustrated by the remarkable turn-around of social policies in Iran after 1979. Both endowed with ample rent income, only one of the two Iranian regimes made welfare provision

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<sup>18</sup>A notable exception is the excellent study by Barnett. See Barnett 1992.

<sup>19</sup>Baylouny 2010, 16.

<sup>20</sup>Hinnebusch 2006, 385.

<sup>21</sup>Hinnebusch 2010, 211.

<sup>22</sup>For a representative of this view, see Ayubi 1995, 228.

a major policy priority. As rents provide not much in terms of incentives, the study therefore cautions against attempts to attribute a linear, mono-directional link to resource revenues.<sup>23</sup> On the other hand, the study also cautions not ‘to throw the baby with the bathwater’ and deny resource rents any effect. Ironically, this point is again best illustrated by the Iranian case. When comparing post-1979 Iran to other war-making regimes in the region, it becomes clear that the availability of resources allowed the regime to engage in extensive war-making whilst, at the same time, considerably broadening the distribution of welfare. In summary, this study is thus in line with a conditionalist approach to resource rents which has recently emerged in the literature.<sup>24</sup>

Finally, this study is at odds with the myth of the Middle East as an outlier defying theory formation. Using a conceptual framework amenable to broader generalisations, this study has hopefully shown that the Middle East contains important empirical and theoretical insights with broader relevance to the fields of authoritarianism studies and comparative social policy. Regarding my central argument, nothing that has brought about authoritarian welfare states in the region is *per se* exceptional. Conversely, when the Oxford Handbook of the Welfare State describes Latin America ‘as the only developing region with at least some countries that have tried to create welfare systems similar to European welfare states,’<sup>25</sup> this should be seen as an encouragement of Middle East scholars to engage with broader debates relevant to scholars outside their region and open their theoretical and methodological tool boxes to facilitate dialogue and the broadening of our knowledge.

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<sup>23</sup>For such an orthodox approach to resources, see, for example, Ross 2004; and Morrison 2009.

<sup>24</sup>See, for example, Hertog 2010; and Smith 2007.

<sup>25</sup>Arts and Gelissen 2010, 577.

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8

Appendix

APPENDIX A: INTRODUCTION

Logic of Case Selection

Long-lasting authoritarianism, uninterrupted by democracy, fairly developed		Of which labour-rich		Of which data available	Selected sample
Algeria	South Africa	Algeria	Swaziland	Algeria	Algeria
Angola	Soviet Union	Angola	Syria	Belarus	Egypt
Azerbaijan	Spain	Belarus	Taiwan	China	Iran
Bahrain	Swaziland	Bulgaria	Tunisia	Egypt	Jordan
Belarus	Syria	Cambodia	Uzbekistan	El Salvador	Morocco
Bulgaria	Tunisia	China	South Africa	Iran	Syria
Cambodia	UAR	Congo Braz.	Soviet Union	Jordan	Tunisia
China	Uzbekistan	Côte d'Ivoire	Spain	Korea (S)	
Congo Braz.	Portugal	Czechoslovakia	Libya	Malaysia	
Côte d'Ivoire	Qatar	Dom. Republic	Malaysia	Mexico	
Czechoslovakia	Romania	Egypt	Mexico	Morocco	
Dom. Republic	Singapore	El Salvador	Morocco	Nicaragua	
Egypt	Kyrgyzstan	Gabon	Namibia	Paraguay	
El Salvador	Libya	Georgia	Nicaragua	Portugal	
Gabon	Malaysia	Hungary	Paraguay	Singapore	
Georgia	Mexico	Indonesia	Poland	Spain	
Hungary	Morocco	Iran	Portugal	Swaziland	
Indonesia	Namibia	Iraq	Romania	Syria	
Iran	Nicaragua	Jordan	Saudi Arabia	Tunisia	
Iraq	Oman	Kazakhstan	Singapore		
Jordan	Paraguay	Korea (S)			
Kazakhstan	Poland	Korea (N)			
Korea (S)	Korea (N)	Kyrgyzstan			
Kuwait					

Table 8.1: The Logic of Case Selection

## Data Note

Social spending as understood throughout this thesis comprises four elements: education, health, housing, and social protection. The latter comprises direct social transfers to households, such as subsidies, and monetary transfers from the state budget to the social security system. Most social spending data used are taken from the International Monetary Fund. Data from the mid-1970s onward are taken from the *Government Financial Statistics (GFS)*.<sup>1</sup> I limit myself to the period ending in 2005 for two reasons: First, social spending data for all of my cases are only available until that date, whereas data for the Algerian and Syrian case is partly missing after that date. Second, for some MENA countries, the IMF changed the classification of spending data after that date, such that spending data are not comparable, neither across cases nor across time within the country. To the extent that this was possible, I checked, however, that the broad spending pattern remained consistent with the long-term historical trend.

Data before the onset of the GFS were collected as part of the Global State Revenue and Expenditure (GSRE) dataset, which is based on the annual reports of the IMF's regional departments, made available to researchers in the early 2000s.<sup>2</sup> In collecting the data, we followed the IMF's classification of social spending into education, health, housing, and social protection. The project was based at the German Institute of Global and Area Studies (GIGA). As an associate project member, I was responsible for labour-abundant MENA countries. In addition, I have consulted statistical yearbooks to complete the time series wherever necessary. This concerns the periods from 2000-05 in Algeria, 1956-61 in Egypt, 1953-60 and 2000 in Iran, 1977 in Jordan, 1960 and 1965 in Morocco, 1951-54 in Syria, and 1974 and 1985 in Tunisia.<sup>3</sup>

Another point that needs to be addressed is the role of public employment and wages

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<sup>1</sup>IMF 2011.

<sup>2</sup>V. Lucas and Richter 2012.

<sup>3</sup>Algeria various years; Arab Republic of Egypt various years; Statistical Centre of Iran various years; Hashemite Kingdom of Jordan various years; Kingdom of Morocco various years; Syrian Arab Republic various years; and Tunisian Republic various years.



in measuring a regime's welfare effort. In the MENA-specific literature, employment provision has often been a key variable to measure a regime's welfare effort.<sup>4</sup> I would argue, however, that using a functional classification of spending and focussing on the aim of spending, rather than the type of spending, such as wages, is a better way of accounting for a regime's welfare effort. To start with, welfare spending and wages are highly correlated, ranging between 0.75 and 0.80 in my dataset depending on the specific ratio (share of GDP or budget). This should not come as a surprise as welfare provision is generally employment-intensive, and teaching and health care staff often represent the bulk of public employment.<sup>5</sup> This means, in turn, that most of the material benefits provided by public employment are captured in the social spending data.

Second, public employment that is not captured by social spending is often concentrated in the repressive apparatus, such as the police force or the army. Adding these figures to the overall welfare effort would seriously dilute the concept of welfare provision as it would mean that more repressive regimes provide a higher level of welfare. Granted, policemen and soldiers paid by the state would perceive this payment as an increase of their personal welfare. However, the underlying idea of a welfare state is not primarily the increase of welfare for certain individuals but, rather, for the population as a whole. Thus, a primary focus on public employment is only warranted in cases where the state is indeed able to provide jobs for the whole or the vast majority of the population, which is not the case in labour-abundant MENA countries.

Third, more generally, the authoritarianism literature has tended to see any form of material distribution on the part of the state as a way of increasing output legitimacy.<sup>6</sup> Whilst this may be true, this broad definition of welfare distribution entails major difficulties when it comes to empirically measuring a regime's output as potentially *any* form of public spending could be considered benefiting someone – with the exception of foreign debt

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<sup>4</sup>See, for instance, Ayubi 1995; El-Katiri, Fattouh and Segal 2011.

<sup>5</sup>In Egypt, for instance, they have represented over 60 per cent of employment. See Handoussa and El Oraby 2004, 2.

<sup>6</sup>See, for example, Schlumberger 2010.

service maybe. By contrast, all spending items considered here share one common purpose, which is the improvement of welfare in the form of human development. Moreover, many social spending items, such as salaries for doctors, have a welfare-enhancing effect above and beyond the level of individual welfare provided to the direct recipient of transfers. In view of these arguments, welfare spending as measured here seems to capture welfare effort more accurately in labour-abundant MENA countries.

APPENDIX B: DIVERGENT PATHS

Calibration of Causal Conditions for QCA

Thresholds	Social Spending as % of Government Budget	Social Spending as % of GDP
Upper boundary	57.4 % (OECD average)	23.6% (OECD average)
Cross-over point	45%	11.8%
Lower boundary	0%	0%
Aggregation	Maximum of either value (family resemblance logic) in a given country year, averaged for period from 1963-2005.	
Sources	IMF 2011; and V. Lucas and Richter 2012.	

Table 8.2: Calibration of Welfare Effort

Membership Score	Coding Rule
1	Evidence of very strong intra-elite conflict as demonstrated by coup attempts, purges and other violent forms of conflict <i>and</i> mass mobilisation by warring elite factions
0.66	Evidence of strong intra-elite conflict as demonstrated by coup attempts, purges and other violent forms of conflict <i>but no</i> mass mobilisation by warring elite factions
0.33	Evidence of mild intra-elite conflict as demonstrated by the emergence of small splinter groups <i>but</i> elite generally cohesive
0.05	No evidence of intra-elite conflict
Cheibub, Gandhi and J. Vreeland 2010 for regime formation dates; regime formation period: formation date +/- 4 years.	

Table 8.3: Calibration of Intra-elite Conflict

Thresholds	Politically Excluded Population as % of Total Population
Upper boundary	1
Cross-over point	0.5
Lower boundary	0
Aggregation	Averaged for period from 1963-2005.
Sources	Cederman, Wimmer and Min 2010.

Table 8.4: Calibration of Salient Communal Cleavages

Enduring Rivalry	Armed Conflict	Ethno-nationalist animosity between adversaries
Yes: + 0.2	Minor conflict: + 0.2	Yes: + 0.2
No: + 0	Major conflict: + 0.6	No: + 0
Aggregation	Total sum of components	

Following Eriksson, Wallensteen and Sollenberg 2003, major armed conflicts are defined as conflicts involving more than a 1,000 battle-related deaths. Cheibub, Gandhi and J. Vreeland 2010 for regime formation dates; regime formation period: formation date +/- 4 years.

Table 8.5: Calibration of External Threat

Thresholds	Pre-oil shock	Post-oil shock
Upper boundary	119.50 \$US p.c.	361.60 \$US p.c.
Cross-over point	72.42 \$US p.c.	198 \$US p.c.
Lower boundary	0.17 \$US p.c.	1.93 \$US p.c.
Sources	Haber and Menaldo 2011.	

Regimes are considered fully resource-abundant if their rent income per capita lies within the top quartile during the period of regime formation. Cheibub, Gandhi and J. Vreeland 2010 for regime formation dates; regime formation period: formation date +/- 4 years.

Table 8.6: Calibration of Resource Abundance

**Robustness Tests for QCA**

*Varying Thresholds for Welfare Effort: Cross-over Point at 40 per cent of Expenditures  
(instead of 45)*

	Consistency	Coverage
Absence of external threat (et)	0.50	0.61
Resource abundance (RA)	0.61	0.70
Intra-elite conflict (C)	0.76	0.62
Absence of salient communal cleavages (scc)	0.98	0.64
Intra-elite conflict AND absence of salient communal cleavages	0.76	0.72

Table 8.7: Test of Necessary Conditions for a High Welfare Effort

Causal paths	Complex solution	Parsimonious solution	Uniquely covered cases
C*scc*et $\rightarrow$ W +	0.85 (0.18)		Tunisia
C*scc*RA $\rightarrow$ W	0.91 (0.25)		Islamic Republic of Iran
C*et $\rightarrow$ W +		0.85 (0.18)	
C*RA $\rightarrow$ W		0.84 (0.25)	
Joint coverage	0.64	0.65	
Joint consistency	0.85	0.80	

Table 8.8: Test of Sufficient Conditions for a High Welfare Effort

*Note:* Unique coverage in parentheses; Quine-Cluskey algorithm used for minimisation; \* = logical AND; + = logical OR;  $\rightarrow$  = IMPLIES.

Causal paths	Complex solution	Parsimonious solution	Uniquely covered cases
SCC*ra*ET $\rightarrow$ w	1.00		Jordan
+	(0.13)		
c*scc*et $\rightarrow$ w	0.91		The Shah Regime, Morocco
+	(0.24)		
C*ra*ET $\rightarrow$ w	0.82		Egypt
	(0.12)		
c $\rightarrow$ w		0.75	
+		(0.26)	
ra*ET $\rightarrow$ w		0.78	
		(0.26)	
Joint coverage	0.80	0.87	
Joint consistency	0.88	0.74	

Table 8.9: Test of Sufficient Conditions for a Low Welfare Effort

*Note:* Unique coverage in parentheses; Quine-Cluskey algorithm used for minimisation; \* = logical AND; + = logical OR;  $\rightarrow$  = IMPLIES.

*Varying Thresholds for Welfare Effort: Cross-over Point at 10 per cent of GDP (instead of 11.8 )*

	Consistency	Coverage
Absence of external threat (et)	0.50	0.64
Resource abundance (RA)	0.57	0.51
Intra-elite conflict (C)	0.74	0.64
Absence of salient communal cleavages (scc)	0.98	0.66
Intra-elite conflict AND absence of salient communal cleavages	0.74	0.74

Table 8.10: Test of Necessary Conditions for a High Welfare Effort

Causal paths	Complex solution	Parsimonious solution	Uniquely covered cases
C*scc*et → W	0.85		Tunisia
+	(0.17)		
C*scc*RA → W	0.88		The Islamic Republic of Iran
+	(0.20)		
c*SCC*ra*ET → W	0.77		Jordan
	(0.24)		
C*et → W		0.85	
+		(0.17)	
C*RA → W		0.81	
		(0.20)	
Joint coverage	0.85	0.86	
Joint consistency	0.79	0.71	

Table 8.11: Test of Sufficient Conditions for a High Welfare Effort

*Note:* Unique coverage in parentheses; Quine-Cluskey algorithm used for minimisation; \* = logical AND; + = logical OR; → = IMPLIES.

Causal paths	Complex solution	Parsimonious solution	Uniquely covered cases
SCC*ra*ET → w	0.98		Jordan, Syria
+	(0.32)		
c*scc*et → w	0.92		The Shah Regime, Morocco
	(0.26)		
c → w		0.72	
+		(0.21)	
SCC → w		0.97	
		(0.15)	
Joint coverage	0.70	0.76	
Joint consistency	0.94	0.76	

Table 8.12: Test of Sufficient Conditions for a Low Welfare Effort

*Note:* Unique coverage in parentheses; Quine-Cluskey algorithm used for minimisation; \* = logical AND; + = logical OR; → = IMPLIES.

*Varying Thresholds for Resource Abundance: Cross-over Point at Twice the Median  
(instead of Three Times)*

	Consistency	Coverage
Absence of external threat (et)	0.50	0.64
Resource abundance (RA)	0.59	0.62
Intra-elite conflict (C)	0.74	0.64
Absence of salient communal cleavages (scc)	0.98	0.66
Intra-elite conflict AND absence of salient communal cleavages	0.74	0.74

Table 8.13: Test of Necessary Conditions for a High Welfare Effort

Causal paths	Complex solution	Parsimonious solution	Uniquely covered cases
C*scc*et $\rightarrow$ W	0.85		Tunisia
+	(0.16)		
C*scc*RA $\rightarrow$ W	0.89		Islamic Republic of Iran
	(0.20)		
c*SCC*ra*ET $\rightarrow$ W	0.77		
	(0.24)		
C*et $\rightarrow$ W		0.85	
+		(0.16)	
C*RA $\rightarrow$ W		0.82	
		(0.20)	
Joint coverage	0.85	0.86	
Joint consistency	0.80	0.71	

Table 8.14: Test of Sufficient Conditions for a High Welfare Effort

*Note:* Unique coverage in parentheses; Quine-Cluskey algorithm used for minimisation; \* = logical AND; + = logical OR;  $\rightarrow$  = IMPLIES.



Causal paths	Complex solution	Parsimonious solution	Uniquely covered cases
SCC*ra*ET $\rightarrow$ w	1.00		Jordan
+	(0.142)		
c*scc*et*RA $\rightarrow$ w	0.99		The Shah Regime, Morocco
+	(0.22)		
C*ra*ET $\rightarrow$ w	0.88		Egypt
	(0.12)		
c $\rightarrow$ w		0.72	
+		(0.21)	
SCC $\rightarrow$ w		0.97	
		(0.15)	
Joint coverage	0.73	0.76	
Joint consistency	0.94	0.76	

Table 8.15: Test of Sufficient Conditions for a Low Welfare Effort

*Note:* Unique coverage in parentheses; Quine-Cluskey algorithm used for minimisation; \* = logical AND; + = logical OR;  $\rightarrow$  = IMPLIES.

*Varying Thresholds for Communal Cleavages: Cross-over Point at 40 per cent of  
Population (instead of 50)*

	Consistency	Coverage
Absence of external threat (et)	0.50	0.64
Resource abundance (RA)	0.49	0.62
Intra-elite conflict (C)	0.74	0.64
Absence of salient communal cleavages (scc)	0.95	0.69
Intra-elite conflict AND absence of salient communal cleavages	0.74	0.76

Table 8.16: Test of Necessary Conditions for a High Welfare Effort

Causal paths	Complex solution	Parsimonious solution	Uniquely covered cases
C*scc*et $\rightarrow$ W +	0.85 (0.16)		Tunisia
C*scc*RA $\rightarrow$ W	0.90 (0.23)		Islamic Republic of Iran
C*et $\rightarrow$ W +		0.85 (0.16)	
C*RA $\rightarrow$ W		0.82 (0.23)	
Joint coverage	0.60	0.79	
Joint consistency	0.84	0.61	

Table 8.17: Test of Sufficient Conditions for a High Welfare Effort

*Note:* Unique coverage in parentheses; Quine-Cluskey algorithm used for minimisation; \* = logical AND; + = logical OR;  $\rightarrow$  = IMPLIES.

Causal paths	Complex solution	Parsimonious solution	Uniquely covered cases
SCC*ra*ET $\rightarrow$ w	0.95		Jordan
+	(0.34)		
c*scc*et*Ra $\rightarrow$ w	0.92		
+	(0.22)		
c $\rightarrow$ w		0.72	
+		(0.18)	
SCC $\rightarrow$ w		0.92	
		(0.16)	
Joint coverage	0.70	0.79	
Joint consistency	0.92	0.77	

Table 8.18: Test of Sufficient Conditions for a Low Welfare Effort

*Note:* Unique coverage in parentheses; Quine-Cluskey algorithm used for minimisation; \* = logical AND; + = logical OR;  $\rightarrow$  = IMPLIES.

*Introducing Systematic Measurement Error*

This test introduces systematic measurement error in the outcome to assess the relative frequency and the average consistency of each solution term. Following Eliason and Stryker, I assume that measurement error is maximal at the cross-over point and linearly smooths out towards the extreme point. Maximum measurement error is assumed to be 0.1, although additional test with higher levels of measurement error have yielded similar results and are available upon request. Furthermore, it is assumed that each level of measurement error is normally distributed with a standard deviation of 0.01.

Concretely, the test consists in drawing from the error distribution described above, adding the measurement error to the scores of welfare effort, and conducting a sufficiency test. This procedure is repeated a 1,000 times, recording the relative frequency of each solution term as well as its average consistency. The solution formulae found in the QCA can be considered robust if they appear at a very high frequency in the 1,000 draws and if they reach a high average consistency. Moreover, alternative solution formulae should appear very rarely, if at all.

Causal paths found	Complex solution	Parsimonious solution
C*scc*et → W	RF: 0.92	
+	AC: 0.84	
C*scc*RA → W	RF: 0.92	
	AC: 0.84	
C*et → W		RF: 0.98
+		AC: 0.83
C*RA → W		RF: 0.96
		AC: 0.79

Table 8.19: Simulation of QCA Results with Systematic Measurement Error

*Note:* RF = relative frequency; AC = average consistency; results based on 1,000 draws from pre-defined error distribution; Quine-Cluskey algorithm used for minimisation; \* = logical AND; + = logical OR; → = IMPLIES.

Causal paths found	Complex solution	Parsimonious solution
C*ra*ET → w	RF: 0.96	
+	AC: 0.85	
c*scc*et → w	RF: 0.98	
+	AC: 0.95	
SCC*ra*ET → w	RF: 1.00	
+	AC: 0.97	
scc*RA*et → w	RF: 0.10	
+	AC: 0.88	
C*scc*RA*ET → w	RF: 0.02	
	AC: 0.78	
c → w		RF: 1.00
+		AC: 0.80
ra*ET → w		RF: 0.76
+		AC: 0.80
ET → w		RF: 0.18
+		AC: 0.72
RA*et → w		RF: 0.10
+		AC: 0.88
RA → w		RF: 0.06
+		AC: 0.68
SCC → w		RF: 0.06
		AC: 0.96

Table 8.20: Simulation of QCA Results with Systematic Measurement Error

*Note:* RF = relative frequency; AC = average consistency; results based on 1,000 draws from pre-defined error distribution; Quine-Cluskey algorithm used for minimisation; \* = logical AND; + = logical OR; → = IMPLIES.

APPENDIX C: SOCIAL PACTS OVER TIME

**Descriptive Statistics**

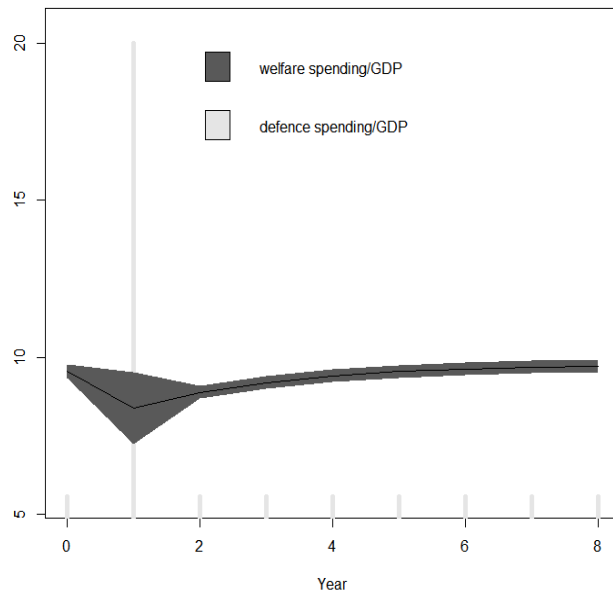
Variable	Obs	Mean	Sd	Min	Max
Welfare/budget	316	32.81085	12.40551	11.34	74.06
Welfare/GDP	314	9.494076	3.411913	2.75	21.57
Welfare p.c. (logged)	314	5.825782	.7455073	3.713572	7.336286
Defence/budget	316	17.79668	11.61608	3.34	57.4
Defence/GDP	315	5.571524	4.261014	.94	19.79
Defence p.c. (logged)	314	5.129839	.7449972	3.125444	7.358888
Resources p.c. (logged)	322	3.876733	3.322619	-4.60517	8.123855
GDP p.c. (logged)	321	8.262539	.5040167	6.971976	9.340086
Growth	314	5.01707	6.455956	-19.69	34.31
Dependency	322	46.22509	4.685974	31.43	52.6
Urbanisation	322	49.60373	10.79568	29.4	78.3
Trade	321	78.493	27.46305	30.79623	158.4365
Current Account Balance	314	-6.620223	8.133421	-29.37	19.94
Output Gap	321	-.0134204	.1080655	-.5003068	.304392
Debt Service	301	5.030798	4.050161	.0774593	20.05137
Foreign Aid p.c. (logged)	322	3.66276	1.763012	-4.60517	7.478761
Tax Income/GDP	317	14.91274	5.460413	4.61	26.43
Polity	319	3.172414	2.867908	0	13
IMF	322	.2329193	.4233491	0	1
Trade Openness	196	5.719388	1.480759	1	7
Capital Account Openness	196	4.331633	.9155183	1	5
Revenue/GDP	317	24.9923	7.20401	10.04	48.05
FDI	230	1.162193	1.745729	-.5984143	15.77132
Real Exchange	305	1177.163	6602.661	-118.4818	62431.66
Resource Abundance 1	322	.2857143	.4524571	0	1
Resource Abundance 2	322	.2546584	.4363471	0	1
Retrenchment	305	7.659016	5.259246	1	25
Sustained Retrenchment	305	12.47541	9.157264	1	44
Broad Coalition Duration	319	12.65831	15.85069	0	54
Broad Coalition Dummy	319	.507837	.500724	0	1
Rents p.c. (logged)	315	5.709742	1.015179	3.091043	8.416267
Mass Crisis	313	.7891374	2.565853	0	34
Election	319	.2884013	.4537305	0	1

Table 8.21: Summary Statistics

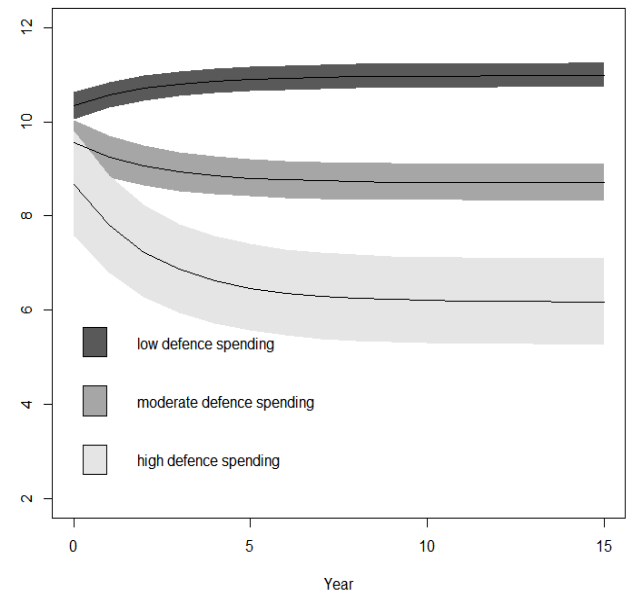
**Hypothesis 1a**

*IRFs and URFs for Different Measures of Welfare Spending*

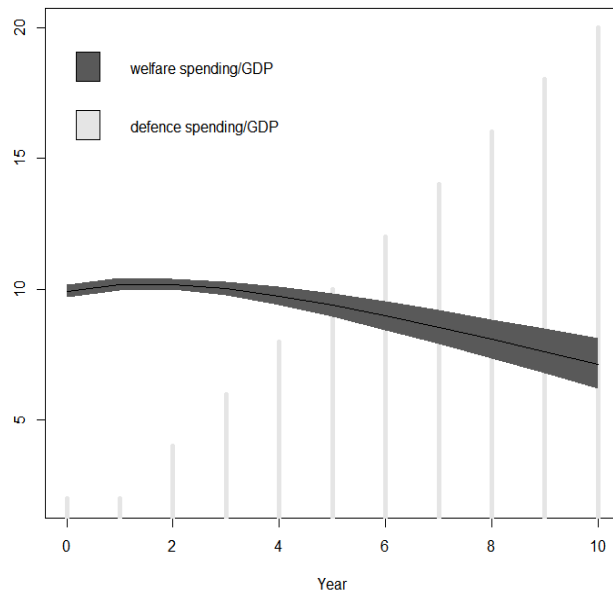
In Figure 8.1b, the values for defence spending are 1, 10, and 20 per cent of GDP for low, moderate, and high levels respectively. In Figure 8.2b, the three scenarios for defence spending are 20, 55, and 1097 \$US per capita. All these values have empirically been observed in my sample.



(a) Effect of Short-term Hikes in Defence Spending



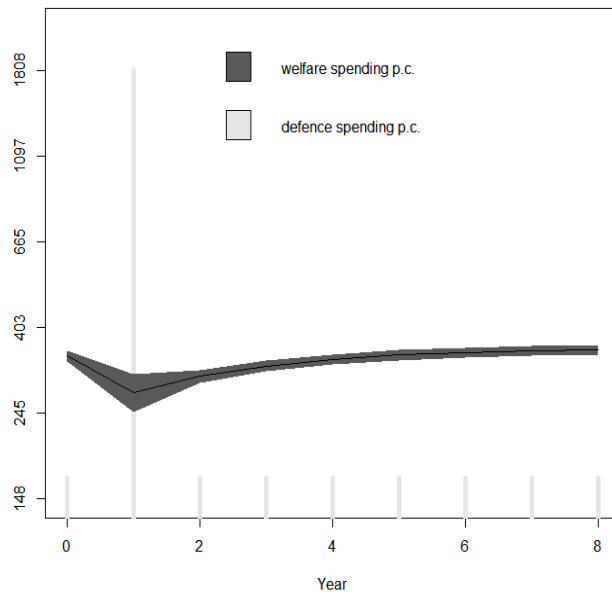
(b) Effect of Permanent Changes of Defence Spending



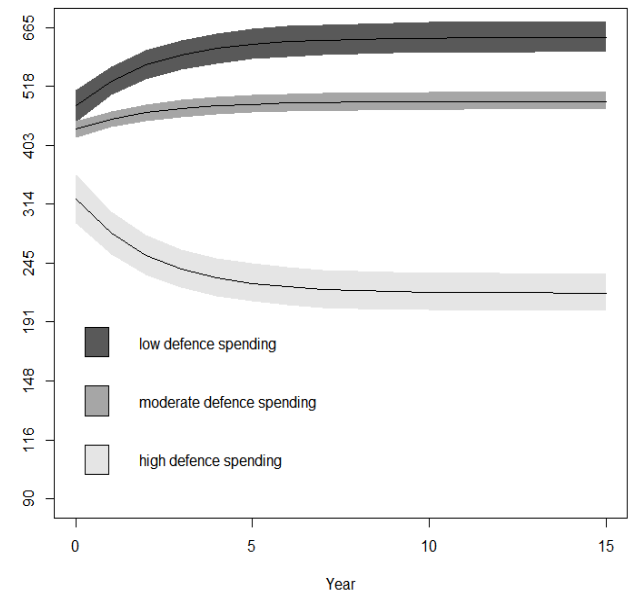
(c) Effect of Gradual Changes of Defence Spending

Figure 8.1: Effect of Defence Spending on Social Welfare as % of GDP  
 Note: Shaded area indicates 90-percent confidence bounds.

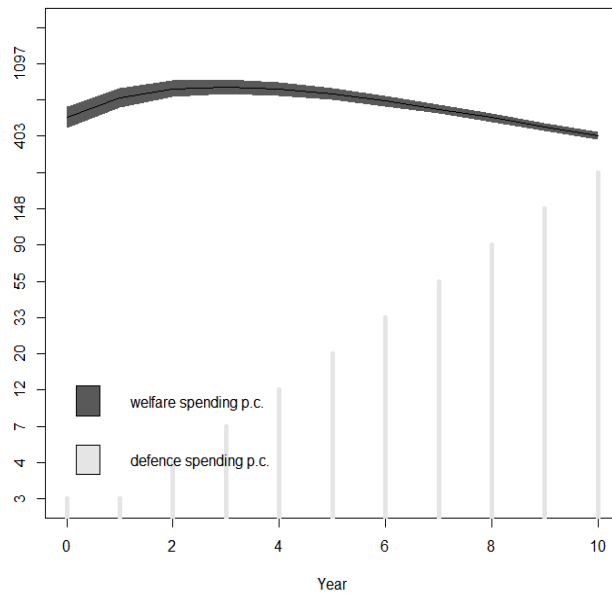




(a) Effect of Short-term Hikes in Defence Spending



(b) Effect of Permanent Changes of Defence Spending



(c) Effect of Gradual Changes of Defence Spending

Figure 8.2: Effect of Defence Spending on Social Spending per Capita in Constant 2005 \$US  
*Note:* Shaded area indicates 95-percent confidence bounds.

# Robustness Tests

Table 8.22: Robustness Tests Hypothesis 1a: Additional Controls

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Defence Spending	-0.145*** (0.0452)	-0.140*** (0.0448)	-0.120** (0.0472)	-0.0537 (0.0345)	-0.0915*** (0.0345)	-0.0312 (0.0366)	-0.0372 (0.0263)	-0.0774*** (0.0266)	-0.0499* (0.0263)
Trade Openness	0.289 (0.357)			-0.118 (0.115)			0.00501 (0.0134)		
Capital Account Openness	-1.213** (0.571)			-0.0342 (0.167)			-0.0250 (0.0195)		
Revenue/GDP		-0.0895 (0.0583)			0.0708*** (0.0186)			0.00663*** (0.00220)	
FDI			0.618*** (0.233)			0.135* (0.0814)			-0.000265 (0.00937)
Real Exchange			-0.529** (0.255)			0.0141 (0.0799)			-0.00490 (0.00985)
Observations	300	300	300	300	300	300	300	300	300

Columns (1)-(3) use *Welfare/budget*, columns (4)-(6) *Welfare/GDP*, and columns (7)-(9) *Welfare p.c. (logged)* as independent variable.

Autoregressive OLS model with regime fixed effects. Panel-corrected standard errors in parentheses.

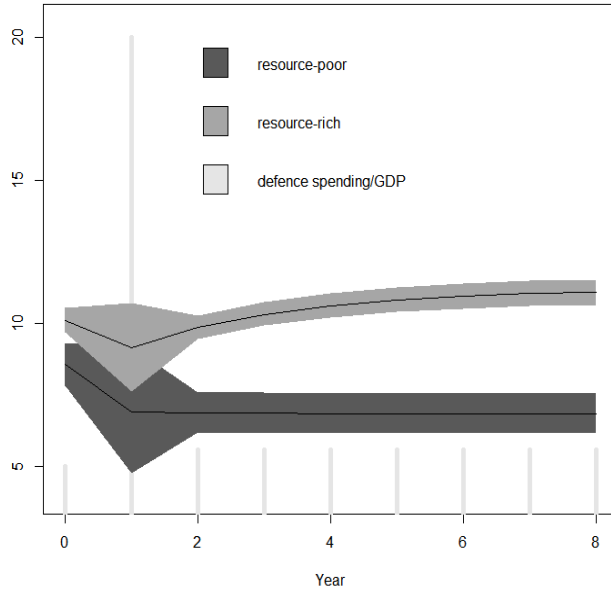
Models estimated using multiple imputations. Constant, FE coecients, and standard controls omitted.

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

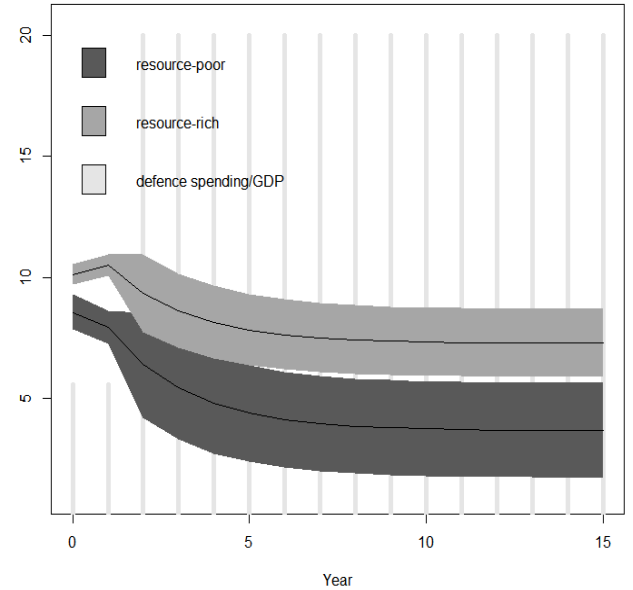


## Hypothesis 1b

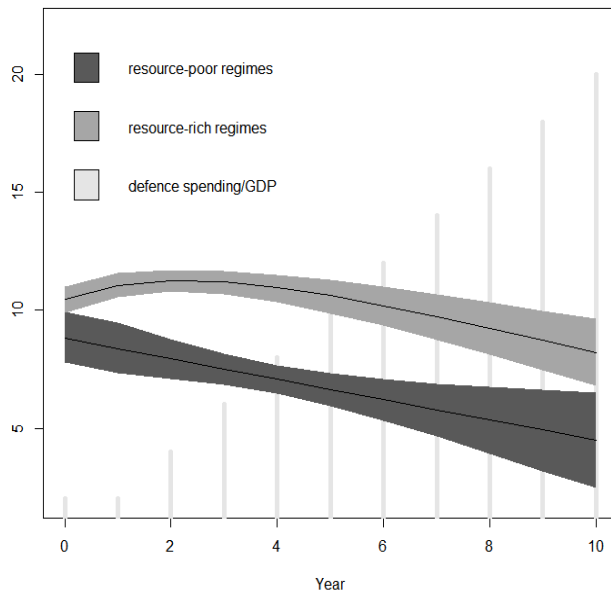
*IRFs and URFs by Resource Abundance for Different Measures of Welfare Spending*



(a) Effect of Short-term Hikes in Defence Spending



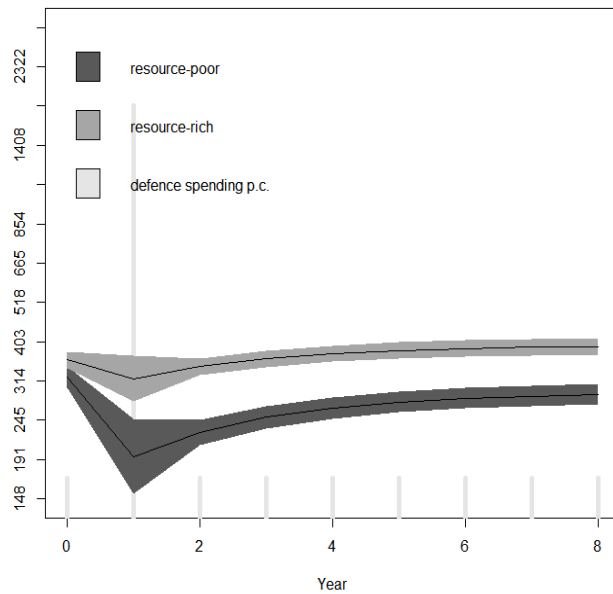
(b) Effect of Permanent Changes of Defence Spending



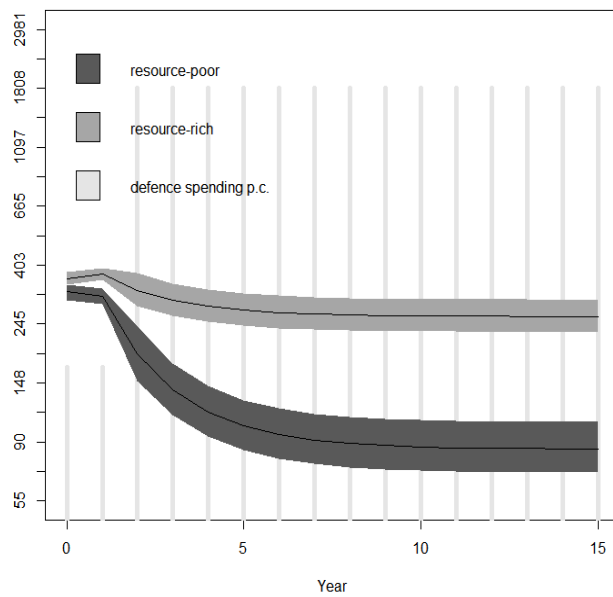
(c) Effect of Gradual Changes of Defence Spending

Figure 8.3: Effect of Defence Spending on Social Spending as % of GDP by Resource Abundance  
*Note:* Shaded area indicates 95-percent confidence bounds.

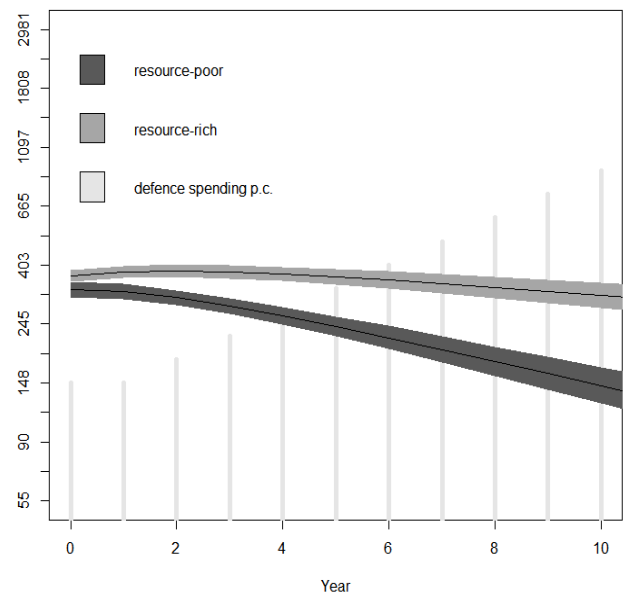
## Appendix C: Social Pacts over Time



(a) Effect of Short-term Hikes in Defence Spending



(b) Effect of Permanent Changes of Defence Spending



(c) Effect of Gradual Changes of Defence Spending

Figure 8.4: Effect of Defence Spending on Social Spending per Capita in Constant 2005 \$US by Resource Abundance

*Note:* Shaded area indicates 95-percent confidence bounds.

# *Robustness Tests*

Table 8.23: Robustness Test Hypothesis 1b: Alternative Measures of Resource Abundance

	(1)	(2)	(3)	(4)	(5)	(6)
	Welfare/budget	Welfare/budget	Welfare/GDP	Welfare/GDP	Welfare p.c. (logged)	Welfare p.c. (logged)
Defence spending	-0.158*** (0.0452)	-0.156*** (0.0453)	-0.0873** (0.0376)	-0.103*** (0.0373)	-0.0884*** (0.0287)	-0.0889*** (0.0285)
Res. Abundance 1	0.168 (0.193)		0.203** (0.0911)		0.107* (0.0549)	
Res. Abundance 2		-1.732 (3.403)		0.980 (0.659)		-0.399 (0.280)
Interaction		0.137 (0.196)		0.247*** (0.0912)		0.105* (0.0548)
Observations	298	298	296	296	296	296

Autoregressive OLS model with regime fixed effects. Panel-corrected standard errors in parentheses.

Constant, FE coecients, and standard controls omitted.

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Table 8.24: Robustness Test Hypothesis 1b: Additional Controls

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
[1em] Defence Spending	-0.159*** (0.0609)	-0.134** (0.0612)	-0.133** (0.0606)	-0.133** (0.0596)	-0.206*** (0.0603)	-0.118** (0.0596)	-0.110*** (0.0388)	-0.140*** (0.0368)	-0.124*** (0.0379)
Resources p.c. (logged)	0.0456 (0.429)	0.379 (0.443)	-0.00336 (0.430)	-0.0547 (0.117)	-0.175 (0.116)	-0.0919 (0.113)	-0.0832** (0.0400)	-0.0783** (0.0381)	-0.0878** (0.0388)
Defence Spending*Resources	0.00594 (0.0127)	-0.00248 (0.0128)	0.00502 (0.0128)	0.0235* (0.0122)	0.0317*** (0.0122)	0.0253** (0.0120)	0.0192*** (0.00727)	0.0177** (0.00703)	0.0202*** (0.00716)
Trade Openness	0.307 (0.354)			-0.103 (0.113)			0.00735 (0.0130)		
Capital Account Openness	-1.238** (0.570)			-0.00689 (0.165)			-0.0191 (0.0189)		
Revenue/GDP		-0.0928 (0.0594)			0.0820*** (0.0183)			0.00655*** (0.00216)	
FDI			0.620*** (0.233)			0.124 (0.0816)			-0.00219 (0.00950)
Real Exchange			-0.533** (0.255)			0.0357 (0.0793)			-0.00576 (0.00965)
Observations	300	300	300	300	300	300	300	300	300

Columns (1)-(3) use *Welfare/budget*, columns (4)-(6) *Welfare/GDP*, and columns (7)-(9) *Welfare p.c. (logged)* as independent variable.

Autoregressive OLS model with regime fixed effects. Panel-corrected standard errors in parentheses.

Models estimated using multiple imputations. Constant, FE coefficients, and standard controls omitted.

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

## Hypothesis 2

### *Percentage Change Plot Based on Non-Stratified Model*

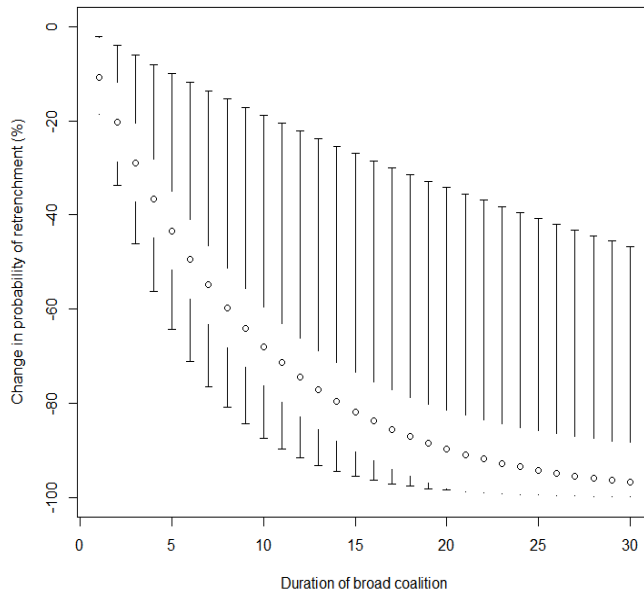
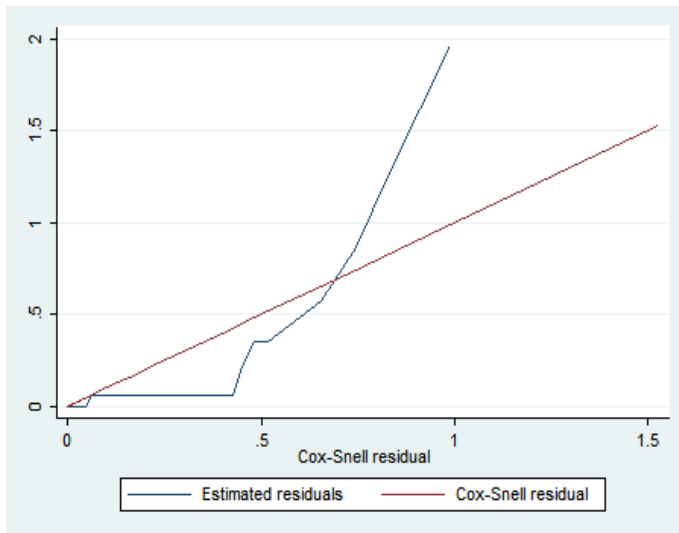


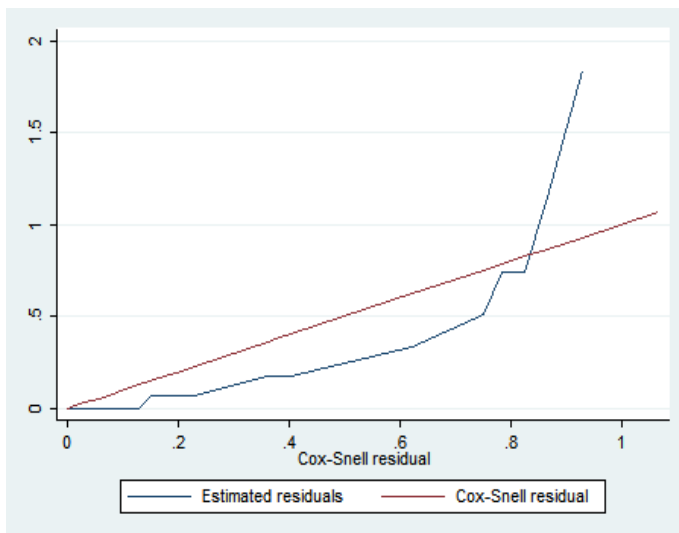
Figure 8.5: Percent Changes in the Risk of Retrenchment by Year of Broad Coalition Duration  
*Note:* Whiskers indicate 95-percent confidence bounds. Graph based on the non-stratified model.



Diagnostic Tests Using Cox-Snell Residuals



(a) Non-stratified Model



(b) Stratified Model

Figure 8.6: Cox-Snell Residuals for Non-stratified and Stratified Cox Model

An ideal fit of the residuals is a 45-degree line. The test lends support to the stratified as opposed to the non-stratified model.

### Hypothesis 3

#### *Predicted Change of Welfare Spending Using Alternative Rents Indicator*

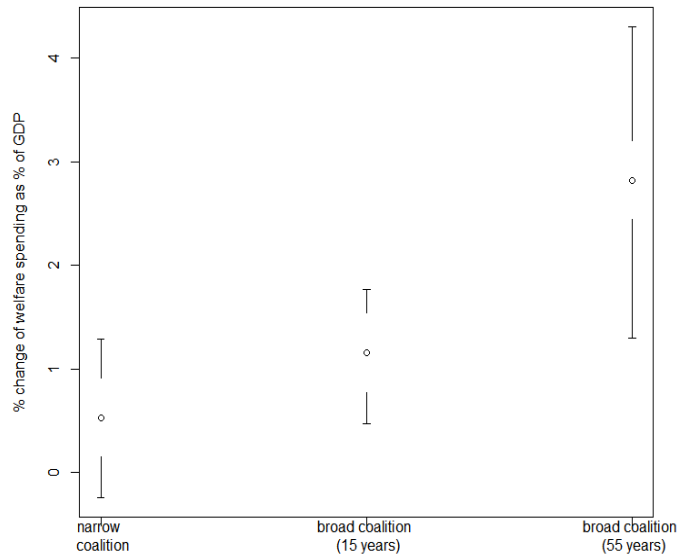


Figure 8.7: Effect of a Change from Mean to Maximal Levels of Windfalls by Coalition Duration

*Note:* Whiskers indicate 95-percent confidence bounds. The graph uses *Rents p.c. (logged)* to measure windfalls.

*Robustness Tests*

Table 8.25: Robustness Test Hypothesis 3: Additional Variables

	(1)	(2)	(3)	(4)	(5)	(6)
	Welfare/GDP	Welfare/GDP	Welfare/GDP	Welfare/GDP	Welfare/GDP	Welfare/GDP
Broad Coalition Duration	0.102** (0.0502)	0.207*** (0.0516)	0.148*** (0.0503)	0.273*** (0.0856)	0.288*** (0.0811)	0.265*** (0.0813)
Resources p.c. (logged)	0.185*** (0.0581)	0.169*** (0.0569)	0.178*** (0.0585)			
Coalition*Resources	-0.00453 (0.00680)	-0.0216*** (0.00709)	-0.0102 (0.00670)			
Rents p.c. (logged)				1.280*** (0.234)	1.036*** (0.257)	1.182*** (0.233)
Coalition*Rents				-0.0320*** (0.0121)	-0.0339*** (0.0114)	-0.0293** (0.0114)
Trade Openness	-0.0895 (0.113)			-0.128 (0.119)		
Capital Openness	-0.0347 (0.170)			-0.0485 (0.183)		
Revenue/GDP		0.0699*** (0.0196)			0.0301 (0.0233)	
FDI			0.120 (0.0769)			0.156** (0.0717)
Real Exchange			-0.0456 (0.0806)			-0.0661 (0.0782)
Observations	300	300	300	300	300	300

Autoregressive OLS model with regime fixed effects. Panel-corrected standard errors in parentheses.

Models estimated using multiple imputations. Constant, FE coefficients, and standard controls omitted.

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

## Hypothesis 4

### *Robustness Tests*

Table 8.26: Robustness Test Hypothesis 4: Additional Controls

	(1)	(2)	(3)	(4)	(5)	(6)
	Welfare/GDP	Welfare/GDP	Welfare/GDP	Welfare/GDP	Welfare/GDP	Welfare/GDP
Mass Crisis	0.0703** (0.0353)	0.0501 (0.0324)	0.0581* (0.0332)			
Mass Crisis*Broad Coalition	0.140* (0.0775)	0.150** (0.0747)	0.139* (0.0790)			
Election				-0.475 (0.289)	-0.451* (0.272)	-0.455 (0.284)
Election*Broad Coalition				0.606* (0.347)	0.589* (0.331)	0.576* (0.344)
Trade Openness	-0.158 (0.116)			-0.121 (0.115)		
Capital Account Openness	0.00242 (0.166)			-0.0371 (0.166)		
Revenue/GDP		0.0591*** (0.0188)			0.0626*** (0.0190)	
FDI			0.124 (0.0818)			0.134 (0.0818)
Real Exchange			0.0175 (0.0780)			0.0239 (0.0798)
Observations	300	300	300	300	300	300

Autoregressive OLS model with regime fixed effects. Panel-corrected standard errors in parentheses.

Models estimated using multiple imputations. Constant, FE coefficients, and standard controls omitted.

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

APPENDIX D: TUNISIA

**Coding of Independent Variables**

<b>Sectors Producing Subsidised Food Items</b>	<b>ISIC 3.1 Code</b>
Processing and preserving of fruit and vegetables	1513
Manufacture of vegetable and animal oils and fats	1514
Manufacture of dairy products	1520
Manufacture of grain mill products	1531
Manufacture of bakery products	1541
Manufacture of sugar	1542
Manufacture of macaroni, noodles, couscous and similar farinaceous products	1544
<b>Sectors Benefiting from Subsidised Inputs</b>	<b>ISIC 3.1 Code</b>
Manufacture of bakery products	1541
Manufacture of cocoa, chocolate and sugar confectionery	1543
Manufacture of soft drinks; production of mineral waters	1554

Table 8.27: Coding of Subsidy-related Sectors.

APPENDIX E: EGYPT

**Robustness Tests Expropriation Events and Welfare Spending**

Table 8.28: Robustness Test Expropriation Events and Welfare Spending: Welfare Spending as % of Budget as Independent Variable

	(1)	(2)	(3)	(4)
$\Delta$ Expropriation Act	1.216 (0.801)	1.291* (0.755)	1.267* (0.736)	1.280* (0.757)
Expropriation Act $t-1$	0.504 (1.047)	0.443 (0.987)	0.538 (0.968)	0.588 (1.016)
$\Delta$ Resources p.c.	-0.000207 (0.0105)	0.00127 (0.00991)	-0.00578 (0.0107)	-0.00640 (0.0113)
Resources p.c. $t-1$	0.00762 (0.00670)	0.00942 (0.00639)	0.00445 (0.00801)	0.00304 (0.00923)
$\Delta$ Foreign Aid p.c.		0.00743 (0.0103)	0.0110 (0.0103)	0.0108 (0.0104)
Foreign Aid p.c. $t-1$		-0.0156** (0.00669)	-0.00982 (0.00736)	-0.0107 (0.00805)
$\Delta$ Dependency			-1.517 (1.811)	-1.805 (1.893)
Dependency $t-1$			-0.789 (0.505)	-0.882 (0.567)
$\Delta$ Output Gap				-16.39 (31.54)
Output Gap $t-1$				0.306 (11.83)
Observations	58	58	58	58

Autoregressive ECM model with panel-corrected standard errors in parentheses.  
Constant omitted and previous controls. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

**Robustness Tests Current Account Crises and Social Security**

Table 8.29: Robustness Test Current Account Crises and Social Security: Additional Controls

	(1)	(2)	(3)	(4)
Reserves $t_{-1}$	-1.924** (0.855)	-1.714** (0.794)	-1.760** (0.811)	-1.805** (0.842)
Urbanisation $t_{-1}$	-0.837* (0.460)	-0.598 (0.520)	-0.676 (0.617)	-0.714 (0.611)
Resources p.c. $t_{-1}$		-0.0161 (0.0149)	-0.0125 (0.0138)	-0.0144 (0.0164)
Defence Spending $t_{-1}$			0.0258 (0.0720)	0.0381 (0.0765)
Polity $t_{-1}$				0.901 (3.543)
Years in office $t_{-1}$	0.549 (0.575)	0.717 (0.598)	0.792 (0.599)	0.735 (0.608)
Years in office <sup>2</sup> $t_{-1}$	-0.0783 (0.0551)	-0.0953 (0.0594)	-0.0991* (0.0592)	-0.0902 (0.0605)
Years in office <sup>3</sup> $t_{-1}$	0.00210 (0.00138)	0.00243* (0.00146)	0.00253* (0.00149)	0.00221 (0.00169)
Observations	58	58	58	58

Logit model with robust standard errors in parentheses.

Constant and previous previous control variables omitted. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

**Robustness Tests Cronies, Army, and Subsidies**

Column 1 and 2 in Table 8.30 use the full spectrum of tariff rates, including tariffs above 1000 per cent. Column 3 uses a standard logit model instead of a penalised maximum likelihood logit to estimate the effect of food and energy subsidies on Army activity. While the coefficient of food subsidies is dropped due to ‘tied’ data, the coefficient for energy intensity remains highly statistically significant.

Table 8.30: Robustness Tests Cronies, Army, and Subsidies: Full Tariff Spectrum and Different Specification

	(1) Crony activity	(2) Army activity	(3) Army activity
Low intensity	-0.339* (0.180)	-0.803*** (0.186)	-0.818*** (0.182)
Direct food	0.226 (0.419)	4.398*** (1.433)	
Tariff average	-0.000905*** (0.000236)	-0.000567 (0.000684)	-0.00191** (0.000940)
Imports (log)	0.180*** (0.0494)	0.277*** (0.0486)	0.275*** (0.0495)
Army activity	1.345*** (0.183)		
Crony activity		1.303*** (0.181)	1.318*** (0.183)
<i>N</i>	699	699	663

Logit (column 1,3) and penalised maximum likelihood logit (column 2).

Standard errors (column 2) and robust standard errors (column 1,3) in parentheses.

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$



*Appendix F: List of Interviews*

APPENDIX F: LIST OF INTERVIEWS IN ORDER OF APPEARANCE

<b>Person</b>	<b>(Former) Position</b>	<b>Location and Date</b>
Driss Guiga	Minister of Social Affairs and Public Health (1969-73), Education (1973-76), and Interior (1980-84)	Hammamet, 17 June 2013
Mohamed Ennaceur	Minister of Social Affairs (1974-77, 1979-85)	Tunis, 21 May 2013
Ahmed Mestiri	Minister of Justice (1956-58), Finance and Commerce (1958-60), Defence (1966-68), and Interior (1970-71)	Tunis, 11 June 2013
Mohamed Sayah	Minister of Public Works (1971-73) and Housing (1980-83)	Tunis, 16 May 2013
Ahmed Ben Salah	Minister of Health (1957-61) and Social Affairs (1958-61), Minister of Finance, Planning, Economic Affairs (1961-69), and Education (1968-69)	Gabes, 27 April 2013
Rachid Sfar	Prime Minister (1986-87)	Tunis, 30 June 2013

*Appendix F: List of Interviews*

Mustapha Filali	UGTT, former member of the Federation of Teachers, Minister of Agriculture (1959-57) and Information (1957-58)	Gabes, 19 June 2013
Naceur El Gharbi	Founding CEO of the CNAM (2004-9), Minister of Social Affairs (2010-11)	Tunis, 2 July 2013
Ridha Kechrid	Minister of Health (2004-7)	Tunis, 12 June 2013
Moncer Rouissi	Minister of Social Affairs (1989-91) and Employment (1992-2001); personal advisor of former President Ben Ali	Tunis, 22 May 2013
Ali Ben Romdhane	UGTT, Former Deputy Secretary General	Tunis, 2 May 2013
Ali Jebira	Head of the <i>Syndicat tunisien des médecins spécialistes libéraux</i> (Syndicate of the Independent Specialist Doctors; STMSL)	Tunis, 3 July 2013
Hédi Jilani	Former head of the employers' association UTICA	Tunis, 13 June 2013
Maher Kallel	Board member of the Poulina Group	Tunis, 18 June 2013

*Appendix F: List of Interviews*

Abdel-Aziz Hegazy	Minister of the Treasury (1968-72), Minister of Finance and Foreign Trade (1973-74), Prime Minister (1974-75)	Cairo, 28 January 2013
Ali Lufti	Minister of Finance (1978-80), Prime Minister (1985-86)	Cairo, 26 February 2013
Medhat Hassanein	Minister of Finance (1999-2004)	Cairo, 24 February 2013
Awad Tag Eddin	Minister of Health (2002-5)	Cairo, 19 February 2013
Kamel Maait	Deputy Minister of Finance in charge of social security	Cairo, 14 November 2012
Younna El Hamaki	Former member of the NDP General Secretariat	Cairo, 23 January 2013
Ali Moselhi	Former Minister of Social Affairs and Supply ( 2005-11)	Cairo, 13 January 201
Alia El Mahdy	Former member of the NDP Policies Committee	Cairo, 18 January 2013
Gouda Abdel Khaleq	Minister of Social Affairs (2011-12)	Cairo, 18 November 2012

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Table 8.31: List of Interviews in Order of Appearance