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# ECONOMIC FOUNDATIONS OF DEMOCRACY AND AUTHORITARIANISM: THE ARAB WORLD IN COMPARATIVE PERSPECTIVE

Giacomo Luciani

THIS ARTICLE MUST BEGIN WITH SOME CLARIFICATIONS. I am fully aware that there are important cultural, historical, and social determinants of the rise and stability of democratic/authoritarian regimes in each country. I do not wish to deny the importance of these non-economic factors; simply, I am interested in exploring the *economic* foundations of the dichotomy between democracy and authoritarianism.

I have two good reasons for doing so. First, this is my trade as an economist. Second, and possibly more important, economic phenomena constitute regularities that allow for interesting parallels between countries in very different parts of the world. Although no two economies are the same, the analysis of economic variables allows significant and quantifiable relationships to be established. Insistence on cultural and historical factors, on the other hand, leads inevitably to a tendency to stress the uniqueness of each country or region. Hence the common view that the Arab region is different from any other part of the world and cannot be understood with the same intellectual tools.

Of course, each individual is unique, and so are those particular collections of individuals that we call countries. However, this does not lead us very far in scientific understanding. Thus, the article deliberately includes several references to non-Arab countries and to literature that is mostly concerned with other parts of the world, especially Latin America.

The model I propose is not based on socioeconomic determinants such as literacy, urbanism, industrialization, and the like. All of these are important. But empirical evidence shows that while democracy may be less likely to thrive in scattered illiterate agrarian societies, nevertheless it sometimes does; and likewise, authoritarian governments seize power in industrialized urban and accultured countries as well as in others with opposing characteristics.

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While concepts of class will be used, they are not the primary focus or tool of analysis. The idea that each class has its own institutional preferences, that Western-style democracy is a bourgeois affair, and that the proletariat will seize power and open the era of a new democracy is, I believe, sufficiently discredited to be refuted here. Variations of this line of reasoning have been repeatedly proposed,<sup>1</sup> but generalizations have not withstood the trial of events very successfully. At any historical juncture there is a class or alliance of classes that supports either democracy or authoritarianism and makes the triumph of either possible. Yet depending on circumstances the same class takes the stage in a different role.

My primary interest is to offer some explanation of the fact that authoritarian governments are surrendering power to democratically elected ones in a large and growing number of countries, including some Arab ones. Countries involved are scattered all over the world. The current wave started possibly in southern Europe with Greece, Spain, Portugal; almost all of Latin America, with the notable exception of Chile and Paraguay, has followed this trend, and so have the Philippines and, more recently, South Korea. Democracy has been wiped out but then restored in Turkey, and Nigeria is undergoing the same process. In the Arab world, a democratization process is apparent in Morocco, Egypt, and Sudan. There is a strong expectation that, following Bourguiba's exoneration, Tunisia will also democratize rapidly. A demand for democracy is evident in several other Arab countries, but not in all of them. The challenge is to explain why authoritarian governments go essentially unchallenged in some countries, hold to power through repression in others, and surrender power to new or renewed democratic institutions in still others.

The article points to some economic aspects, mostly related to public finance and to the sources of the revenue of the state, that I believe are important in answering these questions. This debate, in general, has not been very well developed,<sup>2</sup> and is strikingly underdeveloped when it comes to the Arab countries.<sup>3</sup>

**AS WE LOOK AT CURRENT ECONOMIC CONDITIONS** in the Arab world, not many words need to be spent in noting that the Arab countries are experiencing a severe economic crisis. Many of the bright hopes of the 1970s have given way to disillusionment, frustration, and sometimes despair. The oil boom did not serve the cause of democratization in the Arab countries; quite the contrary, it helped generate an extraordinary durability<sup>4</sup> of leaders in power. Will the current crisis change this? Will it lead to democratization processes in a growing number of Arab countries?

It is commonly assumed that the conditions of economic crisis, necessitating adjustment programs which translate, in one way or another, into reduced real income for a significant part of the population, are potentially damaging for the stability of democratic institutions. Conversely, it is also commonly

assumed that democracy is not well suited to implement the difficult decisions that crisis and adjustment necessitate.

Indeed, a considerable body of literature in the 1960s and the 1970s argued that the cause of economic development necessitates a strong enough government and some degree of "autonomy of the state" in order to cut through the Gordian knot of conflicting interests, or overcome the obstacles imposed by "traditional" elites, and undertake a process of "modernization." This literature appeared to be directly applicable to the Arab countries, burdened by a supposedly inescapably reactionary religion and by a social and political order dominated by landowners and pashas, amirs, and ruling monarchs. Nasser was for a while the living example of the progressive, development-minded authoritarian ruler needed to dispose with the past. At the same time, a parallel, if quite differently inspired, body of literature argued that capitalist development in the periphery, the expansion of multinational corporations and the need for capital deepening converged in making a turn towards authoritarian governments inevitable in most if not all developing countries.

Notwithstanding certain very significant exceptions – India first and foremost – the prediction or prescription indeed came true: most democratic governments were wiped out and replaced by authoritarian regimes, generally of military origin. Those who did not like this turn of events, and did not quite believe that it was inevitable, were left to wonder, with A. O. Hirschman, why it was that good things did not come together. Apparently one had to choose between development and democracy, and could not have both at the same time.<sup>5</sup>

However, things have been changing in the last decade. Countries have reverted to democratic rule at times in which, coincidentally, they had to face a severe economic crisis, and in most cases stood up to the test quite successfully. Democracy did come under attack in other countries, partly in conjunction with economic crisis and adjustment, but successfully weathered the storm. In several other countries authoritarian regimes manifested even greater irresponsibility than one would expect from democratic governments, leading their respective countries to the verge of economic disaster, or deep into it. In some cases, these regimes collapsed and democratic institutions were revived, and the latter seemed to be prospering, notwithstanding economic difficulties. In still other countries the transition has not entirely taken place, but democratization is the order of the day, and, I believe, a precondition for successful adjustment and overcoming the economic crisis.

The purpose of this paper is to analyze this turn of events and propose some hypothesis as to *when* a crisis may revive or strengthen democracy rather than endanger it, and *why* democracy may indeed be better suited than authoritarian governments for coming to grips with crisis and adjustment.

This discussion is particularly relevant for the Arab countries in the post-oil-boom era. In the last four or five years all Arab countries have been experiencing economic difficulties of various degrees of severity. The essence

of the political problem that the Arab world faces today is whether these economic difficulties will push in the direction of democratization or in the direction of greater repression of popular demands and starker authoritarian rule. The game appears to be wide open, as regimes in place resist change while the demand for democracy refuses, in some countries, to be muted.

My argument will be based essentially on cases in southern Europe, the Middle East (including Israel), and Latin America. Most of the countries I am dealing with have experienced authoritarian regimes and have reverted to democracy only recently. Italy (post-World War II) and Israel have always had democratic institutions, but their democracies came under attack in recent years, causing a period of state impotence in the face of crisis. It is only in the Middle East that we find countries, namely a majority of Gulf Cooperation Council (GCC) members, which never experienced democratic rule, and in which a demand for democracy is seemingly non-existent. The formal exception there is Kuwait, but I am inclined to regard the National Assembly, notwithstanding its very vocal nature, as falling far short of democracy, in view of the extremely limited number that held the right to vote.

Strong austerity programs have been implemented in Italy, Greece, Spain, and Israel by governments either dominated or substantially influenced by socialist parties. The socialist party in Morocco may be ready to play the same role. The return to democracy revealed a substantially conservative electorate in Turkey and Argentina, while in Egypt and Mexico the ruling party is challenged from the right possibly even more than it is from the left.

Effectiveness has been mixed. The southern European countries and Israel seem to be doing quite well in improving their economic prospects, but this may be due to favorable circumstances rather than to the intrinsic merit of the policies adopted. Argentina and Brazil have run into serious problems. Morocco has embarked on adjustment and is stagnating. Egypt and Sudan still have to make decisive moves.

THE CRUX OF MY ARGUMENT lies in an analysis of the structure and balance of public finance.

Control of public finance is essential to the legitimacy of government. Practically all policies are implemented through taxation, the allocation of fiscal resources and expenditures, or both. While public finance may not be the only factor legitimizing a specific government, it is an essential component of the combination. To tax and to allocate fiscal revenue is the very essence of government.

Adjustment processes in the face of economic crisis generally require changes in the balance and structure of public finance. *Balance* refers to the relative amounts of revenue and expenditure, and to ways of financing the deficit. *Structure* refers to the sources of fiscal revenue, be they tax or non-tax, and to which sorts of taxes are used as well as to the allocation of resources among many competing goals.<sup>6</sup>

The causes of the economic crisis are not of foremost importance to our argument. Indeed, to some extent what damages certain countries benefits others, so causes must differ. The crisis may be a result entirely of circumstantial events over which the government has no control, such as changes in the price of oil or in the international interest rate; or it may, to the other extreme, be the result of mismanagement and mistaken policies. Still, when a crisis occurs, adjustment must follow, and adjustment policies will necessarily include modifications affecting public finance. Adjustment policies may affect other policy parameters as well: the exchange rate, monetary policy, or even structural parameters such as wage indexation, the role of public industry, or the degree of openness of the economy to international trade. But firstly, none of the measures that we just mentioned is neutral from the standpoint of public finance; and secondly, some reorientation of public finance is in any case predicated.

The emphasis is generally laid on balance rather than structure. Governments are told that they should reduce the deficit, but less attention is devoted to the question of exactly which changes should be introduced in order to achieve this goal. If anything, emphasis is usually laid on cutting expenditure rather than raising taxes, and specifically on cutting current consumption subsidies, or on reducing public involvement in industry. The assumption is that a tax reform necessitates a long preparation and is not an efficient tool to deal with a crisis in the short term; consumption subsidies harm the economy and should be abolished anyhow; and public industry is inefficient and ought to be privatized. All of this is familiar talk in Egypt as well as elsewhere.

It is because of the crucial importance of public finance that the nature of political institutions is so closely tied to economic crisis and adjustment. Democracies are commonly believed to be fiscally irresponsible. This belief is based on the assumption that consensus is gained through the process of expenditure and alienated through the imposition of taxes. Hence democratic governments will naturally tend to increase expenditure, and will only reluctantly accept the need to increase taxes. Coalition governments, catering to the constituencies of several parties or interest groups, are deemed to be particularly inclined to irresponsibility.

In contrast, authoritarian governments are assumed to be able to impose "law and order" in the economy as well as in society. Because they are presumably "autonomous," or possibly dependent on a constituency which is in any case smaller than that of a democratic government, authoritarian governments are more likely to adopt orthodox fiscal behavior.

This line of reasoning contains several important fallacies. It assumes that no democratic government can receive support on the basis of its ability to face crises. The fact that a crisis may involve consequences, such as rampant inflation, that seriously undermine the well-being of a majority of the population, is overlooked. Voters are assumed to be unable to understand that in order to solve the problem they may have to make sacrifices.

But an even more important fallacy is that no consideration is given to the fact that democratic governments are in a better position than authoritarian ones to impose taxes to raise additional income. Goode asks: "Are tax limits lower in democracies than in countries where political power is concentrated in a few hands? There is no convincing evidence that they are. Even dictatorial regimes must take account of economic incentives, and voluntary compliance with taxation may be harder to obtain in countries with such governments than in more democratic ones."<sup>7</sup> However, he makes no attempt to extend the point and state that democratic governments are in a better position to increase taxes than authoritarian ones. John Sheahan writes, "The distinctive economic policies of the authoritarian regimes included. . . serious efforts to limit budget deficits and the growth of money supply, *more effective taxation*, and changes in patterns of public expenditure towards more support for the military and for investors at the cost of reduced social programs"<sup>8</sup> (emphasis added), but offers no evidence whatsoever to support the first part of this statement: facts appear to contradict it.

Deficits have tended to increase in most countries since 1980, independent of the nature of their regimes. This may be due to common circumstances affecting all countries as well as to the time lag between expenditure decisions and their actual impact on government accounts, especially if large-scale debt is contracted. Thus, in Italy, the deficit declined from 40 per cent of government revenue in 1976 to 28.7 per cent in 1982, but climbed again to 38 per cent in 1985; in Argentina it was 58 per cent in 1976, was within the 20 per cent mark in the following four years, shot above 45 per cent in 1981 and 1982, to reach 81 per cent in 1983; in Brazil, as in Spain, the deficit was less than 10 per cent of revenue until 1979, then grew to almost 20 per cent in Brazil, and past that mark in Spain. In the Arab countries the gap between revenue and expenditure is often very substantial. In Morocco, the deficit hovered around 50 per cent of revenue from 1978 to 1980, rose to 54 per cent in 1981, then declined to 31 per cent in 1984. In Egypt the deficit was 42 per cent of revenue in 1979, and rose to above 70 per cent in 1982. In Tunisia deficits have been much more moderate (1977, with 21.6 per cent, and 1979, with 14.8 per cent, were the worst years), and in Algeria they have become a problem only since 1982.

While the size of the deficit is a problem in almost all countries, differences emerge when consideration is given to the dynamics of government revenue. Data prove that, with the possible exception of Brazil, authoritarian governments have failed to develop fiscal instruments, while democracies have often done so. Fiscal revenue accounts for a large and growing share of GDP in Italy; between 1975 and 1984 it went from less than 30 to almost 45 per cent. In Israel, fiscal pressure is even greater but has manifested no tendency to grow. Brazil and Spain have a substantially lower level of fiscal pressure, with a clear tendency only in the 1980s. In Argentina the fiscal capabilities of the state are very rudimentary, and are stagnating.

A recent study of public finance in the Arab countries revealed extensive underdevelopment of fiscal instruments in most Arab countries.<sup>9</sup> With the possible exception of Morocco and more recently Jordan, Arab governments have failed to attribute importance to the modernization of their fiscal instruments. Thus, with the exception of business taxes that have grown in some countries predominantly in connection with higher revenues of oil companies or other easily targeted foreign corporations, revenue from most fiscal sources has stagnated. In the countries which have witnessed the largest outmigration flows, such as the Yemen Arab Republic, Jordan, and to a lesser extent Egypt and Sudan, income from import taxes has grown; this type of taxation, however, has limitations that we will discuss later.

IN GENERAL, DEMOCRATIC GOVERNMENTS are in a better position to raise taxes because of the principle of "no taxation without representation." As has been argued elsewhere,<sup>10</sup> the converse also normally holds, and no representation is offered whenever the state is substantially independent of domestic taxation.

The argument can be briefly summarized as follows. In states which derive a considerable part of their revenue from external sources (which we may call rentier or allocation states), it is the state that supports the domestic economy through public expenditure, rather than the economy supporting the state. As a consequence, not just the public sector, but a very substantial part of the private sector as well, are dependent on government expenditure and are essentially structures through which the exogenous rent is circulated, rather than strictly productive sectors. Hence one cannot speak of exploitation nor envisage class conflict. Indeed, coalescence of economically motivated groups is unlikely, as individuals are generally better off vying for an increase in the share of the rent that accrues to them personally rather than engaging in political action to change the economic structure.

Because stability in the rentier state is connected with rent distribution, and the latter is difficult to subject to public political discourse, power in a rentier state is almost naturally vested in an authoritarian ruler that will act out of his "great generosity," i.e., arbitrarily, allowing for political graduation of economic reward. The ruled are likely to accept even blatant income inequality, as what is given to them is in any case more than what they would deserve or could expect to make elsewhere. Differently from non-rentier (or production) states, no demand is made on the fruit of their labors through taxation; hence, they cannot expect to have any say.

This explains why there is no strong demand for democracy in the oil-producing countries that are members of the GCC or in Libya, as well as in many extremely poor countries in Africa whose governments survive on external aid. Indeed, external sources of revenue are important for many more countries than just the major Arab oil exporters. In some cases, such as Egypt and Mexico, substantial oil revenue accrued for a while: not enough to make



these states truly independent of domestic taxation, but enough to give the impression that a miraculous solution to the fiscal crisis of the state was at hand, and fiscal reform could be delayed.

Israel, as well, has increasingly relied on grants from the rest of the world to finance its domestic budget, and taxation has accounted for a low and declining share of total revenue (from 73 per cent in 1975 to 62 per cent in 1984; in most oil-producing industrial countries, this share is normally above 90 per cent). Finally, Brazil has also increasingly relied on non-tax sources (tax revenue went from 92 per cent to 66 per cent of total revenue), but this was in connection with a sharp growth in social security funds rather than with income or grants accruing from abroad. I contend that whenever income or grants from foreign sources are an important source of government revenue, a tendency towards authoritarian rule is created or reinforced. Specifically, this was seen in Israel in the early 1980s.

In a further refinement of the simple argument linking the development of fiscal capability to democratic institutions, a distinction must be drawn between different types of taxes. There are taxes that may be imposed on a recalcitrant population, while others require a substantial degree of voluntary compliance in order to be effective. Taxes on international trade are most easily imposed, and indeed in history we find the movement of goods being taxed by bandits as well as by rulers. In our times, Lebanese militias or weak governments such as those whose labor force is massively employed abroad resort to this type of taxation as a primary source of revenue. Although in certain cases, smuggling or the granting of exceptions to special interest groups (starting with migrants and then extending to many others)<sup>11</sup> can substantially reduce the yield of taxes on international trade, these taxes remain easy to collect and efficient. Taxes on international trade are very important in Argentina, where they peaked at 22 per cent of revenue in 1976, then declined to 12 per cent in 1980 only to grow again in subsequent years. They used to be important in Israel, but have dramatically declined, and have always been less important in Brazil. In all European countries their yield is trivial.

In the Arab region the extreme case is that of the Yemen Arab Republic, where taxes on international trade accounted for 49 per cent of government revenue in 1981. Jordan (1980) was not far behind with 47 per cent. Other countries have lower levels (Egypt 26 per cent, Tunisia 25 per cent, Morocco 20 per cent), but still manifest a substantial dependence on this source of revenue.

Taxes on the consumption of specific goods (excises), especially if imposed on widely consumed goods (salt, matches, cigarettes, gasoline, etc.) are also relatively easy to collect, and are therefore widely used in several countries. In Arab countries, however, they are more often than not negative, i.e., prices are kept artificially low with direct or indirect subsidization. On this aspect a huge literature exists, one that has clarified that subsidies often benefit primarily the middle and upper classes, not the neediest (this being certainly the case for

gasoline, which would be an easy source of government revenue). But even if they are easy to impose, excises require some acceptance on the part of the population, being otherwise almost textbook examples of revolt igniters. Thus, even for such simple taxes, a democratic legitimization is important for successful enforcement.

On the contrary, taxes on economic activity, such as the sales tax or VAT; on income, personal or corporate; and on wealth, such as inheritance taxes or, for that matter *zakhat*, are practically impossible to collect unless there is voluntary compliance on the part of a substantial majority of the population. If imposed by an authoritarian government lacking legitimacy, they offer the opportunity for civil disobedience and manifestation of the lack of popularity of the government. The impact of direct taxation on total government revenue is widely different: it is extremely important in Israel, and tended to grow until 1981, declining thereafter; it is very important and consistently growing in Italy; it is less important in Brazil, but growing since 1982; it is minimal and stagnating in Argentina.

In the Arab countries direct taxation – where it exists at all – contributes only to a limited extent to the formation of government revenue: 8.7 per cent in the Yemen Arab Republic is probably the low end of the spectrum, followed by Jordan, with 15 per cent; Tunisia, 17 per cent; and Morocco, 22 per cent. The figure for Egypt (36 per cent) is swollen by taxes on the oil companies and on the Suez Canal company – effectively, rent accruing from abroad.

Differences in taxation structures have important implications for several aspects of economic policy and development, not just for the determination of total revenue. Reliance on taxation of international trade reduces the government's ability to pursue structural goals through trade policy; the latter becomes predominantly a fiscal tool, preventing liberalization or sensible protectionism. *Ceteris paribus*, a uniform import tariff leads to a higher equilibrium exchange rate, with the new effect of discouraging exports as well as imports. Taxes on the consumption of specific goods are generally strongly regressive, notwithstanding the fact that they are often described as "luxuries." And in all cases, the progressive tax on personal income is an essential tool of income redistribution and economic justice, which must exist and be perceived as fair and effective in order for sacrifices to be accepted by a majority of the population. Thus, authoritarian governments may be able to impose sacrifices in the short run because they can resort to repression, but if they fail to develop an equitable fiscal system, they only increase the need for more repression in the long run.

Excessive supply of money and deliberate inflation is of course another form of taxation. Resort to deficit spending or manipulation of inflation is one way in which weak democracies or authoritarian governments, lacking the legitimization which would be needed to increase taxes and bring revenue in line with expenditure, try to avoid facing the problem. The problem here is a political one, whose solution entails the re-establishment of political institutions and the advent of a government that enjoys a clear mandate to

cure the crisis. The political nature of the problem is often missed by advisers and economists, who commonly propose purely economic remedies.

From a political point of view, the distinction must be drawn between expenditure that is financed by revenue obtained from taxes that require compliance, and expenditure that is financed by non-tax revenue, taxes on international trade and excises, or deficit spending. The former supports a demand for democracy, the latter commonly does not.

A further clarification is, however, required with respect to deficit spending, whose political impact may differ depending on the way it is financed. If it is financed through the creation of money or international indebtedness, it requires no political support at home. If, however, it is financed domestically, the government will need to maintain confidence in its paper. This considerably limits its freedom of movement. This point is important in explaining some of the differences between the southern European and the Latin American countries. The former had much more limited access to the international financial market and were thus obliged to rely on domestic credit to finance their deficits. The Arab countries had uneven access to the international market, and incurred debt in amounts that, while not comparable to the Latin American figures, still constitute a serious burden on their economies. Almost all Arab countries have only rudimentary domestic financial markets and do not even dream of borrowing from their people. Morocco is the only country that has issued bonds to the public. Tunisia and Lebanon rely on borrowing from domestic financial institutions which can be more easily cowed. No other Arab state resorts to significant domestic financing. (Interestingly enough, Saudi Arabia announced in January 1988 that bonds will be issued to the public to finance the expected government deficit. At the time of writing no details were available. If indeed this initiative proves feasible and is sustained, it will represent a major turning point in Saudi Arabia's political history.)

In the case of the Latin American countries, the fiscal crisis of the state is interrelated with the formation and growth of the huge debt. (Chile is an exception here.) Large external debt was also incurred by Morocco, Egypt, and Tunisia, and is part of the current plight of these countries. Some of this debt is directly linked to the financial difficulties of authoritarian governments and to their inability to face a weakening in their acceptance or legitimation by raising taxes and trimming expenditure. Foreign credit offers an attractive alternative to finance key programs, especially in military expenditure.

The Moroccan debt dates back from the time when the government thought that phosphates would increase in price in the same way as oil had done. It was a quick fiasco, and the king moved toward democratization in coincidence with it. Most of the Egyptian debt is a "reward" for signing the peace with Israel, and allowed Sadat to avoid another round of riots and create a brief illusion of prosperity in the late 1970s. Mubarak was left with the task of democratizing and paying back. The Tunisian debt is smaller and has had less of a political impact.

The positive correlation between authoritarian regimes and external debt has been noted by Atul Kohli.<sup>12</sup> Kohli asks the crucial question, why should democracies as a group have borrowed more cautiously than many an authoritarian government? The first explanation he offers is that "democracies do not rest their legitimacy exclusively on economic growth," while for authoritarian governments "the minimal legitimacy that they have enjoyed rests on restoring order and efficient management of the economy. For them the economic slowdown must have spelled political danger." The second explanation refers to the availability of credit: "Banks and investors found bureaucratic-authoritarian regimes attractive risks that seemed to promise political stability and high export-oriented economic growth." Indeed, the fascination of Western bankers with authoritarian rulers is shown by their immense liking for Sadat and for all monarchs. The bankers' concept of political stability used to be extremely rudimentary, although it may have changed since the fall of the Shah in 1979.

Democratic governments are also better able to impose unpopular measures that cut the real income of substantial strata in the population, such as wage deindexation, curtailment of social services or consumption subsidies, and devaluation. Sometimes the acceptance of these measures requires a special electoral test: but if a majority can be shown to support sacrifices, opposition loses legitimacy and is politically isolated. Opposition under authoritarian rule, on the other hand, will be met by repression, which tends to create solidarity. Authoritarian regimes, being illegitimate, and generally wishing to avoid resorting to open repression (not all authoritarian regimes are state-terrorist like Pinochet's or Assad's) will attach exaggerated importance to the complaints of protesters that, under democratic rule, would likely be shown to be a minority. One had the impression that the recent calling of elections in Egypt (April 1987) was to be a case in point: the president, having understood that some unpopular measures need to be adopted, asked renewed popular confidence to do so. However, once the electoral test was run and duly won (which I believe fairly represents the sentiment of a majority of the Egyptian people), the courageous measures one had been led to expect did not materialize.

ONE SHOULD ALSO ADMIT that sometimes authoritarian governments do enjoy legitimacy and popular support in the short run; not only in cases in which they come cloaked in a revolutionary mantle, as Nasser did, but also when they promise discipline and hard work, as they did in Latin America or Turkey. Because in fact a majority of the population may be aware of the need to change course and accept sacrifices, and democratic institutions may fail to propose the desired change (we will come back to this important point), authoritarian governments sometimes are welcomed by a majority of the population.<sup>13</sup> In this case, authoritarian governments may for a while command sufficient acceptance to be able to impose new taxes (or other

sacrifices) of the desired kind. In so doing, however, they create the conditions for an even stronger demand for democracy.

At the same time, if an authoritarian government fails to come to grips with the crisis, and resorts to purely short-term measures, or possibly engages in even greater irresponsibility than the democratic government it overturned, then popular support is quickly lost, and democracy may again be invoked to face the challenge.

Thus authoritarian governments may at most enjoy popular support for a limited period of time in the case of failure of democratic institutions, and typically are expected to create conditions for a return to democracy within four or five years at most. If they do not initially enjoy popular support, or lose it because they drag on in power for too long, their ability to guarantee soundness in public finances will rapidly erode. While one cannot rule out increasing reliance on repression for an indefinite time, it is clear that the situation will not deserve to be called stable.

This line of reasoning leads me to propose a model of the fiscal-institutional cycle which I will now summarily introduce. We may assume that a country is originally ruled by a democratic government with restricted elitist support – a "bourgeois-liberal" government, or oligarchic democracy. This was the experience in Italy, Spain and Greece in the earlier decades of our century, in Egypt from independence to 1952, in Morocco and possibly Tunisia in the early years after independence, in Hashemite Iraq, in Jordan until 1967, and at various points in time in all Latin American countries as well. In all cases, the industrial bourgeoisie was weak and the landed classes were strong, limiting the potential for a gradual evolution in the nature of the political regime. Neither Turkey nor Israel has undergone this phase, because of the historical circumstances of the two states' formation.

Because of its elitist nature, and in particular because of the narrow-minded approach of the landed classes, the democratic government in an oligarchic democracy is unable to develop fiscal resources to the extent necessary to gradually enlarge its political base. As social tensions arise, oligarchic democracy is replaced either by a populist movement or by authoritarian rule.

Populism is of course common in Latin America, but the early phase of Fascism in Italy, as well as Ataturk's policies and Nasser's, Bourguiba's and Qassim's regimes can be called populist. On the other hand, Spain, Portugal, Greece and Morocco turned to authoritarian regimes before populist forces were able to reach power.

A populist government may be able to develop the system of taxation, but it is even more inclined to increase spending. The weaknesses that are usually predicated of all democratic governments do specifically apply to populist governments. The latter may sometimes respect the facade of democratic institutions, but in fact base their legitimacy on a corporate compromise between organized interest groups – i.e., on the implementation of a specific policy package rather than on formal adherence to democratic rules. As a consequence it is highly likely that the state will be requested to give more than

it takes. In most cases, these regimes base their initial success on the expropriation of the larger landowners, or on other measures aimed at capturing a part of the previous income share of the old ruling class; however, this generates financial resources that are non-renewable in time, and are soon exhausted. Waterbury, for example, rightly stresses the importance of expropriation in the fiscal balance of the early years of the Nasserite regime.<sup>14</sup> In the whole of North Africa, the redistribution of *colon* property has played an important role. Redistribution occurred on a substantial scale in Mexico, but not in Argentina or Brazil. In all cases, the state failed to develop alternative sources of revenue for the longer run.

Thus, populist regimes easily fall prey to a fiscal crisis that may in turn open the door to authoritarian rule. Sometimes the very same regime will shed its populist mantle and turn increasingly authoritarian – something that may be said to have happened at an early stage in Italy's Fascist experience and in Egypt with the transition from Nasser to Sadat, or in Tunisia with the disgrace of Ahmed Ben Salah. In any case, whenever the initial democratic state represents but a weak bourgeoisie, an authoritarian parenthesis appears to be inevitable, either in order to prevent the advent of a populist government, or to replace one.

Authoritarian regimes may proceed to develop certain essential fiscal instruments, but this is not necessarily the case. It is entirely possible that the regime will identify with the class interests of the weak elite, and will abstain from introducing taxes on income and wealth, or will proceed to dismantle whatever taxation system was put in place during the populist phase. The military governments that succeeded Peron pretty much dismantled the Argentinian system of income taxation.<sup>15</sup> In Egypt, Sadat increasingly relied on income from foreign sources (oil revenue, Suez Canal revenue, Arab and then American aid) and made little or no effort to modernize the system of taxation that had existed for years, and which Nasser had used with a punitive intent (thus institutionalizing evasion). In Morocco, almost no taxes are levied on agriculture, to the benefit of individual farmers as well as large landowners, who are the main political support of the throne.

Even in those cases in which the authoritarian government manifests sufficient "autonomy" as to be able to develop fresh fiscal instruments, if no steps are taken towards the re-establishment of democracy, the government will lose whatever legitimacy it may have enjoyed at the beginning, and will gradually fail to make full use of fiscal instruments, in order to maintain at least the support of the elite. Brazil may be a case in which the authoritarian government did develop the fiscal capabilities of the state, but, in order to maintain the support of the elite as its legitimacy was waning, failed to utilize them to the full extent needed. Chile is a case in which fiscal capabilities were developed, no transition to democracy followed, support of the elite has been substantially lost and Pinochet simply hangs on to power thanks to military suppression and to the divisions in the opposition. The shortfall in revenue deriving from failure to develop fiscal capabilities does not necessarily result in

the downfall of the authoritarian regime. The regime can generally hold out for a long time, utilizing the various techniques that we discussed above, from foreign credit to inflation. While the effectiveness of these expedients is strongly dependent on international conditions, it is likely that a turn towards democracy will take a long time.

In fact, most recent cases do not support the view that financial irresponsibility will lead to economic and political crisis followed by democratization. In Spain, Portugal and Greece democratization took place while economic conditions were worsening because of important international events: none of the three authoritarian regimes was brought to its knees primarily because of fiscal irresponsibility. The Argentinian regime was irresponsible but fell because of military adventurism. Democratization is controlled by the regime in power in both Egypt and Morocco, and this is the most likely scenario for Tunisia, following the exoneration of Bourguiba (a process in which remarkable attention was devoted to respect of constitutional procedure), as well as for Mexico. Military adventurism may play on Saddam – and someday possibly on Qaddafi – the same trick that it played on the Greek and Argentinian military; but economic difficulties alone would not suffice to bring down their regimes, as they have not sufficed to bring down Assad's. In Italy and Israel the turn towards a revitalization of democratic institutions was a response to interrelated economic and non-economic challenges. In Turkey, the military deliberately pursued redemocratization. Brazil and Sudan are possibly the only cases in which economic failure played a crucial role in the downfall of an authoritarian regime.

And yet, we may at least say that the likelihood of a fiscal crisis of the authoritarian state is an argument in favor of the possibility of development and democracy eventually occurring at the same time. From a normative point of view, it is certainly an argument to conclude that the democratic industrial countries should aim at supporting democratization processes rather than the contrary.

However, in order to be fully convincing the argument has to examine conditions for the success of democratic institutions. We have argued, up to this point, that democratic institutions are *potentially* better. But there is no assurance that they will in fact succeed. Democracies have been known to fail.

THE ABILITY OF DEMOCRATIC GOVERNMENTS to cope with crisis and adjustment is connected to several factors, and I shall mention only a few that I believe are particularly important.

A first crucial consideration is of course the extent to which fiscal instruments already exist; whether they simply need to be utilized better, or, on the contrary, they need to be created from scratch. In the latter case the government will face a task which is technically much more difficult, independent of the political will to strengthen the fiscal base of the state. It is thus necessarily the case that democracies in fiscally underdeveloped states

will need to rely more on cutting expenditure and less on increasing revenue. This posture may be politically damaging and difficult. All of the southern European countries enjoyed a fully developed fiscal system; Morocco inherited from France a better system than Egypt's, while Sudan is in a shaky position. Alfonsin is plagued by a disastrous fiscal system, and is apparently unable to make any progress in improving it. Indeed, this is a strong argument in favor of a long-run advantage for democracies: not only may they be in a better position to respond to a specific critical situation, but they may be expected gradually to develop fiscal instruments which will enhance the ability of any government to cope with a crisis.

Fiscal underdevelopment becomes even more of a problem if considerable external debt has been accumulated, or conditions of hyperinflation have become endemic. In this respect, the European countries are substantially better off than most, followed by the Arabs (although the situation of Egypt, Sudan, Tunisia, Algeria, and Morocco is quite critical by now), while Israel and the Latin American countries have the most difficult task. In order to repay the accumulated debt and stop inflation the government will simply need to impose relatively larger sacrifices. These sacrifices will commonly appear to be politically unwarranted, as those obligations were not underwritten by a similarly legitimized and democratic government.

In other words, the fact that a turn to democracy may be precipitated by a crisis and by the need for adjustment does not mean that the worse the crisis the better the chances of success of democratic institutions.

Yet in a sense we may expect that popular attachment to democratic institutions will be particularly strong if the previous authoritarian government has managed to make a real mess of the economy. One should not forget that a "preference for democracy" always exists, and while it is true that nobody likes to be told to sacrifice, the worse the crisis the greater will be the "preference for democracy," partially offsetting the impact of required greater sacrifices. While this effect is very important in Latin America, it is less so in most Arab countries, as the democratization process is controlled by and is a natural evolution of the authoritarian regimes. True, this was the case in Brazil as well, but there at least the military was seen abandoning power and a civilian president was elected. On the other hand, the military and the king still occupy the top positions, respectively, in Egypt and Morocco. Not so in Sudan, however, and there Sadiq al-Mahdi will certainly benefit from the "preference for democracy" if he himself will prove able to abide by the rules.

A different issue with respect to the ability of democracies to face crisis and adjustment is connected to their strength. The concept of a "strong" democracy is a complex one that encompasses historical, cultural, and social parameters, but what is crucially important is the ability of democratic systems to ensure the implementation of the will of the majority even under conditions in which the majority is slim. Conditions in which a minority rules or is able to block action on the part of a majority are extremely damaging to democratic success.



Turkey, Israel, and Italy offer clear examples of stalled democracies that I believe are very relevant for future developments in both Egypt and Morocco. In the case of both Turkey and Israel the difficulty derived from the polarization of the political struggle between two parties of approximately equivalent electoral strength, neither of which commanded an absolute majority. This attributed excessive political prominence to small parties, which in turn stimulated irresponsible behavior. In Turkey, this led to extreme instability and to military intervention. The military government crushed terrorism and proceeded to reshape the political system by changes in the constitution and the encouragement of new parties. For the time being, the strategy seems to have paid off, and a crucial test was passed in November 1987, when elections in which the "old" political leaders were allowed to run took place, and it was confirmed that important changes had taken place in the political map.

In Israel, the weaknesses of the government, accompanied by economic and political difficulties, led to the emergence of a militarist wing that substantially evaded democratic rules, although it never challenged democratic institutions *per se*. Emphasis was laid on military superiority and on the strategic value of Israel to the United States as a basis for domestic as well as international acceptance. This line, best represented by Sharon, played its cards – and lost – in Lebanon. As was noted earlier, this was at a time when direct income taxes were declining as a proportion of total revenue, and exogenous (American) funds were growing more important – all in line with the "strategic asset" idea.

The national coalition government that was formed after the Lebanese fiasco is certainly not a very solid creation, but it has managed to organize support around a project of economic recovery. (But dissent on the convening of an international conference for peace in the Middle East has created conditions in which the small parties effectively can impose the will of a minority on several important issues, and this may lead to a comeback of the militarist component.)

With respect to the ability of broad coalitions to attack economic crises, the Israeli example is an exception. Generally, maxi coalitions and social pacts are not conducive to pursuing adjustment programs. The contrary is rather the case. Indeed, one of the benefits of democracy is that the majority can impose its will on the minority: all that is needed is fifty per cent of the vote plus one. Lots of people may be hurt, but as long as they are a minority they will have to bow: the political longevity of Mrs. Thatcher stands to prove this.

Governments that enjoy genuine democratic legitimacy can and ought to resist corporate demands – or, at least, to accommodate only those corporate demands that are needed to reach a majority.

The point is best shown by the poor results of the "national unity" government in Italy, and is confirmed by the experiences of other countries. Alfonsin first tried to rule in accordance with the Justicialists, and made no progress towards readjustment; progress came only when the government acted on its own, relying solely on its parliamentary forces and withstanding the

open opposition of the trade unions. Unfortunately, this "divisive" approach was not sustained, and the country is slipping again into economic chaos. In Brazil, the PMDB's difficulty in imposing a credible adjustment policy is similarly connected to the fact that the party tries to please too many people at the same time.

These are important lessons for the democratization process which is underway in Egypt. As noted earlier, elections have been used to legitimize the government so it might take unpopular measures, but these then have not been forthcoming. The paralysis depends on several concomitant factors. On the one hand, the ruling party still has the main aim of pleasing everybody, as if the majority that it enjoys in parliament were not comfortable enough. An additional factor may be related to the presidential nature of the regime. The role of the president does not allow a sufficient distinction between the president and the executive – and as the president cannot afford to be divisive, thus neither can the executive. The same syndrome is found in Mexico, for example. On the other hand, the president is also greatly conditioned by the major corporate groups, and indeed so is the ruling party. These groups, which I would identify in the military and in the bureaucracy, effectively prevent the government from taking the steps that would be necessary to tackle the fiscal crisis. (Both the compradores that emerged with *infitah* and Binder's second stratum, i.e., the largest landowners, appear to be weakened and unable to impose a further dismantling of Nasser's statist heritage.) Thus the regime requests democratic legitimation but then appears to be unable to make use of it, leading to lack of progress. The opposition may be expected to benefit from such immobilism, but its gains will be slow and painful, and the whole experiment could be aborted, opening the door to a different type of authoritarian regime.

In Morocco the government is inclined to transformism and co-optation of the opposition,<sup>16</sup> or at least of the opposition's policies, and is not separate from the king. Hence the government cannot be divisive, nor can it lose elections, and this severely limits its democratic legitimation. While it has shown greater courage than most in trying to remedy the country's difficulties, it has not taxed agriculture, nor does it appear inclined to put an end to the war in the Sahara (which is popular, alas, and a drain on the treasury).

THERE IS NO EASY CONCLUSION to our story. One should beware of any mechanistic statement and of easy predictions. No changes in the economic sphere in and of themselves allow us to predict a turn towards democracy or authoritarianism with any confidence – there simply are too many additional variables involved.

Nevertheless, there are statements that can be made. Firstly, we may say that the economic difficulties that several developing countries, many of them in the Arab world, are experiencing, will bring to the fore the question of democracy and democratic legitimation of government policies. This is no

guarantee that democracy will in fact prevail, but it may be a step in that direction.

If democracy does prevail, success in the long term will depend upon development of the fiscal capacity of the state. If democracy is unable to come to grips with the fiscal crisis of the state, then it is unlikely to last or to succeed. Democracy is not best served by complacency and irresponsible use of public funds to court people's favor. Democratic leaders must have sufficient faith in the maturity of their fellow citizens, and not shy away from delivering a message of sacrifice, whenever necessary. It is in a sense curious that many democratic leaders do not entirely trust the significance of the mandate upon which their power rests. The transition from authoritarian rule may, in this respect, be quite difficult, as leaders may engage in enough democratic play to become vulnerable and not enough to acquire solid democratic legitimation. The analysis would suggest that gradualism may not be an optimal strategy under these conditions, and some degree of boldness may help in gathering the political capital which is necessary to face the economic crisis.

If democracy does not prevail, the state will experience a more difficult time in solving its economic predicament because it will be unable to rely on compliance. Nevertheless, one cannot rule out that authoritarian governments may be sufficiently strong and ruthless as to impose a program of reduced spending and increased revenue. In the Arab context, however, this solution does appear very difficult, primarily because economic recovery will be difficult if the private sector – especially migrants' saving and wealth accumulated abroad – is not mobilized. A repressive police state would hardly be capable of attracting the confidence of potential entrepreneurial resources.

But then, there is still the possibility of an authoritarian government simply clinging to power and not offering a solution to the issue of economic adjustment and recovery. Sad as this result would be for the future development of the Arab region, we cannot rule it out.

Looking at the Arab world in a comparative perspective, one cannot be complacent about the progress which is being made. Things have been moving much faster in other parts of the world, and one is obliged to conclude that in the Arab countries there is just an extraordinary lack of confidence in the merits of democracy. One can perceive an evolutionary tendency towards democracy, but it is a painstakingly slow one. The worst danger is that democratic experiments may end up being aborted because of lack of courage in pursuing them.

## NOTES

1. For example, focusing on multinational corporations, or separating national from comprador bourgeoisie, or considering interest groups such as the military or bureaucracy as classes, often leading to one form or another of conceptualization of the New Middle Classes. The latter may be useful for several purposes, as shown by Jean Leca in his chapter in *The Durability of the Arab State*, ed. Dawisha and Zartman

(London: Croom Helm, 1987), but is extremely ambiguous with respect to the dichotomy we are interested in.

2. Two large collaborative projects should be mentioned in this respect. The first, directed by Guillermo O'Donnell and Phillippe Schmitter [*Transitions from Authoritarian Rule* (Baltimore: Johns Hopkins University Press, 1986)] focused on the experience of the southern European countries and Latin America, and led to publication of four volumes, the last being devoted to a theoretical re-evaluation of the issue of transition to democracy. The second was directed by Larry Diamond, Juan Linz and Seymour Martin Lipset [*Democracy in Developing Countries* (Boulder, Colo.: Lynne Rienner, 1987-8)] and is also scheduled to lead to the publication of four volumes, three of which are devoted, respectively, to Africa, Asia and Latin America, while the fourth is mainly theoretical in nature.

3. I am not aware of any comparative attempt at studying democratization processes in the Arab countries. Some interesting insights were gained in the course of a recent research project that I had the opportunity to organize, but they are no more than scattered insights. Indeed, most people to whom I confess that I am studying democratization processes in the Arab countries stare at me as if I were looking for the Loch Ness monster.

4. Borrowed from Dawisha and Zartman and intended to be different from *stability*.

5. A. O. Hirschman, *Essays in Trespassing*, 98-9; Hirschman concludes the chapter with a somewhat fideistic statement on the likely return of democracy.

6. The issue of efficiency and waste can also be raised under the rubric of public finance structure.

7. Richard Goode, *Government Finance in Developing Countries*, Broa Kings, 1984, 48.

8. John Sheahan, "Economic Policies and the Prospects for Successful Transition from Authoritarian Rule in Latin America," in *Transitions from Authoritarian Rule*, vol. 3, 161.

9. G. Luciani, ed., *Public Finance in the Arab Countries*, IDRC (Canada) Manuscript Report.

10. Beblawi and Luciani, eds., *The Rentier State*, vol. 2 of *Nation, State and Integration in the Arab World*, Chap. 2 and 3 (London: Croom Helm, 1987).

11. See I. Saadeddin Abdallah, "Migration as a Factor Conditioning State Economic Control and Financial Policy Options," chap. 6 of *The Politics of Arab Integration*, ed. G. Luciani and G. Salame (London: Croom Helm, 1987).

12. Atul Kohli, "Democracy and Development," *Development Strategies Reconsidered*, ed. Lewis and Kalb (Transaction Books: 1986), 162.

13. However, a necessary condition for this to happen is that democratic institutions do not in fact respect the will of the majority.

14. John Waterbury, *The Egypt of Nasser and Sadat* (Princeton: Princeton University Press, 1983), 66-75.

15. Julia C. Allen and Frederick S. Weaver, "The Fiscal Crisis of the Argentine State," *Latin American Perspectives* 6, no. 3 (Summer 1979).

16. See I.W. Zartman, "Opposition as Support of the State," Chap. 3 in *The Durability of the Arab State*.