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STRUCTURAL REFORM. PRIVATIZATION AND DEVELOPMENT IN THE MIDDLE EAST

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It has been fashionable for over two decades to preach structural economic reform and privatization, on the premise that such policies would encourage economic stability, private saving and investment, and growth. Another premise for the sermon is that loans may be extended by international agencies as the immediate reward for compliance. Structural reform has come to mean policy change toward free market competition in both the domestic and the international market. Privatization is intended to reduce the public sector and the role of government in the economy, and enhance private ownership and the role of the private sector.

Most of the Middle East non-large-oil exporting countries have tended toward ÒconversionÓ but they have found the costs too high. They are still trying, with high hopes that the rewards will be forthcoming soon. Unfortunately neither the proposed policies nor the timing nor the pace of implementation have been justified by rigorous studies of the individual countries, or by early rewards. All available arguments for these policies tend to be based on ideal situations, unrealistic theoretical assumptions, prescribed economic policies, expert assertions, and a follow-the-leader mentality. The leader in this case is the unchallenged superpower, the United States, which holds the key to aid, loans, and rhetorical backing.

Several questions should be asked regarding the purpose and function of structural reform and privatization in countries like Egypt, Jordan, Morocco, Algeria, Tunisia, and Israel First, whose idea is it to privatize, remove subsidies on consumer items, or let the market play havoc with the economy? The proponents of these policies have presented little evidence to show that such policies would cure the ailing economies in the respective countries. The people in these countries have not voted in favor of the reform or privatization policies, assuming they had the option to do so. If anything, the people have in most cases voted against such policies by demonstrating, sometimes violently. Evidently pressure from the outside has been a major factor in promoting these policies. Jordan provides the latest example of imposed reform and the demonstrations against it.

Second, what are the chances that privatization and structural reform would increase investment and enhance economic development and growth? With the exception of Israel, these countries have poorly functioning markets: their markets are highly segmented; their facilities are institutionally and physically underdeveloped; economic rationality is overpowered by socio-political and cultural influences; and traditional and religious values loom large over the economy and society. Furthermore, ideas known to be imported from or ÒimposedÓ by the outside are bound to face obstacles during implementation.

Third, do the Middle East people want government out of the economy, and do the governments actually want to get out? All indications suggest the contrary, not only in the Middle East, but also in developed countries. Not only do governments in the industrial economies control large parts of the national income and expenditure, but they also are called upon by the private sector to play major roles on its behalf in the economy. Governments give subsidy to private business; they give it protection in the international market; and they give it tax breaks. The presidents of the United States and France, as well as the prime ministers of Britain and Japan have often acted as salespersons to promote the products of their countries--actually they promote profit making by the major corporations. In this sense, structural reform seems to mean shifting public support from the consumer to the producer or from the worker to the profit maker, all in the name of reform and privatization.

Fourth, is government participation in the economy always or absulutely bad? Efficiency and inefficiency exist in both the public and the private sectors. The consumer pays the cost for inefficiency in both cases, in the form of taxes in the former and in higher prices, unemployment, or low wages in the latter. Nor is it true that privatization will increase national saving and investment. Of course it should increase private saving and investment. However, by the same token it would reduce government revenue, a part of which is saving, and government expenditure, a part of which is investment. Certain government expenditures are strategic investments which may not exist if the private sector were totally in charge, as history shows clearly. What would happen to public education, health, and the environment if public expenditures were cut off? What shape would the Israeli economy be in were it not for the government and semi-government agencies, such as the Jewish Agency and the Histadrut?

Fifth, has there been a rigorous assessment of the real cost of structural reform and privatization? To begin with, there is bound to be much dislocation, redistribution of wealth, and unemployment. There is mounting evidence that unemployment results from such policies in both the developed and the developing countries, and not only in the short term. There is evidence of increasing inequality of income and wealth distribution. There is evidence also of accumulation of national debt in developing countries, generated by the promise of easy loans upon implementation of these policies. Furthermore, the less-than-market value proceeds of privatization have often been dissipated by governments which consider the revenues as windfalls to be utilized as they see fit, including expenditure on obsolete weapons which the Arms Exporting Countries (AEC) are anxious to sell.

All this is not to say that privatization and structural reform should be rejected off hand. Rather, it would be appropriate to carefully study the problems facing the specific economy, weigh the options, and decide whether privatization and structural reform are the best cure.

Second, Careful assessment should be made of the success of the public sector in achieving its objectives, rather than how it compares with the private sector, which has different objectives and methods of achieving them.

Third, careful assessment should be made of alternative policies to strengthen the economy, such as reduction of expenditures on arms, especially imports, channeling expenditure into employment creation, technical advancement, ad productivity enhancement.

Fourth, it would be appopriate to promote competition between the private and public sectors, rather than decimate one to nurture the other on the basis of ideology and demands from the outside.

Fifth, it would be appropriate and more promising of success to survey the peoples' understanding and opinions regarding such policies before they are adopted, both to gain confidence and to promote popular participation.

Finally, if structural reform and privatization policies are to be adopted, it would be appropriate, efficient, and even necessary to compensate the losers, prevent increasing inequality, and realize full market value for the privatized properties.

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