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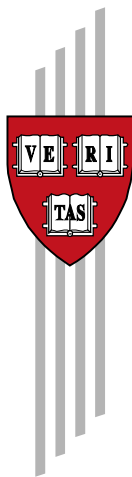
A Rational Framework for the understanding of the Arab Revolutions

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Abstract: The paper argues that demise of the autocratic bargain in the Arab world, ushered by the uprisings of 2010-11, has been driven by a split in the ruling class. The bargain authoritarians struck with their societies in the recent decade is best characterized as a repressive regime that relied on a narrow elite base. The paper explores the dynamic factors that have affected this bargain over time, and in particular, the increased autonomy of the middle class, the rise of crony capitalism, the increased popularity of Political Islam among the middle class, and the “indignities” associated with unpopular foreign alliances. The recent political changes are interpreted as the moment when the middle class, traditionally allied with the autocrats, and affected by these latent pull and push factors, preferred to “tip” its support to a transition towards a democratic settlement. The 3-player model I develop is shown to explain the characteristics of the ongoing Arab Spring and of the key future challenges facing the region better than the classical autocratic bargain model.

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Liberals, Islamists, and the Demise of the Arab Autocratic Bargain

1. Introduction

Many of the characteristics of the recent Arab uprisings are puzzling. Why did they occur at the end of 2010, when there were no apparent direct triggers such as declines in subsidies or shifts in foreign alliances, rather than sometimes in the 1990s when the welfare state started being rolled back? Why did the revolutions start in Tunisia and Egypt, the countries with some of the highest economic growth in the region in the preceding few years, rather than in countries such as Syria or Yemen where the economic conditions have been more dire and political repression more severe? Why were they initiated by secularist middle class youth, the supposed beneficiaries of the autocratic bargain, rather than by the long-standing Islamic opposition? And by which mechanisms did the uprisings of Tunisia spread so fast to the rest of the Arab world when Arab nationalism had been pronounced dead?

These questions are important and will occupy researchers for years to come. The Arab world is at the cross-road, facing enormous challenges as well as opportunities that can lead to either a democratic path, or an authoritarian retrenchment. In the absence of a better understanding of the transformations that have led to the uprisings, reforms will remain loose and contradictory and can even be counter-productive from a long term perspective.

In this paper, my goal is to explore the usefulness of structural approaches to understanding recent change. The intellectual model that has been most commonly used to describe the lack of democracy in the Arab world is the Autocratic or Elite Bargain model which describes a deal struck between Arab autocrats and their populations, whereby the former deliver economic security in the form of jobs and a strong welfare state, and the latter forgo their political rights (the seminal paper in this literature is from Ghandi and Przeworski, 2006). This view of the world suggests

that the bargain would face tensions and possible collapse when the state is rolled back in response to more scarcities. This model is unsatisfying in explaining the Arab Spring because the state started being rolled back more than 25 years ago after the first collapse of oil prices. This then begs the question of what it is that sustained autocracies during this long interim period. The idea of a bargain would imply that when the state had to reduce economic benefits to the population, it would compensate by offering greater political rights. However, this is not what happened in much of the region.

Others have attributed the onset of the revolts to the Arab youth bulge (Dhillon and Yussef 2009). While it is undeniable that educated, middle class liberal youth have been the leading initiators of the revolts across the region, the claim that the youth bulge caused the revolutions is not convincing. The median age in the Arab world is 25 years old as opposed to 37 in the US. It is well established that poor economic prospects are very threatening to this group, but one may ask why they did not rise before – in 1990 for example, the median age was 24 and the economic situation in Egypt and Tunisia were much worse than they were in 2011, when the economies were growing at 6 percent per year. Thus, the cause behind the rebellion by the youth needs to be related to other factors that have changed over time.

The goal of this paper is to offer an alternative view that is better adapted to stylized facts. I argue that the authoritarian bargain in the Arab world in the past decade is better characterized as a close alliance between elite capital and elements of the middle class that delivered economic benefits to the coalition members. The poor in the meantime were denied economic advantages and their political movements were severely repressed. The model presented in this paper suggests that the Arab Spring of 2010-11 is the results of long-term changes in factors that affected the relative incentives of the middle class, a pivotal player, to support the ruling regimes and encouraged them instead to defect and support a transition to a democratic order. The

analysis starts by arguing that the middle class had become more autonomous in the recent past as a result of the market-based reforms. It then focuses on three factors to explain the switch which correspond broadly to the popular revolutionary slogan (used everywhere) of “bread, liberty, and national dignity”. First, I argue that economic liberalization, in an environment of heavy repression favored the development of a low growth crony capitalism, which increased inequality at the detriment of the middle class and had a poor record creating skilled jobs and delivering quality services. Second, increased repression led to the abuse of human rights that increasingly became unacceptable to the middle class. And third, the support provided by the West to the autocratic order has created a “dignity gap” between popular preferences and policies.

Super-imposed on this class analysis is an important secularist/Islamic dichotomy which has played an important role in political developments over the past few decades. In the past, secularism and social liberalism were popular among the rich and middle class, and Islamic movements among the poor. Islamic parties (and there is a large range of them, from radical to moderates) became the main opposition to the ruling autocrats and they were heavily repressed. Secularists felt threatened by Islamic movements which they feared would reduce their civil rights, and this pushed them to seek the autocrat’s protection. Over time however, Islamist parties became more moderate and more popular among the middle class. The middle class changing preferences plays an important role in their past support of autocracy, and their recent defection to support a transition to democracy. The new political alliance which brings together secular liberals and Islamic parties which dominate the post-Arab Spring landscape constitutes however a risky bet that may or may not manage to consolidate the fledging new democratic order.

The rest of the paper is organized as follows. Section 2 discusses the insufficiencies of the popular autocratic bargain model in understanding the recent past as well as the revolutions of 2010-11. Section 3 develops an alternative model with three players to explore the conditions under which the middle class can shift from an alliance with the autocrat to democratic regime. Section 4 presents a cursory look at the evidence and describes the dynamic factors leading to the uprisings. Section 5 concludes by drawing out the economic and political challenges of the future.

2. The Classical Autocratic Bargain Model -- Dictators and Citizens

It is useful to start the analysis by reviewing the standard model of autocratic bargains used to explain the nature of power relations in the Arab world (see in particular Gandhi and Prezeworski, 2006; Desai, Olofsgard, and Yousef 2009). The model has two players, a dictator and citizens; they engage in a repeated two-period game and bargain over the distribution of economic benefits and the setting of non-economic policies. The dictator moves first and offers citizens a bundle of economic goods (jobs, subsidies, support for particular regions and groups) and non-economic goods (such as social policies, some limited amount of civil rights) to citizens. In response, citizens must decide whether to accept the offered bargain, or to engage in an effort to displace the dictator, starting a revolution which can succeed with a certain probability. Knowing this, the dictator will make an offer that is attractive enough for citizens to give up their revolutionary option. In a cooperative equilibrium, citizens provide the dictator with political support and consent to withhold their political rights.

So dictators are driven to compromise sufficiently to avoid costly insurrections. They do so by transferring rents and subsidies, and by deviating from their preferred social policies. Crucially, if they come under pressure, they compromise more to keep the bargain alive. For example, if economic conditions deteriorate, they will offer concessions on the social and political side.

Variants of these models allow for the existence of critical constituencies or “selectorates” (Bueno de Mesquita et al, 2003), and rulers will try to target favors to these groups. Thus, groups will be included or excluded from the ruling coalition based on a cost benefit calculus.

A critique

There are various ways to describe the evolution of Arab politics in a rational framework where important constituencies interact to produce a political settlement. In this section, I argue that to view the past situation as an autocratic bargain between a dictator and citizens is too reductionist – it does not explain the past well, and it cannot explain the recent uprisings well either.

When considering the past, a view focused on an autocratic bargain fails to explain why it did not collapse much earlier, and it also fails to account for the mix of cooptation and repression that emerged in the past two decades. A look at key economic performance indicators for the Arab developing countries as a group, from 1980 to 2008, depicted in Figure 1, reveals several marked trends. First, it shows that the roll back of the state began 25 years ago. Government expenditure shot up in the 1970s (government expenditures peaked at 40% GDP in 1975, which is outside the graph) on the back of rising oil wealth in the region, but they fell precipitously in the 1980s, reaching 22% GDP in the early 1990s, a low figure by international standards. Egypt’s Infitah was launched by Anwar Sadat in 1974, and Tunisia’s private sector push also began in the 1970s, but it is in the late 1980s that these countries and others started their Structural Adjustment programs that forced governments to cut subsidies and public spending. The reforms in the Arab world tended to hurt the poor (subsidies to agriculture were deeply cut for example) as well as the middle class (especially in lower public sector wages and a stop to hiring), and they led to protests and bread riots across the region, but they fell short of leading to democratization. This period consolidated the alliances between the autocrats and elite capital. By the mid-1990s, the old social contract was already dead (Diwan and Walton 1995).

But that was more than 20 years ago. What sustained autocracies during this long interim period? In Latin America (of the 1980s) and Africa (in the 1990s), similar structural adjustments had led to a near synchronous wave of democratization. Some have argued that other forms of external rents, for example workers' remittances, played a role. But figure 1 shows that remittances declined in importance over time. Moreover, remittances usually travel directly to communities by-passing formal institutions, so it is hard to argue that this source of income was factor in the autocrats' survival. Official assistance also remained low.

The only way the autocratic bargain model can explain regime durability, therefore, is by suggesting that to deal with the decline in economic resources and consequent social pressure, the autocratic rulers relaxed political and social policy. But Figure 2, which depicts the evolution of an index of political rights (Political Empowerment Index, see Cingranelli and Richards or CIRI, (1999)) between 1980 and 2010, suggests that in fact the opposite has been the case. The region was politically less open in the 2010 than in the mid-1980s, with the average score for the region falling from about 6 in 1980 to 2 in 2010 on a scale from 0 to 14, with 0 depicting complete dictatorship. This is broadly a fall from the level of a Turkey today, to the level of DRC.

So how did the autocrats manage to survive? What seems ubiquitous about the Arab world after the 1990s is the mix of repression and cooptation. The autocrats sought to maximize the use of their dwindling assets, dividing citizens into two groups, one of which benefited from cooperation while the other was subject to repression. Figure 2 also depicts average levels of repression in the region, as measured by the index of Physical Integrity (also from CIRI), on a scale from 0-8 where 0 is maximum repression. Over the period, the average value of the index for the Arab countries fell from 4.5 to 2.5, which is a fall from the level of a Brazil to the level of Ethiopia.

That repression has become an essential tool in the preservation of autocratic regimes in the late 1990s is also attested by the level of spending on security matters (see Droz-Vincent 2007, Bellin

2005). Military expenditures are higher in the Arab world than in any other region, at about 6.7% GDP in the early 2000s. Police and security forces have also been beefed up in recent years to provide an extra layer of support. The actual size of these forces in Egypt and Tunisia before the downfall of the regimes is debated, but conservative estimates put the number at as large as 1 million and 200,000 men respectively. In all Arab countries, the government and the various state security agencies, including the “Mukhabarat”, police and other secret agencies using spies, informers, and baltajia, appointed “their men” in various civilian sectors and institutions, from universities, to labor unions, professional associations, the media, and even the financial and business sectors. Moreover, security forces have been given access to economic rents whenever budgets became tighter (Bellin 2005).

That said, autocrats also sought to strengthen their coalition by co-opting the middle class who was perceived as a pivotal ally because of its legitimizing role within the dominant state narrative of nationalism and modernization. Co-optation was achieved in large part through direct economic benefits in the form of subsidies for goods that are consumed relatively less by the poor, such as petroleum and energy (earlier, subsidies for small scale agriculture and for basic food items that benefit the poor had been reduced or eliminated). In the last decade these subsidies grew to become about 200 percent the combined budget of health plus education in 2009 in Egypt, and 150 percent in Tunisia. The situation in Syria and Iran is also similar. These subsidies went predominantly to the middle class and the rich – in Egypt, 46% of the benefits for example accrued to the top decile in 2010 (Abouleimen, Al-Laithy, and Kheir-el-Din, 2009). At the same time, the fiscal regime has become more pro-rich over time: tax rates have been relatively low and generally regressive – for example, Egypt has a flat 20% income tax and a large VAT, and universal services have decayed in most countries.

The simple autocratic bargain model does not have much to say about the recent uprisings either. Focusing on two players only seems too reductionist to describe the onset of the uprisings, and to apprehend the future. A focus on two players only would suggest for example that Islamic movements as representing the poor and as the main political actor that has emerged in post-uprising elections, has finally won its long fought battle against liberal autocrats. The reality is more nuanced. The “revolutions” were in fact led by secular middle class youth, not hardened Islamists. A more convincing account of what happened ought to bring in the middle class centrally in the analysis.

In the model developed below, I take the view that the recent political changes resemble situations in Latin America and Asia where splits within the ruling coalition led to political change. I follow the tradition of O’Donnell and Schmitter (1986) according to which cracks appear in non-democratic regimes when they get under pressure, and they are often divides between hardliners who want to use force and repression to preserve the system, and softliners who prefer a soft transition to democracy.

3. Bringing in the Middle Class – a three-players model

I focus on a game with 3 groups: the rich, the middle class, and the poor, and take the initial situation to be one where rich class is in charge, but as part of a coalition that includes the middle class. Moreover, I will assume that the middle class is a pivotal player in the sense that the rich cannot rule autocratically without it – this is the critical assumption alluded to earlier, and which I defend in more detail in the next section. Democracy can emerge if it is supported by the middle class and by the poor. I will also assume that the threat of revolutions, initiated by the poor, is credible. Finally, I will also assume that autocratic bargains that include commitment to redistribute that are not incentive compatible ex-post are not credible. This means that to prevent

the poor from taking over, the ruling coalition has only two effective choices: to repress or democratize. So in effect, democracy is a way to change the distribution of power, thus creating a credible commitment to pro-poor policy. The focus is on a transition from an autocratic regime to a democratic regime – the issue of democratic consolidation however is beyond the scope of this paper.

My main interest is to explore the possible reasons why the interests of the rich and the middle class become misaligned, leading the middle class to split from the ruling coalition and supports democracy. I adapt the form of the game from Acemoglu and Robinson (2006), following their notation for simplicity (the specific game I develop is a mix between the four models they develop that lead to their propositions 8.1 to 8.4). The game is over the determination of income redistribution, funded by a uniform income tax. Different income groups will have varying incentives, with the rich favoring a low tax, and the poor favoring a high tax and large redistribution. The size of each group is given by d^i with $i=R, M, P$, (summing up to 1), where R stands for rich, M for middle class, and P for poor. Denote the (pre-tax) income of each group by y^i , the average income in the economy by \underline{y} , and the share of group i in the economy by h^i (summing up to 1). We have

$$(1) \quad y^i = h^i \underline{y} / d^i \text{ for } i=R, M, P$$

We assume that:

$$(2) \quad h^r / d^r > h^m / d^m > h^p / d^p$$

Which simply says that the rich are richer than the middle class, which are richer than the poor.

The political system determines a tax rate $t \geq 0$, the proceeds of which are distributed in a lump sum fashion among all citizens. There is an aggregate cost of taxation $C(t)\underline{y}$ with $C'(\cdot) > 0$ and $C''(\cdot) < 0$. In such an environment, there is an optimum level of taxation t^i for each of the groups, and it is easy to show that optimally, $t^R = 0$ since the rich do not benefit on net from redistribution. To

simplify the analysis further, I will assume in the rest of the section that the poor form a majority, and thus that the medium tax payer (and voter) is poor, i.e that $y^p < \underline{y}$ but $y^m > \underline{y}$. This assumption implies that $t^m=0$ as well, and that $t^p>0$.

Utility functions are taken to be linear in (after tax) income and are given by:

$$(3) V^i(.) = (1 - t) y^i + [t - C(.)] \underline{y}$$

We are now in a position to describe the structure of the game, which is depicted in Figure 3. As the game starts the rich moves first, and decides whether to develop an autocratic bargain (without repression), democratize, or repress. Being a pivotal player whose support is necessary for the rich to stay in power, the middle class then needs to make two sets of decisions: first, to establish tax rates in each of the regimes (except in the democratic regime, where the tax rate is established by the median voter); and second, to decide whether it wants to support the decision of the rich to repress or not. The various regimes will be represented by the subscripts NO, D, and O (NO for no repression which is the autocratic bargain, D for democracy, and O for repression – we will reserve R for revolution). Repression is costly and reduces national income by K.

Finally, the poor decides whether to undertake a revolution or not – they can do so in all cases except in the repression regime. If they rebel, they will take over and appropriate all the income in the economy, but a fraction r of the economy will get destroyed in the process.

Their utility would then be:

$$(4) V^p(R, r) = (1 - r) \underline{y} / d^p \text{ and } V^R(R, r) = V^M(R, r) = 0$$

The poor will be better off rebelling when:

$$(5) V^p(t) > V^p(R, r)$$

Where $V^i(t)$ is utility when there is no revolution and there is a tax rate t.

Revolutions take place when they are not too costly. Using equation (3) to(5), we can derive a threshold level of r which determines if the poor prefers to rebel or not, with

$$(6) \quad r(t) = (1 - h^p) - t [(d^p - h^p) + d^p C(.)]$$

Note that when $t=0$, the second term disappears and we are left with the basic revolution constraint - in the absence of any redistribution, the poor will start a revolution when the costs of doing so are smaller than the net proceeds. We will assume in the sequel that this constraint holds. In the presence of some redistribution t , the threshold comes down, meaning that revolutions happen less often – more generally, $r(t)$ is declining in t , meaning that the higher the tax rate, the less rebelling becomes attractive. Denote by r^* the threshold that corresponds to the poor optimal tax rate t^c . We will assume below that $r > r^*$, which ensures that when the poor can set their preferred level of redistribution, they do not rebel.

Let us start by determining the best move of the rich. The autocratic bargain regime is an inferior move here, and it will not be selected. This is because if it was selected, the middle class would then set the tax rate at $t=0$ (recall that pre-commitments are not possible, and that decisions must therefore be incentives compatible from an ex-post perspective), and the poor will rebel since the revolution constraint is assumed to hold. So to the extent that other regimes deliver a welfare level above zero, this regime will be inferior.

The rich will thus have to choose between democratization and repression. Under repression, the tax rate selected will be determined by the middle class and will be zero given our assumptions. If the rich chooses repression, the middle class will have to decide whether to agree or to split and choose democratization. Under democracy, the tax rate will be determined by the median voter, and will be given thus by $t = t^p$. In effect, the choice between the two regimes will depend on whether the repression costs are above or below a certain threshold. It is intuitive that the threshold for the middle class will be lower than that for the rich, since its preferences are closer to that of the poor, especially when the rich get richer, making redistribution more attractive to the middle class. To see this, let us compare the 2 regimes from the point of view of each of the

rich and the middle class. The welfare of the rich and the middle class in the repression regime, given a cost K for repression, is given by:

$$(7) \quad V^i(O, K) = (1-K) y^i \quad \text{with } i = R, M$$

And welfare under democracy, given that the tax rate will be set at t^p is:

$$(8) \quad V^i(D) = (1 - t) y^i + (t^p - C) \underline{y}$$

Comparing the two equations, we can derive:

$$(9) \quad \underline{K}^i = (1 / h^i) [d^i C(.) - t^p (d^i - h^i)] \quad i=R, M$$

It is easy to show then that $\underline{K}^M < \underline{K}^R$ given (2).

We can now state our main result:

Assume that $d^p > 1/2$; $(1-h^p) > r > r^*(t^p)$; , then:

- If $K > \underline{K}^R$ both the rich and the middle class prefer democracy, which is then the equilibrium
- If $K < \underline{K}^M$ then both prefer repression, which is the equilibrium
- If K is within $[\underline{K}^M, \underline{K}^R]$, then the middle class splits and there is a democratic equilibrium.

Starting from a situation where the ruling group, both rich and middle class, favors repression, movement in the exogenous variables can change the incentives of the middle class and make it decide to split. Two variables are of particular interest: inequality, and the cost of repression as perceived by the middle class. Let us take these in turn.

When inequality rises in the sense that the rich gets a larger share of income at the detriment of the middle class, the interests of the middle class and those of the poor become more aligned. As a result, there is more often disagreement between the rich and the middle class about repression, and the middle class will favor democracy over repression more often. Formally, it is easy to see that \underline{K}^M is increasing in h^m .

Until now, I have assumed that citizens only care about their income. But in reality, there are ideological preferences that also color people preferences over regimes. Here we are concerned

with 3 aspects of the preferences of the middle class: the possible extra dis-utility they may perceive to a democratic order if they think that the poor will apply the values of Political Islam if they come to power, and if they oppose such views (for example on issues such as secularism and civil rights); the possible disutility they may feel in a repressive autocracy if the poor/Islamist opposition is violently repressed, which would depend on their views about Political Islam. And finally, by the nature of other type of policies followed in the autocratic regime, such as foreign policy, when they dislike these policies.

It is possible to introduce the middle class ideological concerns into the model in a simple fashion by assuming that its utility function is additive in consumption and a term that capture the middle class ideological preferences. In particular, let us now assume that their utility can be written as $y^m + B^i \underline{y}$ where $i = O, D$ and where this factor is normalized by average income (here too, I follow Acemoglu and Robinson, 2006). So for example, when the middle class “feels” with the repressed Islamists, we would have $B^O < 0$. The same would happen when it is unhappy with the external policy conditionality attached by pivotal foreign allies. If the middle class does not trust Islamists in a democracy, we would take B^D to be negative and large. If that mistrust disappears, and/or if they start thinking that Islamists would make good managers of the economy, or that their views on civil rights have changed, then B^D will rise and become positive.

So let's derive the new levels of the threshold \underline{K}^m by adding the ideological factors to the utility functions in equations (7) and (8) We now need to compare $V^m(O, K) = (1-K) (y^m + B^O \underline{y})$ with $V^m(D) = (1-t) (y^m + B^D \underline{y}) + (t-c) \underline{y}$. It is easy to show that the resultant $\underline{K}_m (\cdot, B^O, B^D)$ is increasing in B^O and decreasing in B^D . This result is highly intuitive: The middle class will be more driven to move to democracy when it cares for the welfare of the opposition, when it trusts that the opposition will manage the economy well and will not hurt its civil rights, and when it dislikes the policy conditionalities of pivotal foreign supporters of the autocratic regime. In the discussion below, we

will argue that these factors largely explain both the persistence of the autocrats as well as the likely success (or lack of) of the recent revolts in the various countries in leading to democracy.

4. Applying the model to the Arab World

This goal of this section is to convince the reader that the model described above explains well the longevity of autocracy and its ultimate demise. The model is parsimonious and reality is complex, so the arguments will be naturally impressionistic. More analysis at the country level would be needed to produce richer accounts. Nevertheless, the analysis below aims to show that such accounts would need to look carefully into the structure and incentives of the middle class and the role played by crony capitalism. Arab politics can be quite well described by reference to three constituencies. But while class structure is preponderant, a major added complexity relate to the dynamic ideological fault-line between secularist/social liberals and Islamists which also needs to be taken into consideration in any serious political analysis. As a starting point, we can think of Islamic parties are representing the poor initially and scaring the secularists in the middle class because of different views about social policy, but then becoming more driven by moderate elements and expanding their appeal among the middle classes. Lets us start with a description of the main players the changing characteristics of the middle class before coming back to the dynamics of the secularist/Islamic divide.

- The autocratic core coalition, which always included the security forces and the army, broadened over time to include elite capital and the rich. Much of the neo-liberal policies implemented since the 1990s benefitted largely this group, who also became more closely associated with the security apparatus through intermarriages and business associations.
- The second circle of regime supporters, which represent in many ways the soft underbelly of the regimes, included a large segment of the middle class, but also the industrialist and

merchant classes that initially benefitted from liberalization, skilled labor, and to a lesser extent, the bureaucrats that benefitted from the old social contract. In ethnically divided countries, this group has also tended to attract the minorities. In the past, this group largely espoused secular and liberal values, and feared a takeover by Political Islam that would reduce their civic rights.

- Finally, the rest of the population includes the urban and rural poor. They have been represented by hard and soft opposition groups including Islamic movements as well as leftist parties, where they continued to exist. Islamist parties initially took root among the poor. They were repressed and rarely given political rights, and this encouraged some factions to enter occasionally in a state of open rebellion.

So overall, the class structure of the three groups is broadly similar to that represented in the model. Given the preponderant role my storyline reserves to the middle class, it is useful to look in more detail at how it has evolved in the recent past. Three issues are discussed: its evolving size, economic power, and political weight.

A rapid exploration of household level data reveals that income distribution and the size of the middle class seem to have remained fairly constant over time in the region. To provide a sense of magnitude, I have estimated the size of the income classes for the region as a whole, using World Bank data on income distribution, and utilizing reasonable assumptions on the definition of classes. The results represented in Figure 4 are striking: the middle class stands at about 30% of the population for the region as a whole, the rich at about 10%, and the poor (using an expansive definition of having an income of less than \$4 a day) at about 60%. Over the past two decades, there was a small decline among the poor and a small rise among the middle class. These figures are illustrative and will vary of course by country – by our definition, Tunisia has a much larger middle class, and Egypt a smaller one.

The main element of change over the past two decades has been in the composition, rather than in the size, of the middle class. The old middle class worked in large part for the state and has gotten poorer over time as a result of the rolling back of the state. Low public sector wages have fueled petty corruption in areas such as health and education, generating another important source of discontent. In Egypt for example, real wages in the public sector declined over time. The minimum wage, which anchors all wages, has declined from 60% of per capital GDP in the early 1980s to a mere 13% in 2007 (Abdel Hamid and El Baradei, 2009). This can be also seen very sharply at the macro level – by 2019, 30% of the Egyptian labor force worked for the state but earns a total wage bill of less than 9% GDP, implying that average wages were in the neighborhood of one third of GDP/capita, which is extremely low by international standard. The new entrants into middle class status have tended to be small merchants and industrialists that have benefited from the market oriented reforms, as well as the small but expanding skilled labor force of the formal private sector labor market.

Assessing changes in inequality – the share of national income commanded by the middle class -- is more tricky. Generally, household surveys reveal that inequality (as measured by Gini coefficients for example) has increased in the Arab world in the past decade (Bibi and Nabli, 2010), with the income of the rich rising faster than average incomes. But the increase seems small relative to other regions. Household surveys are however notorious for under-counting the rich. There are several signs to suggest that there is now a wealthy Arab “1%” which commands a large share of national income, such as the large increase in the number of millionaires (which is reported publicly by some international banks such as Credit Suisse), or the luxury real estate booms. More research is needed in this area. In terms of the model, this suggests that h^m has declined.

Until recently, Middle Eastern scholars did not seem to believe that the middle class could play an active role in leading political change. The military leaders that led Arab Nationalism based their legitimacy on the progress of a new modernist middle class, but its effective influence on policies was low as it was mainly made up of civil servants and employees of state owned enterprises, which reduced its ability to play the role of an autonomous actor. A new middle class of urban private agents, both merchant and industrial, who rose in late 1990s in response to economic liberalization has been politically more active than the old – see for example Nasr (2009). Recent surveys in Egypt (Pew, 2010) show that the middle class is now split between secularist liberals and Islamists. The recent election results in Tunisia suggest a similar phenomenon. The middle class (particularly traders of the Bazaar) played an important role in securing the success of the Iranian revolution in 1979. In Turkey, it has been the driving force behind the rise of the AKP, and indeed, it benefitted handsomely from the alliance with the support provided to SMEs and the rise of what became known as the Anatolian tigers, SMEs that drove growth in Turkey in the past decade (Demiralp 2009, Gumuscu 2009).

The Rise of Crony Capitalism

The perceived “corruption” of the political and business elites was a key driving force of popular discontent. For example, the Pew survey reveals that in 2010, corruption was the top concern of Egyptians, with 46% listing it as their main concern, ahead of lack of democracy and poor economic conditions (Pew 2011). We now know that this was not just about perceptions. In both Tunisia and Egypt, the ongoing trials of the main business leaders is starting to shed light on the enormous corruption that took place – the granting of monopoly rights to close associates of the rulers, the selling of public firms and land at reduced prices, and the manipulation of the financial markets for the benefits of a few insiders. In Egypt, the trend was accelerated in the last decade with the “market” reforms led by Jamal Mubarak, the President’s son and presumed successor. In

Tunisia, the Ben Ali and Trabelsi families literally monopolized business opportunities. Similar stories about favoritism and insiders abound in Syria, Libya, Yemen, and Algeria, where political cronies control large chunks of the private sector.

In terms of encouraging the ultimate defection of the middle classes, cronyism can operate in two ways. First, by increasing inequality and reducing the share of output going to the middle class, a central part of our argument, which has been discussed above. And second, by affecting the ability of the economy to create sufficient jobs for the educated youth -- this aspect of the discussion has not been formalized in our model (the determinants of y). That question, why has Arab Capitalism been so unresponsive to market reforms and why it has under-performed in terms of job creation, given what looked on paper as impeccable market reforms, has been debated for years. Some have argued that the reforms have not gone far enough (see for example World Bank, 2009). The answer is not simple. After all, the concentration of wealth, and the development of "state capitalism", is not necessarily bad for growth and development if capitalists have confidence in regime survival. Mustaq Khan in particular describes how industrial policy can foster accumulation and the development of new sectors, as had happened with Korea's Chaebols for example (Khan 2010). In the Arab countries however, it appears that insiders appropriated large rents in ways that were not aligned with wealth creation. Indeed, much of the profits were not reinvested at home. Private investment remained low, in the neighborhood of 10-15% of GDP (Figure 2), as opposed to the much larger amounts in growing regions of Europe and Asia. As a result, growth was unable to absorb the rising number of educated labor, and unemployment among the youth, and especially the educated ones stayed high. Increased private profits seem to have fueled capital flight rather than domestic investment --it has been estimated for example that capital flight out of Egypt averaged \$5 billion a year during the last decade, and \$1 billion out of Tunisia (Kar and Curcio, 2010). One hypothesis is that

this is due to political uncertainty concerning the future of these regimes which made its capitalists myopic. In terms of our model, it is as if y remained depressed by perceptions of a high risk of a future regime shift to the detriment of the elite.

This similarity in the patterns in which cronyism spread in all Arab countries begs an important question: how to explain this coincidence in time and form especially that those countries differ in their historical and social characteristics? My preferred hypothesis lies in the similarity of their deploying neo-liberal policies in an environment characterized by political repression. All countries faced the challenge of opening up the economy including trade and finance in the mid-1980s. But at the same time, the rise of repressive and exclusionary politics also compelled them to restrict potential competitors from becoming autonomously rich, since this would have strengthened their opposition. This pushed rulers to find new ways of restricting entry into economic activity by political rivals, including in the way in which regulations were enforced and incentives were provided to the financial system to lend to large and friendly firms only, and sometimes more directly as where security services directly close down threatening emerging sectors of the economy like Islamic finance. These defensive barriers to entry at the same time created rents to insiders which were allowed to control the heights of the economy. In other words, this suggests that the growth of y is itself affected by repression K . More research is needed on this subject.

An additional corrupting factor was the influence of Gulf capital, especially in new sectors such as telecom, tourism, and real estate. The tradition of insider deals between royalty and their local merchant entrepreneurs date to the 1950s. When these merchants became large financial groups, they exported this way of doing business to the rest of the region (Hanieh 2011).

There is little scholarly literature on the subject, but masses of press reports. One exception is a careful paper by Henry (1997) that documents the different ways in which rulers in Egypt, Tunisia, and Morocco adjusted their clientelistic methods to the liberalization of their financial market – in

the first two cases, by using the security forces and capital market regulators to directly intervene when political competitors needed to be bankrupted, and in the Moroccan case, how the King managed to dominate private banking directly through his majority ownership of a large conglomerate, the ONA, which acquired shares in leading banks and turned them into a corporate arm of the “Makhzen”. Martinez (2000) describes how privatization in Algeria was used to achieve political motives rather than economic efficiency.

Liberals and the moderation of Political Islam

We have often referred to the importance of the social liberal/secular/political Islam dichotomy in the discussions above. Four themes have been recurring, and they will be discussed in more detail here. First, that the secular middle class that have been a pivotal ally of the autocrats; second, that the same group was in the past very weary of a takeover by Islamic parties because of economic, social, and political concerns; third, that middle class came to oppose repression of Islamists as Political Islam spread in its own ranks; and finally, that the middle class came to trust over time that the more moderate Islamic parties could be good democrats.

Arab autocrats have valued keeping the main secular liberal parties in the governing “political settlement”, either within the governing coalition, or as part of the legal opposition, due to both their important legitimizing role, and to the skills of the middle class professionals that they historically represented. For the regimes in place, secular and liberal ideology was at the center of their Arab national ideologies of the 1950s, which ushered leaders such as Bourguiba and Nasser, bringing in the Attatuk model of modernization based on secular and nationalist ideologies. For the Arab autocrats, losing their liberal anchors is tantamount to losing all legitimacy and turning into naked dictatorship with no operational narrative. So treating the middle class as a pivotal player, as we did, does make sense, especially when speaking about the traditional “liberal” middle class.

Political Islam posed a threat to these regimes by organizing the poor and was severely repressed, but the cost of repression (the variable K in the model) was low. Besides being subsidized from the West (see next section), there were also indirect benefits generated by this repression, which reduce its net costs further. This is related to the fact that divisions along the secularism/religious conservative fault lines were deep in the early 1990s, with social liberals fearing a takeover by Islamic parties because of the different views these help on a broad range of social issues such as civil rights, separation of mosque and state, the role of women in society, or foreign policy. This allowed the ruling elites to reduce the temptation for the middle class liberals to switch their support to the opposition, even as other changes may have been favoring such a switch. (In terms of our model, B^D was initially negative and large). Bizri (2011) for example characterizes the relation between the Islamic opposition and the ruling regime in Egypt as: “an old couple, always at odds, but needing each other to survive, the regime held the Ikhwan up as a scarecrow, a reminder of the threat the Brotherhood would represent should the regime fall.”

But as more moderate Islamic parties took root within the middle class over time, their repression came increasingly to be resented by a large part of the middle class (in terms of our model, B^O became negative). When moderate elements within Islamist parties in several countries, including Egypt and Tunisia, tried to reach agreement with Liberal and leftist forces on joint political programs, over-repression was used strategically by dictators to radicalize the Islamists (in terms of our model, by undergoing actions that would lead to a situation where B^D would fall). A much cited example from Egypt is the increase in repression around 2008, following Islamists' strong performance in the 2005 parliamentary elections and appearance of becoming an increasingly credible alternative to the ruling regime (see for example Osman 2010). The pressure created deep divisions within the Muslim Brotherhood over whether it should abandon the political process, and in this atmosphere, the conservatives managed to displace the

moderates and elect a new Supreme Guide who supported disengagement (Ottaway 2010, Bubalo, Fealey, and Mason 2008).]

The question of whether Political Islam can be a trusted actor in a democracy has been debated for a long time. The future will tell, but at this stage, it is clear that the voters in Egypt and Tunisia seem to believe that it can. In the meanwhile, the intellectual debate on these issues continues. Against the well known Lewis's critique, others (for example Plateau 2008) have argued that Islam is not inimical to the separation of Mosque and State. The experience of 18 century Europe demonstrate that in similar conditions, Christian movements did end up playing by the democratic rule, albeit Catholics had the advantage of a binding mechanism in the form of the Vatican's dominance, which at least Sunni Islam does not have (Kalyvas, 2000). But commitment can also be developed by well organized parties with long term views through mechanisms of organization and transparency, as demonstrated by Schwedler (2006) in her comparative analysis about the participation of Islamic parties in Governments in both Jordan and Yemen during the 1990s. The example of Turkey must have played an important role in convincing liberals that the Faustian deal was not the only option. Demiralp (2009) shows how the AKP's moderation can be explained by a combination of lessons from repression, opportunism, and the growth of a friendly middle class. Several Arab Islamic movements have made efforts to moderate their more extreme wings to become credible republican actors. In particular, al-Nahda, committed publicly in 1981 that: "we have no right to interpose between the people and those whom the people choose and elect" (quoted in Osman, 1989). In Egypt, it was only in 2004 that the Muslim Brotherhood managed to commit publicly to abide by a constitutional and democratic system, calling for the recognition of "the people as the source of all authority", and committing itself to the principles of the transfer of power through free elections, the freedom of belief and expression, the freedom to form political parties, and the independence of the judiciary (Shahin 2005).

Foreign support

External supporters have had a vital role in keeping the Arab Autocratic state alive for that long, but much more in the form of political and military support than in the form of direct economic support (in form of loans, grants, or trade agreements). Figure 2 shows that official assistance has been on average between 2% and 5% of GDP in the region, peaking at 5% in the early 1990s at the time of the first Gulf war, and again around 2005. Given the reliance of the autocrats on repression in a global environment of increased democratization, political support must have been extremely valuable. Unlike the cases of Latin America and Africa where they exerted great pressure to democratize, no such pressures were applied to the Arab autocrats. Instead, the terms of the relation was based on oil stability, the containment of the Islamist “threat” -- especially after 9/11, and the defense of Israeli interests.

While external support has been central in allowing for the continuation of the autocratic bargain for so long, it has also planted seeds for its destruction because donors’ preferences have tended to be unpopular and have caused what has been perceived as a “loss of dignity” – the difference between social preferences and actual policy. A democratic political settlement can be expected to reverse some of these unpopular policies.

These considerations also add to the set of variables that can explain the timing of the tipping point. In particular, the revolutionary equation could have been affected by the increased anti-US sentiment (after the invasion of Iraq), and increased anti-Israel sentiment (after the wars on Gaza and Lebanon), with a negative impact on their client regimes.

Country accounts and regional contagion

In the model described above, democratization succeeds when the middle class decides to defect. In this context, we can think of uprisings as a bet by revolutionary entrepreneurs that their action will precipitate such a shift. Uprisings can also be attempts at real revolutions of the poor. By all

accounts, the former description fits the situation more in most Arab countries. Some would balk at a description of the “Arab Revolutions” as a switch of the liberal middle class. But the uprisings in both Tunisia and Egypt were driven by secular middle class youths who had become disenchanted with the deal their parents had struck with the autocrats and were concerned about social justice, rights, and their future. Their action essentially was to create and hold to a “foco”, a free space, in which professional associations came to demonstrate their rejection of the autocratic order. It is when the liberal-led associations of journalists, engineers, doctors, university professors and teachers, judges, came out to demonstrate that the regimes of Ben-Ali and Mubarrak started to unfold. The battle cry of *Al Shaab Yurid Isqat al Nizam* (the people want the downfall of the regime) would have been much less effective if chanted by Islamists alone. It was the secular middle class voice that made the difference. Perhaps many of the youth would not recognize their action as one of shifting to a new settlement which will include the Islamists – however, what is noteworthy is that the fear of the Islamists did not stop them from asking for regime change, unlike what had happened in the past. The weak links that led change include the youth, impoverished bureaucrats, and business people confined to the informal sector by a corrupt regulation framework.

Some have argued that the revolts were caused by the explosion of electronic platforms that allowed for the exchange of information and for better organization. Our model does attribute explanatory power to an improvement in the exchange of information. The middle class individuals had imperfect information about how others in the same group were evaluating their own preferences, given the lack of political fora and the repression of all political parties in the past. It is in this respect that the social media played a key role in mobilizing like-minded revolutionaries in the only free space available – cyberspace (Howard et al, 2011).

Does the model say something about regional contagion? In other regions where contagion had been observed, transitions to democracy were caused by a common external factor. In Africa, the fall of the Soviet Union and the economic crisis of the 1980s provided a common cause for the fall of dictatorships, which was achieved by popular pressure working hand in hand with changing patterns of international assistance that insist on democratic transitions as pre-conditions for support (Bratton and van de Walle, 1997). In Latin America, it has been argued that the debt crisis of the mid-1980s led to the third wave of democratization (Haggard and Kaufman, 1995). In Eastern Europe, the fall of the Soviet Union led to the rapid fall of dictators across the whole region. What are the common forces that displaced Ben Ali and Mubarak, and led to uprisings all over the region within a few months?

Did news about the uprisings in Tunisia and Egypt contain important information for other countries? It can be plausibly argued that the contagion in uprisings can be explained by a sense of commonality across countries such as shared culture and history which encouraged emulation. But this would not necessarily lead to regime change if structural variables are not supportive. The interesting question then is whether there are common factors supporting regime change and the march towards democracy in several countries. Indeed, of the key drivers of change we considered, several have occurred regionally with some degree of parallelism. First, there is a simultaneous rise in an autonomous middle class, borne out of the simultaneous reforms of the mid-1980s (timing is here related to the oil shock that hit all Arab states alike). Second, there is the simultaneous moderation of Political Islam and its success in developing deep root within the middle class, explained by the regional and global nature of theological debates. Third, there is the simultaneous spread of crony-capitalism across the region, driven by the coincidence of the timing of liberalization and repression. And finally, most of the regimes have been supported by the same Western powers.

That Tunisia and Egypt were the countries where the tipping point for the middle class discovered first is not surprising. In both countries, the middle class was larger due to the relative success on the economic front, its economic interests were being increasingly squeezed by a crony oligarchy, and liberals and Islamist movements had operated a rapprochement over the years. For many observers, political change could have happened earlier as the middle class had outgrown the autocratic repressive model of governance many years ago, and was waiting for a spark to coordinate efforts and rise against the established order.

While in both Libya and Yemen the revolutions were met by fierce resistance by the autocrats. Given the poor state of their institutions, the new regimes are likely to struggle before they can establish themselves. Elsewhere, regimes in power have managed so far to resist change. In Iraq, Bahrain, and Syria, ethnic factors have complicated the political change equation. To the extent that they are important supporters of the regime, minorities fear the "tyranny of the majority" and would not easily switch their support unless they receive guarantees that they will not be discriminated in the future (i.e, their B^D is largely negative). Algeria had started to democratize earlier, if only partially. Arab Monarchies have weathered the storm best. This may be due to two factors. In oil rich countries, government spending has increased, very much along the lines that would be suggested by the classical autocratic model – these are countries that can afford to pay for allegiance. The non-oil monarchies, Morocco and Jordan have initiated change and from within in response to popular pressures. Time will tell if these are serious or cosmetic concessions, but it does seem as if Kingdoms have a larger capacity to pre-commit even when ex-post, these commitment would not be incentive compatible, due to the long term horizon of their rulers, and indeed, kingdoms have been much more stable in the past (Menaldo 2010).

5. Conclusions

I have argued in this paper that the short-lived period of Arab "exceptionalism" can in fact be explained by structural and institutional factors related to the defection of part of the coalition leading to collapse of regime similar to what has been captured in models of transition in other regions, in Latin America for example. This analysis also emphasized the secular/Islamic dichotomy and how the transition was most likely delayed by several decades due to the formation of a repressive regime to fight it political Islam. More recently, the decay of the authoritarian system and broadened appeal of political Islam have precipitated the fall of the Arab Autocratic Bargain by encouraging the middle class to support regime change and start the march towards a workable democratic order.

The analysis suggests that the historical challenges of the moment are to a large extent political, with a central focus on consolidating democracy and avoiding reversions to negative closures. In Egypt and Tunisia, the post-Spring elections have been divisive, and it can be expected that writing constitutions will also sharpen social differences and preferences as many contentious issues will have to be addressed, such as the limits of blasphemy law, the nature of freedom of speech, or the application of shari'a on family law. Liberal/secular forces may be tempted to offset their electoral defeats by attempts to reconstitute an autocratic order with the support of the military. Leaders of the victorious Islamic parties may be tempted to replace the old elites in coalition with armies, rather than to take risks and try to deliver the challenging political and economic reforms that their supporters aspire to. New governments may be tempted by short term populist policies. The post revolutionary Arab world will be shaped by the way in which these two movements evolve and interact. If broad parties cannot establish themselves credibly, a clientelistic patronage system may evolve. To prevent political fragmentation, Islamic parties will need to adjust their ideological tenets in ways that allows for co-existence with secularists, and the Liberal movement will need to re-invent itself and make a credible comeback.

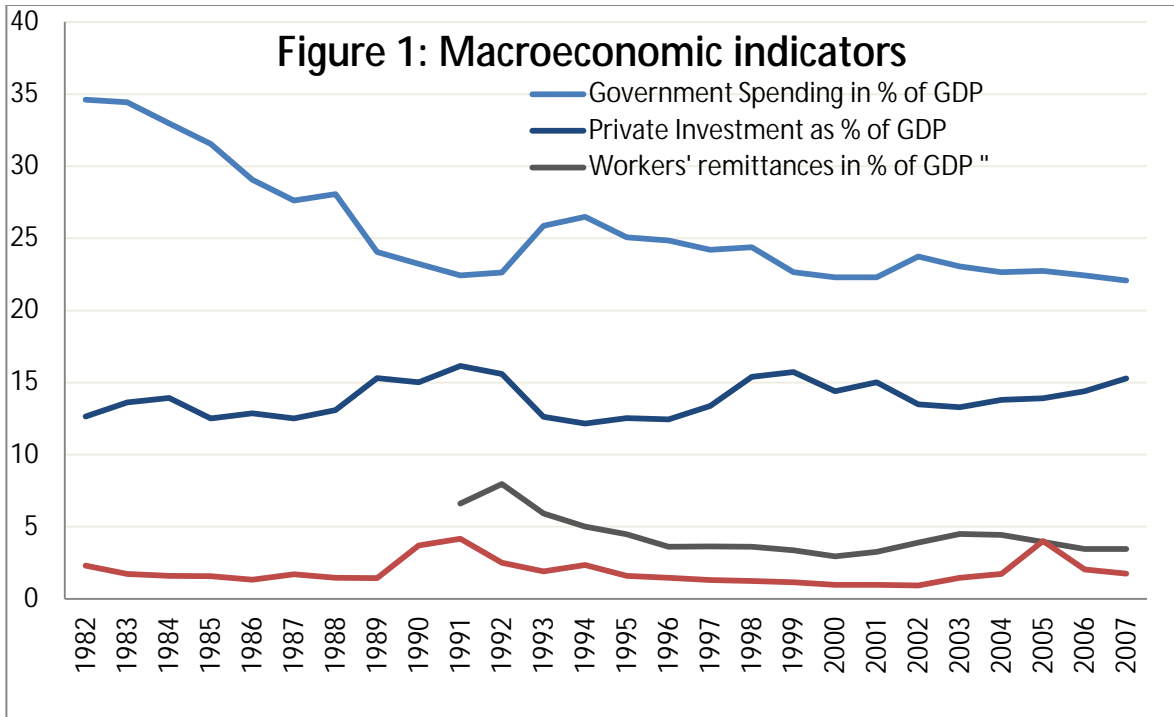
The challenges of the moment are compounded by high popular expectations and the problematic inheritance of the past. Economic policies will be largely determined by how political challenges will be addressed. Unless new surprises arise, the contours of the emerging political settlement will include less favors for elite capital. But there should also be attempts to make peace with it and to convince it to invest in the future, rather than withdraw, as has happened with the socialist revolutions of the 1960s. Another source of political economy uncertainty concerns how the interests of the poor will be balanced with those of the middle class. But there will be technical challenges that will be difficult to resolve in any case, even if politics is supportive. These related to the three agendas of short term stabilization of the economy, the modernization of state services, and job creation. A democratic order does not make these challenges easier to tackle (Besley and Kudamatsu 2007).

The first challenge is economic stabilization. Right after the revolutions in Egypt and Tunisia, the attitude of the transitional regimes has been to favor expansionary policies in order to offset the negative shocks experienced by the economies which include a loss of tourism revenues and the collapse in investment. There are risks of entering a negative vicious cycles. For example, the financial situation in Egypt could deteriorate before a stable Government could be formed. This in turn would make the formation of a stable Government more difficult.

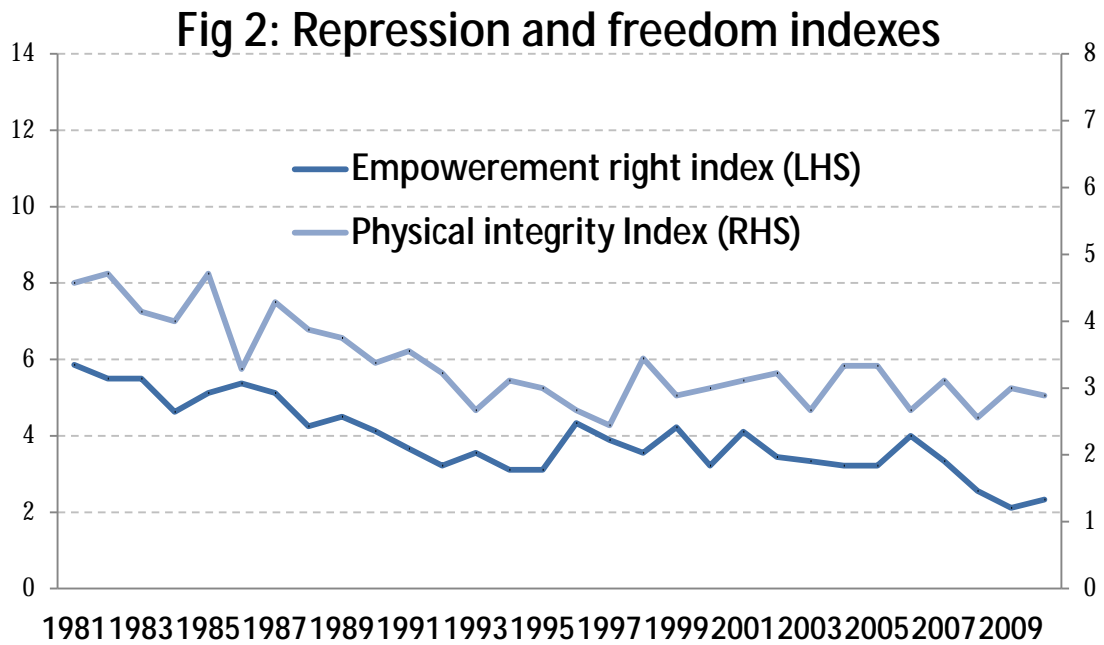
The second area of focus concerns the modernization of the state and the rehabilitation of public services, especially health, education, and social protection. The new coalition should be able to agree on redirecting expenditures towards social services and away from subsidies that are not pro-poor and make taxation more progressive. Improvements require among other things increased public sector wages, but an extremely complicating factor will be the large size of the civil service.

The third agenda concerns the business environment and job creation. Past experiences, and especially the failures of both socialism and state capitalism limit the choice of an Arab model. Part of the agenda are clear, but solutions will not be easy, in particular, when it comes to improving competition, democratizing the credit market, or reducing the constraints faced by the informal sector.

All these are complicated challenges, technically, politically, and administratively. At the end of the day, what will make a difference is the process by which solutions adapted to the particular environments of each country are found and implemented. The greatest contribution of the “revolutions” to these perennial challenges should be in fostering greater popular participation in the decision-making process. It is the sense of empowerment of new actors such as labor unions, employers’ associations, student groups, and other civil society groups who can cross ideological lines to represent social interests and hold their representatives to account that at the end of the day constitutes the real revolution.



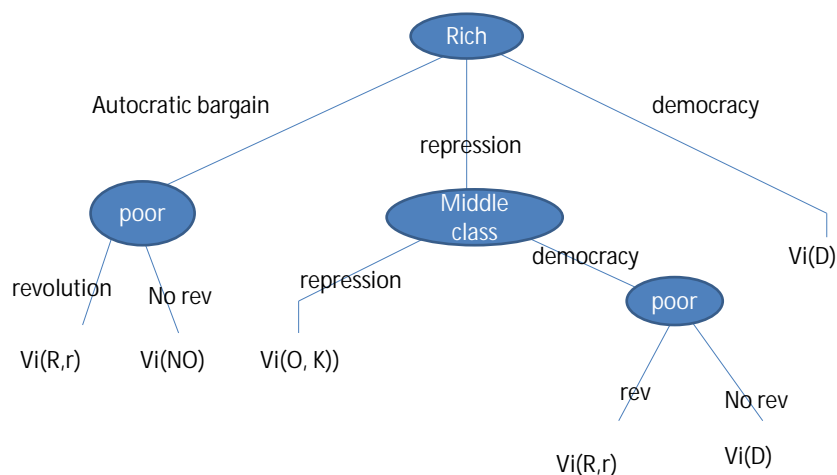
Notes: All variables are averages across the countries of the MENA developing countries group which includes Tunisia, Algeria, Morocco, Yemen, Egypt, Syria, Jordan, Yemen, and Lebanon.
 Source: World Bank Open Data website.

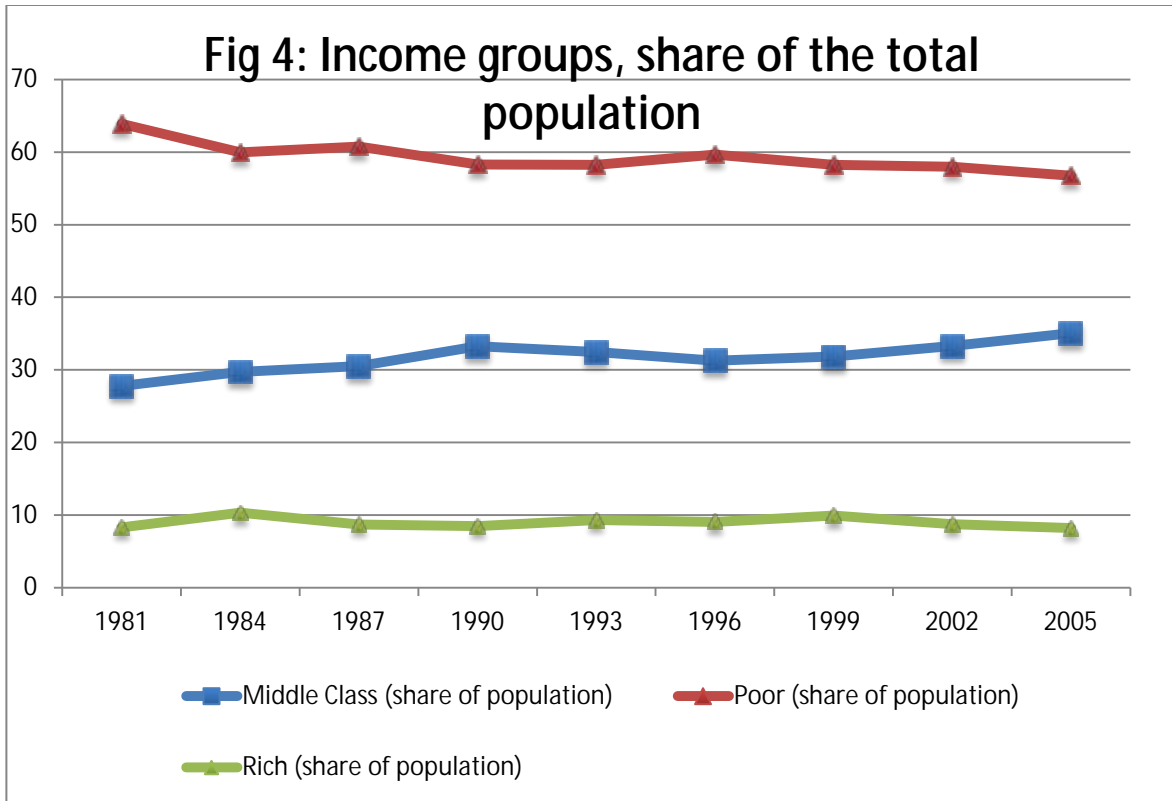


Notes: The Physical Integrity Rights Index is an additive index constructed from the Torture, Extrajudicial Killing, Political Imprisonment, and Disappearance indicators. It ranges from 0 (no government respect for these four rights) to 8 (full government respect for these four rights). The Empowerment Rights Index is an additive index constructed from the Foreign Movement, Domestic Movement, Freedom of Speech, Freedom of Assembly & Association, Workers' Rights, Electoral Self-Determination, and Freedom of Religion indicators. It ranges from 0 (no government respect for these seven rights) to 14 (full government respect for these seven rights).

Source: CIRI Website. See Cingranelli, David and David L. Richards. 1999.

Figure 3. Structure of the Game





Notes: The middle class defined as having an income between \$4-10 day, the rich as having an income above \$10/day, and the poor as having an income below \$4 a day, all measured in at purchasing power parity 2000 dollars. The countries that are covered are the MENA developing country group as in Figure 1. Source: Author's calculations using the World Bank PovCal website.

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