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**ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA (ESCWA)**

**SOCIAL POLICY AND THE STATE IN COMPARATIVE PERSPECTIVE:  
TRACKING CHANGE IN ARAB COUNTRIES**

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## Preface

The appropriate balance between public and private efforts and their respective contribution to social development, as well as the distribution of roles and responsibilities between the State, the market and the individual are the subject of changing debates over public policy. In the Arab region, this debate is emerging mainly in the context of discussions around a new social contract.

This paper revisits the debate around the role of the State in social affairs, looks at the situation in the Arab region and raises some of the questions regional policymakers might find of interest in the framework of ongoing debates about social development.

Within that context, the Social Development Division (SDD) of the Economic and Social Commission for Western Asia (ESCWA) is starting its Working Paper Series. These papers are written by ESCWA staff members as part of an ongoing work programme and intend to stimulate discussion around the given subject.

The research presented in this issue has been conducted by the Social Policy Section in the context of its work on integrated social policy. Under the overall guidance and support of Mr. Frederico Neto, Director of the Social Development Division, the paper was designed and authored by Ms. Gisela Nauk, Chief of Social Policy Section. The author wishes to express her most sincere gratitude to Ms. Lina Nassar, Ms. Dina Tannir and Ms. Diane Zovighian for their substantial contributions to and careful comments on the current text.

The research described in these papers is preliminary and has not gone through the usual review process for ESCWA publications. The author therefore welcomes feedback from readers, who may direct any comments and suggestions to: <http://www.escwa.un.org/main/contact.asp>.



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## Introduction

At the beginning of the twentieth century, the devastating experience of political, financial and economic crises gave birth to a new concept of social protection, labelled the (European) Welfare State. At that time, the combined effects of two World Wars and the global economic crisis of 1929 had left Europe in ruins and spread poverty and despair throughout its societies. Common destitution increased popular support for broad-based public solidarity systems, far beyond the conventional charity for the poor.

Towards the end of the same century, the collapse of the socialist block and the transition towards market-based systems since 1989 marked a shift of the policy paradigm in the opposite direction. Sustained high rates of economic growth brought back laissez-faire ideas of market regulation and individual responsibility at a time when global economic competition increased the pressure on public budgets and business companies alike. Inequality was on the rise.<sup>1</sup>

Currently, the recent financial and economic crisis has once more undermined the trust in self-regulating markets and again increased the expectations towards regulatory interventions by the State. However, it is not clear whether countries will be able to meet these expectations and successfully play the balancing, stabilizing and supporting roles required.

This paper revisits the debate around the role of the State in social affairs, looks at the situation in the Arab region and raises some of the questions regional policymakers might find of interest in the framework of ongoing debates about social development and a new social contract.

### I. THE CHANGING ROLE OF THE STATE IN SOCIAL POLICY

Over the past 50 years, the understanding of the role of the State in economic development and social policy has undergone significant changes.

The central role of the State in national reconstruction and development after the two World Wars in the early twentieth century reflected a shared appreciation of social solidarity out of common destitution, and a deep distrust of markets as a consequence of the global economic crisis of 1929. Such programmes as the “New Deal” in the United States (1935), the “Social Security Act” of New Zealand (1938) and the Beveridge Plan of Great Britain (1942) culminated in the Declaration of Philadelphia of the International Labour Organization (ILO) (1944) and in the inclusion of the right to social security in Article 22 in the Universal Declaration of Human Rights (1948).

In Europe, the concept of a social market economy sought to merge “freedom” with “solidarity” by combining a competitive economic order with the principle of social responsibility of private property.<sup>2</sup> Social policy moved to the centre stage of political and economic development processes. The significant size of public spending on social transfers as well as on public services became an important macroeconomic factor and increased the importance of the State as an employer. Social and economic policies became closely integrated, increasing complexity and coordination challenges.

The Communist Bloc represented an alternative and entirely State-centred model, providing free education and health care, a broad range of subsidies and guaranteed employment. Government planning and central regulation of the economy was seen as the fast track to catching up with the West in economic and social development.

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<sup>1</sup> “The gap between rich and poor and the number of people below the poverty line have both grown over the past two decades. The increase is widespread, affecting three-quarters of OECD countries. The scale of the change is moderate but significant.” OECD (2008), table 11.1.

<sup>2</sup> In the sense that private property is not only regarded as a right but also thought to entail the obligation to use it in a way that is compatible with and advances the common public good.

In East and Southeast Asia, so called “developmental States” regarded education, in particular, but also health care as important instruments for building up the skilled workforce needed for working out their economic niche within the world market. Social investment was an integral part of modernization processes, nation building and productive development.<sup>3</sup>

While Latin America based the “developmental State” on State-led industrialization through import substitution,<sup>4</sup> social and labour organizations also played an important role in building and expanding the region’s welfare states.<sup>5</sup>

The biggest expansion of government expenditure as a percentage of gross domestic product (GDP) occurred between 1960 and 1990. Towards the end of the century and despite efforts to reduce it, public spending amounted to about 50 per cent of GDP in the industrialized world and to about 25 per cent in developing countries.<sup>6</sup>

During the post-war boom period of high rates of economic growth, Western economies were able to combine “Smith abroad with Keynes at home”, in other words furthering economic integration into the world economy while at the same time retaining sufficient national policy space to expand the welfare state.<sup>7</sup> This, however, changed with the deregulation and internationalization of capital and commodity markets, from the 1980s, and further accelerated after the collapse of the Communist Bloc. National economic success and the space for autonomous policy became increasingly dependent on the degree of attractiveness for internationally mobile capital and on the competitiveness of costs and capacities.

Pressure on public budgets went hand in hand with an ideological debate about the role of the State and the objectives of public activity in the social sphere. Disputes over responsibilities and competencies of the public sector opened on several fronts.

Economic liberalism questioned the efficiency and effectiveness of the State in comparison to private sector actors, leading to recommendations for a “New Public Management”, including privatizing and outsourcing public services, splitting up large bureaucracies and introducing competition into the public sector. The role of the State was no longer to compensate market outcomes through redistribution but rather to create enabling conditions for citizens to pursue their chances and careers.

At the same time, an increasing number of grassroots-initiatives and non-governmental organizations (NGOs) proposed their services, maintaining to be closer to the concerns of the citizens than the distant and bureaucratic State, and more cost-efficient. Throughout the developing world, NGOs and other civil initiatives filled the vacuum of failing public services and appeared as alternative development partners.

The vision of a “social investment State” emphasized the shift from a “compensating” to an “activating” role of social policy and placed employment and job creation at the very centre of an integrated social policy.<sup>8</sup> It emphasized the value of agency over dependency on benefits and also implied a different vision of equity and equality, no longer understood as equalization of income or living conditions but as equal opportunities.

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<sup>3</sup> Ortiz (2007), pp. 6-7.

<sup>4</sup> As strongly advocated by Raul Prebisch and the Economic Commission for Latin America in R. Prebisch, ECLA (1950).

<sup>5</sup> Even if those organizations were often coopted by political elites. Filgueira (2005). [http://www.unrisd.org/80256B3C005BCCF9/\(httpPublications\)/D1F612F7B7D71534C1256FFF005447F7?OpenDocument](http://www.unrisd.org/80256B3C005BCCF9/(httpPublications)/D1F612F7B7D71534C1256FFF005447F7?OpenDocument).

<sup>6</sup> World Bank (1997), p. 2.

<sup>7</sup> Seeleib-Kaiser (2008), p. 13.

<sup>8</sup> Giddens (1998).

A global debate about conditions for a decent life evolved around Amartya Sen's capabilities approach.<sup>9</sup> The concept of "social security" was further developed into an understanding of "human security", bringing together the "freedom from want" with the "freedom from fear" and the "freedom to take action on one's own behalf".<sup>10</sup> It aims to combine efforts to reach the Millennium Development Goals (MDGs) with the protection of people in conflict and post-conflict situations and with the support to moving out of poverty through employment and social protection arrangements.

Together with the constraints emerging from globalization and increasing economic competition, these debates marked the end of the sometimes paternalistic approach to social policy of the early welfare states. From here, the international discussion crystallized into two main directions.

The market-based discourse emphasized that competitiveness in the global market was the main deciding factor for national economic and social development prospects. While the forces of globalization might pose constraints on national social policy, they were successfully reducing poverty and income inequalities on a global scale. A global market-based resource allocation mechanism would facilitate direct investments and financial resources to emerging markets of a magnitude that no national strategy would be able to mobilize. The main role of governments was seen in the provision of sound institutional frameworks and an enabling rules-based environment.

There were, however, serious concerns about the capacity of the states to fulfill their role as the guarantor and protector of public goods. Privatization of public utilities and increased involvement of the private sector in social insurance schemes were regarded as a risky exposure of social services and social security systems to the development of international financial and stock markets. The "new public management" approach came under criticism for producing institutional fragmentation, blurring accountability and depriving political leaders of information and control. A discussion over stakeholder versus shareholder value sought to bring back the social perspective into markets driven by the quest for ever higher profit margins.

The rights-based discourse similarly sought to contrast the strong economic focus of the liberal approach with an emphasis on human development. Human security in this perspective is held up as an essential part of the social contract that cannot be subject to global economic competition. Investing in people is essential not only to modernize and develop a country, but also to achieve social cohesion and political stability. Responsibility of the State stretches far beyond the provision of a sound legal framework on to equal opportunities and social outcomes.

Global crises, such as the Asian financial crisis, the terrorist attacks of 11 September 2001, and global warming and climate change brought the State back to the international development agenda. Concerns about fragile or even failed States, torn apart by violence and breeding destruction, and about economic imbalances and weak institutions with too little capacity to regulate the enormous financial flows around the globe, made public sector governance a prominent topic of policy reforms. As a response to the crisis, Asian countries significantly expanded social policy.<sup>11</sup>

In the course of the current economic crisis, stability of the financial system is increasingly regarded as a global public good that will be insufficiently provided by competitive markets. The paradigm seems to have shifted back from an activating to an active State, resuming a more central role in regulating the economy and protecting people against potentially destructive market forces.

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<sup>9</sup> Sen (1985).

<sup>10</sup> Commission on Human Security (2003), p. 10.

<sup>11</sup> Kwon (2005), pp. 262-283.

The capacity of the State, however, to balance market failures and to compensate for the costs of the externalities produced by a poorly regulated economic order is now under question and will be the topic of further debate.

## II. DEVELOPMENT IN THE ARAB REGION

In the Arab region, discussions over the dominant role of the State have been emerging slowly over the past decades.<sup>12</sup>

The region fared well in terms of development during the 1960s and 1970s, with economic performance close to the East Asian Tigers.<sup>13</sup> During that boom period, most countries expanded social security systems, partly in line with socialist orientations, but largely following the objectives of nation-building and the formation of a national identity.<sup>14</sup> Public pension schemes were established starting from the 1950s (in socialist countries) and through the 1970s (in the Gulf Cooperation Council (GCC) countries).<sup>15</sup> Public healthcare provision and infrastructure were expanded, and especially public education was considered important for the formation of an independent bureaucracy and a skilled workforce.<sup>16</sup> Most countries introduced some sort of indirect social transfers in form of subsidies for essential commodities or services, for example on food, electricity, oil, petrol and public transport.

Starting from a very low base of human development after the Second World War with large rural-urban disparities, the region made impressive progress.<sup>17</sup> Rapid urbanization transformed the economic structures. Generous transfers to large parts of the population successfully reduced poverty and infant mortality and increased life expectancy by ten years over the period of 1960 to 1985.<sup>18</sup> Poverty fell to one of the lowest levels in the developing world.<sup>19</sup>

High oil revenues reduced the pressure to open up markets and also the need to compete for capital inflows. The public expenditure-based development strategy, high expenditures on health, education and subsidies, and an emphasis on State-owned enterprises pushed the share of government expenditures to an average of about 42 per cent of GDP in the 1970s.<sup>20</sup> Public sector employment increased rapidly in line with the growing role of the State.

However, falling oil prices in the mid-1980s set this development model under pressure. The collapse of growth eroded macroeconomic balances and increased the burden of public debt, thereby limiting the capacity of governments to invest in social infrastructure and in industry. Regional labour markets collapsed with declining rates of economic growth, high population growth and reverse migration when, in the wake of the Gulf War, GCC countries started to replace Arab migrants with migrants from other regions.<sup>21</sup>

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<sup>12</sup> The diversity of the region is commonly captured in different groupings, such as resource-rich countries, diversified economies, least developed countries (LDCs), with smaller or bigger populations and more or less under conflict. However, with regard to the role of the State, the general approaches seem largely similar.

<sup>13</sup> World Bank (2000), box 2.

<sup>14</sup> UNRISD (2006), p. 4.

<sup>15</sup> With the latest establishment in Oman in 1993.

<sup>16</sup> With the exception of the oil-exporting GCC countries where education was not compulsory and which partly relied on foreign imported labour. UNRISD (2006), p. 4.

<sup>17</sup> *Ibid.*, p. 5.

<sup>18</sup> Nasr (2001), p. 33.

<sup>19</sup> World Bank (2000), p. 1.

<sup>20</sup> Abdel Gadir and Fan (2007), p. 5.

<sup>21</sup> World Bank (2009b), p. 16.



Around the same time, when conservative governments in Great Britain and the United States presented a new vision for the role of the State, and downsizing the public sector was seen as a solution to economic crises, rising unemployment and high budget deficits, the response of Arab governments was markedly different. The public sector took over a compensating role, expanding employment through over-recruitment.

In the 1990s, the average share of government employment in total employment as well as government wages as a percentage of GDP were both above levels of the Organisation for Economic Co-operation and Development.<sup>22</sup> In Bahrain, Egypt, Kuwait, Oman and Saudi Arabia, public sector employment even grew throughout the 1990s, and its contribution to total employment growth ranged from about four per cent in Saudi Arabia to close to 40 per cent in Egypt.<sup>23</sup> In addition, the financial volume of social protection programmes was substantial during this period, with total costs amounting to 5.7 per cent of GDP in Lebanon, 11.2 per cent in Yemen, 12.9 per cent in Egypt, and 17.9 per cent in Jordan.<sup>24</sup>

These efforts may have contributed to the fact that despite economic stagnation during the period of low oil prices (1980-2000), and despite substantial shocks to the labour markets, social indicators continued to improve. Income inequality, which was among the highest in 1970 came down significantly to a Gini coefficient of 0.357 in 2000.<sup>25</sup> Life expectancy continued to increase dramatically in all countries, with the exception of Iraq; and public services improved. Many countries in the region made significant progress towards achieving universal primary education as an extended infrastructure allowed for access to schools even in remote areas. Female illiteracy plunged from 79 per cent in the 1970s to 23 per cent in 2000.<sup>26</sup> Large vocational training programmes were introduced as part of active labour market policies. With the exception of the Sudan and Yemen, over 90 per cent of the population had access to health services in 1995. By 2000, the immunization rate against measles was close to 90 per cent in Western Asia.<sup>27</sup>

Major concerns, however, related to the rapidly growing labour force, which could not be absorbed by the public sectors or otherwise find gainful employment. Labour force growth accelerated from 2.4 per cent in the period 1960-1980 to 3.2 per cent in 2002 for the Middle East and North Africa (MENA) region as a whole, which was higher than any other region,<sup>28</sup> and put societies as well as the social security systems under severe pressure. Moreover, the gender gap remained visibly stark. Specifically, the share of working-age population employed in Western Asia in 2007 was as low as 25 per cent for women and 70 per cent for men, compared to an average of 49 per cent for women and 64 per cent for men in all developing countries.<sup>29</sup>

The picture brightened again with the onset of the recent period of high oil and gas prices and the highest rates of economic growth since the 1970s. Unemployment dropped to 9.4 per cent in 2008.<sup>30</sup> A

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<sup>22</sup> World Bank (2004), p. 95. This refers to the MENA region in the World Bank definition, which is broader than the ESCWA region. However, given that public sector employment was small or declining sharply in the Maghreb, the overall picture does not change drastically when these are excluded.

<sup>23</sup> Jordan, however, presents an exception to this trend, where the public sector share declined from 45 per cent in 1987 to 36 per cent in 1996.

<sup>24</sup> World Bank (2002), p. 64.

<sup>25</sup> Adams and Page (2001). See also: ILO (2008), p. 11. For a starkly different view on inequality, see: University of Texas, "Inequality Project", which is available at: <http://utip.gov.utexas.edu/about.html>.

<sup>26</sup> UNRISD (2006), p. 11.

<sup>27</sup> United Nations (2008), p. 21.

<sup>28</sup> UNRISD (2006), p. 12.

<sup>29</sup> United Nations (2008), p. 8.

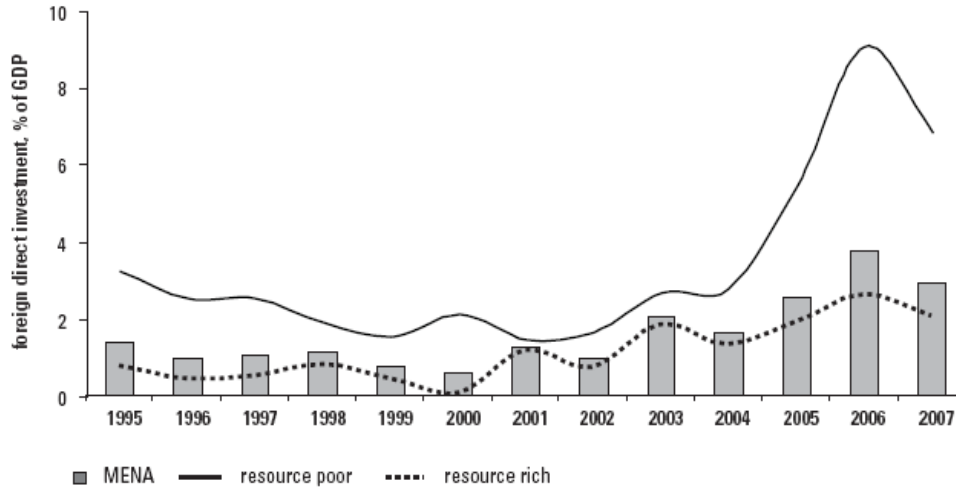
<sup>30</sup> ESCWA (2009).

growing labour force together with declining birth rates resulted in lower dependency ratios, which presents a window of opportunity for the region to make decisive development progress.<sup>31</sup>

With increasing public and especially private investment, the private sector is slowly becoming the main source of new jobs. This is particularly true in some GCC countries. In the second half of the 1990s, in Bahrain, Oman, and the United Arab Emirates, the majority of the jobs were created by the private sector.<sup>32</sup> Foreign direct investment (FDI), including intraregional investment, grew with an improving business environment and tariff reforms (see figures I and II). Government employment continued to grow in several countries, albeit at a slower pace.<sup>33</sup> The size of the public sector wage bill as share of GDP was falling. In 2005, it ranged from about 3 per cent in the United Arab Emirates to 5 per cent in Qatar, 5.5 per cent in Jordan, 7 per cent in Lebanon, 7.5 per cent in Oman, 8 per cent in Egypt, 9.5 per cent in Kuwait, 11 per cent in the Syrian Arab Republic, 12 per cent in Bahrain and 13 per cent in Saudi Arabia.<sup>34</sup>

Despite this success in employment creation and the improved prospects for thousands of people, a number of structural concerns are dominating the discussions about social policy in the region. These relate mainly to the following: (a) the sustainability of the prevalent formal security systems; (b) insufficient coverage of large parts of the population; and (c) poor targeting of assistance to the poorest and most vulnerable segments of the population.

**Figure I. FDI flows to the MENA region, 1995-2007**



Source: World Bank, “2008 MENA Economic Development Prospects: Regional Integration for Global Competitiveness”, p. 5.

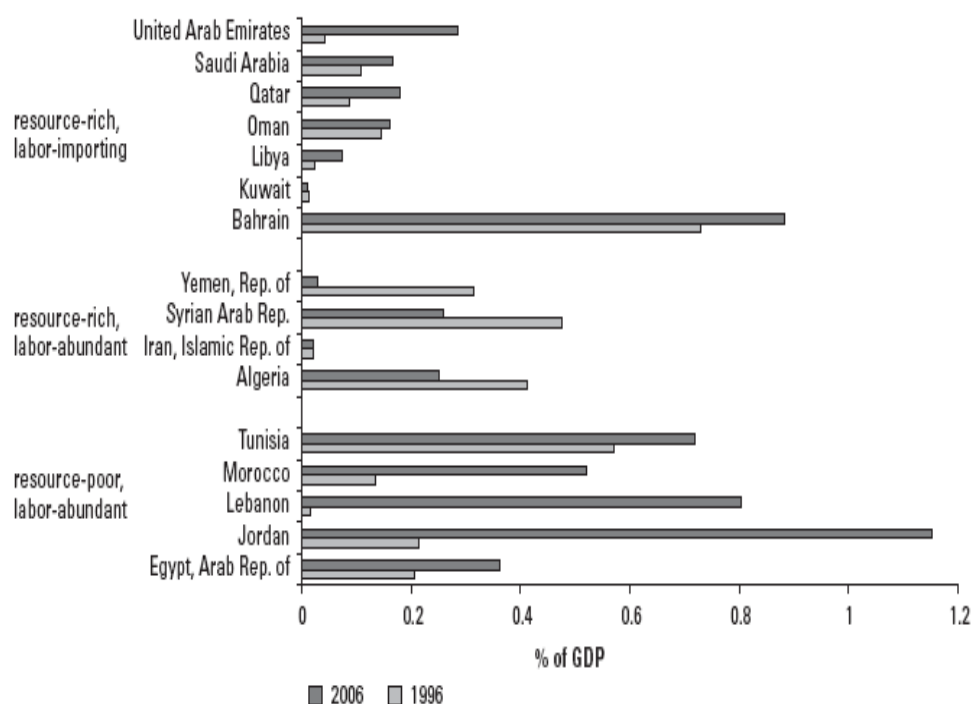
<sup>31</sup> ESCWA (2008b).

<sup>32</sup> Fasano and Goyal (2004), p. 11.

<sup>33</sup> World Bank (2007), pp. 58-59.

<sup>34</sup> Ibid., p. 59.

**Figure II. Expansion of inward FDI stocks in MENA countries**



Source: World Bank, “2008 MENA Economic Development Prospects: Regional Integration for Global Competitiveness”, p. 48.

Health systems suffer from fragmentation, weak institutional capacity, substantial risk of cost inflation and insufficient coverage. Public spending on health care accounts on average for about half of total health spending in the region with the other half covered directly by the households, thereby indicating gaps in the insurance systems.<sup>35</sup> Pension systems tend to be fragmented into multiple schemes with different conditions and benefits. Most systems are accumulating large implicit public pension debts that can threaten macroeconomic stability.<sup>36</sup> Education systems are geared towards public sector employment and do not provide the skills needed in the private sector, which generates a problematic mismatch between demand and supply on the labour markets. Classes are often over-crowded and educational attainments remain below expectations. Moreover, while public expenditures on education as a share of GDP are very high by international standards, illiteracy remains higher than in most other developing regions.<sup>37</sup>

When the public sector was stretching its limits acting as an employer of last resort,<sup>38</sup> a growing informal sector offered vital additional opportunities to an ever-growing workforce. Around the year 2000, the share of informal sector employment in total non-agricultural employment was estimated above 40 per cent for men and women.<sup>39</sup> A big share of the new private sector jobs also now appears to be in the informal

<sup>35</sup> World Bank (2008c); Tzannatos (2000), p. 14.

<sup>36</sup> Robalino (2005), p. 10. Only Jordan and Yemen have implemented far reaching pension reform in 1995, 2000 and 2003. Loewe, forthcoming, p. 20.

<sup>37</sup> According to UNESCO, Southern and Western Asia have the lowest regional adult literacy rates (58.6 per cent), followed by sub-Saharan Africa (59.7 per cent). The estimated figure for the Arab region is 62.7 per cent. UNESCO (2005).

<sup>38</sup> For a comprehensive analysis of the employer of last resort (ELR) approach, see: ESCWA (2008a), p. 73.

<sup>39</sup> World Bank (2004), p. 107.

sector and in the more volatile services and construction sectors.<sup>40</sup> In these cases, social security systems hardly apply as most public insurance systems and many pension funds are limited to employees in the formal sector, both public and private, and do not reach people in the informal sectors and in unprotected employment.<sup>41</sup> Across the region, an estimated 10 per cent of the elderly are currently receiving pension payments and only about 30 per cent of the workforce is thought to be enrolled in any of the existing pension schemes.<sup>42</sup> Of the countries in the region, only Bahrain and Egypt have so far established unemployment insurance.

Social assistance programmes, such as food subsidies, cash transfers, social housing and social funds, suffer from inadequate targeting, ineffective distribution, administrative inefficiencies and lack of coordination. They also barely extend to rural populations that are more dependent on remittances, family support and NGOs.<sup>43</sup> Soaring food and energy prices in 2007 and 2008 increased the overall welfare costs to governments. In 2007, food subsidies alone ranged below 0.5 per cent of GDP in Lebanon, Kuwait and Saudi Arabia, and between 1 and 2 per cent in Egypt, Jordan, Syrian Arab Republic and Yemen. The share of subsidies in government expenditure shows the same trend, namely, ranging from below 1 per cent in Lebanon, Saudi Arabia and Kuwait to about 1.5 per cent in Yemen, 4 per cent in Egypt, 4.5 per cent in Jordan and about 5 per cent in the Syrian Arab Republic.<sup>44</sup> Adding energy to the food subsidies brings the combined share to between 3 and 15 per cent of GDP, consuming 10 per cent of GDP in Yemen and close to 9 per cent of GDP in Egypt.<sup>45</sup> The fiscal space of many countries, however, has been deteriorating over a number of years and may come under increased stress with the unfolding global economic crisis.

While poverty rates are still among the lowest in the developing world, there are worrying trends of a rising proportion of working poor (see the table below and figure III, respectively).<sup>46</sup>

There is a widespread opinion that the region could do better given the enormous wealth concentrated in this part of the world. The low averages mask high regional as well as in-country disparities, the absolute number of people living in poverty is not declining, and vulnerability to economic and political shocks remains very high. In addition to the over 50 million people living on less than \$2 per day, the consumption levels of 17 per cent of Egyptians, 15 per cent of Yemenis and 10 per cent of Moroccans were no more than 50 cents per day above that line in 2007.<sup>47</sup>

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<sup>40</sup> World Bank (2007), p. 61.

<sup>41</sup> Social insurance in Egypt is an exception as all citizens are eligible to enrol. Participation, however, remains low because many people are not aware of this possibility. See Loewe, forthcoming, p. 23.

<sup>42</sup> Robalino (2005), p. 10.

<sup>43</sup> UNDP (2008), p. 12.

<sup>44</sup> World Bank (2008a), p. 22.

<sup>45</sup> World Bank (2008b). Energy subsidies for electricity and gas to the top 40 industrial producers in Egypt are scheduled to be phased out over the next three years, and subsidies for non-energy-intensive industries shall continue until 2013.

<sup>46</sup> United Nations (2009), p. 8. For a different calculation of poverty rates, see: Abdel Gadir and Fan (2007), p. 13.

<sup>47</sup> World Bank (2008b).

TABLE. INCIDENCE OF INCOME POVERTY BY WORLD REGIONS, 1981-2005  
(percentage of people living below \$2 a day)

Region	1981	1984	1987	1990	1993	1996	1999	2002	2005
East Asia and Pacific <sup>a/</sup>	92.6	88.5	81.6	79.8	75.8	64.1	61.8	51.9	38.7
China	97.8	92.9	83.7	84.6	78.6	65.1	61.4	51.2	36.3
Eastern Europe and Central Asia	8.3	6.5	5.6	6.9	10.3	11.9	14.3	12.0	8.9
Latin America and Caribbean	22.5	25.3	23.3	19.7	19.3	21.8	21.4	21.7	16.6
Middle East and North Africa <sup>b/</sup>	26.7	23.1	22.7	19.7	19.8	20.2	19.0	17.6	16.9
South Asia <sup>c/</sup>	86.5	84.8	83.9	82.7	79.7	79.9	77.2	77.1	73.9
India	86.6	84.8	83.8	82.6	81.7	79.8	78.4	77.5	75.6
Sub-Saharan Africa	74.0	75.7	74.2	76.2	76.0	77.9	77.6	75.6	73.0
Total	69.2	67.4	64.2	63.2	61.5	58.2	57.1	53.3	47.0
Arab countries	32.0	28.52	26.51	22.45	24.42	24.59	23.23	20.80	20.37

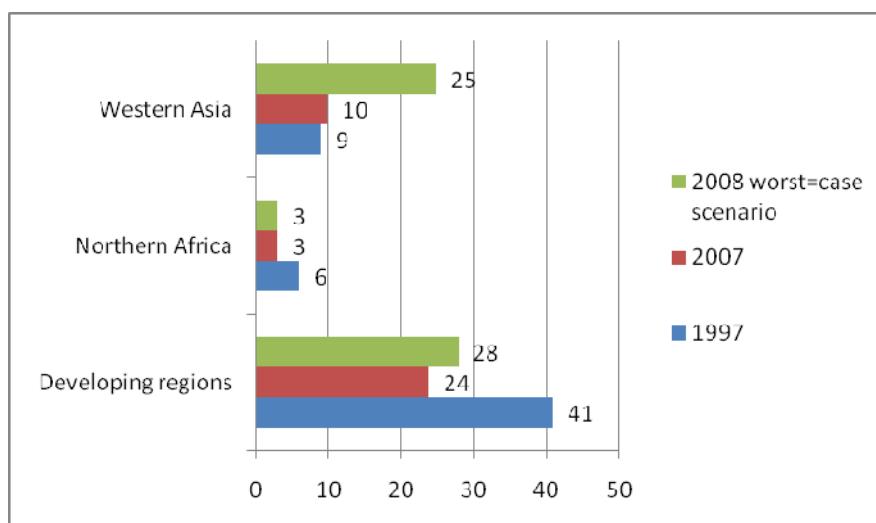
Source: UNDP, *Arab Human Development Report: Challenges to human security in the Arab countries* (2009), p. 113.

a/ The regional percentages for East Asia and Pacific include China, which is also tabulated separately.

b/ The regional percentages for Middle East and North Africa include Iran. Arab countries are tabulated separately and calculated as the MENA region without Iran.

c/ The regional percentages for South Asia include India, which is also tabulated separately.

**Figure III. Proportion of employed people living below \$1.25 a day, 1997, 2007 and 2008 projections**  
(percentage)



Source: United Nations, *The Millennium Development Goals Report* (2009), p. 8.

Rapid urbanization is limiting the capacity of rural communities to compensate for failing public safety nets. NGOs, which in several countries are also important employers, are not adequate substitutes. For

large parts of the population, insufficient or absent coverage amounts to a de facto privatization of social services, which especially poor social groups can hardly afford. Income from remittances seems to be the most common safety net for these segments of society.

From that perspective, there is a need to question how far the prevalent approach to social policy has really reached out to the entirety of the population and built the human as well as institutional capacities needed for sustaining growth and development in an uncertain environment.

### **III. TIME FOR POLICY DEBATE?**

While governments in the region are aware of these weaknesses, they are also facing hard constraints, particularly financial constraints. However, political constraints are equally playing a role and governments may find it hard to steer away from the established mix of public employment, subsidies and reliance on remittances. While a number of countries are facing similar challenges, a policy debate about the role of the State in social policy and about available options has hardly been conducted yet. The paternalistic welfare state still seems to be the preferred model and neither the market-based nor the rights-based discourse has found a vivid response in the region.

In the past decade, a new development paradigm has emerged that provides an alternative path to previous development models.<sup>48</sup> This paradigm emphasizes the need for inclusive social transformation and incorporates components of the rights-based approach, such as issues of equity as well as efficiency of social protection. It also integrates some of the concerns of the market-based approach regarding the limited capacities of the State and the need to share responsibilities between the State and the private and voluntary sectors. These issues of equity, efficiency and partnership are crucial for the future of the Arab region; and the way Arab countries approach them will determine the path of the region's social policy and the fate of regional development.

Arab countries have so far succeeded in extending social safety nets to segments of their population and available data suggest a decent degree of equality. They have made significant development progress in an environment marred by instability, conflict and violence, which not only spoil the economic climate but also add additional strains to society. The principal issue is whether the existing achievements can be improved and extended to the entire population, which in turn raises the following questions: (a) how can equality be translated into equity? (b) must social policy equalize incomes, outcomes or opportunities? (c) what do people think about agency or dependency? (d) what are the most adequate social policy objectives in face of often limited fiscal space? and (e) what are the financing options?

One direction of policy could be to improve existing systems. A re-adjustment of contributions and benefits, better enforcement and monitoring of contributions, optimized investment of capital, reduction of administrative costs, as well as better targeting of assistance can certainly lead to financial efficiency gains.<sup>49</sup>

A second direction could consist in finding policy solutions and instruments for expanding social security systems to the vast number of people in the informal sectors. While the current type of assistance through subsidies can be an appropriate instrument in some respects, direct cash transfers are sometimes seen as better at supporting peoples' agency by allowing them to access medicine, food or other services depending on individual situations and priorities. However, subsidies are sometimes seen as administering poverty rather than developing the human potential and the capacities needed for economic and social development.

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<sup>48</sup> Stiglitz (1998).

<sup>49</sup> Loewe (2004), p. 417 onwards.

In addition to these policy initiatives, governments may wish to develop stronger partnerships between public and private actors. While the principal responsibility to protect will always remain with the State, other actors can have specific advantages over governments in terms of access to vulnerable groups of population, contributing to increased efficiency in service delivery or cooperating in building an enabling environment. Engaging a debate over the different values and concepts, advantages and disadvantages, rights and responsibilities of public versus private action in the field of social policy in the Arab region could have much to offer. Such a debate would need to answer various questions, including chiefly whether poverty is regarded as a charity or a development issue, and whether it is a private or a public concern.

Some governments are already working with civil initiatives and NGOs, and may share important experience for the development of suitable policies and an appropriate regulatory framework. The involvement of the private sector in formal social protection is rising. However, it deserves more attention and regulation by Arab policymakers. Governments may also wish to expand their information systems and their capacity to monitor and evaluate policy outcomes in order to better target interventions and oversee the activities of partners.

In the face of these multiple challenges, regional cooperation on development issues and the exchange of knowledge and best practices will be essential for the region. Such global challenges as climate change, health pandemics or the financial crisis are currently strengthening the sense and concept of collective responsibility. The Arab region can adopt this approach and explore its collective potential for advancing the social development of its people.

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