
Welfare, Happiness, and Discontent

Many observers caution that the economic growth measures presented in the previous chapter do not provide a sufficiently informed picture of the welfare of the population. Increases in real per capita income may not diffuse to all members of the population. Income inequality could be large or growing, and health and education levels may deteriorate or improve slowly, leading to growing dissatisfaction despite the improving aggregate economic data. Thus, in this chapter we examine many social indicators. We find that most of the measures of welfare show a sustained improvement in the Arab countries. While it is possible to parse the indicators and find shortcomings in achievement in one area or another, the same is true for all nations—the overall picture indicates considerable improvement over time in social performance of the Arab countries and in their levels relative to other nations.

Yet these social improvements have not assuaged the unusually high levels of dissatisfaction among Arab populations. For example, in the very influential *Arab Human Development Report 2002* (UNDP 2002), written by a group of well-known Arab intellectuals, an early subsection is titled “Bridled Minds, Shackled Potential,” a phrase that aptly summarizes the main message of the report. This typical expression of widespread disappointment at the lack of political and cultural progress may well have spilled over and adversely affected the perception and evaluation of the actual economic and social performance documented in this and the preceding chapters. Indeed, one of the dilemmas facing any analysis of the Arab economies is the considerable improvement in both material consumption and social indicators over the last three decades and the current expression

of deep discontent that is so widespread.¹ Rapid urbanization, by diminishing the social networks and fabric of life in rural areas, may have inevitably led to a depth of unhappiness that cannot by its nature be ameliorated by the improved conditions reported in this chapter. Such phenomena are widely reported for Europe during various periods of rapid social change (Hill 1967). Obviously other multiple potential sources of discontent exist, and we argue in the succeeding chapters that they are relevant to the region's economic development. Popular discontent may reinforce the reluctance of authoritarian governments to liberalize, fearing unmanageable social and political mobilization if repression is eased. This observation may be particularly true where much of the political opposition has religious color, as is the case in the Middle East. From an economic standpoint, such deep political uncertainty heightens risk and deters both local and foreign investors. In the extreme, such dissatisfaction may manifest itself in terrorism directed at local or foreign targets.

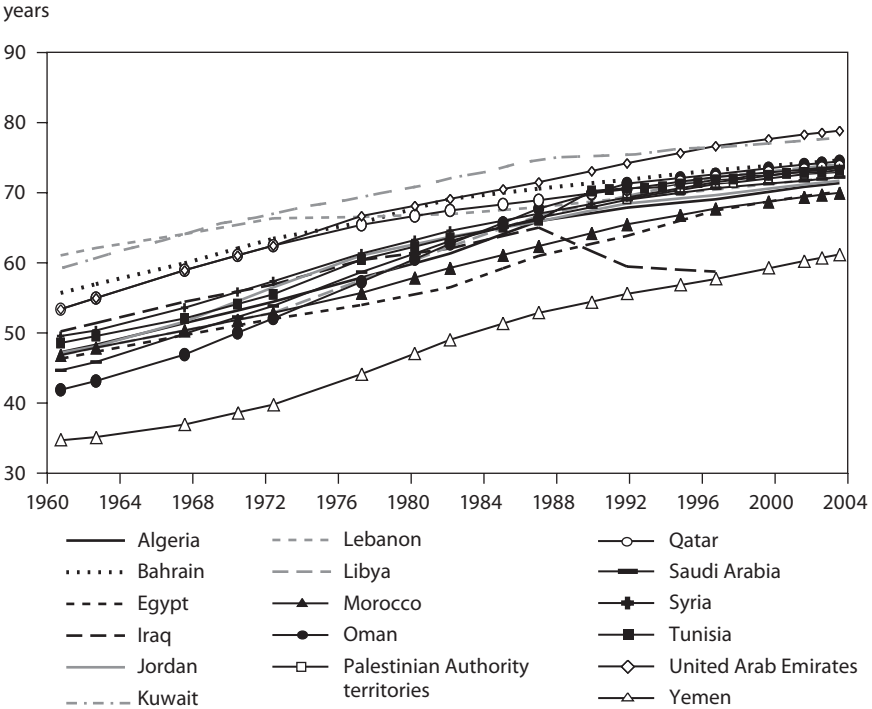
Social Indicators

Income and productivity discussed in chapter 2 involve conceptual abstractions. One cannot eat dollars or dinars. Although income establishes the potential of the economy to enhance well-being, consideration of more basic indicators of the quality of life may be revealing if one wants to assess the economy's performance. Indeed, over the past half century it appears that for some of the things that one cares most about—life expectancy, infant mortality, literacy, and gender equality—both improvements and cross-country convergence have been considerably more robust than for income (Kenney 2005). The Middle East appears to be a particularly striking example of this phenomenon.

On many measures, the gains in social indicators are astonishing. Life expectancy has risen by more than 20 years in most countries of the region (figure 3.1), with life expectancy in Kuwait (77), for example, exceeding that achieved in comparators such as Venezuela (74) and virtually equaling that exhibited in the United States (UNDP 2004a). Life expectancy of females in Saudi Arabia increased by 12 years over the period 1980–2000 and by 11 years for males. In both historic and international perspectives, such increases are extraordinary. In the 19th and early 20th centuries, similar increases in life expectancy took a half century or more. Life expectancy in the typically endowed Arab countries (70 years in 2004) is in the same league as other normally endowed comparators and has surpassed that achieved in the developing countries of East and South Asia (66 years) by

1. Farrukh Iqbal (2006) documents the Middle East and North Africa's (MENA) very good performance in many social dimensions compared with other regions but doesn't address the dissonance between these achievements and the widespread malaise.

Figure 3.1 Life expectancy, 1960–2004



Note: Life expectancy at birth. Actual data availability varies. Data between tick marks linearly interpolated.

Source: World Bank, *World Development Indicators*, May 2006.

a noticeable margin (table 3.1). This improvement has been accompanied by increases in the female-male differential, suggesting that women are benefiting fully from development (figure 3.2).

One reason for the increase in life expectancy is that the children of the Middle East are getting an increasingly good start in life: Infant mortality is down dramatically in most countries (figure 3.3), with performance in Kuwait (9 per 1,000) and some of the smaller oil-producing states approaching that of the United States (7) and that in Saudi Arabia (23) exceeding by a large margin performance in comparators Botswana (80) and Nigeria (110) and approximating Venezuela (19).² Similarly, the results on this measure for the region’s nonoil-based economies generally equal or exceed the relevant comparators from outside the region. Infant mortality while still greater in 2000 than in Latin America or East Asia fell more than

2. Declines in infant mortality translate into increased life expectancy, but the former does not completely explain the growth in the latter.

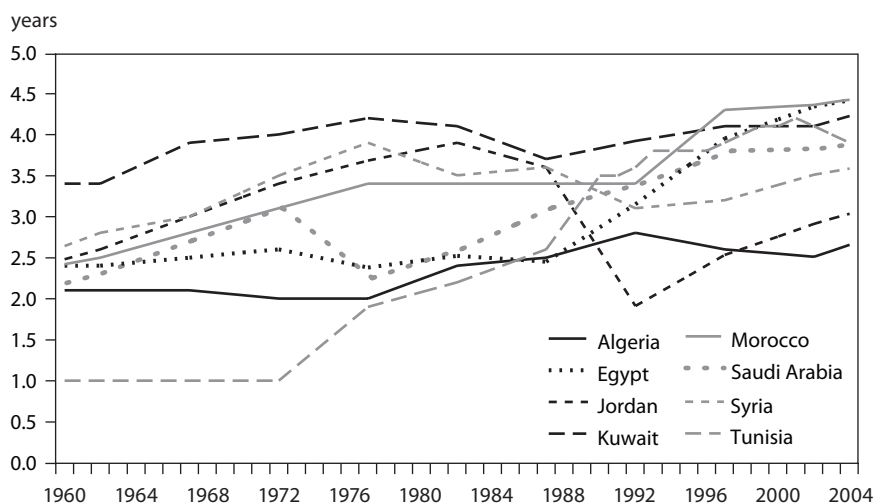
Table 3.1 Life expectancy at birth, 1982 and 2004 (years)

Region	1982			2004		
	Total	Female	Male	Total	Female	Male
Normally endowed						
Middle East	61	62	59	70	72	69
East Asia and Pacific	60	62	59	66	68	64
Latin America and Caribbean	66	68	63	71	74	69
South Asia	53	54	53	66	67	65
Sub-Saharan Africa	50	52	48	48	49	48
OECD	75	78	71	79	82	76

OECD = Organization for Economic Cooperation and Development

Source: World Bank, *World Development Indicators*, May 10, 2006.

Figure 3.2 Difference between female and male life expectancy, 1960–2004

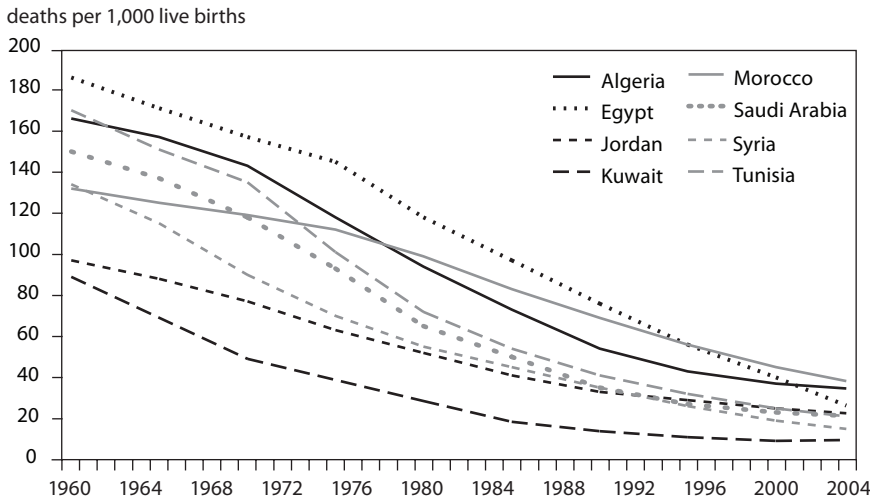


Note: Calculated as excess of female over male life expectancy.

Source: World Bank, *World Development Indicators*, 2004, April 2006.

in any other region, from 73 to 38 for all of the Middle Eastern countries. In poorer countries such as Egypt, this improvement was even greater. Infant mortality in Egypt fell by two-thirds in the two decades, and its level was comparable to that of Indonesia, a considerably richer nation, by the end of the period. Saudi infant mortality was, however, above that in Latin American nations despite its considerably higher income per capita

Figure 3.3 Infant mortality rate, 1960–2004



Source: World Bank, *World Development Indicators*, 2004, April 2006.

in terms of purchasing power parity. In most countries the fall in infant mortality has been accompanied by a decline in maternal mortality as well, with the achievements in 2000 in Kuwait (5 per 100,000) and some of the smaller oil producers actually exceeding that in the United States (8), while Saudi Arabia (23) surpassed Venezuela (60) and the other resource-rich comparators by a large margin (table 3.2). The performance of countries such as Tunisia and Morocco is in the same league as most other similarly endowed comparators, the better-performing Egypt (84) exceeds all other comparators with the exception of socialist China (53), and Jordan (41) exhibits the best performance of all.³

3. Iraq is an exception in this regard. According to the UN Development Program (UNDP), the rate of infant mortality rose steadily from approximately 22 per 1,000 in 1988 (the first year that they could construct direct, as opposed to indirect, estimates), to 33 in 2003—well below speculative pre-second Gulf War estimates in excess of 100. The infant mortality figure was highly politically sensitive, since a high figure, ascribed to the economic sanctions regime that was imposed after the first Gulf War, could be used as an argument for sanctions removal (i.e., sanctions had “killed one million Iraqi babies”). Indeed, in addition to doing secondary checks to reaffirm the accuracy of the survey estimate, the survey’s authors express surprise that the infant mortality rate did not spike after the imposition of sanctions but instead continued its steady climb, which had begun at least as early as 1988. The 2004 UNDP survey debunks the estimates of extraordinarily high levels of infant mortality in sanctions-era Iraq (see UNDP 2004c for secondary literature citations) and by showing that the trend was rising prior to the first Gulf War also supports the notion that the Iraqi decline began with the Iran war, if not earlier.

Table 3.2 Maternal mortality, 1990, 1995, and 2000
(per 100,000 live births)

Country	1990	1995	2000
Bahrain	n.a.	n.a.	28 ^a
Egypt	170 ^b	170 ^b	84 ^b
Jordan	n.a.	41 ^b	41 ^b
Kuwait	n.a.	25 ^c	5 ^a
Morocco	610 ^d	390 ^d	220 ^d
Qatar	n.a.	41 ^c	7 ^a
Saudi Arabia	n.a.	23 ^b	23 ^b
Syria	180 ^b	n.a.	n.a.
Tunisia	n.a.	70 ^b	120 ^c
Yemen	n.a.	850 ^d	570 ^d

n.a. = not available

a. Data derived from vital registration: countries with good death registration and good attribution of cause of death.

b. Data derived from the Reproductive Age Mortality Study (RAMOS). This method involves identifying and investigating the causes of all deaths of women of reproductive age.

c. Data derived from vital registration: countries with good death registration but uncertain attribution of cause of death.

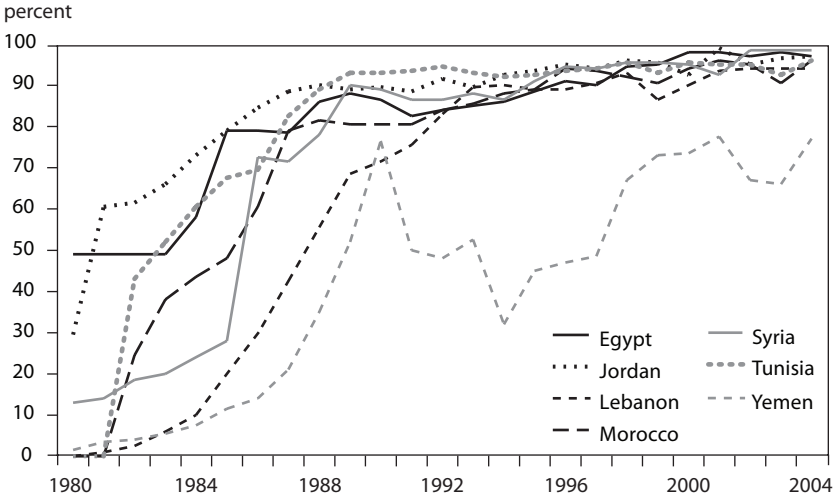
d. Data derived from the direct sisterhood method adjusted estimates. The direct sisterhood method is a variant of the sisterhood method—a survey-based technique that obtains information by interviewing respondents on the survival of all their adult sisters.

Source: United Nations Statistical Division, 2003.

These trends continue into childhood. There has been an astonishing rise in childhood immunization, which is now virtually universal (figures 3.4a and 3.4b). The data are fragmentary, but childhood nutritional status appears to have improved in most countries though the rate of improvement perhaps slackened in the 1990s, possibly reflecting the lack of robust economic growth during this period (table 3.3). In most Arab countries access to improved water supplies also increased modestly during the 1990s. As a result of these improvements, the death rate among children five years and younger is down considerably, mirroring the decline in infant mortality.

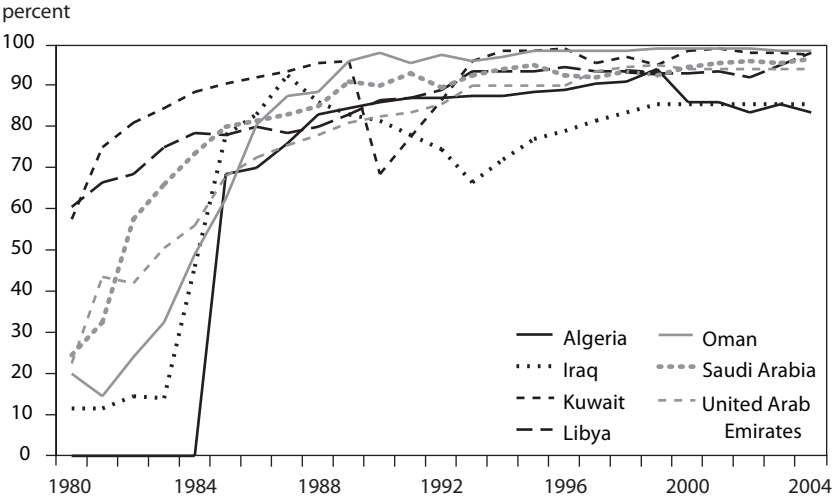
A major issue in developing countries is the extent to which aggregate economic growth is accompanied by large inequality of income limiting the gains from such growth to lower income groups. As reported in table 3.4, setting aside the oil producers, contemporary income inequality in the Middle East as measured by Gini coefficients is comparable to other developing countries; if one looks at the ratio of the top fifth to the bottom fifth, the region (6) is comparable to East Asia (8) and South Asia (5) and well below Africa (15) and Latin America (18). Income equality measured by

Figure 3.4a Childhood immunization, normally endowed countries, 1980–2004



Note: Average of percent of children aged 12 to 23 months immunized against DPT and measles.
 Source: World Bank, *World Development Indicators*, 2004, April 2006.

Figure 3.4b Childhood immunization, resource-rich countries, 1980–2004



Note: Average of percent of children aged 12 to 23 months immunized against DPT and measles.
 Source: World Bank, *World Development Indicators*, 2004.

Table 3.3 Childhood nutritional status
(percent share of underweight and stunted children)

Country	1975–79	1980–84	1985–89	1990–94	1995–99	2000–2003
Algeria	n.a.	n.a.	11	14	16	13
Egypt	27	n.a.	22	19	19	12
Jordan	n.a.	n.a.	n.a.	11	6	n.a.
Morocco	n.a.	n.a.	19	17	16	n.a.
Tunisia	30	n.a.	n.a.	n.a.	11	8
Yemen	57	32	n.a.	38	45	n.a.

n.a. = not available

Note: Average of data available for period.

Source: World Bank, *World Development Indicators*, 2004.

Gini coefficients is much better in the Middle East than the Latin American and African countries and similar to many of the Asian countries, except Taiwan. The Asian benchmark is notable as many analysts have argued that one source of strength in the East Asian countries was their relatively equal distribution, which gave the governments greater legitimacy. Policy-makers were thus enabled to respond flexibly to crises as citizens felt that both growth and the occasional belt tightening necessary in the face of external shocks such as the oil price increase of the 1970s were shared equitably (World Bank 1993, chapter 5). The relatively good distribution of income is even more striking when comparing the income ratio of the top to bottom fifths—the Middle Eastern ratios are, for example, roughly a quarter of those in Latin America.

Concentrating on absolute poverty—the percentage of population below either \$1 or \$2 per day of income (measured at purchasing power parity)—rather than relative inequality within each country, the Arab countries are among the best in the developing world, comparable to some of the supersuccessful Asian countries (table 3.5). Using \$2 per day as the poverty line, Morocco has roughly a quarter the poverty rate of Indonesia, which has been one of the fastest growing economies in the developing world and whose per capita income in 2000 was almost that of Morocco (table 2.6). Only Yemen exhibits typical levels of Third World poverty.

One aspect of the evolution of income inequality across countries may be of particular interest, namely the effect of land reform in resource-poor countries. After the expulsion of Japanese colonialists, neither the Taiwanese government of Chiang Kai-shek nor the South Korean government of Syngman Rhee had strong ties to rural landlords. Both confronted Communist rivals that had initiated land reforms, and both were under pressure from their US patron to follow the same path. As a consequence both governments undertook comprehensive land reforms that boosted agricultural productivity and contributed to reducing income and wealth (land) in-

Table 3.4 Gini coefficients measuring income inequality

Country	1960		1970	1980	1990	2000
	Income	Land				
Middle East						
Algeria	n.a.	n.a.	n.a.	n.a.	39	35
Egypt	42	67	40	38	32	29
Jordan	n.a.	n.a.	n.a.	41	41	36
Lebanon	n.a.	n.a.	n.a.	55	n.a.	n.a.
Morocco	n.a.	n.a.	n.a.	39	39	40
Tunisia	n.a.	n.a.	42	43	40	42
Yemen	n.a.	n.a.	n.a.	n.a.	n.a.	33
High-performing comparators						
South Korea	32	39	33	39	34	32
Taiwan	32	n.a.	29	28	31	32
Large comparators						
India	33	52	32	32	30	38
China	n.a.	n.a.	n.a.	32	35	40
Normally endowed comparators						
Bangladesh	38	n.a.	36	39	29	32
Brazil	53	85	58	58	60	61
Turkey	56	68	51	n.a.	44	40
Resource-rich comparators						
Botswana	n.a.	n.a.	n.a.	n.a.	63	n.a.
Indonesia	33	n.a.	31	36	33	30
Nigeria	n.a.	n.a.	n.a.	37	41	51
Venezuela	n.a.	n.a.	48	39	54	49

n.a. = not available

Sources: Land: Rodrik (1994); Income, 1960–90: Deininger and Squire (1996); World Bank, *World Development Indicators*, 2000.

equality (table 3.4).⁴ For small labor-surplus economies, especially those taking advantage of access to international markets for manufactured exports, the long-run growth implications of boosting productivity in agriculture and facilitating the redeployment of labor to higher-productivity activities in the industrial sector can be profound (Kuznets 1966; Gollin, Parente, and Rogerson 2004).

4. Due to Taiwan's unusual political status, it is often omitted from standard data sources. Careful comparisons based on Taiwan's national sources indicate that broadly speaking, South Korea can represent Taiwan's experiences.

Table 3.5 Population below income poverty line (percent)

Country	Year	\$1 a day	\$2 a day	National poverty line
Middle East				
Algeria	1995	2.0	15.1	22.6
Egypt	2000	3.1	43.9	16.7
Jordan	2003	2.0	7.0	11.7
Morocco	1999	2.0	14.3	19
Tunisia	2000	2.0	6.6	7.6
Yemen	1998	15.7	45.2	41.8
High-performing comparators				
South Korea	1998	2.0	2.0	n.a.
Large comparators				
China	2003	16.6	46.7	4.6
India	2000	34.7	79.9	28.6
Normally endowed comparators				
Bangladesh	2000	36.0	82.8	49.8
Brazil	2003	7.5	21.2	22
Pakistan	2002	17.0	73.6	32.6
Turkey	2003	3.4	18.7	27
Resource-rich comparators				
Botswana	1993	23.5	50.1	
Indonesia	2002	7.5	52.4	27.1
Nigeria	2003	70.8	92.4	34.1
Venezuela	2000	8.3	27.6	n.a.
<i>Memoranda:</i>				
Middle East	2002	1.6	19.8	n.a.
East Asia	2002	11.6	40.7	n.a.
Latin America	2002	8.9	23.4	n.a.
South Asia	2002	31.1	77.8	n.a.
Sub-Saharan Africa	2002	44.0	74.9	n.a.

n.a. = not available

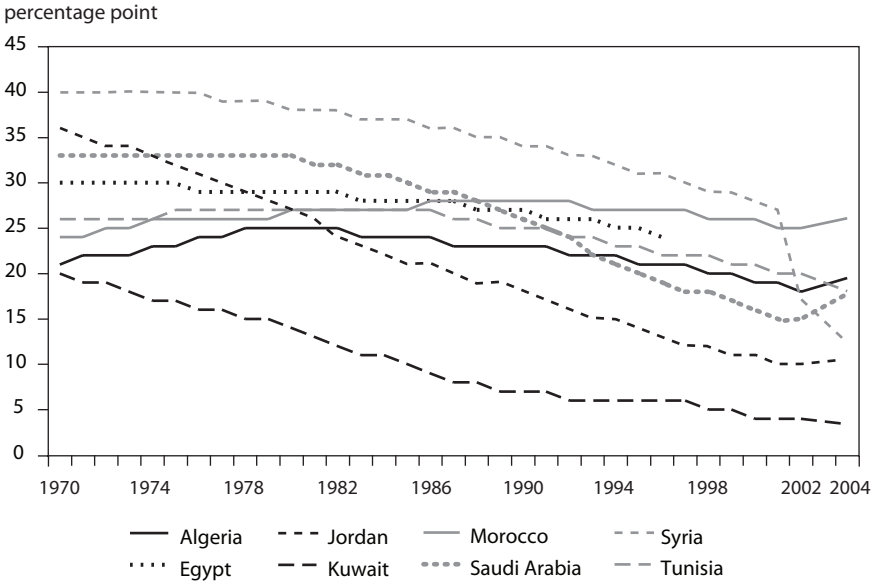
Note: Data are most recent available for the period 1990–2004. Regional averages correspond to World Bank definitions and refer to 2002.

Source: World Bank, *World Development Indicators*, May 2006.

Again, in this regard South Korea and Taiwan appear unique. Egypt is in the middle—more egalitarian than Brazil, in the same ballpark as India and Turkey, and probably more unequal than Indonesia. (On many indicators of interest, long historical time-series data are available only for Egypt, which may be interpreted as representative of at least some subset of the Arab countries.)

In the subsequent evolution of the income inequality measure, neither Egypt nor the other Arab countries for which data exist appear distinct

Figure 3.5 Gender gap in literacy, 1970–2004



Note: Calculated as excess of male over female adult literacy rate.

Source: World Bank, *World Development Indicators*, 2004, May 2006.

(though admittedly the large oil producers would presumably display considerable inequality). Indeed, in the most recent period Egypt is the most egalitarian of the comparators identified, though probably not by a statistically significant margin. Farrukh Iqbal (2006) argues that the region experienced reductions in income inequality through the mid-1980s but that both the narrowing of inequality as well as the reduction of absolute poverty slowed after the decline in oil prices following the second oil shock.

Once they reach school age, most Arab children enter school, though the intake rates vary, with some countries such as Algeria having achieved universal education while others such as Saudi Arabia lag. Figure 3.5 shows a consistent decline in the gender literacy gap, with the difference in some countries falling more rapidly than that in others, underscoring the notion that both boys and girls share the fruits of economic development. Across the region, 9 girls entered primary school for every 10 boys, and at the secondary level the gap is even narrower, with 74 and 77 percent of girls and boys enrolled respectively. For the female population as a whole, women's average years of schooling increased from 0.5 in 1960 to 4.5 in 2000, and the average literacy rate rose from 17 to 53 percent over the same period (World Bank 2004a). However, there is evidence that conditional on the level of development and other factors, majority-Muslim countries con-

tinue to exhibit unusually large divergences in male-female education attainment ratios (Pryor 2006).

The increases in intake and educational duration have been steady, and improvements in educational attainment together with a demographic structure that implies a growing cohort of new entrants to the labor market means that the average number of years of education embodied in the labor force has been rising steadily (figures 2.3a and 2.3b). The share of Arab youth enrolled in tertiary education has risen steadily and now approximates that of its comparators, as does the share of these students graduating as scientists and engineers—a key to mastering technology (table 2.5). In some Middle Eastern countries the number of women at local universities exceeds the number of men, though this does not necessarily mean that more women are entering tertiary education—in some cases, this result may be explained by the men enrolling in universities abroad and not being captured in local enrollment data.⁵

It is important to understand the sources and durability of these gains and not simply to enumerate them. The question immediately arises as to what explains this apparent divergence between performance on income and social indicators, with the former varying and growing slowly and the latter on a continuous upward path.⁶ Part of the story, documented by Charles Kenney (2005), is that there may be large payoffs to expenditures on basic health and education at low levels of income and attainment (i.e., these expenditures have a declining marginal product).⁷ But this is not the whole story, as Kenney admits.

5. Again, Iraq is exceptional: For males, literacy peaked among the cohort born in the 1960s (in excess of 80 percent) and fell thereafter (UNDP 2004b, 2004c). The pattern is slightly different for females: Literacy trends upward from a lower base, peaking for the cohort born in 1980 and declining afterward. These declines accelerated after 1980: With the state's failure to rebuild schools destroyed in the Iran and Kuwait wars, or build new schools to reflect population growth and shifts, public schools were forced to operate triple shifts to accommodate excess demand. By 2003, when Saddam Hussein was removed from power, Iraq, which had once been the most literate of Arab societies, had the highest rate of illiteracy among the 15 to 24 age group of any Arab country. Educational attainment was actually higher among middle-aged Iraqis, who had completed their schooling before the 1979–80 turning point, than it was in the cohort entering the labor force.

6. The conundrum implicitly assumes that both income and social indicators are measured correctly. It is sometimes alleged that because of the existence of a large underground or informal economy, incomes in the Arab countries are underestimated, providing a possible explanation of the divergence between measured income growth and social indicators. But there is no reason to believe this phenomenon is quantitatively more significant than in other regions or that the relative size of the informal sector grew systematically over time or that the sector's per capita output grew more rapidly.

7. In the case of the Middle East, starting points were sufficiently low that it is plausible that these investments had high initial payoffs. We argue in chapter 5 that additional accumulation of educational capital is unlikely to have a high rate of return in the absence of new technology—education is complementary to new knowledge whether it is embodied in hardware or in intangible knowledge. The Arab countries have been conspicuously low recipients of such knowledge.

Given that the social indicators continued to improve even when growth rates slowed considerably after the peaking of oil prices in the early 1980s, it is possible that conscious tax-transfer-expenditure policies were undertaken, perhaps generating negative incentive effects and sacrificing growth, to improve social services and greater equality. But the careful documentation by Iqbal (2006) of the sources of social improvement generally does not identify such causal mechanisms, though targeted public expenditures, such as subsidized prices for staple foods, may have played a role, and there is some evidence of improved efficiency in the delivery of services (Page and van Gelder 2002, Iqbal 2006).

John M. Page (2003) and Richard Adams and Page (2003) posit two sources of the relative equality of incomes, namely the provision of public-sector employment and the impact of repatriated earnings, the former described as “a kind of blunt policy instrument for providing welfare employment to an ever-increasing proportion of the labor force.” Page (2003) notes that the share of the central governments’ wages in GDP was about 10 percent for all Middle East and North Africa (MENA) countries in contrast to 4.3 percent in Asia and 4.9 percent in Latin America and that it is the only region where the average public-sector wage exceeds that in the private sector. Whether public-sector employment limits inequality depends of course on where those employed in the public sector stand in the income distribution. If the typical employee is a high school or university graduate, the combination of employment and high (relative) wage may increase inequality and do little for those at the lower end of the distribution. Yet it is likely that at least some of those on the public payroll are lower-skilled and/or uneducated workers, and thus public employment will raise the income of at least some at the bottom.

Adams and Page (2003) conclude from cross-country regressions that the significant repatriated earnings that have flowed to MENA from the Gulf (reflecting the oil boom from 1973 through the mid-1980s) and the flow of emigrants to Western Europe from the Maghreb have had a significant effect on the poverty headcount. In the absence of actual household data on sources of income, this conclusion while plausible is suggestive but not dispositive.⁸

Yet even if further research using household data confirms that public employment and remittances were important in limiting poverty, looking forward is problematic with respect to both sustainability and possible negative effects in other dimensions.

The public sector is by all accounts quite inefficient and simultaneously receives a substantial percentage of investment funds. Thus, a given investment in it may lead to a lower growth rate of output than would have

8. Iqbal (2006) casts doubt on the impact of public employment on income distribution, noting that much of it accrues to the more highly educated, but no systematic assessment exists on the net effects of employment and taxes necessary to support it.

resulted from a better allocation of investment funds. Moreover, the cost is not only the more efficient allocations of investment that have been forgone but also the impact of any distortions caused by the taxes necessary to raise the funds. Assuming that the poor would have benefited from more rapid growth, their absolute incomes are lower than they could have been. Counterfactually, it is quite possible that still faster growth, with maintenance of initial inequality, would have more rapidly reduced absolute poverty, as it did in South Korea and Taiwan in the 1960s and 1970s (World Bank 1993). As Iqbal (2006) points out, the absolute number of poor in some of the Arab countries increased over this period, and several measures of poverty indicate a greater percentage of the population is at risk of falling into poverty.

The issue of sustainability arises in two ways: one actuarial, the other political. Given the stagnation of productivity and the demographic pressures of rising populations, the question arises as to whether growing public welfare expenditures can be maintained given political constraints on taxation and spending and financial-market curbs on borrowing. Such pressures are likely to intensify as the reduction of deaths from communicable diseases means that future improvements in health and life expectancy will increasingly revolve around addressing noncommunicable diseases, which are more expensive on average to treat (Iqbal 2006).

Nevertheless, even if such effects could be measured precisely and demonstrated, proponents of a public expenditure-based strategy might well argue that the tradeoff was worthwhile given the intrinsic value of the benefits to the poor in the short term and the greater political stability. Yet even if the pattern of public expenditure is financially sustainable in a technical sense, a deeper issue is whether in the context of stagnating productivity and job opportunities they contribute to a milieu of unfulfilled expectations, potentially raising the critical issue of political instability. Ironically, the expansion of educational opportunities and attainment documented earlier in the chapter and the heightened expectations that they bring may exacerbate such problems.

Reliance on remittances to attenuate poverty raises a similar set of concerns. Remittances may have the same effect as natural resources, causing “Dutch disease” exchange rate appreciation, thereby discouraging the expansion of potentially competitive labor-intensive tradable sectors, which might have generated jobs for the poor. Moreover, remittances depend at least in part on oil prices, and while a sustained price of \$75 per barrel cannot be completely ruled out, it would be imprudent for resource-poor countries such as Egypt and Jordan to rely on it as an antipoverty strategy.

In sum, both public employment and remittances may have had a short-term positive impact on poverty but may have yielded lower long-run growth in income for the poor relative to alternative scenarios. This observation is particularly important given Iqbal’s (2006) finding that absolute poverty in some Arab countries has increased. Going forward, the

sustainability of such drivers is not obvious. As shown in chapter 4, two sources of financing, namely aid flows reflecting the geopolitical situation and diffusion of oil rents to nonoil producers, are less likely to provide the cushion that they have in the past. Public employment in the nonresource-rich countries is likely to stagnate, perhaps even decline. This will place more of a burden on private-sector employment growth.

Happiness

Given both improving social indicators, whatever their source, and growing real income per capita in many countries, purely material explanations of growing discontent are not sufficient. A large and growing literature on the determinants of “happiness” relies on correlations between subjective measures of happiness and measurable characteristics either at the household or national level.⁹ While the studies can only establish correlation, not causality, a number of relatively robust findings in most of the reported results also accord with intuition.

As might be expected, happiness is correlated with health status and income at both the household and national levels. A higher level of household income or GDP per capita at the national level is associated with greater life satisfaction, but there are diminishing returns, with developing countries below the threshold at which diminishing returns set in. More rapid growth in GDP per capita, holding constant the level of per capita income, is also a source of greater happiness. Income inequality in Europe (but not the United States) diminishes satisfaction. Presumably the same result would be replicated in most less developed countries (where household survey evidence does not exist) because of the absence of the extensive European-style social welfare system on the one hand and the absence of the immigrant experience-derived American optimism of social mobility on the other. It is exceedingly difficult to get a handle on how these achievements translate into introspective notions of satisfaction that have been studied in the “happiness” literature. The World Values Survey, which conducts global opinion polls on a wide range of attitudes and publishes an index of subjective well-being derived from responses to two questions, one asking respondents to assess their personal happiness and another to score their life satisfaction (table 3.6). Across the 84-country sample, there is a correlation between national scores on subjective assessments of well-being and per capita income, but it is far from perfect. Controlling for income, Latin Americans appear to be unusually happy, the morose Argentine tango being offset by the happiness of the Brazilian samba. Puerto Ricans express the greatest sense of personal well-being in the sample, followed by Mexi-

9. See Layard (2005) for a nontechnical introduction. Donovan, Halpern, and Sargeant (2003) is a good survey of the academic literature. See also Helliwell (2005).

Table 3.6 Subjective self-assessment of well-being, 2004 (percentile rank)

Country	Rank
Middle East	
Algeria	68
Egypt	71
Jordan	74
Kuwait	n.a.
Morocco	66
Saudi Arabia	28
Syria	n.a.
Tunisia	n.a.
High-performing comparators	
South Korea	60
Taiwan	39
Large comparators	
China	59
India	82
Normally endowed comparators	
Bangladesh	70
Brazil	41
Pakistan	85
Turkey	63
Resource-rich comparators	
Botswana	n.a.
Indonesia	100
Nigeria	23
Venezuela	16

n.a. = not available

Note: Larger number indicates lower subjective well-being.

Sample: n = 84.

Source: World Values Survey, 2004.

cans. Residents of former Communist countries (especially parts of the former Soviet Union) are unusually dissatisfied, which is easily explained by declines in real income and some social indices such as health. There is some evidence that Muslims are unusually happy, after controlling for their countries' levels of development and other factors (Pryor 2006). Nevertheless, in absolute terms, the rank of several Muslim-majority countries such as Indonesia and Pakistan included in table 3.6 is typically low.

In these subjective well-being rankings, most of the Arab countries surveyed fall into the category labeled "medium-low," bunching around the 70th percentile in the ranking. The one exception is Saudi Arabia (28th per-

centile), falling into the category “medium-high.” The Saudi score, together with those of Venezuela (16th percentile) and Nigeria (23rd percentile), might lead one to conclude that having oil may contribute to a sense of personal well-being—rentiers are the happiest of campers. A more likely explanation is that oil contributes to income, which in turn underpins a subjective sense of well-being. However, the happiness studies find that even more than income, unemployment is a major determinant of unhappiness. Besides the obvious characteristic that it enables individuals to support themselves and their families, employment provides a source of self-respect and for many an important network of supportive social relations. Though the happiness studies find that those who are unemployed but living in a milieu in which unemployment is widespread are not particularly dissatisfied, such studies have largely been carried out in the welfare-oriented societies in Western Europe that guarantee substantial income and other benefits for the unemployed, conditions that do not hold in the Middle East. Thus, a reasonable but not proven conjecture is that unemployment is a potent source of dissatisfaction even when it is a widespread economic characteristic.

Although systematic unemployment data are not available, the data that do exist suggest Arab unemployment rates are greater than in regions other than sub-Saharan Africa (table 3.7), and some alternative sources yield much higher estimates (Richards 2001, table 1). It is necessary to be cautious about such data as it has long been noted that open unemployment in societies that do not provide social insurance may reflect search for unemployment by those with higher family incomes or greater education who will not settle for low-income or low-status jobs that they could easily obtain. (Indeed, Richards [2001, 28] asserts that unemployment in Jordan is a “monotonically rising function of education.”) These data are consistent with the observations of regional specialists who argue that awareness obtained through immigrant networks of European labor markets creates expectations about wages and working conditions relative to productivity that prices Middle Eastern workers out of the world market (Henry and Springborg 2001).

Data on real wages reinforce this impression of relatively unfavorable labor-market outcomes (table 3.8). Again the data are not ideal: They are limited to the manufacturing sector, which is small in most Middle Eastern countries, yet may be indicative of trends in urban labor markets more broadly. The data show that real wages have at best stagnated since 1980, mirroring the performance of aggregate productivity.

A second contributor to happiness, which may be more important than income, is “good government,” encompassing notions of competence in the delivery of services as well as accountability (Helliwell and Huang 2006). At lower levels of income, subjective assessment of satisfaction is more highly correlated with governmental effectiveness, regulatory quality, rule of law, and control of corruption, and as income rises, voice and

Table 3.7 Unemployment (percent)

Country	1980–90	1990–2000	2000–2004
Middle East			
Algeria	18.4	24.4	28.5
Egypt	6.3	9.4	9.9
Jordan	n.a.	14.4	13.2
Kuwait	n.a.	n.a.	n.a.
Lebanon	n.a.	8.6	n.a.
Morocco	15.2	17.0	12.1
Saudi Arabia	n.a.	4.5	4.8
Syria	n.a.	n.a.	11.5
Tunisia	15.3	15.7	15.0
Yemen	n.a.	11.5	n.a.
High-performing comparators			
South Korea	3.7	3.4	3.6
Taiwan	2.0	2.4	4.4
Large comparators			
China	2.6	2.8	3.6
India	n.a.	3.1	4.3
Normally endowed comparators			
Bangladesh	0.9	2.9	3.3
Brazil	3.7	6.9	9.4
Pakistan	3.5	5.4	7.6
Turkey	10.2	7.7	9.2
Resource-rich comparators			
Botswana	25.3	18.6	17.2
Indonesia	3.0	6.1	8.6
Nigeria	n.a.	16.9	n.a.
Venezuela	9.4	10.6	14.9
<i>Memoranda:</i>			
Middle East	14.3	15.4	13.9
OECD	7.7	8.1	6.6
East Asia and Pacific	4.4	4.2	5.0
Latin America and Caribbean	10.4	10.2	9.8
South Asia	6.4	7.1	6.9
Sub-Saharan Africa	10.8	12.5	14.9

Note: Table shows average of available data. Taiwan is not included in regional averages.

Sources: World Bank, *World Development Indicators*, May 2006; Taiwan: *Taiwan Statistical Databook*, 2005.

stability come to the fore. It may well be that in these statistical correlations with happiness, the governance indicators are acting as proxies for a broader set of societal institutions and speak to broader and more diffuse notions of belonging and inclusion than the simple functioning government per se. Thus, unhappiness might be associated with rapid transi-

Table 3.8 Compound growth rate of real manufacturing-sector wages (percent)

Country	1970–80	1980–90	1990–98
Middle East			
Algeria	1.9	-5.8	-10.9
Egypt	1.0	1.1	-2.7
Jordan	9.5	-8.8	-1.2
Kuwait	7.3	-1.9	2.9
Lebanon	n.a.	n.a.	n.a.
Morocco	n.a.	-7.4	-0.2
Saudi Arabia	n.a.	-2.1	n.a.
Syria	4.0	3.8	6.5
Tunisia	n.a.	n.a.	n.a.
Yemen	n.a.	n.a.	n.a.
<i>Memoranda:</i> ^a			
Middle East	4.8	-3.0	-0.9
OECD	6.6	1.4	-0.6
East Asia	5.9	2.1	4.9
Latin America	3.6	-6.4	2.3
South Asia	0.8	-1.9	-2.4
Sub-Saharan Africa	3.9	-7.7	-3.1

n.a. = not available

a. Samples vary across decadal growth rates due to data availability.

Source: Albuquerque, Loayza, and Servén (2005).

tions from agrarian to urban residence and the attenuation of the social anchor provided by rural life, and weakness of urban institutions in low-income countries in coping with this phenomenon. This conjecture is consistent with developments within the Middle East, but one cannot definitely say so on the basis of the evidence.

In this connection Eli Berman and Laurence R. Iannaccone (2005) argue that the social networks created by religious sects may facilitate economic life in a variety of ways and can be interpreted as a rational collective response to a situation in which the government fails to provide public goods. This reasoning goes back to Adam Smith, who observed that membership in a religious sect may act as a reputational signaling device in regard to prospective employers, creditors, or trading counterparties and that the ability of sects to sanction miscreants could facilitate lending and other forms of exchange in environments where legal enforcement of contracts was prohibitively costly or unavailable. Unfortunately, the same characteristics such as intragroup cohesion that make religious sects efficient organs of social welfare can make them highly effective perpetrators of violence as well.

Whether the statistical correlations are interpreted broadly or narrowly, the political regimes of the Middle East as a group are distinctively au-

thoritarian (figure 1.4), and as discussed in chapter 6 they do not score particularly well, at least in an absolute sense, on indicators of government effectiveness either. This suggests that discontent in the Middle East is comprehensible in terms of motives and norms observable elsewhere in the world. But it does not explain away the possibility that these may be unusually discontented populations.

In sum, money cannot buy happiness, though it helps. Employment, which is tightly bound to notions of worth and respect in one's own eyes and those of others, is even more important. And the quality of government, which may be a proxy for a broader set of social institutions, counts as well. The data presented at the beginning of this chapter and the previous chapter suggest that the Middle East as a whole has not done terribly with respect to income growth and has made impressive strides with respect to a broad set of social indicators. However, the data we have on employment and governance suggest that the region has not performed well in these dimensions, which are critically related to self-assessments of well-being and such subjective views may be understood by governments and limit their perceived potential flexibility in economic policymaking.

The unhappiness expressed by the term “bridled minds, shackled potential” may reflect a subjective sense of isolation, at least among the intellectuals despite the measurable gains in both income and the indicators discussed in this section. In all of the *Arab Human Development Reports*, there is an emphasis, perhaps exaggerated by intellectuals who travel extensively and are at home with the vast array of media and Internet access in the rich countries, on the paucity of Internet connections, nongovernment-controlled newspapers and broadcast media, and perhaps the absence of translations into Arabic of Western books and media. The *Arab Human Development Report 2002* notes, almost with anger, that more books are translated into Spanish in one year than have been translated into Arabic in a century. It is difficult to know whether such concerns of very well educated, and it must be said, relatively well-to-do individuals by local standards, are also shared by a broader segment of the population with much more immediate needs—better employment prospects, greater access to clean water, and quality education for their children. But even if the disillusion is not representative of those with limited voice, such views are inevitably of concern to reigning governments, as they establish the climate of discourse for the entire society and have the potential to foment considerable political unrest.

Discontent

In the extreme, discontent may manifest itself in terrorism. Beyond the obvious toll on human life, we argue that terrorism may have significant economic effects as well, largely by increasing risk and deterring invest-

ment. Yet some commentators seeking to explain the origins of terrorism reverse this causality, alleging that terrorism is the weapon of the dispossessed and that poverty causes terrorism. For example, James D. Wolfensohn, former president of the World Bank, argued that “it is necessary for rich countries to acknowledge that poverty is a serious issue, which is close to us, especially after the September 11 events . . . and poverty is related to terrorism. . . . One of the causes of terrorism is poverty in the sense that it creates an environment in which terrorism can flourish. And so one of the things that we hope for is that we can give people hope by reducing poverty” (*La Repubblica*, May 24, 2003). And the then-chairman of the US Senate’s Foreign Relations Committee, Richard Lugar, recommended a special fund to improve economic conditions in the Middle East. “By so doing, it [the fund] can become a catalyst for positive change throughout the region, where millions of people suffer from grinding poverty and hopelessness. This has led some young people to terrorism and to express their despair by lashing out at others more fortunate. At the extreme, some have chosen suicidal missions” (Lugar 2004).

If one interprets terrorism, rooted in discontent, as an asymmetric tactical response by challengers to the political order, then economic performance including growth, income distribution, and employment should all play a role as should the quality of government and other factors. The link between poverty and terrorism is not simple (Krueger and Maleckova 2002, Laquer 2003, Abadie 2006). If it were, Kenya and Tanzania would have many homegrown terrorists rather than imported ones; India, with 400 million people living on less than \$1 per day, would be exporting terrorism rather than software; and Haitian suicide bombers would make the evening news nightly.

If there is any systematic explanation for large-scale, sustained terrorist campaigns, it appears to be a tactical response by political challengers associated with the stresses of transition from rural traditional societies to urban industrial societies in the presence of weak economic and political institutions. Perhaps the best historical precedent for the current situation in the Middle East is the experience of Eastern and Southern Europe with the anarchists from their rise following the largely failed liberal revolutions of 1848 until their effective liquidation roughly a century later in the Second World War and its antecedent conflict in Spain. As in the case of Islamist radicals today, the earlier European anarchists rejected the contemporary world as irredeemably corrupt, harkened back to an earlier utopia, and adopted nihilistic violence as a tactic to puncture the dominant system, which they regarded as poised for collapse (Bremer and Kasarda 2002).¹⁰

10. Not all Islamist political parties and movements are alike. Abdeslam Maghraoui (2006, 4), for example, provides the following typology: “Islamist” political parties and movements seek to legitimate or overturn a political order on the basis of their interpretation of Islamic principles. “Extremist” groups eschew nonviolence in the name of the principles of the pious ancestors (*al-salaf al-salih*) and literal interpretation of the Koran. “Moderate” parties and

Contemporary Arab countries, which arguably are laboring through this transition encumbered by weak institutions, are disproportionately afflicted by terrorism, both as a location of terrorist attacks and as a producer of terrorists (Richards and Waterbury 1996). Yet these communities appear to be in deep denial, at least with respect to *international* terrorist activities: A 2006 poll by the Pew Center found that majorities in Egypt and Jordan (and indeed majorities of Muslims worldwide) did not believe that Arabs carried out the 9/11 attacks (The Pew Global Attitudes Project 2006a).

Admittedly the oil-dependent economies experienced considerable declines in per capita income between the mid-1970s and 2000 (roughly 40 percent from its peak in the case of Saudi Arabia), and this decline in fortunes is correlated with (but may not entirely explain) feelings of disaffection and pessimism about the future in many Arab countries. It is not surprising that 15 of the 19 9/11 hijackers were Saudis. If this interpretation is correct, then the two-decade-long decline in the price of oil, and hence income, could have been accompanied by rising frustration and discontent over evaporating prospects. There is some evidence that this is indeed the case with respect to young men in Saudi Arabia, who at the time the poll was conducted (i.e., before the recent rise in oil prices), expressed discouragement not only with their own prospects relative to their parents' generation but also with their children's prospects relative to their own (Zogby 2002). That is, they foresaw a multigenerational period of decline. This pessimism and dissatisfaction was greatest among young, educated males and positively correlated with Internet usage. Of course, if real income growth is the principal driver behind these results, then a secular increase in the price of oil might assuage some of this discontent, and Middle Eastern-generated terrorism might attenuate.

Yet simple economic determinism cannot explain terrorism. The authoritarian nature of these societies and absence of effective political voice in governance, which are known to be important determinants of satisfaction, are key. The 20th century's first violent Islamist group grew out of Egypt's Muslim Brothers in the 1970s following repression by the government. Similarly in Algeria violent splinter groups, including the al Qaeda-affiliated Salafist Group for Preaching and Combat (Groupe Salafiste pour la Prédication et le Combat, or GSPC), emerged following the banning of

movements accept and apply human reason to Islamic principles, law, or precedents. They see no incompatibility between participation in the modern political process and Islamic values. Within these camps, theological variations and differing degrees of "extremism" and "moderation" are the products of local power relations. Amr Hamzawy (2005) provides a similar nomenclature using "militant" instead of "extremist." Many Muslims object to the description of "extremists," "militants," or "radicals" as "fundamentalists"—from the perspective that adherence to fundamentals of Islam should be regarded as praiseworthy, not a term of opprobrium. Where the term "fundamentalist" appears in this book, it is meant to signal rigorous adherence to religious doctrine, not support for political violence.

the Islamic Salvation Front (Front Islamique du Salut, or FIS) after it had won elections in 1990 and 1991. A similar pattern of blockage followed by the formation of violent Islamist groups occurred in Morocco in the 1990s (Maghraoui 2006). Most obviously, the US-led involvement in Iraq may prove to be the training ground of a new generation of terrorists, much like the war against the Soviets in Afghanistan did a generation earlier, even if other underlying drivers show improvement.

Poor economic performance may well contribute to pessimism about the future, and perceptions of relative deprivation and social marginalization may generate feelings of alienation and anomie. But in most cases disaffection does not find its expression in political violence directed at targets, foreign or local. Conversely, neither is prosperity a fool-proof antidote. The Baader-Meinhof gang in Germany and the Red Guard in Italy were the products of rapidly growing Western Europe, not grinding Third World poverty. Even among less developed countries, one would not expect Sri Lanka to rank high on the list of countries with unusual levels of terrorism, its per capita income and social indicators having been relatively high at the onset of domestic terrorism in the 1980s, yet it was its Tamil Tigers who pioneered suicide bombing.

Even casual observation of the income or education of individual terrorists demonstrates the tenuous link between poverty and violence, as does more systematic analysis (Krueger and Maleckova 2002, Pipes 2002, Bergen and Pandey 2006).¹¹ Poverty matters—not because the poor form a reserve army of terrorists but rather because poverty, or more precisely the state's inability to address poverty and inequality, fuels the outrage of the intelligentsia and delegitimizes the incumbent order in their eyes (Richards 2001).

From Hezbollah to Hamas to the Tamil Tigers to the 9/11 pilots, most often the terrorist leadership is fairly well educated and drawn from middle-class backgrounds. No elasticity of definition would locate Osama bin Laden, the scion of Saudi millionaires, in a low position on an income-education spectrum. Often this education is of a technical nature—for example, the “engineer” Yehiya Ayash, who was responsible in the 1990s for devising and improving the explosive belts worn by Islamic Jihad and Hamas terrorists, or the American-trained engineer Khaled Sheik Mohammed, who is alleged to be the logistical mastermind behind al Qaeda's most notorious acts. September 11 pilot Mohammed Atta, who apparently aspired to be the Gavrilo Princip of this century, was trained as an urban planner. One analysis of Palestinian suicide bombers found that the bomber's level of education was positively correlated with the lethality of

11. Berman and Stepanyan (2004) argue that Jewish, Christian, and Islamic fundamentalist families—as distinct from terrorists—are characterized by a common pattern of high fertility, low educational attainment, and low returns to education and that this behavior is consistent with a nondenominational model of religious clubs or sects.

the attack, both through the selection of targets and the likelihood of mission success (Benmelech and Berrebi 2006).¹²

Martin Kramer, editor of the *Middle East Quarterly*, labels this group disaffected “counterelites,” who despite wealth and education for some reason are unable to achieve their aspirations through conventional channels and turn to Islamism and the recruitment of disadvantaged foot soldiers to realize their ambitions (cited in Pipes 2002). This dynamic may be particularly important in the application of suicide bombing, which requires the principal to thoroughly dominate the agent. This insurgent quality may also create a dynamic in which essentially intra-Arab disputes are externalized by groups like al Qaeda, Hamas, and Hezbollah, particularly in regard to the United States and Israel, as a mechanism for raising the stakes and mobilizing support.¹³

As in the case of the European anarchists, the foot soldiers are drawn from the cities, not the countryside, and are led by educated, charismatic individuals not unlike Pierre-Joseph Proudhon, Mikhail Bakunin, and Peter Kropotkin from an earlier age. In the words of one scholar, “the basic profile for today’s violent militant is a young person with some education, who may have recently moved to the city. Such young people are often unemployed or have jobs below their expectations” (Richards 2001, 12). In North Africa they are colorfully known by the hybrid *hetistes*, combining the Arabic word *heta* (wall) with the French morpheme *iste* (i.e., one who leans against a wall).

The terrorist phenomenon cannot be solely attributed to religious fanaticism, as the global ubiquity of avowedly secular terrorist groups demonstrates. Even the tactic of suicide bombing, often associated with radical Islamist groups, was developed by the Marxist-Leninist Tamil Tigers of Sri Lanka, who remain among its most enthusiastic practitioners (Pape 2005), and when the tactic was introduced to the Middle East in Lebanon in the 1980s, secular not religious groups primarily practiced it (Harrison 2003). And as Berman and Iannaccone (2005) point out, sectarian groups are remarkably adept at redefining their theology as circumstances warrant, and the militancy of sectarian groups is not constant and varies over time, citing Hamas as an example.

In short, while poor economic performance may be conducive to producing terrorism, it is neither a necessary nor sufficient condition. Im-

12. Walter Laquer (2003) observes that effective *international* terrorists have to possess sufficient education and familiarity with modern society to perform effectively. They need to be able to order airline tickets, make hotel reservations, or rent apartments without making themselves conspicuous, and they often speak an international language, usually English. Local operators obviously do not have to be so omnidimensionally skilled, however, and we argue that purely local events can have significant economic ramifications, even if they do not generate the headlines that incidents in the West do.

13. Mamoun Fandy, “Beware of ‘Contagion’ Spreading in the Middle East,” *Financial Times*, August 10, 2006.

provement in economic performance may ameliorate terrorism, but it is not a cure-all. The converse argument, that terrorism impedes economic performance, can be made with greater confidence and will be taken up in chapter 9.

Conclusion

In sum, the life prospects of a typical Arab—either male or female—have improved substantially over the past generation or so. This improvement would be consistent with the generally positive if unspectacular performance of most economies in the region over this period. Yet while performance measured either in money or life expectancy has improved in absolute terms, economically the region as a whole has increasingly fallen behind the rich countries as well as comparable countries in the developing world.

Moreover, there is some evidence of unhappiness or grievance, at least in parts of the population, which may be linked to a perception that while past performance was praiseworthy, future opportunities may be dwindling. It may also be linked to deeper institutional characteristics of these countries. Either way, the existence of widespread discontent increases risk and may impede both investment, and, if not properly channeled, political reform, thereby establishing the possibility of a vicious downward spiral in both economic and political dimensions. Each of these possibilities is taken up in the subsequent chapters.