Will neoliberal financiers paralyse Palestine and chill the Arab Spring?

By Patrick Bond[1]
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Part 1: Washington's seeding of the Arab democratic revolution

An incident two and a half years ago in Carthage spoke volumes about power politics and economic ideology. As he was given the country's main honour, the Order of the Tunisian Republic, on account of his "contribution to the reinforcement of economic development at the global level," International Monetary Fund Managing Director Dominique Strauss-Kahn returned the favour, offering the dictatorship of Zine El Abidine Ben Ali a warm embrace, which turned out to be the kiss of death.

"Economic policy adopted here is a sound policy and is the best model for many emerging countries," said Strauss-Kahn. "Our discussions confirmed that we share many of the same views on Tunisia's achievements and main challenges. Tunisia is making impressive progress in its reform agenda and its prospects are favorable."[2]

In late May 2011, just days after Strauss-Kahn resigned in disgrace after New York police charged him with sexual predation against an African hotel cleaning worker, the IMF outlined a new set of opportunities in Tunisia and neighboring countries: "The spark ignited by the death of Mohammed Bouazizi has irretrievably changed the future course of the countries in the Middle East and North Africa (MENA). But each country will change in its own way and at its own speed. Nor will they necessarily have a common political or economic model when they reach their destination."[3] In reality, 'the model' for each is indeed 'common' in Washington's eyes: neoliberalism.

And moreover, there appears to be very little difference in what is being advocated to Arab democrats today and what was advocated to Arab dictators yesterday. For in September 2010, *IMF Survey Magazine* praised Ben Ali for his commitment "to reduce tax rates on businesses and to offset those reductions by increasing the standard Value Added Tax (VAT) rate." [4] Mohammed Bouazizi was an informal street trader, and the police overturned his fruit cart a few weeks later, on December 27, presumably because he was

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[1] This report follows a week of consultation in Gaza and the West Bank (16-22 May 2011) while based at TIDA-Gaza, during which a great many Palestinians and TIDA staff were generous with their hospitality, time and insights. The author also thanks the Rosa Luxemburg Foundation in Ramallah for covering expenses. Patrick Bond is director of the University of KwaZulu-Natal Centre for Civil Society (on sabbatical at University of California-Berkeley Department of Geography).

[2] See the reports at http://euobserver.com/9/31663

[3] International Monetary Fund (2011), "Economic Transformation in MENA: Delivering on the Promise of Shared Prosperity," Paper presented to the G8 Summit, Deauville, France, May 27.

[4] Toujas-Bernate, J. and R.Bhattacharya (2010), "Tunisia Weathers Crisis Well, But Unemployment Persists", Washington, IMF Middle East and Central Asia Department, 10 September, http://www.imf.org/external/pubs/ft/survey/so/2010/car091010a.htm. Unless otherwise stated, the subsequent quotes are from this summary of the Article IV Consultation.

not contributing to Value Added Tax with his survivalist business. (There may have been other reasons, but this is typically the rationale offered by authorities for disrupting street traders across the world.)[5]

If the IMF leadership praised the dictatorship, insisted on austerity and advocated squeezing poor people for more taxes, what business does it have today in giving similar advice to Tunisia, or anywhere in the Middle East and North Africa, or for that matter Europe or anywhere at all? What can we learn about IMF thinking in Tunisia, Egypt and Libya, as well as Palestine?

1.1 Tunisia as 'best model'

In its 2010 Tunisia review, called an Article IV Consultation, the IMF approved Ben Ali's policies of "enhancing its business environment and improving the competitiveness of its economy," including a preferential trade agreement with West Africa and "free trade agreements with the Central African Economic and Monetary Community. Bilateral negotiations with the European Union are also under way to extend the Association agreement to services, agricultural products, and processed food; the agreement currently provides for free trade for industrial products."[6]

In addition, the IMF appreciated Tunisia's "reforms to labor market policies, the educational system, and public employment services that will serve to facilitate labor mobility." The IMF applauded the Tunis authorities for "reforming the social security system" (i.e. cuts that might "buttress the pension system's financial sustainability"), exploring "ways to contain subsidies of food and fuel products," and "undertaking reforms to make the tax regime more business friendly" including commitments "to reduce tax rates on businesses and to offset those reductions by increasing the standard VAT rate" (the VAT is a consumption tax and thus explicitly regressive insofar as low-income people are hit by the state for a larger share of their income).

A further IMF objective was "consolidating the financial strength of banks, enhancing the role of banks in the economy, restructuring the public banking system, and bolstering the presence of Tunisian banks abroad. The aim, ultimately, is to transform Tunisia into a banking services hub and a regional financial market." That in turn required "inflation targeting" (a technique to depoliticize monetarist policy especially for the purpose of raising interest rates) and "convertibility of the dinar and capital account liberalization by 2014."

This was economic liberalization without much disguise. In contrast, there was no IMF conditionality aimed at reforming the dictatorship and halting widespread corruption by Ben Ali and his wife's notorious Trabelsi family, or lessening the two families' extreme level of business concentration, or ending the regime's reliance upon murderous security forces to defend Tunisian crony capitalism, or lowering the hedonism for which Ben Ali had become famous. According to WikiLeaks, even the notoriously lax-on-dictatorship US State

[5] http://www.streetnet.org

[6] International Monetary Fund (2010), "Tunisia: 2010 Article IV Consultation", IMF Country Report No. 10/282, Washington, September. All quotes in this section are from this document.

Department was disgusted by the consumption norms of the Ben Ali and Trabilsi families, and their control of half the national economy.[7] As Rob Prince reported,

> Tunisia's economy suffered despite World Bank/IMF claims that the country has weathered the global financial crises better than many places. Tourism was down, as were textile exports to Europe, only aggravating the already existing socioeconomic crisis. But the straw that broke the camel's back in this case is the growing distrust and distaste among the broader population for president Ben Ali's wife, Leila Trabelsi and her siblings, who have been scrambling to dominate whatever sectors of Tunisia's economy they could, dominating the IMF-pressured privatisations that have marked the country's economic transition.[8]

1.2 Egypt

The IMF offered a strikingly similar line of argument in Egypt in its April 2010 Article IV Consultation statement, praising the Mubarak dictatorship for implementing neoliberal policies prior to the global financial meltdown, and then after a brief moment of rising budget deficits and loose monetary policy, insisting on a return to the Washington Consensus forthwith. On the one hand the IMF document complained about the crisis-induced postponement of "key fiscal reforms – introducing the property tax, broadening the VAT, and phasing out energy subsidies," but offered an upbeat endorsement of the ruling regime:

> Five years of reforms and prudent macroeconomic policies created the space needed to respond to the global financial crisis, and the supportive fiscal and monetary policies of the past year have been in line with staff's advice. The authorities remain committed to resuming fiscal consolidation broadly in keeping with past advice to address fiscal vulnerabilities… Such adjustment will be crucial to maintain investor confidence, preserve macroeconomic stability, and create scope for future countercyclical fiscal policy.[9]

In addition to expanding Public Private Partnerships (PPPs, a euphemism for services privatization and outsourcing), the IMF named its priorities: "adopting as early as possible a full-fledged VAT, complementing energy subsidy reform with better-targeted transfers to the most needy, and containing the fiscal cost of the pension and health reforms." Although the IMF noted just once that "Transparency International cites accountability and transparency, and weaknesses in the legal/regulatory system as key reasons for Egypt remaining 111th of 180 countries on its Corruption Perception Index," it immediately followed this observation with a non-sequitor:

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[7] Cole, J. (2011), "New Wikileaks: US Knew Tunisian Government Rotten Corrupt, Supported Ben Ali Anyway," Informed Comment blog, 16 January, http://www.juancole.com/2011/01/new-wikileaks-us-knew-tunisian-gov-rotten-corrupt-supported-ben-ali-anyway.html

[8] Prince, R. (2011), unpublished paper, Boulder, Colorado.

[9] International Monetary Fund (2010), "Arab Republic of Egypt: 2010 Article IV Consultation", IMF Country Report No. 10/94, Washington, April. All quotes in this section are from this document.

> Decisive action to continue the earlier reform momentum should focus on addressing the remaining structural weaknesses. In addition to sound macroeconomic policies, efforts should focus on: Resuming privatization and increasing the role of carefully structured and appropriately priced PPPs should assist fiscal adjustment and mobilize private resources for infrastructure investment.

The word governance does not appear in the document, nor, interestingly, did the IMF express concern about Egypt's then $32 billion foreign debt: "The composition and small size of Egypt's external debt makes it relatively resilient to adverse external shocks." The IMF also noted, in 2010, that "The relationship between Egypt and the World Bank Group has been transformed and markedly improved over the last few years as a result of the progress Egypt has made in implementing reforms."

So it was that in Egypt in early 2011, just as in Tunisia, the IMF was caught flatfooted by the popular uprising and, relatedly, by the immediate problems of rapid capital flight and fiscal/financial stress that resulted. By late May 2011, in its G8 report, IMF staff had recovered and conceded,

> The January revolution has raised the aspirations of Egypt's population at a time when the economy is taking a hit from domestic unrest in the short term, the ensuing uncertainty, and large global and regional shocks (e.g., the rise in commodity prices and the violence in Libya). The political shock triggered substantial capital outflows, which in addition to the decline in tourism revenue, remittances, and exports, have led to a loss of foreign exchange reserves of about US$15 billion in the four months to end-April.[10]

In that document, IMF staff worried that "managing popular expectations and providing some short-term relief measures will be essential to maintain social cohesion in the short term," and that this would come at a price: "external and fiscal financing gaps of US$9-12 billion… which would need to be filled with exceptional support from Egypt's multilateral and bilateral development partners, particularly given the limited scope for adjustment in the short term." The 'limited scope' reflected the breath of democracy in Egypt, but the assumption seemed to be that investments of $1 billion in debt relief (leaving $33 billion to repay) and additional grants would permit Cairo to restore good relations with Washington and to get over the hump of the democratic revolution with its 'reform' agenda intact.

As Adam Hanieh from London's School of Oriental and African Studies concluded just after the G8 summit and allied Arab states pledged $15 billion to Egypt,

> The plethora of aid and investment initiatives advanced by the leading powers in recent days represents a conscious attempt to consolidate and reinforce the power of Egypt's dominant class in the face of the ongoing popular mobilizations. They are part of, in other words, a sustained effort to restrain the revolution within the bounds of an "orderly transition" – to borrow the perspicacious phrase that the U.S. government repeatedly used following the ousting of Mubarak.

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[10] International Monetary Fund, "Economic Transformation in MENA," *op cit.*

> At the core of this financial intervention in Egypt is an attempt to accelerate the neoliberal program that was pursued by the Mubarak regime… If successful, the likely outcome of this – particularly in the face of heightened political mobilization and the unfulfilled expectations of the Egyptian people – is a society that at a superficial level takes some limited appearances of the form of liberal democracy but, in actuality, remains a highly authoritarian neoliberal state dominated by an alliance of the military and business elites. [11]

1.3 Libya

The same neoliberal pro-dictator narrative was established in Libya, for example, in the IMF's October 2010 pronouncements in which Muammar Gaddafi's mass firing of 340 000 civil servants was celebrated: "About a quarter have reportedly found other sources of income and are no longer receiving transfers from the state budget. The mission recommends that the retrenchment program be accelerated."[12]

The IMF's last full Article IV Consultation for Libya was published on February 15, 2011, just before civil war broke out. Implying that Gaddafi was safe from the Arab Spring, the IMF noted that "Recent developments in neighboring Egypt and Tunisia have had limited economic impact on Libya so far," and flattered Tripoli on a variety of fronts:

> An ambitious program to *privatize banks and develop the nascent financial sector is underway…* Structural reforms in other areas have progressed. The passing in early 2010 of a number of far-reaching laws bodes well for *fostering private sector development and attracting foreign direct investment*… Executive Directors agreed with the thrust of the staff appraisal. They welcomed Libya's strong macroeconomic performance and the progress on *enhancing the role of the private sector* and supporting growth in the non-oil economy. The fiscal and external balances remain in substantial surplus and are expected to strengthen further over the medium term, and the outlook for Libya's economy remains favorable (emphasis added).[13]

This optimistic report and others like it annoyed two *New York Times* reporters:

> Less than two weeks ago, the IMF's executive board, its highest authority, assessed a North African country's economy and commended its government for its "ambitious reform agenda." The IMF also welcomed its "strong macroeconomic performance and the progress on enhancing the role of the private sector," and "encouraged" the authorities to continue on that promising path. By unfortunate timing, that country was Libya. The fund's mission to Tripoli had somehow omitted to check whether the "ambitious" reform agenda was based on any kind of popular support. Libya is not

[11] Hanieh, A. (2011), 'Egypt's Orderly Transition? International Aid and the Rush to Structural Adjustment,' *Links,* 28 May, http://links.org.au/node/2342

[12] International Monetary Fund (2010), "The Socialist People's Libyan Arab Jamahiriya – 2010 Article IV Consultation, Preliminary Conclusions of the Mission", Washington, 28 October.

[13] International Monetary Fund (2011), "The Socialist People's Libyan Arab Jamahiriya – Article IV Consultation", Washington, 15 February.

> an isolated case. And the IMF doesn't look good after it gave glowing reviews to many of the countries shaken by popular revolts in recent weeks. [14]

1.4 MENA economies under Washington's thumb

Although not objecting to the IMF's neoliberal ideology, the *Times* cited similar upbeat language in its reviews of Bahrain, Algeria and Egypt, worrying that "the toppling of unpopular regimes will make it difficult for their successors to adopt the same policies. In the future, the IMF might want to add another box to check on its list of criteria: democratic support." [15]

Indeed, Tunisia, Egypt and Libya were not isolated mistakes, but reflected an approach to the entire Middle East and North Africa region. As Masood Ahmed, IMF Director for the Middle East and Central Asia Department argued in the November 2010 *International Economic Bulletin* of the Carnegie Endowment for International Peace, the countries in his portfolio

> must, first and foremost, boost their competitiveness. Sound macroeconomic policies – in particular, fiscal consolidation – will help, but governments will also need to make greater efforts to improve the business climate. Unfortunately, many of these countries are still characterized by burdensome regulatory systems, weak institutions, and a dominating public sector. Countries must also enhance labor market functioning by improving education (to better match the supply of, and demand for, certain skill sets) and ensuring that wages better reflect market conditions. Finally, trade tariffs need to come down. While they have been streamlined and lowered – mainly under the auspices of trade agreements with the European Union and the United States – they remain high, averaging over 12 percent in 2009. Most importantly, with the region's traditional advanced-economy trading partners now growing more slowly, MENA countries should seek new export markets. [16]

Of course, this kind of dogmatic Washington Consensus advice was often balanced, in the IMF's 2010 Article IV Consultations with language to the effect that 'pro-growth reforms' and 'shared', 'pro-poor' development and social policies would also be pursued. But as the World Bank's MENA Regional Economic Update of May 2011 showed, the support for social policy was within tight fiscal limitations, which many MENA countries were breaking:

> as governments want to reduce unemployment and ease the burden of high commodity prices, social protection has expanded rapidly in the region. While some measures are desirable, especially those targeted at protecting the most vulnerable, there is a risk that many of these policies are broad and will be very costly. In particular, expansion of public sector employment is costly and difficult to reverse.

[14] Briancon, P. and J.Foley (2011), "IMF Reviews Praised Libya, Egypt and Other Nations," *New York Times,* 22 February, http://www.nytimes.com/2011/02/23/business/23views.html?_r=1

[15] *Ibid.*

[16] Ahmed, M. (2010), "??",*International Economic Bulletin* of the Carnegie Endowment for International Peace, Washington.

> More effective employment policies are likely to involve short-term employment in public works. In addition, raising minimum wages, public sector wages, and/or unemployment benefits, as has been done in a few countries, will likely reduce equilibrium employment in the absence of other changes. To the extent that fuel is subsidized this creates a distortion and steers resources towards fuel-intensive industries, which tend to be capital intensive. These policies may have the undesirable consequence of reducing employment prospects for those outside the public sector.[17]

However, the harsh reality (borne out through social revolutions) that growth was weak and not being shared meant that by May 2011, the IMF's new language was much more sober:

> In MENA, prolonged instability, resulting from unmet political and social targets or spillover effects and lack of clarity about the future political transition, is the most serious risk to the short-term regional economic outlook. Prolonged tensions would amplify the negative impact on capital inflows and domestic financial exchanges, tourism receipts and remittances, and in turn on investment, output, and employment. Construction, manufacturing, tourism and financial institutions are most likely to suffer losses with further deterioration of the situation. A renewed loss of investors' confidence would translate into increased cost of capital further dampening growth prospects. Prolonged unrest would also threaten MENA's social policy design and fiscal health, as revenues would remain weak and expenditure would be elevated, especially if commodity prices remain strong. Already, as governments want to reduce unemployment and ease the burden of high commodity prices, social protection has expanded rapidly in the region. While some measures are desirable, especially those targeted at protecting the most vulnerable, there is a risk that many of these policies are broad and will be very costly. In particular, expansion of public sector employment is costly and difficult to reverse. More effective employment policies are likely to involve short-term employment in public works. In addition, raising minimum wages, public sector wages, and/or unemployment benefits, as has been done in a few countries, will likely reduce equilibrium employment in the absence of other changes. To the extent that fuel is subsidized this creates a distortion and steers resources towards fuel-intensive industries, which tend to be capital intensive. These policies may have the undesirable consequence of reducing employment prospects for those outside the public sector. Moreover, it is important they are used to complement and support government reforms, and not as a substitute. [18]

But imposing a new round of Washington Consensus policies risks what even World Bank chief Africa economist Shanta Devarajan in 2009 termed "the specter of political instability and social unrest", a point we take up again in the conclusion. For Devarajan, "market-

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[17] World Bank (2011), "Middle East and North Africa Region: Regional Economic Update - MENA Facing Challenges and Opportunities," Washington, May.

[18] International Monetary Fund, "Economic Transformation in MENA," *op cit.*

based reforms, which were painful in the first place but which African countries implemented because they could see the impact they were having on growth, are likely to lose political support because they no longer deliver results." At the same press briefing, Bank Africa Vice President Obiageli Ezekwesili worried, "It is precisely in a season of crisis like this that African governments must stay the course of market-based reforms."[19]

The possibility of MENA governments not taking Ezekwesili's advice and diverting further into Keynesian territory, including imposing exchange controls, was sufficiently strong (especially in North Africa) that a journalist at the April 2011 IMF spring meetings dared pose it to Dominique Strauss-Kahn: "Do you have any fears that there is perhaps a far left movement coming through these revolutions that want more, perhaps, closed economies?" For Strauss-Kahn, this was a "Good question. Good question. There's always this risk, but I'm not sure it will materialize." But with Strauss-Kahn engaged in other extremely risky behavior that failed to pay off a month later in a New York Times Square hotel, it was clear that nothing was predictable. For Strauss-Kahn, the bottom-line slogan for his questioner was predictable enough: "We're in a globalized world, so there is no domestic solution."[20]

1.5 The Bretton Woods Institutions and the G8

For anyone worried about the ways neoliberalism will undermine popular aspirations in the Middle East and North Africa, the World Bank and IMF documents released in late May give enormous cause for concern. The two institutions have long been implicated in Third World corruption, to the extent that "Odious Debts" owed by poor economies are increasingly subject to questioning (the way that Ecuador did in 2009 while defaulting on $9 billion in loans it should not have had to repay). But while repaying foreign debt under conditions of crisis is one of the central tasks that the Bank and IMF paymasters have taken on since the early 1980s, there is also a crucial ideological role played by the two in continually reinventing neoliberalism, which in the case of MENA in 2011, requires a conflation of political and economic 'reform'.

The Bank's May 27 document, "Towards A New Partnership for Inclusive Growth in the Middle East and North Africa (MENA) Region" is exemplary, if only to illustrate either amnesia or hutzpah:

> Economic reforms had started in several countries during the last decade. But in the context of declining state legitimacy, low levels of political participation, nepotism, perceptions of corruption and predation, and little accountability, reforms were too partial to take real hold or to transform sclerotic intuitions. Often they were perceived to increase inequality, and benefit the politically-connected elite. [21]

A more honest rewriting of this paragraph might be:

[19] World Bank (2009), 'Press Conference', Washinton, DC.
[20] BBC, 'Africa's big plan "disappointing", London, 22 October 2004.
[21] World Bank (2011), "Towards A New Partnership for Inclusive Growth in the Middle East and North Africa Region", Washington, 27 May.

> *Economic austerity was imposed by the IMF and Bank starting in several countries during the 1970s, and was amplified subsequently across the lower income MENA countries. Political corollaries to Washington's support for the ruling regimes included their declining state legitimacy, low levels of political participation, nepotism, perceptions of corruption and predation, and little accountability. Austerity was implemented by the societies' sclerotic ruling intuitions, so as to increase inequality and benefit the politically-connected elite.*

Because the politically-connected elite will take extreme measures to remain in power, as the Gaddafi family showed in the weeks after February 2011, the Bank probably knows that socio-political and environmental problems in the Arab world will intensify and that citizens' movements will oppose the kinds of policies that drove Mohammed Bouazizi to suicide. A summary of Bank findings presented to the May 2011 G8 meeting in France is as follows:

> Citizens are challenging authorities across MENA with the unifying refrain for 'Dignity, Respect and Freedom' and an end to the Arab exceptionalism which has denied rights enjoyed elsewhere.
>
> However, the political nature of the change should not underestimate the role played by economic factors. Countries have been unable to sustain shared economic growth at levels necessary to generate the quantity and quality of jobs expected by a rapidly expanding labor force, notably young men and women.
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> Economic reforms had started in several countries during the last decade. But in the context of limited accountability, reforms were perceived to increase inequality and benefit the politically-connected elite.
>
> The public engagement emerging today in several MENA countries opens an opportunity for the people of the region to carry out the kind of reforms needed to overhaul the development paradigm. Greater government accountability and public participation will be essential elements.
>
> As government legitimacy deepens, there is also likely to be more effective regional cooperation in the Arab world, based on solidarity among peoples, and a desire for greater inclusiveness, both regionally and globally.
>
> The Arab Spring creates significant opportunities for the MENA Region and for the world, but there are also challenges and risks. Food and energy price shocks, and in general the global economic environment, could challenge the economic and political reform process. In some countries, there are risks that governments will be driven by populist demands or that necessary reforms stall due to popular backlash.
>
> Political risk perceptions may rise, deterring the domestic and foreign private investment needed to create employment, and government budgets may shift away from investment towards consumption to cool popular discontent. Timely external support for countries to address their peoples' aspirations may fall short of needs.
>
> A crucial issue in the sustainability of the governance transition will be the availability of adequate public and private funding for short-term financing needs, and for the medium-to-long term investments which will generate the bulk of much-needed jobs, particularly in the private sector.

> Innovative financing and risk mitigating mechanisms to support private investment and access international financial markets will be critical to the transition…
>
> In the same vein the opening of external markets – for goods, services and labor – will be fundamental to the success or failure of the transition. Ultimately this will matter more than external financial support. The G8 countries have a major role to play in this regard.

The Bank's main objective appears to be making Arab economies more vulnerable:

> The wave of self-confidence and self-assertion now sweeping the Arab world, and the refutation of any notion of Arab 'exceptionalism', could lay the foundation for an even deeper partnership between the Arab countries, the World Bank Group, and other partners in the Arab World Initiative. The time could be ripe for Arab regional cooperation, and for the more vigorous pursuit of inclusive globalization.

And that in turn raises serious difficulties for those in Palestine who have suffered enforced siege by Israel, a topic the Bretton Woods Institutions have given some thought to as well, as we see next.

2. Pressure on Palestine – from Washington politics to the Washington Consensus

Just as unconstructive as Washington-centric Middle Eastern politics, such as Barack Obama's May 2011 policy speech, two April 2011 reports on Palestine economics by the IMF and World Bank reflect an overarching failure to grapple with Israel's malevolent power, and rely upon an incorrect assumption that political freedom and free markets are tightly aligned. The IMF and Bank studies downplay the region's fundamental problem, namely Israeli Occupation of both Palestinian territories (as well as economic oppression of Israeli Palestinians). In the two Bretton Woods Institution reports, only 'restrictions', 'barriers' and the Gaza 'blockade' are remarked upon, not the underdeveloping nature of the settler-colonial economy, ongoing land invasions for illegal settlements, systemic violence, nor the Israeli regime's propensity to sabotage any visible Palestinian progress. (Only at one point, in passing, does the IMF raise the matter of the inability of Palestinians to invest in "Area C", the largest share of West Bank land.) In turn this leaves the IMF and Bank to apply old-fashioned 'Washington Consensus' ('neoliberal') dogma to the West Bank and Gaza, attacking the living standards of poor Palestinians while promoting the same destructive free-market policies that also caused severe strife across the Middle East in recent months.

It is vital to understand the ways the Bretton Woods Institutions have already locked Palestine into neoliberal development strategies, such as adoption of export-led growth, means-testing for social policy, electricity privatization and prepayment metering, pension 'reform' and civil service shrinkage. The following pages first identify the main lines of argument within the two recent documents about Palestine. We start with the Bretton Woods Institutions' analytical scope and then consider the merits of the export-led economic growth strategy, neoliberal social policy advice, and pressure to shrink the civil service.

However, by way of providing context, by no means was 2011 the first time that neoliberalism was proposed for Palestine. For example, as Raja Khalidi and Sobhi Samour argued in March, the project dates to 2009 with ancestry all the way back to the 1993 Madrid negotiations prior to Oslo:

> Just at the moment when neoliberalism is being rejected by widening popular movements in the region and by developments elsewhere in the global economy, the Palestinian Authority (PA) is stepping up its neoliberal state-building program entitled 'Ending the Occupation, Establishing the State'. The program was launched by PA Prime Minister Salam Fayyad in 2009 amidst unprecedented internecine political divisions and a historic crisis of legitimacy, indeed survival, of the national liberation movement. While it promises to build 'good governance' institutions to garner local and international support for the PA's statehood plan, a more critical reading reveals that the PA has embarked on a path that seems to be trading off national liberation for neoliberalism…
>
> By 1993, Harvard economists and the World Bank, in association with several Palestinian economists, had entered the arena. They recommended a fairly neoliberal set of economic policies for guiding the PA through what was still seen as a five-year transition to independence. In 1999, the Council on Foreign Relations (also with Palestinian expert collaboration) argued that the implementation of good governance reforms, rule of law, and policies ensuring a conducive climate for investment were necessary preconditions for Palestinian independence.[22]

2.1 The limited scope of the World Bank and IMF

The World Bank's most recent report to the major Western donors, 'Building the Palestinian State: Sustaining Growth, Institutions, and Service Delivery',[23] begins with a familiar argument: "If the Palestinian Authority (PA) maintains its performance in institution-building and delivery of public services, it is well-positioned for the establishment of a state at any point in the near future."

A cut-and-paste version of this line was simultaneously presented in the IMF's 'Macroeconomic and Fiscal Framework for the West Bank and Gaza': "IMF staff considers that the PA is now able to conduct the sound economic policies expected of a future well-functioning Palestinian state, given its solid track record in reforms and institution-building in the public finance and financial areas".[24] There was, too, the added (and very unusual) flattery of praising by name a Washington financial bureaucrat who at the time served as the PA Prime Minister, Salam Fayyad:

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[22] Khalidi, R. and S. Samour (2011), "After Tunisia and Egypt: Palestinian Neoliberalism at the Cross-roads", *Jadaliyya,* 14 March, http://www.jadaliyya.com/pages/index/904/after-tunisia-and-egypt_palestinian-neoliberalism-.

[23] World Bank (2011), 'Building the Palestinian State: Sustaining Growth, Institutions, and Service Delivery', Economic Monitoring Report to the Ad Hoc Liaison Committee, Brussels and Washington, 13 April.

[24] International Monetary Fund (2011), 'Macroeconomic and Fiscal Framework for the West Bank and Gaza', Report to the Ad Hoc Liaison Committee, Brussels and Washington, 13 April.

> IMF staff considers that the PA is now able to conduct the sound economic policies expected of a future well-functioning Palestinian state, given its solid track record in reforms and institution-building in the public finance and financial areas… Following steady institutional reforms since 2007, the Palestine Monetary Authority (PMA) is now in a position to carry out the functions of a central bank… The West Bank's strong performance since 2008 has been enabled by PM Fayyad government's sound economic management and reforms supported by donor aid, as well as some easing of Israeli internal barriers. Nevertheless, the West Bank's growth, which is estimated at 8 percent in 2010, is also bound to wane, especially with the PA's continued fiscal retrenchment and declining aid, without a strong stimulus from a further easing of Israeli restrictions.

In subsequent Bank and IMF documents, there was no acknowledgement whatsoever of the May reconciliation of Fatah and Hamas, the proposed 'technocratic government' anticipated to commence in June, or the proposed September announcement of statehood for Palestine – usually simply known in Washington as the West Bank and Gaza (WB&G). Instead, the narrative seems to be the dangling of statehood endorsement from multilateral institutions (even though the United States and Israeli governments are expected to sabotage such an effort), based on continuing with several tendencies in existing PA practices, which the Bank repeatedly encourages in its report. Gaza's recent governance, Palestinian refugees demanding right of return to Israel, and the struggle of Palestinian Israelis, all go unmentioned even though the numbers of people involved are a majority of the Palestinian people.

So on the one hand, the Bank's grand ambition of helping 'build' a Palestinian state will lack some crucial foundations. On the other hand, the Bank immediately acknowledges one of the most obvious problems with the high (9 percent) Gross Domestic Product (GDP) rate recorded in 2010, which more generally casts doubt on Palestine's organic economic activity:

> Growth does not, however, appear *sustainable*. It reflects recovery from the very low base reached during the second intifada and is still mainly confined to the non-tradable sector and primarily donor-driven… The economic growth observed in WB&G is arguably donor-driven, and sustainable growth remains hampered by Israeli restrictions on access to land, water, a range of raw materials, and export markets, to name a few.

The Bank also misses an opportunity to explore the unsustainable economic setting in environmental terms. The idea of sustainability appears limited to whether Palestine is as profoundly aid-dependent as it is now, but to its credit the Bank concedes that the high GDP growth is a function of donor support. In other words, removal of donor inflows that are at least 20 percent of GDP (perhaps far higher) would have a devastating impact on GDP, and hence it is impossible to judge whether there is any genuine organic growth occurring through the PA's adoption of Washington-friendly economic policies.

2.2. An export-oriented economy?

There are several ways to generate organic GDP growth, and they boil down to whether the emphasis in economic activity is internally oriented (to meet local needs through local production) or externally oriented (to meet world market opportunities).

The Bank has traditionally opposed the former, and for Palestine there is no exception, notwithstanding the Palestinian people's oft-remarked creativity in adapting to extreme economic strangulation at the hands of Israel. So it is no surprise that the Bank aims to increase Palestine's international trade as 'the basis' for its future economy:

> In order to lay the basis for future sustainable economic growth, the PA stands to benefit from a focus on its trade regime and infrastructure as well as the readiness of its human capital. Developing the legal, institutional, and physical infrastructure required to manage a sophisticated trade regime will take time and considerable resources, so it is important that the PA begin immediately…
>
> As a small open economy, the future Palestinian state is likely to depend upon increasing trade and especially the export of high value added goods and services that exploit its comparative advantage arising from a workforce with low wages relative to its high level of education…
>
> The Palestinian market's small size means that, without access to the world market, Palestinian producers will not be able to achieve minimum efficient scale. In addition, becoming competitive on the export market will force Palestinian producers to improve their productivity, thereby increasing employment, raising wages, and lowering poverty. Since 1967, trade in WB&G has been overwhelmingly oriented towards Israel. As of 2008, Israel accounted for nearly 89 percent of WB&G's exports and 81 percent of imports. The majority of exports were for low value added goods that required a minimal level of processing. In order to achieve sustainable growth, the WB&G economy must increase overall trade, expand trade beyond the Israeli market, and increase the value added in exports. To do this, an appropriate trade policy regime must be in place, including the necessary institutional, regulatory, and physical infrastructure that will facilitate trade.
>
> Globally speaking, the last 60 years have witnessed a significant drop in transportation costs, matched by a similar increase in international trade… the PA needs to publicly establish goals and principles now so that investors in the private sector can begin to prepare and make investments that will prosper and not be untenable under the trade regime of a future state…
>
> The policy must be set to facilitate trade, not to raise government revenues, redistribute resources, or favor one sector over another. Tariffs must be low and there should be no quantitative restrictions or other non- tariff barriers to trade. Given the vital importance of trade, the government of a future Palestinian state might consider eventually moving to a policy of free trade as Estonia, Hong Kong, and Singapore have done. Above all, trade policy must be transparent and not captured by special interest groups. Keeping it simple and anchored in international agreements, such as those of the World Trade Organization (WTO), will help the government resist pressure and should be a key part of the strategy.

The Bank's supreme confidence in promoting export-led growth strategies is evident in the last paragraph's insistence on low tariffs and its prohibition of infant-industry protection and policy 'capture' by self-interested Palestinians (whether crony-capitalists or trade unionists or simply democrats). But the overweening focus on exports is disturbing not only because this was the core belief that left so many Resource Curse economies so maldeveloped in recent decades, but because there appear to be no studies by the Bank or allied institutions that bear out the cheap-labour comparative advantage argument. The Israeli economy's easy 1990s substitution of imported labour (both migrant and immigrant) for hundreds of thousands of Palestinians (allegedly with no adverse impact on the wage bill) is one indication of the need to reconsider this claim more carefully.

Moreover, there appear to be no World Bank Domestic Resource Cost studies about the economic merits of light industrial sectors in which Gaza retains a small semblance of manufacturing capacity: furniture and garments. The three agro-export examples typically invoked for Gaza – strawberries, carnations and cherry tomatoes – are hampered in the short/medium-term by Israel's stop-start-stop border controls (not to mention the Boycott Divestment Sanctions movement which aims to close Israeli ports) and in the longer-term by Europe's growing use of carbon taxation and ecological footprinting against long-distance agricultural and horticultural imports.

Instead, the World Bank acknowledges that organic economic activity currently faces a narrow range of options:

> The fastest growing sectors in WB&G included agriculture, and hotels and restaurants, which grew by 22.8 and 46.3 percent, respectively. Construction grew by an impressive 35 percent, and public administration and defense continued to expand, growing by 6.4 percent in 2010. By contrast, initial estimates indicate that manufacturing output fell by nearly 6 percent and it remains more than 10 percent below its 1999 level… Though firms in Gaza report that most needed inputs are now available, the increase in imports from Israel combined with the lack of exports appears to have led to a fall in manufacturing by nearly 4 percent.

This is economic growth paralleling the parasitical style of the US economy prior to the bubble crash of 2008, not the productive economy so desperately needed. Gaza's deindustrialization, for example, is usually estimated at 75 percent thanks Israel's Operation Cast Lead and the subsequent siege. And not only does Israel present itself as a terribly unfriendly trade partner, it was also a small and stagnant contributor to Palestinian trade, the Bank admits: "Israel remains WB&G's largest trading partner, yet in the first three quarters of 2010, exports of goods and services to Israel were only about US$480 million in nominal terms. This is only 6 percent higher than in the same period in 2009 and nearly 22 percent lower than in 2008."

As for the potential for increased trade with emerging democracies in the region, or for taking advantage of the apparent destruction of the Cairo-TelAviv-Washington alliance? Not a word (see below for some reasons the Bretton Woods Institutions would be nervous). Trade is an unrealistic driver of growth if the Allenby crossing to Jordan, the potential routes north via Lebanon or Syria, direct access to Mediterranean Sea ports, the main regional airport in TelAviv, and indeed all Palestinian contact with the outside world aside from (still-policed) tunnels to Egypt and a newly opened border crossing, are all controlled by Israel.

In this regard, it is all too easy to declare not only that "The IMF is a toy of the United States to pursue its economic policy offshore" (as did Massachusetts Institute of Technology professor Rudiger Dornbusch in 1998),[25] but also its foreign policy. A direct link between what the Bretton Woods Institutions impose in Palestine (export-led growth) and what is good for Israel (Palestine's trade dependency) can be drawn from Strauss-Kahn, who on April 28, acknowledged to *Liberation* newspaper that he once publicly stated, "*se lever chaque matin en se demandant comment [il pourrait] être utile à Israël*" ("each morning I rise thinking what can I do to be of use to Israel").[26]

2.3 Neoliberalising social policy

Wherever they go, both IMF and Bank intervene in state social policy in a manner that degrades the potential for generous, universal, dignity-enhancing, gender-equitable, rights-based welfare and basic services. This is also evident in the way the IMF understands the challenges a Palestinian state will face from an impoverished, restive citizenry:

> By 2009, a staggering 71 percent of the Gaza population benefited from at least one form of social assistance. The reliance on social assistance means that even those households that are currently above the poverty line remain highly vulnerable, i.e. at high risk of falling into poverty…
>
> Because of the need to fund development projects for which designated aid was not received, the PA was forced to increase bank borrowing and accumulate arrears at an unsustainable rate. Net domestic bank financing increased by about US$84 million, with gross borrowing of US$200 million, so that at the end of 2010, total domestic debt stood at about US$840 million, which may be close to the PA's borrowing limits. In 2010, the PA paid close to US$23 million in arrears in net lending, but it accumulated another US$144 million in new arrears. While most of this was to the pension system, about US$50 million was in non-wage and development spending.

The IMF solutions to these multiple problems are simple: impose a 'means tests' (to check incomes), privatize electricity with prepayment meters, dramatically reduce state subsidies and raise the retirement age:

> To ensure steady progress toward fiscal sustainability and reduced reliance on recurrent budgetary aid in line with the medium-term fiscal targets, it is essential to step up the implementation of the key structural reforms as set out in the draft PNP:
>
> Further streamline and better target social assistance**.** In 2010, several cash assistance programs in the West Bank have been merged into one central program

[25] Cited in Henwood, D. (1999), 'Marxing up the Millennium', paper presented to the 'Marx at the Millennium' conference, University of Florida, 19 March.

[26] Guirale, A. (2011), "Oui, j'aime les femmes et alors", *Liberation,* 28 April, http://www.liberation.fr/politiques/01012337606-*oui-j-aime-les-femmes-et-alors*

with a single payment modality, based on a proxy means test that more accurately identifies vulnerable households. The Ministry of Social Affairs will be regularly updating the database of targeted households to ensure that only those below the poverty line receive assistance. A key measure to be implemented by mid-2011 is the "lifeline electricity tariff", for households in the latter database, at which a "lifeline" amount of household electricity consumption is billed only at cost. This measure is especially important given the increase in prices as electricity distribution is commercialized.

Phase out electricity subsidies (imposed on the MoF due to non-payment by municipalities of their electricity bills) by completing the transfer of electricity distribution from municipalities to commercial companies. An important step taken in early 2010 was the transfer of electricity distribution from the municipality of Nablus to the Northern Electricity Distribution Company (NEDCO), and the installation of about 170,000 pre-paid meters to improve bills payment. An action plan was prepared in 2010 to complete the transfer of distribution from the remaining local governments in the northern West Bank region to NEDCO, with the regions of Qalqilya and Tulkarm to be covered by mid-2011. The transfer of distribution in the remainder of the West Bank to other private electricity companies is expected to be completed by end-2011. Progress in electricity sector reform has helped reduce electricity subsidies from 6 to 3 percent of GDP in 2009–10.

Reform the public pension system. An important step taken in July 2010 was the adoption of a comprehensive public pension reform action plan for 2010–12, in collaboration with the World Bank. The plan aims at restoring the viability of the pension system in several phases during 2010–12. The first phase, to be completed during 2011, consists of indexing pensions to the CPI, raising the retirement age from 60 to 62, and ensuring that pensions are paid only to those who have reached the minimum age and served the minimum number of years required by law. The remaining steps for 2012 include the elimination of lump sum payments at retirement…

[I]t is essential for the PA to step up the implementation of structural reforms, including electricity sector, pension, and civil service reforms. For 2011, it is particularly important for the PA to abide by the expenditure ceilings set in the 2011 budget to achieve the targeted reduction in the recurrent deficit from 16 to 13 percent of GDP, especially given the highly uncertain global environment and prospects for donor aid.

Even though some administrative tasks will dramatically increase as a result of this kind of social policy shrinkage (such as stigma-inducing means-testing), the IMF and Bank believe it is logical to also cut back the civil service, no matter that it is Palestine's main employer.

2.4 Civil service shrinkage?

The World Bank recognized the perilous situation in the dysfunctional labour market, with unemployment above 30 percent in Gaza alone:

> The current PA payroll is just over 150,000… In the fourth quarter of 2010, unemployment for WB&G was 23.4 percent, compared to 24.8 percent in the fourth quarter of 2009… the share of the government in total employment rose from 17 to 26 percent between 1999 and 2009, while that of private sector jobs fell from 47 to 38 percent… Israel and its settlements remains an important employer of Palestinian labor, employing nearly 79,000 Palestinians from the West Bank in the fourth quarter of 2010, up from about 72,000 in the fourth quarter of 2009.

Even in this context, the IMF endorsed shrinkage of the largest source of employment, given

> a sharp reduction in donor aid for recurrent spending, from $1.8 billion in 2008 to $1.2 billion in 2010, with a view to a further reduction to less than $1 billion in 2011… The PA has pursued a tight fiscal stance in 2010, and continued to undertake structural reforms in line with the vision toward statehood… The draft Palestinian National Plan (PNP) for 2011–13 envisages a steady reduction in the recurrent budget deficit to about 4 percent of GDP by 2013**…** The 2010 wage bill was about 4 percent higher than budgeted (or by about $63 million) partly reflecting adjustment of allowances to some categories of Employees… The number of public sector employees rose by 3,317 in 2010 (of which 452 in health, 1,762 in education, 362 in security, and 741 in other sectors).

That wage bill would now have to be cut, the IMF advised, because (usefully for Washington),

> So far, in 2011, donor aid has fallen short of financing requirements. During the first quarter of 2011, only about $0.2 billion has been disbursed, and another $0.5 billion was indicated by donors for the remainder of the year. Given the projected financing need of $967 million, this yields a financing gap of about $0.3 billion for 2011… Given the uncertainty regarding availability of financing for 2011, it is particularly important to avoid further increases in public sector wage rates beyond those given in January 2011. Any compensation for increases in food and energy prices should be targeted to the needy households using the social safety net, and offset by cuts in lower priority expenditure items.

How should this compression of wages be done, and how far should they be lowered (in relation to GDP)? The IMF answers:

> Initiate civil service reform aimed at a steady decline in the wage bill and greater public sector efficiency. So far, the authorities have relied on controls on wage rates and new employment to contain the growth of the wage bill. While this approach has yielded substantial budgetary savings, it will need to be complemented by additional measures to ensure long-run sustainability and increased efficiency in the delivery of public sector services, especially in view of the continued real erosion of average government wage rates. One important measure that should be implemented in 2011 is a careful review of personnel needs in key sectors, including

health and education, to fine-tune the current "blanket ceiling" of 3,000 new employees that is automatically placed in annual budgets.

> The average public real wage rate is estimated to have declined by a cumulative 6 percent during 2008–10, and is projected to rise by 1 percent in 2011…
>
> While the share of the wage bill in GDP has declined in recent years due to limits on increases in wage rates and new employment, at 22 percent it is still significantly higher than the 10–15 percent that is typical of countries at a similar stage of development. Bold measures are needed toward a comprehensive civil service reform to reduce the wage bill while improving public sector efficiency. It will become increasingly difficult to reduce the wage bill by relying on a "blanket" restraint on wage rates and new employment, especially as the average public sector wage rate has already declined significantly in real terms since end-2007.

Part 3. Conclusion

The result of these multiple attacks by the IMF on Palestine is going to be a substantially increase in socio-economic misery. The irony is that with Hamas in a strong position in Gaza (albeit probably moving its ministers out of formal power soon so as to implement reconciliation with Fatah), its own impressive self-reliant strategies could infuse a spirit of resistance, just as tens of thousands of non-violent protesters marched against Israel's borders on May 15. These potentials are terribly important for generating alternatives that Palestinians can pursue, so as to evade neoliberal traps set by the IMF and World Bank (and their local allies). But that is a strategic matter that only Palestinians can properly deliberate.

However, this strategy should be adopted quickly, because class formation is already rapidly underway, and as Raja Khalidi and Sobhi Samour point out, this overlaps with internal political repression by the West Bank authorities:

> The newly empowered Palestinian capitalist class has been described as a predatory, oligarchic elite whose dominant position has been favored by the PA's neoliberal program made possible by security collaboration with Israel… The rise of an economic oligarchy is of course a common phenomenon in neoliberal regimes and it comes as no surprise that they have been targeted in the ongoing wave of Arab mass uprisings. The PA is thus not the first government to have resorted to combining neoliberal reforms with a strong-arm security apparatus.[27]

Democracy activists from other countries in the region are also positioned to more forcefully challenge Washington's political and economic agenda. After all, the World Bank regional economic survey of May 2011 linked resistance quite explicitly to neoliberal policy:

> In MENA, prolonged instability, resulting from unmet political and social targets or spillover effects and lack of clarity about the future political transition, is the most

[27] Khalidi and Samour, "After Tunisia and Egypt: Palestinian Neoliberalism at the Cross-roads", *op cit.*

> serious risk to the short-term regional economic outlook. Prolonged tensions would amplify the negative impact on capital inflows and domestic financial exchanges, tourism receipts and remittances, and in turn on investment, output, and employment. Construction, manufacturing, tourism and financial institutions are most likely to suffer losses with further deterioration of the situation. A renewed loss of investors' confidence would translate into increased cost of capital further dampening growth prospects. Prolonged unrest would also threaten MENA's social policy design and fiscal health, as revenues would remain weak and expenditure would be elevated, especially if commodity prices remain strong.[28]

The prospect for a new round of political protest centred on economic justice is therefore worth taking seriously. Such protest is especially important given that the world's mainstream media has apparently bought into an increased role for the IMF and World Bank in 'supporting' the Arab Spring. Austin Mackell's *Guardian* report on May 25 was one of the few to express awareness much less concern:

> The new loans being negotiated for Egypt and Tunisia will lock both countries into long-term economic strategies even before the first post-revolution elections have been held. Given the IMF's history, we should expect these to have devastating consequences on the Egyptian and Tunisian people. You wouldn't guess it though, from the scant and largely fawning coverage the negotiations have so far received.
>
> The pattern is to depict the IMF like a rich uncle showing up to save the day for some wayward child. This Dickensian scene is completed with the IMF adding the sage words that this time it hopes to see growth on the "streets" not just the "spreadsheets". It's almost as if the problem had been caused by these regimes failing to follow the IMF's teachings…
>
> Beginning in the 1990s, IMF-led structural adjustment programmes saw the privatisation of the bulk of the Egyptian textile industry and the slashing of its workforce from half a million to a quarter-million. What's more, the workers who were left faced – like the rest of Egypt – stagnant wages as the price of living rocketed. Though you wouldn't know it from western coverage, the long and gallant struggle of these workers, particularly the strike of textile workers of Mahalla el-Kubra, is credited by many Egyptian activists as a crucial step on the Egyptian people's path towards revolution.
>
> This failure to appreciate the revolutions as a rebellion not just against local dictators, but against the global neoliberal programme they were implementing with such gusto in their countries, is largely a product of how we on the western left have been unwitting orientalists, and allowed the racist "clash of civilisations" narrative to define our perceptions of the Middle East. We have failed to see the people of the region as natural allies in a common struggle.
>
> It is this blindness that makes the revolutions appear as instantaneous explosions, like switches suddenly flicked, rather than as events in a continuum. A good place to start the story, if you want it to make sense, would be the Egyptian bread riots of 1977, which came following an initial round of economic liberalisation

[28] World Bank, "Middle East and North Africa Region Regional Economic Update," *op cit.*

(which was as much a part of Sadat's change of cold war allegiances as his salute to the Israeli flag in Jerusalem). It should not have surprised us that as people's struggle to survive grew more and more grinding following the IMF-led reforms of the subsequent decades they would rise up once more.

> Nor should we surprised at the moneyed fightback, which will no doubt be attempted. During this transition period, forces like the IMF will seek to lock in and enlarge the neoliberal project before there is an accountable government to complain about it…
>
> These new loans from the IMF threaten to bind the newly democratic Egypt and Tunisia in much the same way. Once more, local elites could collaborate with the institutions at the helm of global capitalism to screw the broader population. If this occurs, these revolutions will be robbed of much of their meaning, and a terrible blow will be dealt to the broader Arab spring.[29]

As predicted, the *New York Times* reported on the Bretton Woods Institutions' capacity to 'stabilise' MENA countries just after the G8 meeting:

> At a series of working sessions that lasted until the early morning hours Friday, representatives of the Group of 8 expressed concern that the democracy movement in the Arab world could be "hijacked" by Islamic radicals if the West did not help stabilize the economies of the two countries that touched off the Arab Spring…
>
> How much aid the Western powers would ultimately provide, and how effective any aid would be during volatile political transitions in the two countries, remained uncertain. The group's official communiqué promised $20 billion, which would be a major infusion of funds…
>
> Democracy, the leaders said, could be rooted only in economic reforms that created open markets, equal opportunities and jobs to lower staggeringly high unemployment rates, especially among restless youths…
>
> Officials cautioned that the projected $20 billion in aid from international financial institutions would come in phases and be contingent on democratic and economic reforms. The pledge, an aide to President Obama said, was "not a blank check" but "an envelope that could be achieved in the context of suitable reform efforts." [30]

To be fair, the *Times* reporter did add, "There is a fear, shared by both the American administration and democracy activists, that plunking down large dollar pledges upfront would risk funneling money into the hands of institutions, including the Egyptian military, which could misuse or simply siphon it off." But as for the actual policies suggested by Washington, there is no dispute, as noted above in the *Times* report on IMF favouritism to dictators.

In general the agenda of Washington in both political and economic terms is to use state instability created by popular protest to lock in more extreme forms of neoliberalism via globalization. The IMF, for example, argues that

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[29] Mackell, A. (2011), 'The IMF versus the Arab spring', *Guardian,* 25 May.
[30] Alderman, L. (2011), 'Aid Pledge by Group of 8 Seeks to Bolster Arab Democracy,' *New York Times,* 27 May.

> close to 60 percent of MENA exports are directed to Europe – reflecting proximity and long-standing linkages – which implies that MENA has not inserted itself into the global economy and has not been benefiting from the high growth rates achieved in other emerging markets.

If the new governments pursue this path, then very short-term increases in state spending to quell unrest will be permitted, it appears:

> With mostly limited fiscal space, MENA oil importers confront the immediate challenge of preserving macroeconomic stability while building social cohesion. Additional spending in the short term is understandable and necessary to ensure social cohesion. Nonetheless, oil importers cannot afford to strain public finances, in order not to derail-over the medium-term- the pursuit of the new inclusive growth agenda. To this end, they will need to partially offset some of the additional cost of higher subsidies and other support measures through cuts elsewhere. In the same vein, they will also need to avoid introducing measures that would raise spending on a permanent basis. To preserve market confidence and prevent further escalation of the cost of funding, governments should detail credible plans for unwinding emergency measures.

Those plans, according to the IMF, should include:

- Revisiting the role of the public sector and providing space for a vibrant private sector;
- Improving further the business climate;
- Developing financial systems with a wider reach;
- Fostering trade integration; and
- Strengthening the functioning of labor markets.

Interestingly, the IMF offered one brief *mea culpa* in its May 2011 document:

> The success of such a partnership will require the international community to draw lessons from the shortcomings of previous approaches that generated weak country ownership and resulted in skepticism amongst many stakeholders in the region. For the IMF, this means addressing important socio-economic dimensions that thus far have not been sufficiently brought to the fore in its policy advice, and to work with other stakeholders to build broader support within the region.

Yet the authors of the report appeared to have added this as a formality, because the 'socio-economic dimensions' will worsen if neoliberal policies are implemented, and moreover, there was no *mea culpa* on the IMF's support to tyrants.

However, to expect or demand more from the IMF and World Bank is to miss the point: they are still instruments of global corporate policy, and indeed also of Western geopolitical interests. As Iranian revolutionary Mohammad-Reza Shalgooni put it in his series on Revolution and Counterrevolution in the Arab World, in Egypt and Tunisia

> the military establishment has generally proceeded in harmony with general U.S. policy vis-à-vis the Arab Revolution, and their main objective has been to prevent (or abort when possible) any radicalization of the revolution…
>
> It was the U.S. that decided to remove the military in both these countries from an all-out confrontation with the millions-strong masses of people, and to keep them intact (as institutions), to be preserved as levers for controlling the situation in the subsequent stages of the revolution. Of course, we must not forget that the start of the revolution and its escalation in Tunisia and Egypt were so sudden and accelerated that they caught Obama's administration completely by surprise. Due to reasons I have already explained, American leaders knew that an all-out confrontation with the millions of rebellious people who have had enough would be hugely costly, and would jeopardize American long-term interests in this very sensitive region. Consequently, while pressing these dictatorships behind closed curtains to avoid blood baths on a mass scale, in the final analysis, they decided that in order to preserve the ruling regimes, they would sacrifice the dictators themselves.[31]

It appears that what can be said on the geopolitical and military front, also goes for the diplomatic and economic, as the G8 meeting proved on 27 April. But here the terrain is even more fragile than Tahrir Square, given how much is at stake, and how far the peoples of the MENA countries still must engage to criticize a new, yet more durable cause of present and future problems: neoliberalism imposed from on high.

[31] Shalgooni, M.R. (2011), "U.S. Role in the Arab Counterrevolution," Raah-e Kargar.