

The Arab World: Between the Coronavirus Pandemic and the Plague of Populism

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Brief Analysis

As the global coronavirus pandemic seems to have placed the world in the eye of a collective storm, with over 120,000 confirmed deaths, the global economy has entered a state of acute stagnation and contraction across diverse sectors, suggesting the worst economic crisis since the Great Depression of the 1930s.

The Organization for Economic Cooperation and Development expects growth to decline by 0.5-0.9% to 1.5% this year due to a series of cumulative causative events, most notably the paralysis of the retail sector, trade, supply chains, global production, services, tourism, international shipping, manufacturing, mining, and direct foreign investment. This will be followed by a sharp fall in consumption, a weakening of supply, and the loss of millions of jobs through governments' imposition of stay-at-home restrictions on their citizens, resulting in unbearable social pressures that are especially threatening for the most vulnerable groups.

While international attention is focused on containment, this crisis is expanding at record speed; most experts believe it is still in its early stage and the worst is inevitably coming. Yet many Arab voices—as well as Western ones—have already declared the success and superiority of the Chinese model that was able to control the pandemic relatively well and the Cuban model, which sent aid packages and numerous doctors to some exhausted Western capitals over the response of the market economy.

These perceived victories are fueling the calls for the nationalization of companies among Arab commentators in particular, citing the “inevitability” of the victory of the socialist alternative and a return to the “natural state”—the rule of Shariah, the authority of the mullahs, theocracy, and other statist approaches. These calls have spread on websites, in newspapers, and across social networks at a speed comparable to the spread of the coronavirus.

In these circumstances, Arab societies in particular need scientific, academic vigilance in order to avoid perpetuating the analytical and critical vacuum that will otherwise undoubtedly be filled with the reliable ideologies, established truths, and intellectual references. Allowing the latter to thrive will exercise the role of enforcer and guardian of the societal knowledge that has worked (voluntarily or de facto) to legitimize (or enshrine or restore) statism and tyranny in the outcome.

Researchers in behavioral psychology often warn us about the spread of cognitive biases. The most important concern is that of the phenomenon of confirmation bias, which makes us tend to interpret, remember, and select

information in a manner consistent with our beliefs, assumptions, and preferences while disregarding contradictory information. Confirmation bias enables wishful thinking that leads us to formulate beliefs or make decisions based on our desires, instead of thinking based on evidence, reason, or reality. In this particular case, evidence-based thinking includes the need for calm accountability of the role assigned to states and the market economy during crises.

To say that the coronavirus pandemic is proof of the complete and utter failure of the intellectual systems upon which the market economy is based—as these commentators argue—and to call for its eradication and the triumph of statist propositions is throwing out the baby with the bathwater. It goes without saying that the market economy is an imperfect system with advantages, shortcomings, and limitations. However, many Arab states have historically struggled with the over-application of statist tendencies and the rejection of the market economy.

With the exception of a handful of utopian anarchists, most market economists do insist on the necessity of state intervention in order to guarantee justice, equality of individuals before the law, freedoms, consumer protection and competition; to address the issue of information asymmetry (in both its aspects, adverse selection and moral hazard) and internalizing the externality; and to provide certain public goods and services, such as security.

Friedrich Hayek, one of the greatest thinkers of this school, called for the necessity of state intervention in the event of an epidemic in the third volume of *Law, Legislation, and Liberty*, since protecting the health of the individual is a public good. This intervention is self-evident given the prevalence of chaos and panic that paralyzes production chains, reduces demand, and disrupts and throws off balance of economic mechanisms, thus weakening their ability to rapidly adapt to produce market demands (from consumer goods to vaccines, drugs, services, etc.).

In the attempt to demonize the market economy by understating its accomplishments, we as a society should not forget that humanity's major advancements in the field of communications, informatics, and economies of scale in the production of basic commodities, chemical medicine, and genetic engineering were the result of the dynamism of the creative market economy. This is especially so in unprecedented crises that need quick and innovative solutions. The private sector possesses greater capacity for creativity, adaptation, and innovation, especially in the medium term, before the technologies and innovations are completely localized later. Indeed, those who currently seek to downplay these accomplishments will surely resort to them to mitigate the effects of the pandemic.

Likewise, it goes without saying that the public-private partnerships that have emerged during this difficult period, in countries like South Korea, Germany, America, and France, will assist countries in their interventionist policies to confront the coronavirus pandemic with fewer human losses than those caused by the Spanish influenza pandemic of 1918, that claimed more than 50 million lives. State intervention to confront this pandemic without relying on market mechanisms is certainly doomed to failure.

For the interventionist policies of countries to succeed in making a rapid and effective response to contain extraordinary phenomena at the scale of this pandemic, they must be prepared at the highest level to confront exceptional events known as “**black swans (<https://www.washingtoninstitute.org/fikraforum/view/the-coronavirus-pandemic-in-lebanon-leveraging-and-counter-leveraging>)**.” In his well-known book, *The Black Swan*, statistician Nassim Taleb describes phenomena or events whose probability of occurrence are so low as to be unpredictable (“rare events” in probability theory), but which have severe, dreadful, extraordinary, and far-reaching consequences. The take-away instead should be that state structures must not be bloated or rigid. Rather, they must be sufficiently flexible and budgetarily capable, through financial surpluses or the ability to incur debts, to deal with “real” emergencies. Furthermore, legislatures must be able to quickly adapt, mobilize, and deploy the capabilities and skills of the state under adversity.

The apparent disparity in the management of the coronavirus pandemic between countries like South Korea and

Germany on the one hand, and France, Italy, and the United States on the other hand is evidence of the importance of budgetary discipline and bureaucratic flexibility. According to the OECD, South Korea had a budgetary surplus of 2.8% and Germany 1.9% of GDP in 2018, allowing the two states to provide and allocate resources at the right place and time.

By contrast, France was mired in a budgetary deficit of 2.5% of GDP in 2018. Though one of the highest-spending countries in the health field at 11% of its GDP, it has half the number of nurses and doctors as Germany, and French doctors and health workers earn 20-40% less than their German counterparts. Furthermore, the number of beds per 1,000 people in France is two to three times lower than in Germany or South Korea. Finally, France invests half of what those other two countries invest in new techniques and artificial intelligence in its hospitals.

Thus, it seems clear that France's issues and difficulties in confronting the pandemic do not stem from lack of state-directed funds. Despite public spending that consumes 57% of its annual wealth, its standard compulsory deductions (nearly half of GDP in 2018), and its high public expenditures on the public health sector, France is still saddled under a suffocating bureaucratic weight, which explains its tremendous difficulties in adapting its response to the pandemic compared to other countries.

As Joseph Stiglitz argues in his latest book, *People, Power, and Profits: Progressive Capitalism for an Age of Discontent* (2019), the importance of progressive capitalism—which gives ample scope for individual and competitive initiative in the context of a democratic state framed by law—is humanity's best opportunity to solve its current economic and political problems.

These insights have real regional implications for how Arab states can best prepare themselves for this and future crises. Meanwhile, given the sensitivity of the moment and the critiques currently leveled at them, private sector actors in the Arab world must realize the necessity—and even the economic benefit—of sacrificing normal priorities and exercising a sense of responsibility to prevent collective loss, state collapse, and the destruction of societal cohesion. Likewise, our Arab countries, despite their economic fragility, must also enact a package of vital and swift measures—each adapted to the individual country's needs and ability—to limit the long-term impact of the virus.

Although it is too early to make concrete conclusions in the context of the new pandemic, a number of detailed points can nevertheless be made. First, it is necessary to assign equal importance to an independent, competitive, pioneering private sector and a nimble national state that is both incentivized and incentivizing with just and strong institutions, since both the private and public sector are levers of inclusive growth.

The second conclusion concerns certain politicians in the Arab world moving away from **populist rhetoric** (<https://www.washingtoninstitute.org/fikraforum/view/COVID19-populism-Iraq-coronavirus-economy>) and avoiding getting caught up in political economic cycles in recognition that these interventions have perverse and negative effects. Third and lastly, Arab society must acknowledge the consequences of Keynesian approaches to statist economies, which seldom take into account the severity and projections of long-term economic consequences. In practice, the future generations of our region will inherit the consequences of the decisions made today; as such, these decisions should not be made lightly. ❖

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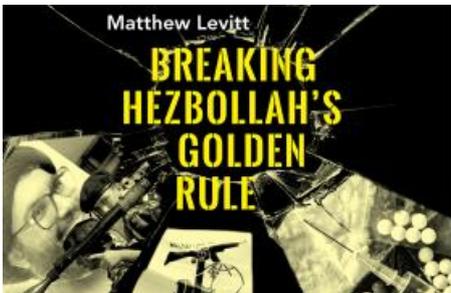
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