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SHIFTING IMF POLICIES SINCE THE ARAB UPRISINGS

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KEY POINTS:

- In response to the Arab uprisings in Egypt, Morocco and Tunisia, the IMF has changed its perspective on the social outcomes of its economic policy advice. The Fund now explicitly advocates inclusive growth, reduced inequality and increased attention to, and spending on, health and education services.
- Although this is a welcome transition, there is still room for improvement. In particular, the Fund could strengthen its commitment to the social dimensions of public policy by delivering more specific, tangible policy advice for countries to achieve inclusive growth, reduce inequality and improve health and education outcomes.
- More diverse expertise, achieved through wider recruitment of staff, would help the IMF achieve these goals.

INTRODUCTION

In the aftermath of the Arab uprisings, the IMF has treated Egypt, Morocco and Tunisia differently than it had in previous years. Since the uprisings, the IMF has focussed more sharply on the social dimensions of its macroeconomic policy advice in these countries. Specifically, the IMF has changed its policy advice concerning growth, inequality, and health and education spending. Although this is a positive change and development of IMF thinking, there is room for improvement. The IMF could strengthen its commitment to the social dimensions of macroeconomic policy by expanding its policy advice on inclusive growth and diversifying its expertise beyond the limits of macroeconomists.

CHANGES IN IMF POLICY ADVICE

In response to the uprisings in Tunisia, Egypt and Morocco, the IMF has given greater attention to the social dimensions of its economic policy. IMF policy advice is visibly different in three issue areas: inclusive growth; income inequality and redistribution; and emphasis on health and education spending.

INCLUSIVE GROWTH

Prior to the Arab uprisings, the goal of inclusive growth was completely absent from the IMF's formal communications with Egypt, Morocco and Tunisia. Inclusive growth refers to economic growth that is "sustainable and effective in reducing poverty"; specifically, the concept of inclusiveness comprises "equity, equality of opportunity, and protection in market and employment transitions" (Anand, Mishra and Peiris 2013). Before the Arab uprisings, the Fund did not include inclusiveness, equity, equality of opportunity and protection in market transitions as key features of a growth strategy. An analysis of IMF communications with Egypt, Morocco and Tunisia from 2006 through 2013 found that the Fund did not explicitly embed inclusiveness into its growth strategy until after the Arab uprisings. Table 1 shows the results of this analysis.

Before the Arab uprisings, Fund staff promoted a simpler approach to growth that did not prioritize inclusiveness; rather, the IMF viewed growth and socio-economic inclusion as independent and dependent variables, respectively. In 2006 and 2007, former IMF Deputy Managing Director Agustín Carstens and former IMF Deputy Managing Director

TABLE 1: TRACING IMF POLICY ADVICE ON THE SOCIAL DIMENSIONS OF ECONOMIC POLICY

Morocco	2006	2007	2008	2009	2010	2011	2012	2013
Inclusive growth	–	–	–	–	NA	X	X	X
Strengthen health care and education	–	–	–	–	NA	X	X	X
Improve redistribution and inequality	–	–	–	–	NA	X	X	X
Tunisia	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Inclusive growth	–	–	–	–	–	NA	X	X
Strengthen health care and education	–	–	–	–	–	NA	–	X
Improve redistribution and inequality	–	–	–	–	X	NA	X	X
Egypt	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Inclusive growth	–	–	–	NA	–	NA	NA	X
Strengthen health care and education	–	–	–	NA	–	NA	NA	X
Improve redistribution and inequality	–	–	–	NA	X	NA	NA	X

Note: "X" denotes that the IMF gave explicit recommendations to improve the stated policy objective. "–" denotes that the IMF did not give explicit recommendations to improve the stated policy objective. "NA" denotes that there were no Article IVs or comparable data available.

Table is based on data from Article IV consultations, supplemented by IMF (2013a; 2013b).

Murilo Portugal said that the main challenge for Tunisia and the other Maghreb countries was to increase economic growth. They reasoned that economic growth would, in turn, improve living standards. Before the Arab uprisings, Fund staff assumed that growth would foster inclusiveness. This contrasts sharply with Fund staff's policy advice in the wake of the uprisings.

Since 2011, the IMF has promoted inclusiveness as a key requirement of growth in Egypt, Morocco and Tunisia. An IMF report on Morocco elaborated the reasoning behind the IMF's new support for inclusiveness, suggesting that failure to achieve inclusive growth would have "detrimental effects" on macroeconomic growth. This was recognition that the socio-economic environment may be an important means of ensuring economic successes of its loan programs (IMF 2013a).

Middle East and Central Asia Department Director Masood Ahmed also stated that "measures aimed at restoring confidence and fostering more inclusive growth will help [Middle Eastern] countries enhance activity and ultimately address the needs of the population" (IMF 2012a). Similarly, IMF staff advised the Tunisian government to "lay the ground for a comprehensive set of reforms to achieve higher and more inclusive growth and reduce unemployment in a sustainable way" (IMF 2012c). In contrast with Carstens' and Portugal's remarks made several years before the Arab uprisings, statements by Ahmed after the Arab uprisings situated inclusiveness as a central feature of the Fund's policy advice for Egypt, Morocco and Tunisia (IMF 2011a). IMF policy advice in its country reports and the Fund's rhetoric on inclusive growth have both changed.

INCOME INEQUALITY AND REDISTRIBUTION

Although Fund staff did not make explicit recommendations to address inequality or to enhance redistribution in Egypt, Morocco and Tunisia before the uprisings, they do now. As Table 1 shows, prior to the Arab uprisings, IMF staff reports on the three countries made no recommendations to address inequality or to enhance redistributive policy. Instead, during this period, Fund staff tended to promote unqualified fiscal consolidation, which would likely exacerbate inequality, for example, through cuts to social spending and welfare policies, as well as calling for a smaller public sector to save government costs, but would also raise unemployment.

Just as unrest was starting to brew in the Middle East and North Africa in 2010, the IMF began to emphasize the need to address inequality and redistribution. At the same time, Fund staff advised the Tunisian government that the "key pillars" of its effort to reduce public debt should include "better targeting of transfers and subsidies to the most needy" (IMF 2010b). IMF staff gave the same advice to Egyptian authorities, writing that "priorities [for reducing Egypt's fiscal deficit] include…complementing energy subsidy reform with better-targeted transfers to the most needy" (IMF 2010a). Although IMF staff had previously called for energy subsidy reform in Egypt, they had not attached complementary policies to support the "most needy" to mitigate the reform's potential negative social impacts.

After the reality of the Arab uprisings had set in, IMF staff made explicit recommendations to address inequality and to enhance redistributive policy. Ahmed, for example, speaking about Tunisia, said: "In our view, it is crucial that governments help poor households, and even more so during difficult periods" (IMF 2011a). IMF staff took the same position in their annual staff report for Morocco (IMF 2011b). Subsequently, IMF staff welcomed the Moroccan government's plan to implement "transfers targeting the poorest segments of society and possibly the lower middle class" (IMF 2012b). Fund staff made similar remarks about Tunisia (IMF 2012a). In Egypt, one of the "most immediate challenges" was to "protect the most vulnerable segments of the population" (IMF 2012a). In the same year, IMF staff issued explicit policy recommendations to reduce income inequality in Morocco: "Reducing income inequality would require strengthening redistribution policies…. Increasing social expenditure for disadvantaged groups would allow reducing inequality and sustaining demand in the short/medium-term" (IMF 2013a).

Deputy Director of Middle East and Central Asia Department Adnan Mazarei also argued that Egypt should replace its fuel subsidies with well-targeted transfers for the poor. Mazarei said that replacing the subsidies, which benefit primarily the affluent, with strong "social safety nets" for the poor would redistribute wealth that would help to address social unrest (The New America Foundation 2013). Regarding the IMF's apparent change in perspective, Mazarei said: "The world is changing, and we [the IMF] have to change with it…we discuss issues and concerns with NGOs, but we feel and they feel we need to do a better job" (ibid.).

EMPHASIS ON HEALTH AND EDUCATION SPENDING

Following the Arab uprisings, there has been a significant change in the IMF's language and policy recommendations regarding health and education spending. The Fund did not obviously promote increased health and education spending before 2011; it now makes explicit recommendations to expand health and education spending and services. As Table 1 notes, prior to 2011, IMF staff reports on Egypt, Morocco and Tunisia made no explicit recommendations to expand health and education services.

Staff reports for all three countries began to promote expanded health and education spending after the Arab uprisings. IMF staff recommended that Moroccan authorities free up funds for universal health care and education (IMF 2011b). Subsequently, the IMF emphasized health and education spending as key contributors to inclusive growth (IMF 2012b). The division chief of the IMF's Middle East and Central Asia Department, Jean-Francois Dauphin, also advised Morocco to step up its efforts to improve the literacy rate and to expand access to health and education services (Morocco World News 2012).

IMF staff noted in their reports that health and education were now "priority spending" for Tunisia and promoted the use of public funds for "enhancing vocational training" (IMF 2012c). Subsequently, IMF staff advised Tunisia to reform its subsidy system to reallocate fiscal resources for expanded spending on infrastructure, health and education, to better address "social demands" (ibid.). The IMF's use of the term "social demands" is significant and demonstrates the change in rhetoric. There has been a remarkable switch from advocating for unqualified economic growth as a precursor to resolve social problems to an approach that explicitly embeds social demands into economic policy advice.

IMF staff also recommended "shifting budgetary resources to infrastructure investment, education, and health" to "improve growth prospects and social outcomes" for Egypt (IMF 2012a). Here, the IMF situated health and education spending as antecedents to economic growth. This contrasts sharply with the IMF's previous growth strategies in the case countries considered in this policy brief, which tended to support fiscal consolidation as an antecedent to economic growth (IMF 2006). IMF staff also advised Moroccan authorities to improve the quality of, and to reduce inequality in access to, health services (IMF 2013a).

AREAS OF CONCERN

The IMF's greater emphasis on the social dimensions of economic policy is a welcome transition; however, there are several areas of ongoing concern that could hinder the Fund's commitment to really improving the social dimension of its policies.

First, although IMF policy advice now focusses on inclusive growth, inequality, and health and education spending, its advice on improving these social dimensions remains vague compared to its advice on other topics such as financial, monetary and broader fiscal policy. For instance, the IMF often identifies specific targets for inflation management and deficit reduction. It also assesses countries' banking sectors against specific capital and liquidity ratios outlined by the Basel Accords. Yet, Fund staff do not identify such specific targets for achieving inclusive growth, improving health and education outcomes, or reducing inequality. Nor do they assess governments' performance in these areas against benchmarks. These ambiguities leave room for doubt about the IMF's commitment to improving the social aspects of economic policy.

Second, although the IMF has sharpened its focus on the social dimensions of economic policy, its narrow scope of expertise impedes its ability to deliver well-

At a demonstration in Tahrir Square in Cairo, the flags of Egypt, Libya and Tunisia were waved by the crowd.

rounded policy advice. The IMF typically recruits only economics graduates, hiring almost exclusively those with backgrounds in macroeconomics, international economics, monetary economics, public finance, econometrics and financial economics. This is understandable because the IMF has historically focussed primarily on financial and macroeconomic policies, while giving less attention to the social dimensions of policy outcomes. With its recent emphasis on inclusive growth, enhanced health and education outcomes, and reducing inequality, however, the IMF should possess a more diverse range of expertise.

POLICY CONSIDERATIONS FOR THE IMF

To reinforce the IMF's commitment to improving the social implications of macroeconomic policy, Fund staff should consider the following policy recommendations:

- The IMF should develop more specific and tangible policy advice for countries to achieve inclusive growth, reduce inequality and improve health and education outcomes. The IMF could lend its technical expertise to governments by advising them not only that they should improve performance on social dimensions, but how they might do so. For instance, in developing policy advice to catalyze inclusive growth in a particular country, the IMF could draw lessons from other countries and organizations such as the World Bank and United Nations, who both have longer histories in dealing with the social dimensions considered here.

- The Fund could identify specific targets for achieving inclusive growth, improving health and education outcomes, and reducing inequality. Such targets could include country and region-specific Gini coefficient improvements, and customized health care and education benchmarks. Setting specific targets and drawing from other successful country experiences to achieve those targets could enable the Fund to have a more robust impact on the social dimensions of policy formation.

- The IMF must diversify its experience if it wants to further achieve inclusive growth, reduce inequality and improve health and education outcomes. Rather than recruiting almost exclusively economists trained in macroeconomics, international economics, monetary economics, public finance, econometrics and financial economics, the Fund should recruit analysts whose expertise lies in other branches of economics and social sciences. Recruiting development economists, health economists and other social scientists whose expertise focusses squarely on the social dimensions and impact of public policy would strengthen the Fund's ability to improve social outcomes. This proposed diversification of expertise could take the form of a special new division of staff responsible for assessing the social implications of Fund policy strategies. Alternatively, it could mean that the Fund simply brings alternative perspectives into existing divisions and departments, which would create a multidisciplinary approach to policy analysis and development.

CONCLUSION

In response to the uprisings in Egypt, Morocco and Tunisia, the IMF has changed its perspective and language regarding the social dimensions of economic policy. In the wake of the uprisings, the Fund now explicitly promotes inclusive growth, reduced inequality, and increased attention and spending on health and education services. Although this change is laudable, there is room for improvement. The IMF could reinforce its commitment to improving the social dimensions of public policy by offering more tangible policy advice for governments to achieve inclusive growth, reduce inequality, and improve health and education outcomes. The Fund should also consider broadening the scope of its expertise. By implementing the policy recommendations outlined above, the Fund would be better positioned to deliver on its commitment to improving the social outcomes of economic policy.

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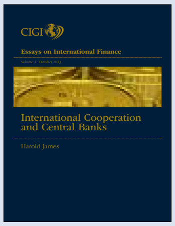

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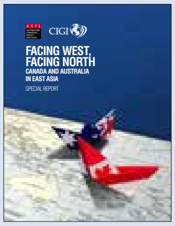

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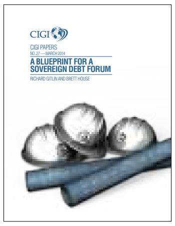

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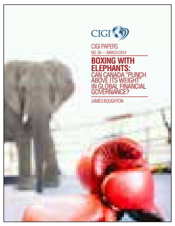

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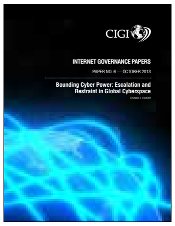

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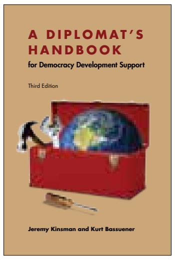

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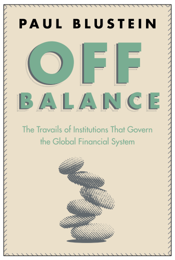

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