Role of the State

The role of government has often been poorly defined in the ME & NA, partly because it has tendency to change systematically every time political leaders and decision makers change as they often do with the use of force (e.g., Iran in 1979). These frequent and systematic changes have increased the cost of establishing and maintaining government at the expense of resource allocation for development. Indeed, many states divert a large percentage of their resources to the military in an attempt to meet internal and external security needs. In addition, many non-secular states (e.g., Iran and Saudi Arabia) view themselves as the guardian of the religion by dominating all social, cultural, economic, and political aspects of human life. Other socio-political destabilizing forces include cultural and educational duality, income and wealth inequality, ethnic heterogeneity, religious fundamentalism, and territorial disputes.

The economic role of government has profound impacts on the decision-making process of the private sector (i.e., individual households and business firms) in determining the level of investment and achieving economic growth and development. Many countries suffer from a “top man syndrome,” in which the head of a state (or an institution) makes decisions on behalf of the citizens (or employees). In countries that follow parliamentary systems, discussions by cabinet and parliament members conclude with an approval of the proposed policy decisions. Of the ME & NA countries, Turkey, Israel, and Tunisia are “real” parliamentary democracies in which members of the government can be voted out of office and proposed policies can be voted down. Iranian and Egyptian parliaments often discuss and question policies, but have little veto power. Typically, political power of the ruler aims at maintaining and enhancing the benefits of an “elite” group of population, who are actively involved in the politico-economic process. As a result, “planned” corruption prevails to enrich this powerful elite group, with their “surplus” income invested to make more income or deposited in safe foreign banks for future enjoyment. To achieve this end, the elite would influence domestic and international economic decisions, such as taxation, licensing, monopolization, tariffs and quotas, and exchange rate control.

A major economic responsibility of government is expenditure and taxation management. In the ME & NA, government spending has declined in most countries due to a greater possibility of internal and external peace. Many nations have reduced their expenditures on military activity (see Figure 9.4). Nevertheless, government spending accounts for 25 to 40 percent of the GNP (see Figure 9.1). The taxation system is not fully developed (see Figure 9.2) as some countries collect no income taxes (e.g., Kuwait, Saudi Arabia) or no social security taxes (Syria, Turkey). Tax evasion is very common since auditors and collectors can be easily bribed to ride off or reduce tax liabilities. Large government spending and inadequate tax revenues force many countries to operate with large fiscal deficits (see Figure 9.3). Deficit spending is often used to cause economic growth, while inflation is induced to increase income and sales tax revenues.

Much of the government budget is allocated to military expansion and modernization. Unstable governments and states involved in regional conflict import arms from countries like the U.S., U.K., China, and Brazil to gain security (see Figure 9.5). The extent to which military growth can sustain “one-man” regimes and bring about victory in regional wars is doubtful (e.g., Iran, Iraq).
Meanwhile, military expenditures exert tremendous economic costs in terms of “foregone” social spending (e.g., housing), human capital investment (e.g., education, health), and construction of an infrastructure (e.g., irrigation dams, telecommunication systems).

Many countries rely on central planning for the implementation of public projects and allocation of government spending. This allocation method is rather expensive due to the establishment of public administrative units and inefficient because of the absence of the profitability requirement. Economic techniques like “input-output method” determine the value-added to production inputs in the form of finished outputs and “benefit-cost analysis” to investigate the feasibility of public projects. Recently, countries seeking external financial assistance from International Monetary Fund and World Bank are required to move toward economic liberalization by removing price supports, eliminating government subsidies, privatizing public enterprises, floating the foreign exchange rates.

Broad-based economic development is a pre-requisite for political democracy. Nations must use their export proceeds from exploitation of natural resources to achieve economic development to improve the quality of human life for the entire population. In the meantime, the masses of people should be able to freely and actively participate in the political, cultural, and economic activity. Freedom to choose is the essence of democracy. A main pre-condition to development is prolonged peace, stability, and security such that individuals and institutions can continue to improve in a predictable manner. Authoritarian regimes seldom achieve or maintain economic advancement and are more likely to engage in internal and external war to ruin the benefits of progress. To evaluate the role of state, countries are grouped according to the following characteristics.

**European Colonialism:**
- Britain: Bahrain, Cyprus, Egypt, Iraq, Israel, Jordan, Kuwait, Oman, Qatar, Sudan, Turkey, UAE, Yemen.
- France: Algeria, Lebanon, Morocco, Syria, and Tunisia.
- Italy: Libya.

**Form of Government:**
- Monarchy: Bahrain, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, and UAE
- One-party Republic: Algeria, Iraq, Iran, Libya, Sudan, Syria, Tunisia, and Yemen
- Multiparty Republic: Egypt, Israel, Lebanon, Turkey, and Cyprus

**Political System:**
- Authoritarian: Algeria, Bahrain, Iraq, Jordan, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Sudan, Syria, UAE, and Yemen.
- Semi-Competitive: Egypt, Iran, Lebanon, and Morocco
- Democratic: Cyprus, Tunisia, Turkey, and Israel

**Economic System:**
- Market Oriented: Bahrain, Cyprus, Lebanon, Qatar, Turkey, and UAE.
- Centrally Planned: Algeria, Iraq, Libya, and Syria.
- State Capitalistic: Egypt, Iran, Israel, Jordan, Kuwait, Morocco, Oman, Saudi Arabia, Sudan, Tunisia, and Yemen.