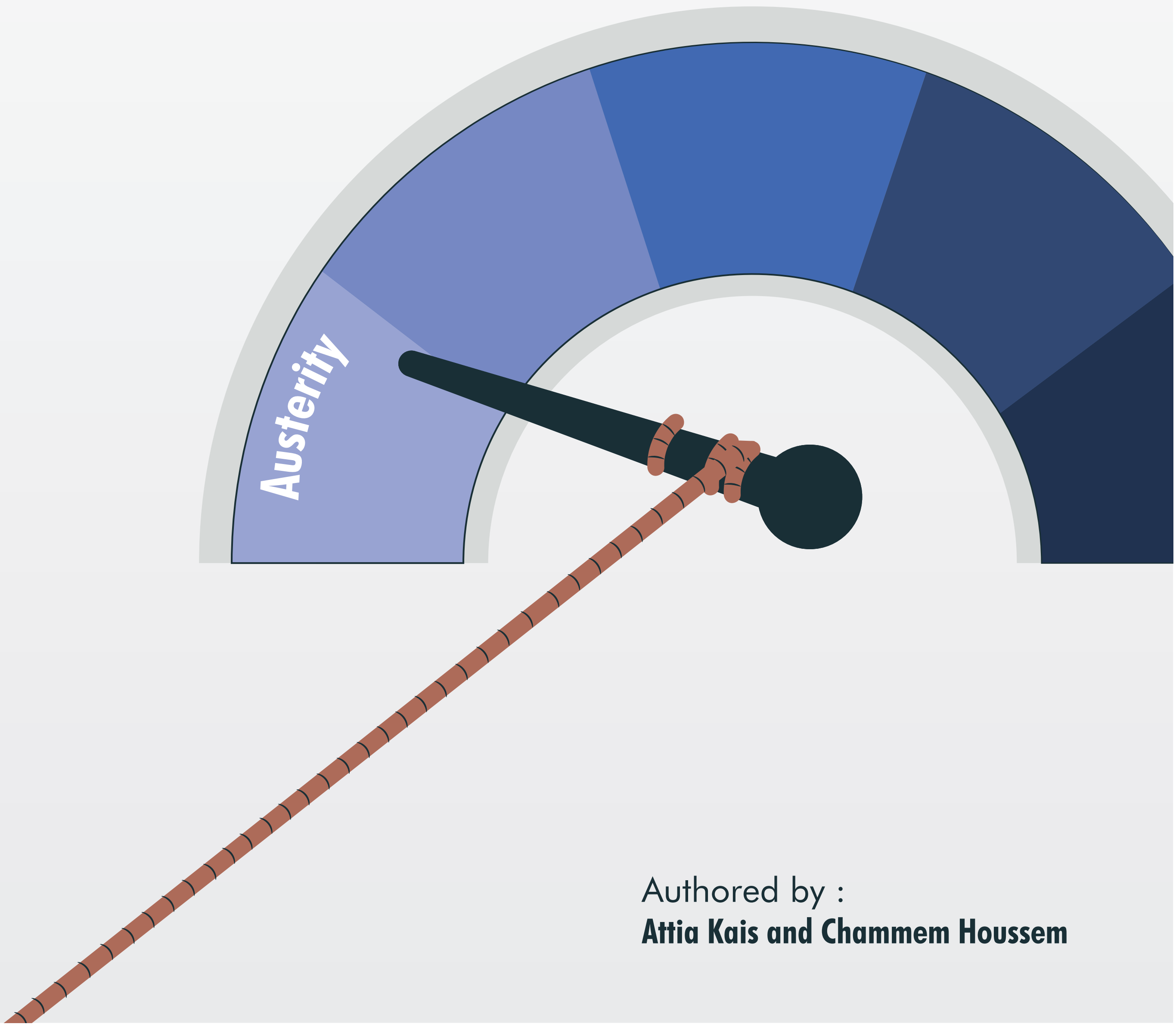
Austerity:
A Fatality or An Avoidable Misery?



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Introduction

Today more than ever, there is an urgent need in Tunisia to rethink economic policies. Adding to an unstable political context, Tunisians are facing a harsh economic reality with continuingly dwindling purchasing power, inaccessible public services, and a socio-economic environment deeply rooted in inequality. This research explores the root causes of these symptoms, tracing them back to the 1980s and the advent of neoliberal economics. Austerity measures have become the staple recipe provided for developing countries to exit an economic crisis characterised by a budget deficit, inflation, and an unbalance of payments. However, the effectiveness of these measures in promoting economic growth and social welfare has been the subject of much debate. Tunisia, among other countries, has implemented austerity measures as part of its structural adjustment program (SAP) and continued on this path for 13 years since the revolution.

First, the research will provide an overview of the history and implementation of SAPs, assessing the intended objectives of such a program and those that were imposed later by international financial institutions. Moreover, it will investigate the effects of austerity measures that were enforced in Tunisia prior and after the revolution. The paper analyses austerity measures through the lens of its social impact on vulnerable groups and points out how debt conditionalities shifted the social and economic role of the Tunisian state over this 30 year period.

Then, this paper will explore the international context of austerity, and the implications of these policies for economic growth and social welfare. It will examine the origins of austerity policies and their implementation in different countries -be it in Latin America or the MENA region-, in order to gain a broader understanding of the impact of these measures. This paper studies comparative examples, first by examining where similar policies have been applied and then by diving into the case study of Egypt by exploring the history the IMF-Egypt agreements and the social cost of its austerity recipe.

Finally, this research will provide examples of nations that pursued a different approach, relying on well-planned strategic public investments and a more progressive and equitable taxation system, to alleviate an economic crisis and enhance the well-being for their citizens. Based on these findings, this research will propose an array of alternative policies that seek to create fiscal space for social public spending that break away from the purely accountant scope of austerity and shifts the fiscal burden towards international lenders and local rich elites. The overarching objective is to mitigate the negative impact of austerity measures on already vulnerable social groups, and show that a more socially just system is possible.

I - International context of public spending and austerity

A- History of IMF adjustment programs and austerity logic

The IMF was established during the Bretton Woods Conference in 1944 as a response to the financial instability of the interwar period and the call for increased global economic collaboration. Initially, the IMF was created to promote stability in the international monetary system and prevent the reoccurrence of competitive currency devaluations, which had played a significant role in triggering the Great Depression of the 1930s.[1]

Throughout the 1950s and 1960s, the IMF began playing the role of the lender of last resort by providing financial assistance to countries struggling with balance of payments deficits. However, in the wake of the 1973 oil shock, the global role of the IMF expanded significantly.[2] As many developing countries suffered from external debt crises, a shortage of hard currency, and problems balancing payments for their debt, especially in Latin America but also in countries like Egypt.

Seeking to reinvent their economies in order to achieve global-market integration, the majority of nations in the global South sought the help of the IMF and other IFI's in order to access the badly needed inflows of aid, loans, investments, and imports from the global market[2]. As a result, the IMF became a global power of its own as it was involved in setting the parameters of the economic transformations for developing countries, often requiring them to implement structural adjustment programs (SAPs) in exchange for loans and enhanced credibility with international lenders.

As the lender of last resort, the IMF has a particularly strong position to affect borrowing governments' policy decisions. At the core of the policy changes advocated by this international institution is the ideology of Neoliberalism and the transnational policy paradigm established by the Washington Consensus in 1993[3] [4]. While Austerity programs are spread throughout time and space, be it Argentina in the 1980s or Tunisia in 2020, The bottom line is the same. What the IMF seeks to achieve through its measures is quite simple and founded on three main premises: policies should be pro-market, global, and macroeconomically stable. As the foundational premise of the institution, macroeconomic stability is pursued through decreased budget deficit to achieve non-inflationary growth and ensure exchange rate stability. Adjustment plans have also included austerity measures, privatization of state-owned enterprises, and deregulation of markets.

In terms of policy interventions, an extensive examination of 616 IMF country reports for 183 countries between 2010 and 2015 shows that austerity measures have been recommended to a large number of governments throughout the past decade, coining it as the decade of Adjustment or Austerity[5]. These include the elimination or reduction of subsidies (in 132 countries), wage bill cuts or caps for the public sector (including those in education, health) (in 130 countries), the rationalization and increased targeting of safety nets (in 107 countries); pension reforms (in 105 countries), labor market

1 Giannini, C. «The IMF and the Lender-of-Last-Resort Function.» IMF Working Paper 99, no. 102 (1999): doi: 10.5089/9781451852632.001.
2 ibid.
3 Babb, Sarah. «The Washington Consensus as transnational policy paradigm: Its origins, trajectory and likely successor.» Review of International Political Economy 20, no. 2 (2013): 268-297. doi: 10.1080/09692290.2011.640435.
4 Kentikelenis, Alexander E., and Sarah Babb. "The Making of Neoliberal Globalization: Norm Substitution and the Politics of Clandestine Institutional Change." American Journal of Sociology 124, no. 6 (2019): 1720–62. https://doi.org/10.1086/702900.
5 Ortiz, I., Cummins, M., Capaldo, J. and Karunanethy, K. " The Decade of Adjustment: A Review of Austerity Trends 2010-2020 in 187 Countries", Extension of Social Security Working Paper Series. 2015.

reforms (in 89 countries), privatizing of state-owned businesses and services (in 55 countries), with 138 countries increasing consumption taxes in this period[6].

Due to the large role the IMF plays in setting policies, it has been criticized for prioritizing economic indicators over social welfare. It has been established that IMF structural adjustment increases poverty[7], widens inequality[8], affects women disproportionally compared to men[9], and incites mass protest[10]. As showcased in a report that was presented to the UN General Assembly in 2019, there is a strong legal foundation for the inconsistency between the implementation of austerity policies in times of recession and the obligation to protect some key human rights[11] . In general, a solid argument can be made that austerity measures are detrimental to human rights[12]. It is also critical to note that IMF austerity is not austerity for all, in fact, recent empirical research has confirmed that the combination of IMF adjustments leads to increased income for the richest 10% while lowering income for the bottom 80%, with the middle-class losing out the most[13]. The increase in poverty and inequality is both in relative and absolute terms[14].

In response to both political and scholarly criticism, the IMF has made adjustments to some of its policies throughout its history. For example, starting from the 2000s and later in response to the 2008 crises, the IMF started including various measures to cushion against the social consequences of austerity, such as safety nets for the poorest and social spending floors[15]. Nonetheless, the controversies surrounding the impact of adjustment programs on poverty and inequality have persisted over time[16], particularly following the IFI's response to COVID-19.[17]

Regardless of the demonstrated social dangers of austerity during times of crisis, countries with high debt-to-GDP ratios continue to seek the help of the IMF until today. These countries may have limited access to capital markets, making it difficult for them to borrow money to finance their operations and meet their debt obligations. Additionally, high levels of debt can lead to concerns about a country's

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6 Ortiz, Isabel, Jose Antonio Ortiz, Matthew Cummins, and Kalaivani Karunanethy. «Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investment in 187 Countries.» UNICEF, UN WOMEN, ILO, 2017, http://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=51537.

7 Stubbs, Thomas, Alexandros Kentikelenis, Rebecca Ray, and Kevin Gallagher. «Poverty, Inequality, and the International Monetary Fund: How Austerity Hurts the Poor and Widens Inequality.» Journal of Globalization and Development 13, no. 1 (2022): 61-89. https://doi.org/10.1515/jgd-2021-0018.

8 Lang, Valentin F. "The Economics of the Democratic Deficit: The Effect of IMF Programs on Inequality." The Review of International Organizations 16, no. 3 (2021): 599-623. https://doi.org/10.1007/s11558-020-09405-x.

9 Abdo, Nabil. «The Gendered Impact of IMF Policies in MENA: The Case of Egypt, Jordan and Tunisia.» Oxfam, 2019. https://www.oxfam.org/en/research/gendered-impact-imf-policies-mena.

10 Walton, John, and David Seddon. «Food Riots Past and Present.» In Free Markets & Food Riots, edited by John Walton and David Seddon, 13-30. 1994. https://doi.org/10.1002/9780470712962.ch2.

11 Bohoslavsky, Juan Pablo. 2019. «Effects of Foreign Debt and Other Related International Financial Obligations of States on the Full Enjoyment of All Human Rights, Particularly Economic, Social and Cultural Rights.» United Nations General Assembly, July 16, 2019. Retrieved from https://documents-dds-ny.un.org/doc/UNDOC/GEN/N19/219/70/PDF/N1921970.pdf?OpenElement.

12 Center for Economic and Social Rights. «Austerity Measures and Economic and Social Rights: A 12-Point Human Rights Guide». 2018. http://www.cesr.org/sites/default/files/Austerity-Report-Online2018.FINAL_.pdf.

13 Stubbs et al. «Poverty, Inequality, and the International Monetary Fund". 2022.

14 Lang, Valentin F. «The Economics of the Democratic Deficit.» The Review of International Organizations 16, no. 3 (2021): 599-623.

15 Independent Evaluation Office of the IMF. The IMF and Social Protection Evaluation Report. IMF, Washington DC, 2017. https://ieo.imf.org/en/our-work/Evaluations/Completed/2017-0724-the-imf-and-social-protection.

16 Stubbs, T., & Kentikelenis, A. (2018). Targeted social safeguards in the age of universal social protection: The IMF and health systems of low-income countries. Critical Public Health, 28(2), 132-139. https://doi.org/10.1080/09581596.2017.1340589.

17 Stubbs, Thomas, Alexandros Kentikelenis, Rebecca Ray, and Kevin Gallagher. «Poverty, Inequality, and the International Monetary Fund.» Journal of Globalization and Development 13, no. 1 (2022): 61-89.

ability to repay its debts, which can further limit access to credit markets and exacerbate financing difficulties. This limited access to borrowers creates a preconceived misconception that the only way out of this balance of payment issue is through the IMF .[18]

In the MENA region, debt levels are at an all-time high; starting to increase steadily after the Arab uprisings for some countries and after 2014 for the whole region. Due to the pandemic, the region's debt levels jumped significantly, further deepening the calls for austerity by the IMF. As of 2021, the average public debt in MENA countries was 54% of GDP, while oil-importing countries in the region had an average debt of approximately 93% of GDP.[19] Accordingly, this decade was marked by a historic number of loan agreements with the IMF; between 2010 and 2021, 18 IMF agreements were signed with Arab countries[20].

Country	Number of agreements, 2010-2021	Year	Type of loan
Tunisia	3	2013	Stand-By Arrangement
		2016	Stand-By Arrangement
		2020	RapidFinancing Instrument
Morocco	4	2012	Precautionary and liquidity Line
		2014	
		2016	
		2018	
Jordan	3	2012	Stand-By Arrangement
		2016	Extended Fund Facility
		2020	Extended Fund Facility
Egypt	3	2016	
		2020	Stand-By Arrangement
		2020	Rapid Financing Instrument
Sudan	1	2021	Extended Credit Facility
Yemen	2	2010	Extended Credit Facility
		2014	Extended Credit Facility
Iraq	2	2012	Stand-By Arrangement
		2019	Stand-By Arrangement

figure 1:IMF agreements with Arab countries (2010-2021)

18 Kallas, Diana. «The Magic Potion of Austerity and Poverty Alleviation: Narratives of Political Capture and Inequality in the Middle East and North Africa.» Published by Oxfam, 2021. https://www.oxfam.org/en/research/magic-potion-austerity-and-poverty-alleviation.

19 World Bank. « MENA Economies Face Rapid Accumulation of Public Debt; Strong Institutions Will Be Key to Recovery.» Press release, April 2, 2021. https://www.worldbank.org/en/news/press-release/2021/04/02/strong-institutions-will-be-key-to-mena-recovery-amid-rapid-accumulation-of-public-debt.

20 Hussein, Samir, Chaima Ben Rouine, Jasser Chandoul, Lina Alajlouni, Bayan Falsy, and Jihane Azouaoui. «UNCOVERED: The Role of the IMF in Shrinking the Social Protection.» Friedrich Ebert Stiftung (FES) MENA, 2022. https://mena.fes.de/events/e/uncovered-the-role-of-the-imf-in-shrinking-social-protection-case-studies-from-tunisia-jordan-and-morocco.

Considering the significant role played by the IMF in shaping economic policies across the globe, and in our region, it is crucial to examine the effectiveness of the key measures recommended by the organization to Tunisia for achieving economic stability. In the upcoming section, we will analyze two primary austerity measures suggested by the IMF to address the budget-deficit and debt problems in Tunisia. Furthermore, we will study the case of Egypt to evaluate whether these measures have successfully resolved the country's economic challenges.

Where has the austerity recipe been applied before:

Wage Bill Cap

Fiscal space refers to a government's financial capacity to allocate resources to achieve desired objectives. As a fiscal measure taken on its own, the goal of reducing state spending, particularly through introducing wage bill limits, is to liberate fiscal space for governments in order to promote fiscal sustainability. The IMF defines fiscal sustainability as "…the capacity of a government, at least in the future, to finance its desired expenditure programs, to service any debt obligations…and to ensure its solvency"[21].

Since civil servants' salaries are recurrent and tend to be the largest component of national budgets, fiscal consolidation programs often place wage bill caps that countries should not surpass[22]. This measure is often tied to the dominant narrative that paints the public sector as inefficient, corrupt, and bloated[23].

Over the past decade, around 130 countries have been advised to reduce public spending, primarily by limiting their wage bills, with most of the affected countries being in the Global South (96 developing countries and 34 high-income countries)[24]. Projections indicate that by 2023, 115 countries in the Global South, representing 85% of those with available data, are expected to implement public expenditure cuts, which are likely to continue until 2026 when spending levels are expected to be below pre-pandemic levels[25]. The IMF and governments argue that these spending cuts and wage bill caps will not affect key public services like health and education. However, budget ceilings pose significant challenges for developing countries.

First, is the "crowding-out effect", which refers to the rising cost of servicing public debt that further shrinks the fiscal space for social protection. Countries with high debt levels often seek help from the IMF; however, they rarely benefit from debt relief after implementing austerity measures[26]. This leads them to use the new funds for debt servicing instead of achieving their supposed goals. For instance,

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21 Heller, Peter. «Understanding Fiscal Space.» IMF Policy Discussion Paper PDP/05/04, 2005. https://www.imf.org/external/pubs/ft/pdp/2005/pdp04.pdf

22 ActionAid, Marphatia, Akanksha A., Moussié, Rachel, Ainger, Anne-Marie, and Archer, David. «Confronting the Contradictions: the IMF, wage bill caps and the case for teachers.» 2007. https://www.right-to-education.org/sites/right-to-education.org/files/resource- attachments/AA_Confronting_the_Contradictions_2007.pdf.

23 Kallas, «The Magic Potion of Austerity,» Oxfam (2021).

24 Ortiz, Isabel, and Matthew Cummins. "The Austerity Decade 2010-20." Social Policy and Society 20, no. 1 (2021): 142–57. doi:10.1017/S1474746420000433.

25 Rehbein, Kristina et al. „Global Sovereign Debt Monitor 2022." Erlassjahr.de. 2022. https://erlassjahr.de/wordpress/wp-content/uploads/2022/04/GSDM22-online.pdf

26 Rehbein, Kristina. «A DECADE OF ROSY FORECASTS: How the IMF Underestimated Debt Risks in the MENA Region.» September 2022. https://library.fes.de/pdf-files/bueros/tunesien/19552.pdf.

Egypt's budget expenditures on wages declined from 26% to 19% between 2015 and 2018, while debt interest payments increased from 30% to 38%, resulting in an increase of 122% in absolute value[27]. Even when health or education budgets are not reduced, the high cost of debt servicing makes it difficult to increase spending in these areas to meet the growing needs of the population.[28].

In fact, fiscal austerity is the IMF's default option to make the debt appear sustainable, preferring it over necessary debt restructuring for continued debt servicing.[29] This dynamic can often become detrimental for the enjoyment of human rights[30]. Even during the COVID-19 pandemic and its resulting global recession, debt relief was only considered for five out of the 44 countries suffering from high debt vulnerabilities[31]. Out of these, the IMF recommended debt relief for only three countries: Malawi, Angola, and Seychelles. In all other cases, debt treatments were not considered. Even further, during the pandemic, while the United Nations called for non-debt-creating financial assistance accompanied by debt relief and restructuring, financial institutions ramped up their lending which continued to be accompanied by conditionalities.[32]

Indeed, Oxfam's recent analysis revealed that 85% of financial support packages negotiated between the IMF and 85 governments in response to the pandemic encourage, and in some cases condition assistance on, austerity measures starting from 2021.[33] With debt relief not being considered an option even during the largest global crisis of the century, developing countries can only maintain debt service at the expense of public services. Therefore, in 2021, when the pandemic was still ongoing, public spending was cut in 83 low- and middle-income countries to enable them to meet their binding debt obligations[34].

It is also important to note that IMF programs come as package deals, which means that the measures proposed should not be studied independently of one another. Austerity measures have been accompanied by an increasing shift in tax bases towards indirect taxation while also lightening the burden on corporations[35] [36]. This has led to corporate participation in the fiscal effort through lowering corporate tax rates and increased fiscal holidays incentives. For instance, in Egypt between 2014 and 2018 the share of corporate income tax (CIT) decreased from 35.9% to 24%, while in Tunisia the contribution of corporations to total tax revenues fell by 37% between 2010 and 2018.[37] This approach is intended to promote private sector growth, which is expected to increase revenue for the state over time due to the growth of the tax base. However, in practice, the accuracy of IMF projec-

27 Abdo," The Gendered Impact of IMF Policies in MENA", OXFAM (2019)
28 Chammam, Ho «Austerity, A Chronic Condition of Public Health.» Published by Al Bawsala, November 8, 2022. https://www.albawsala.com/en/publications/20225498.
29 Rehbein. «A DECADE OF ROSY FORECASTS". FES (2022)
30 Akanksha et al. «Confronting the Contradictions". ActionAid. 2007.
31 Rehbein. «A DECADE OF ROSY FORECASTS". FES. 2022.
32 Rehbein, et al. «Global Sovereign Debt Monitor 2022.» Erlassjahr. (2022).
33 Tamale, Nona. "Adding Fuel to Fire: How IMF Demands for Austerity Will Drive Up Inequality Worldwide." Oxfam International, 2021. https://doi.org/DOI: 10.21201/2021.7864.
34 Rehbein, et al. „Global Sovereign Debt Monitor 2022." Erlassjahr. (2022).
35 ESCWA. "Rethinking Inequality in Arab Countries." United Nations Economic and Social Commission for West Asia (ESCWA), 2019. https://doi.org/https://www.unescwa.org/publications/rethinking-inequality-arab-countries.
36 Bouzaine, Amine. «Tax Justice in Tunisia: An Ideal Crushed by Debt Policies.» 2021. Accessed March 8, 2023. https://library.fes.de/pdf-files/bueros/tunesien/18725.pdf.
37 Kallas, «The Magic Potion of Austerity,» Oxfam (2021)

tions on private sector growth is increasingly being questioned[38]. This means that countries may not necessarily see the anticipated increases in tax revenues and have to rely more on more on regressive taxation[39] [40].

Additionally, as stated in ActionAid's comprehensive report[41] on austerity in the developing world: "There is no clear logic, rationale or evidence to justify when cuts are needed, or how much is enough. Zimbabwe, with a wage bill at 17.1% of GDP, was advised to cut, but so was Liberia which spends 10.1%, Ghana at 8.7%, Senegal at 6.5%, Brazil at 4.6%, Nepal at 3.7%, Uganda at 3.5% and even Nigeria, which spends just 1.9% of its GDP on public sector workers."

Wage bill caps, a common consequence of public sector austerity measures, often lead to hiring freezes, reduced salaries, and employment cuts. As a result, the delivery of public services to vulnerable populations is negatively impacted and its long-term replacement by private services will only be affordable to a minority of higher income population For instance, Brazil experienced a decline of 17% and 19% in health and education spending, respectively, during the first year of their 2016 IMF-supported austerity plan. In 2017, programs related to violence against women and women's autonomy were cut by 52%, and 314 public pharmacies were closed, disproportionately affecting impoverished areas.[42] Even further, there is evidence showing that this measure does not only impact women particularly due to decreased service delivery, but also due to the fact that the public sector is often the main employer of women.[43]

However, given their inherent need for development, developing countries must secure fiscal space for critical economic and social investments in order to achieve the Sustainable Development Goals. In the MENA region, research has shown that the median country will need to increase its spending by an additional 5.3 percent of GDP per year by 2030 to achieve critical Sustainable Development Goals[44].

Even IMF's research shows that an increase in education spending of 1% of GDP is associated with three more years of schooling on average and a total increase in growth of 1.4% points in 15 years.[45] Nonetheless, interview-based research in three African countries has shown that following IMF programs, recruitment ceilings for teachers and nurses are set by ministries of finance in order to meet macroeconomic indicators, all without the consultation of ministries of education and health[46]. Between 2016 and 2021, the estimated result of this in just twelve low-income countries would be the loss of nearly 600,000 teachers and almost 400,000 nurses[47].

38 Rehbein. "A DECADE OF ROSY FORECASTS". FES (2022)
39 Attia, Kais. «A decade of Austerity.» Al Bawsala, November 21, 2022. https://www.albawsala.com/en/publications/20225529.
40 Bouzaine. «Tax Justice in Tunisia» 2021
41 ActionAid. «The Public Versus Austerity: Why public sector wage bill constraints must end.» ActionAid, 12 October 2021, P:25 https://actionaid.org/publications/2021/public-versus-austerity-why-public-sector-wage-bill-constraints-must-end#downloads.
42 Center for Economic and Social Rights. «Austerity Measures and Economic and Social Rights». 2018
43 Abdo." The gendered impact of IMF policies in MENA". 2019
44 IMF staff. «Social Spending for Inclusive Growth in the MENA and Central Asia Region.» IMF Departmental Paper No. 20/12, p. 8. 2020. https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2020/09/25/Social-Spending-for-Inclusive-Growth-in-the-Middle-East-and-Central-Asia-49669.
45 Baldacci, E et al. Social spending, human capital and growth in developing countries: implications for achieving the MDGs. IMF working paper WP/04/217, 2004.
46 ActionAid. «Confronting the Contradictions» 2007.
47 ActionAid. «The Public Versus Austerity». 2021.

Subsidies and direct transfers

A subsidy can be defined as the difference between cost and selling price of a product. Any subsidy can be justified if the gain in social welfare or environmental improvement that it brings exceeds the net economic cost.[48] In developing countries, the foundational objective of subsidies is to control inflation, preserve purchasing power without increasing wages, but also to advance towards development goals. For example, government-supported access to electricity helps the poor achieve better results in education and divert from high air-polluting energy alternatives[49]. Nonetheless, eliminating or reducing subsidies, including food, agricultural and energy subsidies, is among the most recurring measures of IMF programs, particularly in the MENA region along with sub-Saharan Africa[50].

Removing universal subsidies is claimed to not only reduce the budget deficit, but also increase the welfare of the poor, as part of IMF's recent shift in policy to focus more on inequality. Proponents of this policy contend that the current system of general subsidies and universal social spending programs is not effective or efficient in targeting the intended beneficiaries, resulting in a disproportionate benefit to the wealthy.[51] As an alternative, the International Monetary Fund advocates for targeted cash transfers to the poorest, which is purported to reduce costs and increase the welfare of those in need.

Cutting universal subsidies and switching to a targeted safety net approach is not a straightforward process as it presents many challenges. First, the IMF focuses on non-targeted transfers such as energy and food subsidies by conditioning its financial support on the reduction of energy subsidies and the elimination of food subsidies. As part of its social safeguarding efforts, these subsidies are meant to be removed when a means-tested database for targeting "the poorest" is in place. Means-tested benefit requires that applicants demonstrate that their income or assets fall below a certain threshold that qualifies them as poor.

However, targeting of the poor, especially the ultra-poor, has always presented a great challenge for developing countries. In Jordan, the poorest 30% of the population constitute only 45% of the beneficiaries. In Egypt, beneficiaries are estimated to only represent 20 % of the poor. However, for the IMF and the government the transition to targeted aid has led to cutting costs with direct transfer allocations representing only 0.6% of the energy subsidy bill[52]. For this, means-tested transfer programs are considered to be notoriously difficult to implement well, and are often called upon to no longer be recommended by the IMF.

Additionally, the decision to replace general subsidies with targeted ones that focus on the "poorest" implies a binary classification of the population into the poor and the non-poor. This binary further

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48 UNEP. " Reforming Energy Subsidies -Opportunities to Contribute to the Climate Change Agenda". Geneva: UNEP. 2008 https://www.unep.org/resources/report/reforming-energy-subsidies.

49 UNDESA. «Electricity and education: The benefits, barriers, and recommendations for achieving the electrification of primary and secondary schools.» United Nations Department of Economic and Social Affairs. 2014. https://sustainabledevelopment.un.org/content/documents/1608Electricity%20and%20Education.pdf

50 Ortiz, Cummins, Capaldo, and Karunanethy. " The Decade of Adjustment: A Review of Austerity Trends 2010-2020 in 187 Countries". 2015.

51 Kallas. «The Magic Potion of Austerity and Poverty Alleviation». Oxfam, 2021.

52 Hussein, Salma. " Spill of Flaws: Egypt's IMF-Backed Energy Subsidy Plan." Arab NGO Network for Development. 2018. https://annd.org/en/publications/details/a-spill-of-flaws-egypts-imf-backed-energy-subsidy-plan

intensifies the pressure on middle-class families, which have long been losing their purchasing power. In Egypt, the lifting of subsidies combined with high inflation has led to a cumulative increase in electricity bills for middle-income families by 271% since 2011.[53]

As pointed out by Oxfam[54], such economic policies have disproportionate effects on women, as women would have to increase the time spent on unpaid work to use less energy consuming appliances like washing machines. The gendered household dynamics also become a critical issue in the removal of subsidies in countries like Egypt, Jordan, and Tunisia, where the majority of social transfers are given to male-headed households. For example, in Jordan, a striking disparity can be observed, where only 1.27% of households headed by women receive assistance from the National Aid Fund (NAF), while 5.93% of households headed by men do. It is also crucial to acknowledge the gendered power dynamics within households often give men control over additional cash resources, particularly in cases where women are not involved in paid work.

Eliminating energy subsidies can also lead to other adverse effects as it may not necessarily result in a more rationalized consumption pattern. In fact, the relative prices of different types of energy could shift in a way that encourages consumers to choose the cheaper option, potentially leading to an increase in consumption of alternatives that can be harmful to their health and environment.[55] Additionally, fuel subsidies indirectly represent a significant share of the poor's income.[56] Therefore, removing them can put their livelihoods in danger, especially if they rely on energy-intensive work like street-food vendors, drivers, farmers, and others.

In fact, the IMF's Independent Evaluation Office report has acknowledged that cash transfer programs that the IMF implements in exchange for lifting universal subsidies are implemented without much regard for social protection, and the inflation that could be caused by that, but to primarily reduce budget deficits[57]. It is not surprising then to find that case study analysis of such transformations in Morocco and Jordan found that these programs were unable to reach the poorest, failed to reduce poverty, and to protect growing numbers of vulnerable persons whose livelihoods were affected[58].

Austerity programs have exacerbated poverty and inequality in ways that extend far beyond the scope of in-cash or in-kind subsidies[59]. This approach to social protection is fundamentally opposed to the human rights-based approach that views social protection as a fundamental universal right and advocates establishing a social protection floor for all to fight against inequalities. For this, the International Labour Organization and other international and human rights groups advocate for social protection floors that guarantee certain socio-economic rights[60]. Most importantly, this human-rights based approach seeks to present four guarantees that are detrimental to people's welfare:

53 Abdo. "The Gendered Impact of IMF policies in MENA." OXFAM International. 2018.
54 Ibid.
55 Hussein. "Spill of Flaws". ANND. 2018.
56 Ibid.
57 Independent Evaluation Office of the IMF. "The IMF and Social Protection Evaluation Report", IMF, Washington DC. 2017. p. 1.
58 Hussein et al. «UNCOVERED: The Role of the IMF in Shrinking the Social Protection.» FES MENA, 2022.
59 ActionAid. " Austerity Measures and Economic and Social Rights". 2018;
60 International Labor Organization. Recommendation No. 202. 2012;

- Access to essential health care, including maternity care

- Basic income security for children to provide access to nutrition, education and other basic needs

- Basic Income security for adults who are unable to earn sufficient income (unemployment, sickness, maternity, and disability)

- Basic income security for older person

However, when the removal of subsidies is made inevitable due to political forces, there are certain practices and recommendations that are important in the implementation of such a transition. According to evidence, prioritizing the protection of social, labour, and health rights for mothers and young families, as well as providing early education services and support for childcare and caregivers, can alleviate the worst of the negative impacts of austerity measures[61].A special focus of on these groups should be put in order to respect human rights. Additionally, for a successful subsidy reform, it is crucial that the government establishes its commitment to compensating vulnerable groups for energy price increases and allocating freed public funds for their benefit[62].

Section conclusion

Our findings from this section suggest that developing countries seeking IMF support to deal with their debt crises have to make difficult choices, often pursuing austerity measures at the cost of human welfare and important development indicators. This finding is supported by a large body of literature.

While not all fiscal constrictions are inherently harmful, the spirit and mixture of policies advanced by the IMF favour macroeconomic indicators over human welfare. As the International Labour Organization (ILO) has pointed out, short-term fiscal consolidation reforms are undermining long-term development efforts.[63] Due to the cycle of debt, conditionality, and austerity, development in the Global South has become subject to liberalization, rather than the contrary. Even though the IMF is not a development agency, its policies shape the parameters of the development models that countries can follow.

One critical example of the failures of such development model is the weak response that governments were able to produce in the face of the COVID-19 crisis. After a decade of compounding austerity measures across most countries, which have been shown to be disabling for state capacity on both absolute and relative fronts[64], public health infrastructure was left weak and lacking in capacity to adapt to face exogenous factors such as a pandemic. Arguably, this is the most crucial critique of the IMF's policies.

The IMF does not only enjoy a high level of leverage over indebted nations, but it also enjoys a perceived high technocratic credibility in the global narrative. Nonetheless, the IMF has been repeatedly

61 Marmot, Allen, Bell, Bloomer, Goldblatt. ''WHO European review of social determinants of health and the health divide". 2012. https://www.ncbi.nlm.nih.gov/pubmed/22964159
62 Hussein. " Spill of Flaws". ANND. 2018.
63 International Labour Organization (ILO). ''World Social Protection Report 2017–19: Universal social protection to achieve the Sustainable Development Goals''. 2017. http://www.ilo.org/wcmsp5/groups/public/--- dgreports/---dcomm/---publ/documents/publication/wcms_604882.pdf
64 Hart, Gillian. "Disabling Globalization: Places of Power in Post-Apartheid South Africa." 2002.

found to be unable to provide countries with correct forecasts for the impact of the austerity policies they provide. This is often due to unpredictable factors, such as the pandemic, but also due to factors that are neglected by omission[65]. Examples of this range from slow growth due to the overlooking of structural economic issues, such as we will see in the Egyptian case study, the impact of continued high debt servicing and lack of debt relief on program goals, or popular unrest and political crises resulting from the IMF program's measures.

It's becoming more apparent that countries ought to engage IMF recommendations more critically as past experiences have shown that austerity measures not only fail to address macroeconomic issues and are by no means designed to achieve development, but also usually come with a high social cost. The COVID-19 pandemic has taught us a valuable lesson : economies do not run solely on numeric indicators and hollow economic institutions, but on real people with needs, rights, and expectations.

65 Rehbein. "A Decade of Rosy Forecasts". FES MENA. 2022.

II-Tunisia and the IMF

The 80's Structural adjustment program

Similar to the current state of Tunisia, the 1980s were marked by a budget deficit of 5.2% between 1981 and 1986 as a consequence of a retreat in exports as primary commodity prices dropped sharply over that period, adding to that a loss in terms of borrowing capacity with expenditures reaching 40% of GDP in 1985-86 and a debt ratio that amounted to 63% of GDP in 1986[66]. The country's financial situation coupled with political instability manifested by the 1979 national strike and especially the Bread Revolt in 1984 set the stage for international financial institutions (IFI) to push for economic reforms through a structural adjustment program aimed at stabilizing the state's financial imbalances. It is worth noting that all these internal and external factors are relatively similar to the context that Tunisia faces in 2023. This similarity manifests itself with a balance of payment problem coupled with an internationally high interest rate which render access to borrowing difficult[67].

The structural adjustment program as adopted by Tunisia englobed several aspects including[68]:

- Deregulation of the economy toward a freer market environment; with the aim to attract foreign investments in an attempt to reduce the BoP deficit

- A significant change in the taxation system notably with the introduction of the value-added tax, decreasing the number of personal income brackets, lowering of upper tax rates, and cutting tariffs; to enhance state revenues by collecting more taxes from lower income classes;

- Privatization of publicly owned enterprises, the revenues of these sales was intended to cover the budget deficit ;

- Cutting public spendings, to finally create more budgetary space to allow debt repayment;

While several studies have demonstrated the failure of these SAPs in addressing the Macro-financial imbalances of the countries that adopted them over time. For example Joseph Stiglitz, a nobel prize laureate and former World Bank Chief Economist, described the SAP-induced privatisation regime in Africa as "briberisation"[69]. Our main focus of this chapter will be oriented towards the taxation policies adopted during the running of the SAP along with the impact of budgetary cuts on access to public services and the impact of liberalization and the new taxation system on inequality and the middle- and low-income groups.

Budgetary cuts : diminishing the developmental role of the state

One of the main infamous measures in relation to the SAP and austerity policies in general is state budget cuts. Tunisia did not receive a different treatment, the government's involvement in investment underwent a marked decrease during the period from 1987 to 1991, with the percentage of total

66 Mars, H. (no date) Structural Adjustment Program of IMF and World Bank: Case of Tunisia ...p:23-24 Available at: https://archives.kdischool.ac.kr/bitstream/11125/30311/1/Structual%20adjustment%20program%20of%20IMF%20and%20World%20Bank.pdf (Accessed: December 22, 2022).

67 Murphy, E. (1999). The sixth development plan. In Economic and political change in Tunisia: P93 From Bourguiba to Ben Ali. Essay, St. Martin's Press in association with University of Durham.

68 Mars, H. (no date) Structural Adjustment Program of IMF and World Bank: Case of Tunisia ...p:27-28Available at: https://archives.kdischool.ac.kr/bitstream/11125/30311/1/Structual%20adjustment%20program%20of%20IMF%20and%20World%20Bank.pdf

69 Odah, John. "The Impact of Structural Adjustment Programmes on West Africa: The Die is Cast!" International Union Rights 24, no. 1 (2017): 22-23. muse.jhu.edu/article/838367.

public investment falling from 55.2% to 49.3% of the total investment [70] and scaling from 25% to 21% of GDP[71]. This move was indicative of a broader trend towards the diminishing role of the state in investment, as the government sought to facilitate the emergence of a more market-driven economy. By reducing public investment, the government was creating space for private actors to take a more prominent role in shaping the direction of investments, in line with the principles of neoliberal economic theory, as evidenced by the planned increase of private investment to 17% by the end of the seventh development plan in 1990[72] ,

Regressive Taxation : shifting the burden to low income classes

There are three major changes in the taxation system that had a long-lasting impact on wealth distribution in Tunisia following the structural adjustment program. The first being the introduction of the value-added tax, the second is the change in personal income tax brackets, and the third is direct tax incentives to the private sector.

before July 1988, three turnover taxes existed. Most goods and services were subjected to a 17% tax, while basic consumer goods and services incurred a 6% tax. Luxury goods, on the other hand, were charged with a higher rate of 29%, after July 88, these taxes were substituted by a Value Added Tax (VAT) that was implemented with three different rates. Furthermore, the VAT was expanded to include wholesale trade operations, except for the food industry[73]. VAT works as a regressive taxation as the same rate applies on all consumers indiscriminately of their income. As can be seen in the graph below, the state's reliance on this regressive tax persisted over time hence putting in the process more fiscal burden on low- and middle-income classes.

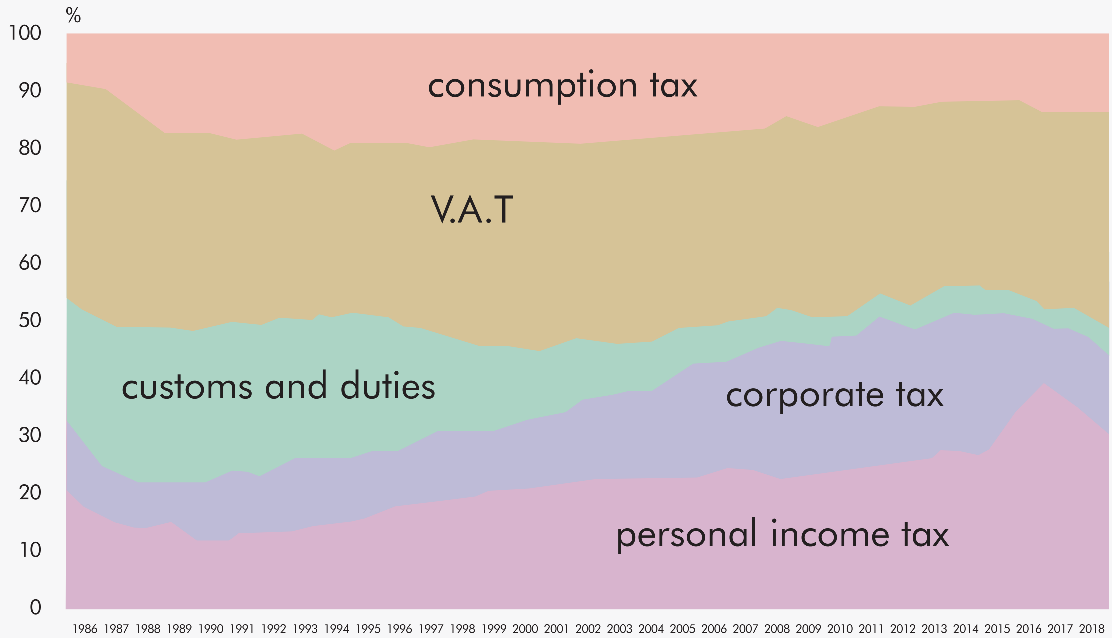

figure 2: evolution of states revenues from the five main taxes (source: FES[74])

70 the part of government investment from total investment

71 Murphy, E. (1999). The sixth development plan. In Economic and political change in Tunisia: P104 From Bourguiba to Ben Ali. Essay, St. Martin's Press in association with University of Durham.

72 IBID

73 Murphy, E. (1999). The sixth development plan . In Economic and political change in Tunisia: P109 From Bourguiba to Ben Ali. Essay, St. Martin's Press in association with University of Durham.

74 Bouzaine.A, (date) La justice fiscale en Tunisie : Un idéal piétiné par les politiques d'endettement, p4, available at: https://library.fes.de/pdf-files/bueros/tunesien/18724.pdf

To understand how this tax weighs heavier on low-income classes. It is important to underline their specificity. Household income is divided into savings and consumption. The VAT addresses the latter, and is applied uniformly to all goods and services, regardless of the income level of the consumers. While richer households consume only a small portion of their income, poor households on the other hand, tend to spend a greater portion or all their income on basic necessities such as food, rent, transport, and clothing hence pay more in consumption taxes proportionally to their income.

The second major change is in relation to income tax, as of 1989, the state budget featured the unveiling of a new tax code, which entered into effect in 1990 and was primarily focused on income tax. The reforms encompassed several changes, such as a decrease in the highest income tax rate from 65% to 35%, the implementation of a solitary personal income tax, and a decrease in the number of tax brackets[75]. As can be seen below:

Brackets	Tax rate
0 to 900 dinars	0%
900 to 1 300 dinars	5%
1 300 to 1 500 dinars	10%
1 500 to 2 000 dinars	15%
2 000 to 2 500 dinars	20%
2 500 to 3 000 dinars	25%
3 000 to 3 500 dinars	30%
3 500 to 4 000 dinars	36%
4 000 to 5 000 dinars	42%
5 000 to 6 000 dinars	48%
6 000 to 8 000 dinars	54%
8 000 to 10 000 dinars	56%
10 000 to 14 000 dinars	58%
14 000 to 25 000 dinars	60%
25 000 to 40 000 dinars	62%
40 000 to 60 000 dinars	64%
60 000 to 80 000 dinars	66%
Beyond 80 000 dinars	68%

Taxable income bracketsin dinars	Tax Rate
0 to 1 500 Dinars	0%
From 1 500,001 to 5 000 Dinars	15%
From 5 000,001 to 10 000 Dinars	20%
From 10 000,001 to 20 000 Dinars	25%
From 20 000,001 to 50 000 Dinars	30%
Beyond 50 000 Dinars	35%

figure 3: evolution of personal income tax brackets over the period of the SAP

75 IBID

The Tunisian government opted for a dramatic change when it comes to the number of brackets going from 16 prior to the SAP to 6 brackets from 1990 onward. This change together with the lowering the top income tax rate resulted in taxing the low- and middle-income classes more heavily, while giving high-income citizens an opportunity to contribute less to the national taxation effort.

Finally -and in accordance with the neoliberal spirit of the SAP-, the Tunisian government opted to direct tax incentives towards the private sector. This includes for example the 1987 amnesty directed towards tax evaders who shifted their savings in foreign accounts[76]. This trend only intensified over time which became more apparent in post-revolution Tunisia with access to finance laws becoming more open.

Privatization of state-owned enterprises: socialising losses, and privatizing profits

In a reminiscent approach of the neoliberal tendency to distribute the costs of deficit reduction across society while privatizing the advantages, the 1989 Tunisian budget sustained its efforts to revamp public companies with the aim of motivating them to channel their resources towards debt repayment. By doing so, the purchase of such enterprises would become more appealing to potential private investors, who would not have to assume the debt burden when acquiring them[77]. This systemic devaluation of state owned companies, falls under a strategy to decrease the number of these companies from 500 to 190 in 1989, and reduce the annual subsidies allocated for their development by 5% throughout the sixth development plan (1987-1991)[78]. It is worth noting that the privatised companies operated on a wide range of sectors ranging from service such as hotels to profitable industrial companies such as "Industries Chimiques du Fluor" (ICF) in February, 1993[79].

Social impact:

Tunisia experienced a comparable outcome to other countries in terms of poverty reduction following the application of the SAP. It is noteworthy that in 1990, a total of 544.000 individuals (equivalent to 80.000 families or 6.7% of households) were officially recognized to be living in poverty, primarily in urban regions. Although this marked a reduction of 10.000 in absolute numbers compared to 1985, it also indicated a deceleration in the earlier progress towards poverty elimination[80]. In 1992, the administration disclosed data revealing that the restructuring program had resulted in a rise in relative poverty. Among many factors, this failure to address poverty can be attributed to two factors, which are a result of the structural changes brought about by the SAP.

76 IBID P(108-109)

77 Aliriza, F. (2020). Périphérie perpétuelle : les IFI et la reproduction de la dépendance économique de la Tunisie,in l'impact et l'influence des institutions financières internationales sur le moyen-orient et l'afrique du nord, Friedrich Ebert Foundation. FES.P8. available at : https://library.fes.de/pdf-files/bueros/tunesien/16248.pdf

78 Murphy, E. (1999). The sixth development plan. In Economic and political change in Tunisia: P109 From Bourguiba to Ben Ali. Essay, St. Martin's Press in association with University of Durham.

79 Mars, H. (no date) Structural Adjustment Program of IMF and World Bank: Case of Tunisia ...p:48 Available at: https://archives.kdischool.ac.kr/bitstream/11125/30311/1/Structual%20adjustment%20program%20of%20IMF%20and%20World%20Bank.pdf

80 IBID P128.

Unemployment:

As early as 1990, the ILO (International Labour organization) has put estimates of the unemployment rate at 15%[81], a figure that continued to hunt successive governments well beyond 1990 and is potentially one of the main reasons that ignited the Tunisian revolution in 2010. It is also worth noting that not only did the unemployment rate rise, there was also change within the composition of the unemployed population. In 1990, 30% of the unemployed had a secondary or higher education degree compared to 18.9% in 1984 –also a trend that will continue over time. The state response to this unemployment plague was to focus job creation in the manufacturing sector, as can be seen in the table below:

	1986 % of total employed	1991 % of total employed	N° of newly created jobs
Agriculture	29	26	6.500
Manufacturing industry	23	24	65.000
Non-manufacturing industry	12	10	250
Services, Administration, other	36	40	132.700

Table 1: Structure of employment during the seventh development plan[82]

The percentage of total employed in the manufacturing industry has risen from 1986 to 1991, but it is crucial to note that this growth was achieved through measures implemented to reduce non-wage labour cost such as employer social security contributions[83]. This reduction, however, had negatively affected social safety nets of workers. Additionally, during this period, there was a decline in the proportion of individuals employed in agriculture along with the non-manufacturing industry, while most of the new jobs were created in services as the country shifted towards a tertiary economy based on tourism.

Failure of direct cash transfers and rise in inequality

Despite the implementation of the National Programme for Assistance to Needy Families (PNAFN) in 1986, with the objective of supporting households falling below the poverty threshold, the number of beneficiary families rose modestly from 65,000 to 101,000 between 1986 and 1992[84]. This program, which relied on family income as its primary criterion, was ineffective in providing adequate support to families facing increasing inflation and stagnant wages.

81 IBID 127.
82 IBID 127
83 IBID 127
84 IBID P128

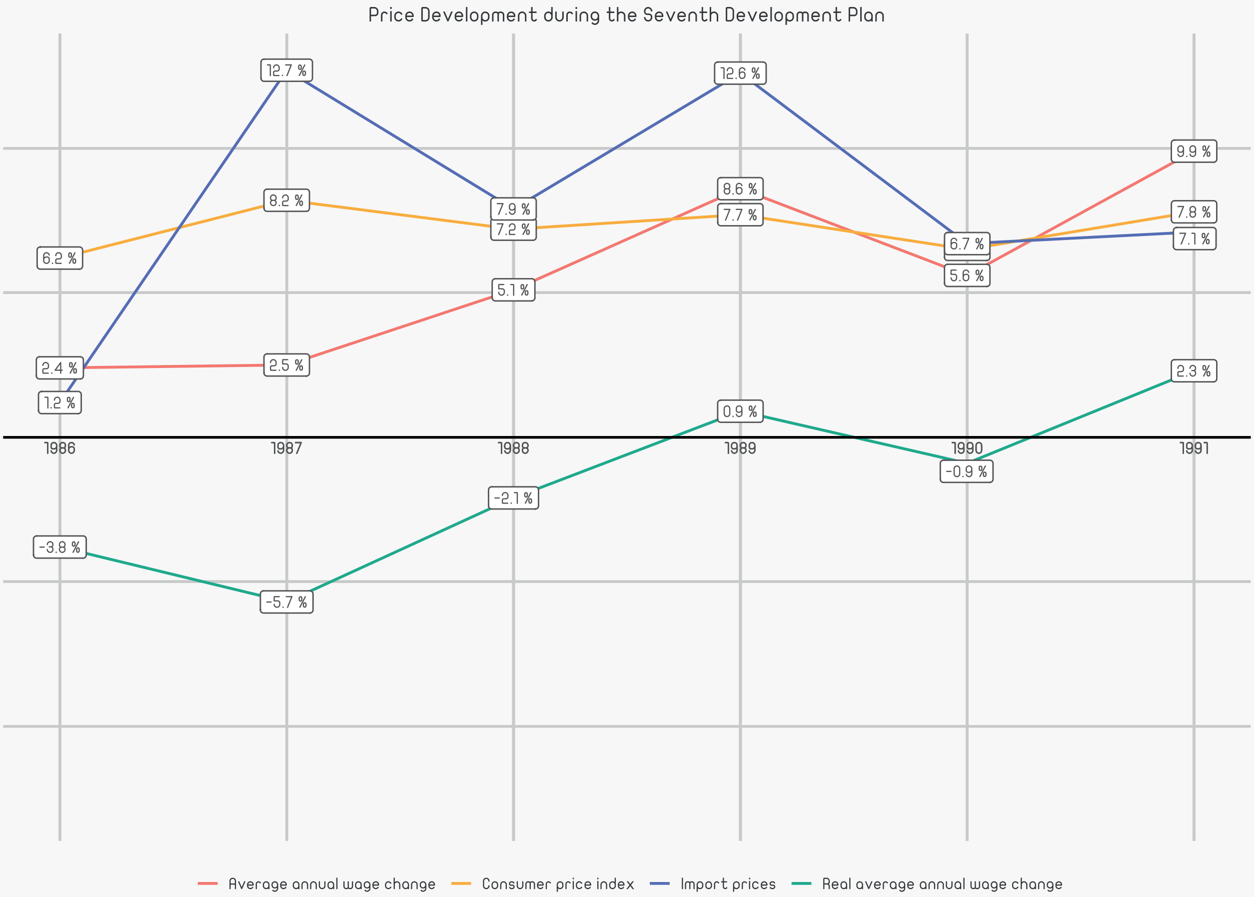

table 2:Price development during the seventh development plan[85]

As can be deduced from the table above, the real average annual wage has decreased by 9.3% between 1986 and 1991. This situation resulted, among other above mentioned factors, in a significant decrease in the proportion of Tunisian households within the middle quintile of the income distribution, as in 1975 a fifth of Tunisian households were situated in the middle quintile of the income distribution. However, by 1990, this percentage had declined significantly, with only 15.3% of households remaining in the middle quintile[86]. This decline in the proportion of households in the middle-income bracket highlights the growing problem of income inequality in Tunisia over this period. It is worth noting that the program did not stop in 1991, as Tunisia entered a second loan agreement in 1991-1992 amounting to 206 million dollars that was reimbursed by 2001[87] and a 460 million dollar loan in 1992 from the world bank[88]. These programs followed the same trend as the previous one promoting similar policies such as the privatization of two industrial zones previously owned by Agence Fontière Industrielle to be operated by the private sector[89].

85 IBID p130
86 Aliriza, F. (2020). Périphérie perpétuelle : les IFI et la reproduction de la dépendance économique de la Tunisie,in l'impact et l'influence des institutions financières internationales sur le moyen-orient et l'afrique du nord, Friedrich Ebert Foundation. FES.P7. available at : https://library.fes.de/pdf-files/bueros/tunesien/16248.pdf
87 imf, Tunisia: Transactions with the Fund from May 01, 1984 to March 31, 2023, available at:https://www.imf.org/external/np/fin/tad/extrans1.aspx?memberKey1=970&endDate=2099-12-31&finposition_flag=YES
88 Murphy, E. (1999). The sixth development plan. In Economic and political change in Tunisia: P134 From Bourguiba to Ben Ali. Essay, St. Martin's Press in association with University of Durham.
89 IBID p138

A- Post-revolution IMF recommendations (2011-2020)

Couple of decades past the SAP and after a revolution that held social justice as one of its main pillars, one might expect that the IMF will take a radical shift regarding its recommendations for Tunisia. But the IMF continued with its austerity recipe. The table below lists the sum of recommendations presented by the IMF to Tunisia over the past decade.

Recommendations	2012	2013	2014	2015	2016	2017	2018	2019	2020
Reduce the public wage bill	x	x	x	x	x	x	x	x	
Greater flexibility in the exchange rate	x	x	x		x	x	x	x	
Tax reform on companies (Less taxes)	x	x		x					
Banking reforms	x	x	x	x	x	x	x	x	
Restructuring public banks			x	x	x				
Reforms to the Central Bank	x		x	x	x	x	x		
Less expenditure on public services		x	x	x	x	x			
Phase out energy subsidy	x	x	x	x	x	x	x	x	
Encourage public private partnerships		x	x	x	x				
Reform state owned business/public enterprises (privatization)			x	x	x	x	x	x	

Table 3 : Summary of IMF recommendations (2012-2020)

Source: A decade of austerity[90]

The measures do not differ drastically from what have been discussed in the previous SAP chapter. The elements of austerity measures can be clearly detected, be it budget cuts in the form of reducing the public wage bill and phasing out energy and food subsidies or regressive tax policies as can be seen through urging Tunisian legislators to implement corporate tax reforms to supposedly stimulate investment by lowering the tax rate. It is crucial to note, that these recommendations echoed loudly in the governmental and parliamentary legislative chambers and were soon concretized into policies. The focus of this section will be oriented towards budgetary cuts, taxation, and the social impact of these policies regarding access to basic public services, purchasing power, and inequality.

90 Attia.K, Mechmech.S, A decade of austerity P:6 available at: https://www.albawsala.com/files/2022/11/A-decade-of-austerity-en-f.pdf

Budgetary cuts: A budget with no social responsibilities

The IMF has consistently focused on controlling the public wage bill in discussions of balance of payment issues. IMF recommendations have consistently urged cuts to the public wage bill since 2012. The international financial institution bases its narrative for these cuts on a single indicator, the public wage bill to GDP ratio. However, in 2016, a freeze on recruitment in the public sector was implemented, except in certain administrations such as the Ministry of Interior[91]. Despite this freeze, the government officials still argue that the public wage bill constituted 16% of GDP and swift action must be taken to ensure a 2% decrease[92]. Budgetary cuts also included the phasing out of various subsidies as demanded by the IFI, these subsidy lifts included quasi annual cuts to energy subsidies starting 2012[93] and eliminating food subsidy on canned tomatoes, a product that is a staple on the list of the Tunisian consumer products[94].

Taxation: Finish off the middleclass, and subsidizing corporations

There are two major shifts in terms of taxation-related policies after the revolution : the changes made to income tax and corporate tax. It is also worth noting that the reliance on the VAT has continued well past the SAP as shown in figure nb 3.

Income tax

What was presented as a progressive new personal income tax brackets in 2016:

1991 - 2017	
Taxable income brackets in dinars	Tax rate
0 to 1 500 dinars	0%
From 1 500,001 to 5 000 dinars	15%
From 5 000,001 to 10 000 dinars	20%
From 10 000,001 to 20 000 dinars	25%
From 20 000,001 to 50 000dinars	30%
Beyond 50 000	35%

2017 - 2023	
Taxable income brackets in dinars	Tax rate
0 to 5 000 dinars	0%
From 5 000,001 to 20 000 dinars	26%
From 20 000,001 to 30 000 dinars	28%
From 30 000,001 to 50 000 dinars	32%
Beyond 50 000	

figure 4: evolution of personal income tax brackets (1991-2023)

Turned out to be merely a more regressive mimic of what was implemented during the PAS, as shown in the graph above, the Tunisian government opted to further decrease the number of brackets going from 6 in 1991 to only 5 in the supposed reform of 2017, this further stressed the tax effort on the already burdened low and middle-income classes. This transfer of burden not only manifested itself via the number of brackets, but we can also observe a sharper increase in terms of rates applied to

91 رئاسة الحكومة Tunis: منشور حول إعداد مشروع ميزانية الدولة لسنة 2016-2021 n.d.
92 Finances.gov.tn.2022.midtermbudgetaryframework.P:13,[online]Availableat:<http://www.finances.gov.tn/sites/default/files/2022-02/ANNEXE_02_03_04.pdf>
93 Documents1.worldbank.org.2015.EvolutionofEnergySubsidies.[online]Availableat:<https://documents1.worldbank.org/curated/en/370251468189558300/pdf/WPS7312.pdf>
94 Aliriza,F.,2021.Tunisia.GovernmentRaisesConsumerPricesto"Appease"IMF,SomeClaim.[Blog]Nawaat,Available at: <https://nawaat.org/2021/07/08/tunisia-government-raises-consumer-prices-to-appease-imf-some-claim/>

middle income classes whereas the maximum rate hasn't seen any revision since 1991. A tragic turn of events especially if taken under consideration that Tunisia used to have a maximum income tax rate at 68% prior to the SAP.

Corporate tax

Following the standby agreement with the IMF signed in 2013[95], the corporate tax rate was reduced from 30% to 25%[96]. This rate continued to decline and hit an all-time low of 15% with the signing of the 2020 finance law[97]. While the latter decrease was not a result of an IMF recommendation, it is worth noting that it was advocated for following the same rationale offered by the international financial institution in 2013, which states that a lower corporate tax rate will not only ensure an increase in investment as the low rate will draw investor but will also contribute to increasing state revenues. Two assumptions that turned out to be false.

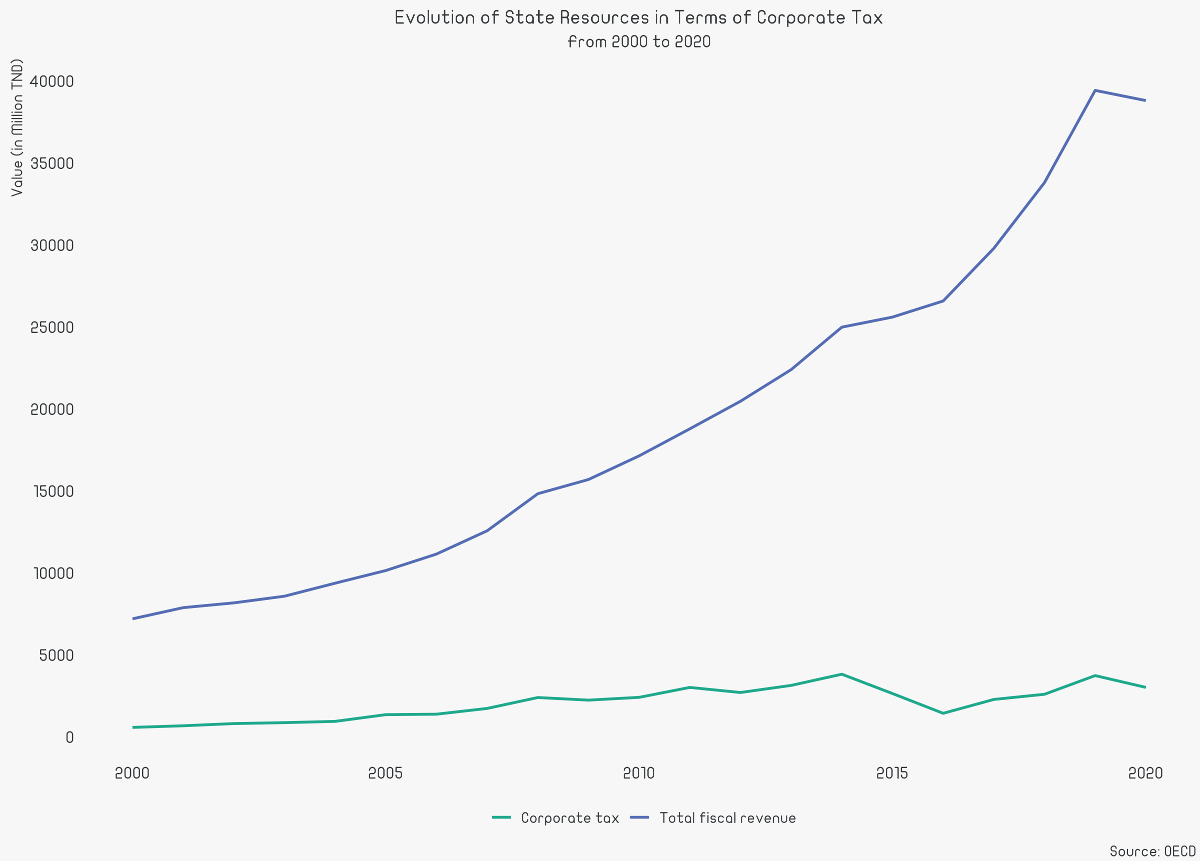

Figure 5: The evolution of state resources in terms of corporate tax (source: OECD)[98]

As shown in the graph above, the decrease in corporate tax rate in 2014 resulted in state revenues plummeting, a decrease in the amount of tax collected that continued to plague the state up until this day where the revenues are yet to recover to its pre-2014 amount, thereby undermining the country's capacity to fund public services and address social inequalities.

95 IMF, Tunisia: Request for a Stand-By Arrangement—Staff Report; Press Release on the Executive Board Discsion; and Statement by the Executive Director for Tunisia., IMF Country Report No. 13/161, June 2013, International Monetary Fund

96 finance law of 2014. article 18

97 Finance law of 2020

98 [57]OECD ,Link: https://stats.oecd.org/viewhtml.aspx?datasetcode=REVTUN&lang=fr#

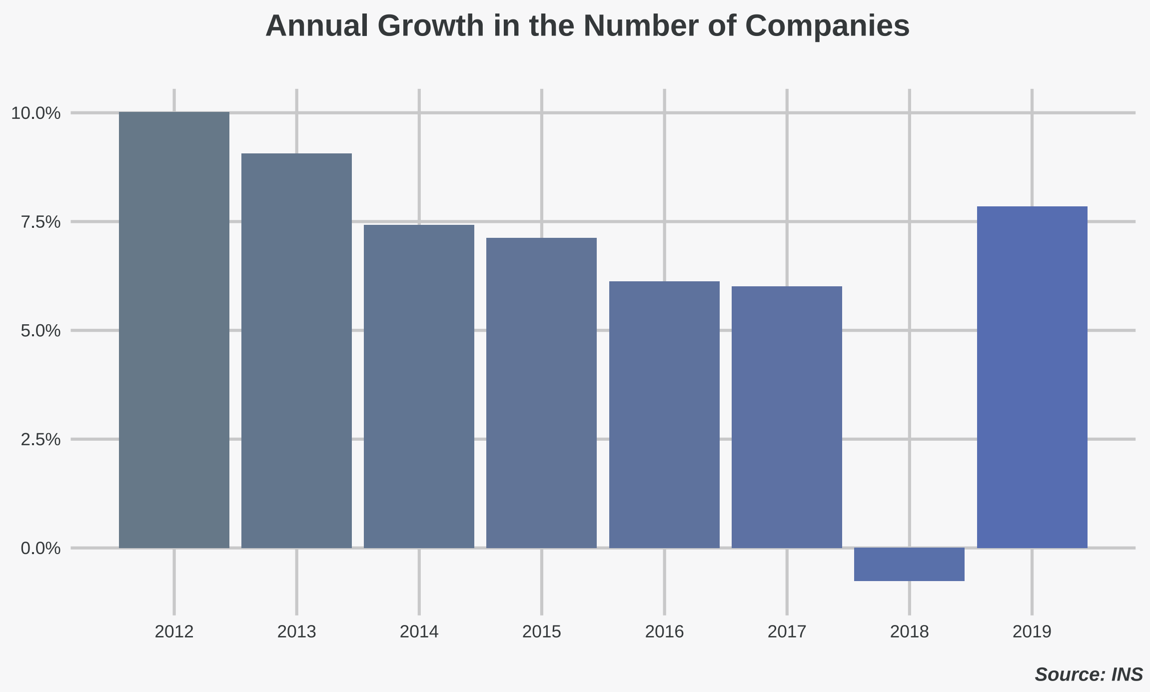

Figure 6: Annual growth in the number of companies (Author: Albawsala, Source: INS)[99]

Despite the IMF's policy recommendation for a lower corporate tax rate to incentivize companies to move from the informal to the formal sector and generate job creation, the results have been disappointing. In fact, the growth rate of companies accessing the Tunisian market has decreased since 2014, with an annual increase of only 6% in 2017 compared to 10% in 2012. This suggests that the decrease in corporate tax rate failed to encourage higher private investment.

Social impact

Once again Tunisia did not manage to escape the fatal impact of implementing IMF policies especially on the vulnerable groups, this social impact was even more widespread as state institutions suffered from systemic underfunding over the years along with subsidy cuts. This impact could be observed in terms of access to public services, diminishing purchasing power, and an ever present sharp inequality.

Access to public services:

Following the freeze put on recruitments, access to primordial services such as health and education was hindered. To measure how the lack of personnel impacted access to public services, we use indicators such as the number of teachers in primary education/10000 student and the number of doctors in the public health sector/10000 inhabitant.

99 Ins.tn. 2020. STATISTIQUES ISSUES DU RÉPERTOIRE NATIONAL DES ENTREPRISES. [online] Available at: <http://www.ins.tn/sites/default/files/publication/pdf/RNE-2020.pdf>

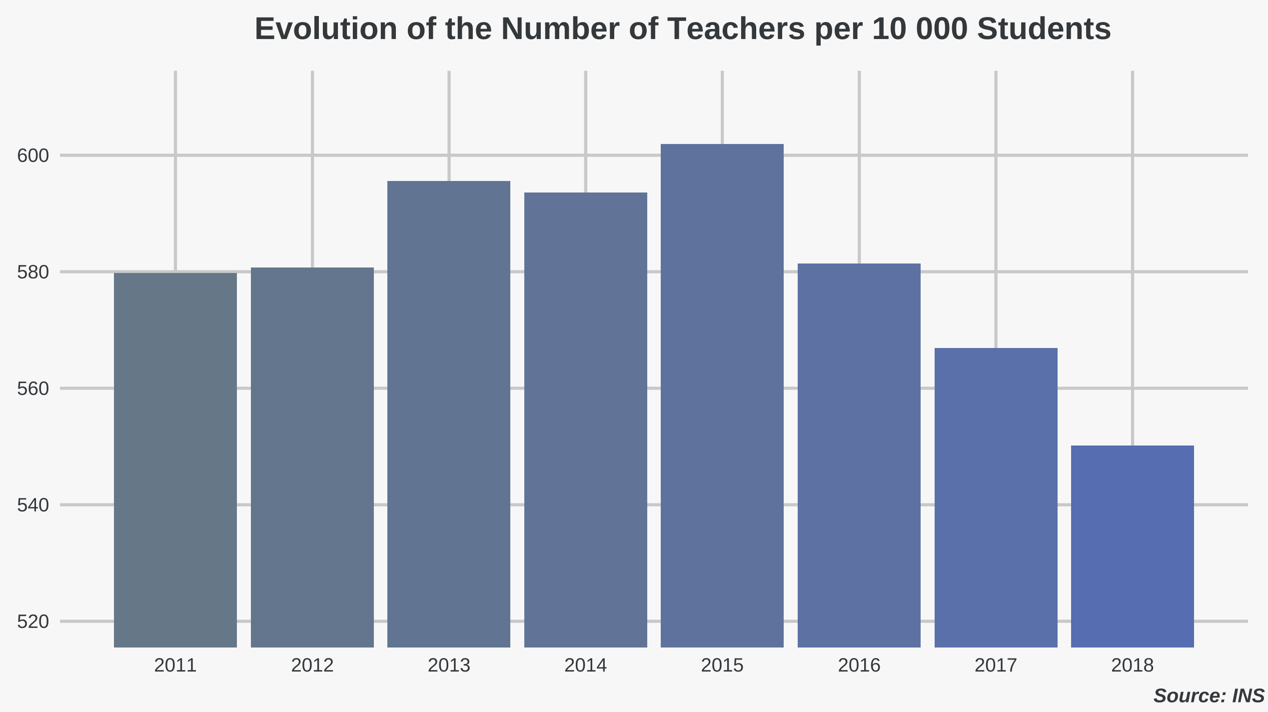

Figure 7: evolution of the number of teachers/10000 students (author: Albawsala source: INS)[100]

As depicted in the graph, post-revolution Tunisia has experienced a decline in the number of public sector teachers per 10,000 students. This resulted in two significant outcomes. First this have had a detrimental impact on the quality of education as classrooms became overcrowded. The second and perhaps the most important impact is the way these measures affect the population disproportionally. As the quality of education in public schools deteriorates, more and more families are turning to private education. The graph below demonstrates how the rate of enrolment in the private sector is growing at a higher pace than that of its public counterpart. For example, as of 2017, the number of students enrolled in the private sector represented 6,5% of the total enrolment compared to only 0,6% in 1994[101].

100 ns.tn. 2018. statistics on education. [online] Available at: <http://www.ins.tn/en/statistiques/81>
101 H.Lac Inkyfada, link:https://inkyfada.com/fr/2018/11/02/tunisie-chiffres-education/

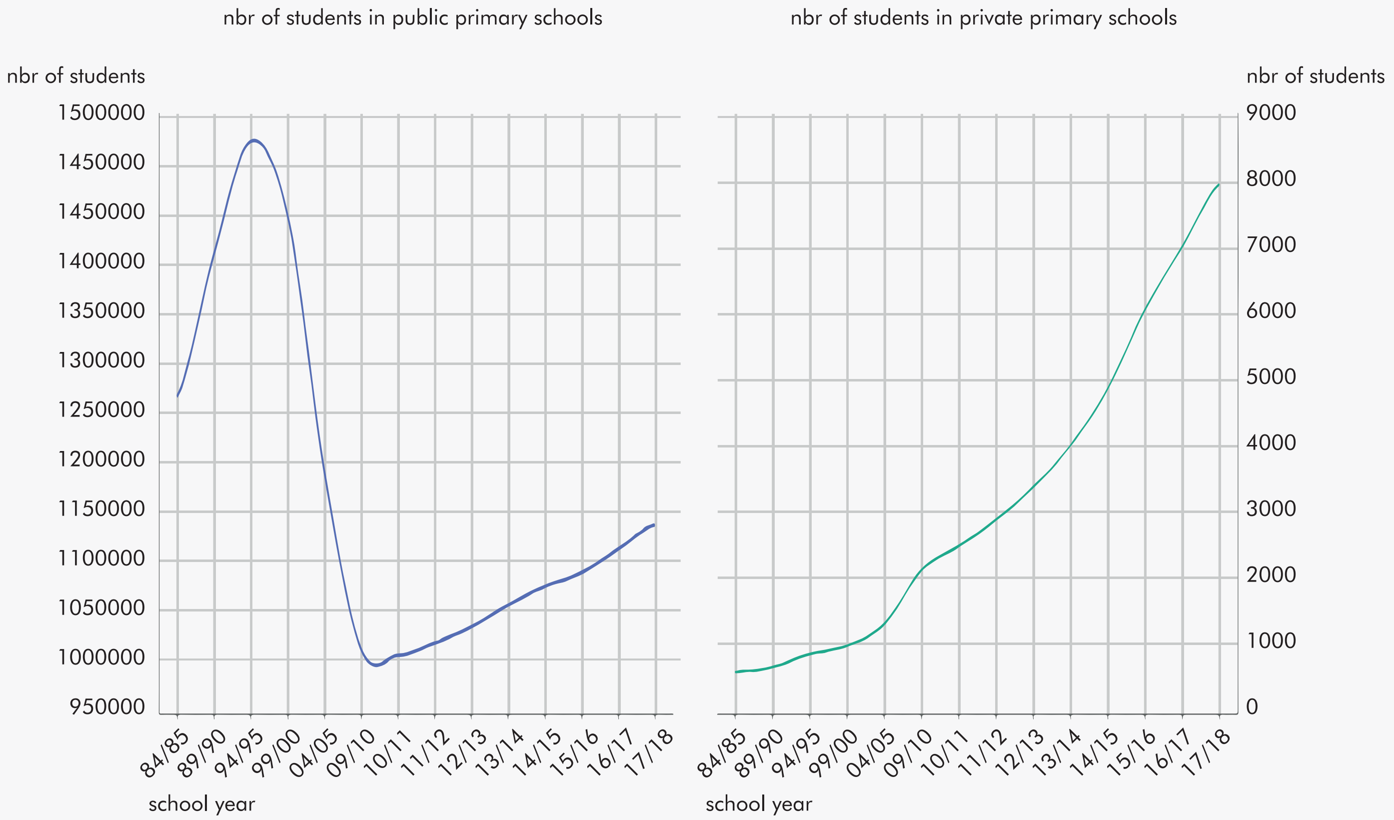

figure 8: the evolution of the number primary cycle students in public vs private sector (source: Inkyfada)[102]

With a national minimum wage of 459 DT per month[103], access to private educational institutions is not guaranteed to the wider part of the population.

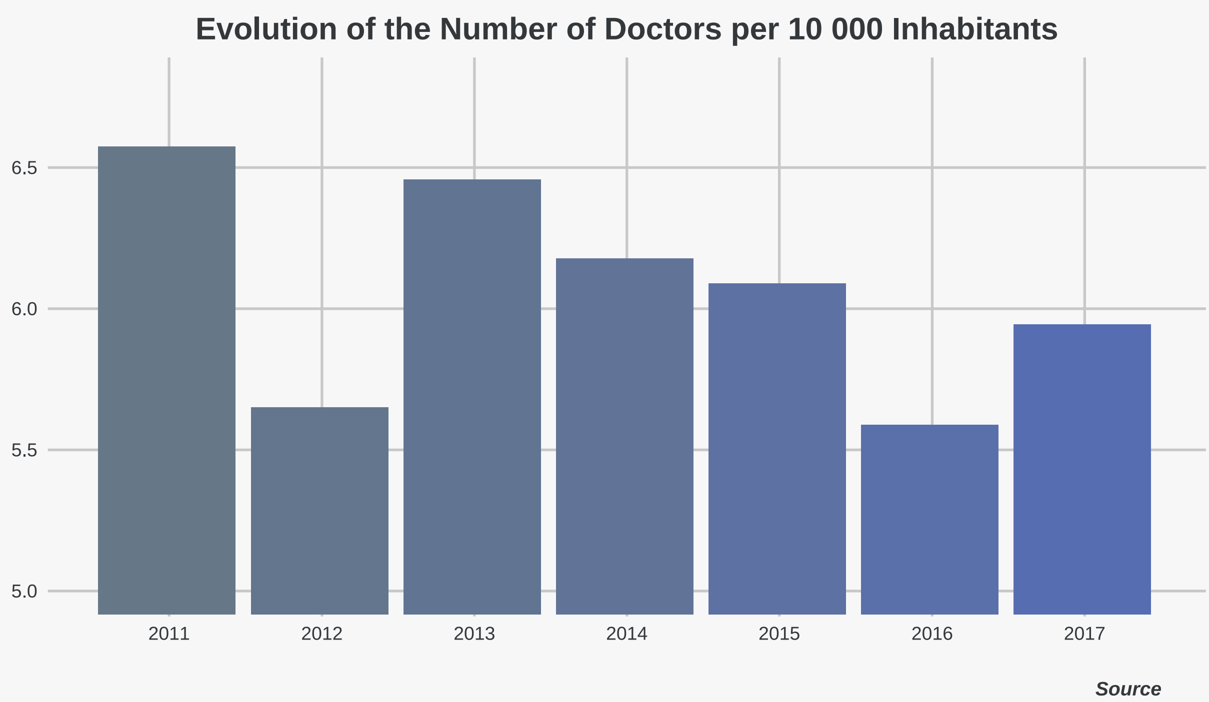

Figure 9: Evolution of the number of doctors/10000 inhabitants (Author: Albawsala, source: INS)[104]

102 IBID
103 Paie tunisie.com link:https://paie-tunisie.com/369/fr/smig-et-smag
104 ns.tn. 2018. statistics on health. [online] Available at: <http://www.ins.tn/en/statistiques/81>

The past decade has also witnessed a retreat in the number of public health doctors, which has had a significant impact on people's access to medical assistance. This is supported by a survey conducted by the INS, which reveals that 37% of respondents in need of medical care were unable to access it, and the figure rises to almost 50% for the poorest households. Among those unable to access medical care, 87% attributed the cause to either the shortage of medical personnel or their inability to travel to medical centres[105]. The consequences of the shortage of public health doctors have been particularly apparent in the aftermath of the COVID-19 crisis especially if we take under consideration the increasing level of migration of doctors over the period of 2015-2020 which amounted to 3300 doctors[106] . Yet another witness of the disproportionate impact of austerity measures born by the low income members of the society.

Diminishing purchasing power

In similar fashion to the SAP, post-revolution austerity policies have also attacked purchasing power. In May 2019, the President of UGTT, Noureddine Taboubi, stated that the salary increases for both 2018 and 2019 had been nullified by the rise in prices[107]. Perhaps this is more felt when linked to lifting subsidies, as of 2014 the Tunisian government lifted subsidies on canned tomatoes - a product that is highly used by Tunisians- the prices of this commodity increased substantially over time.

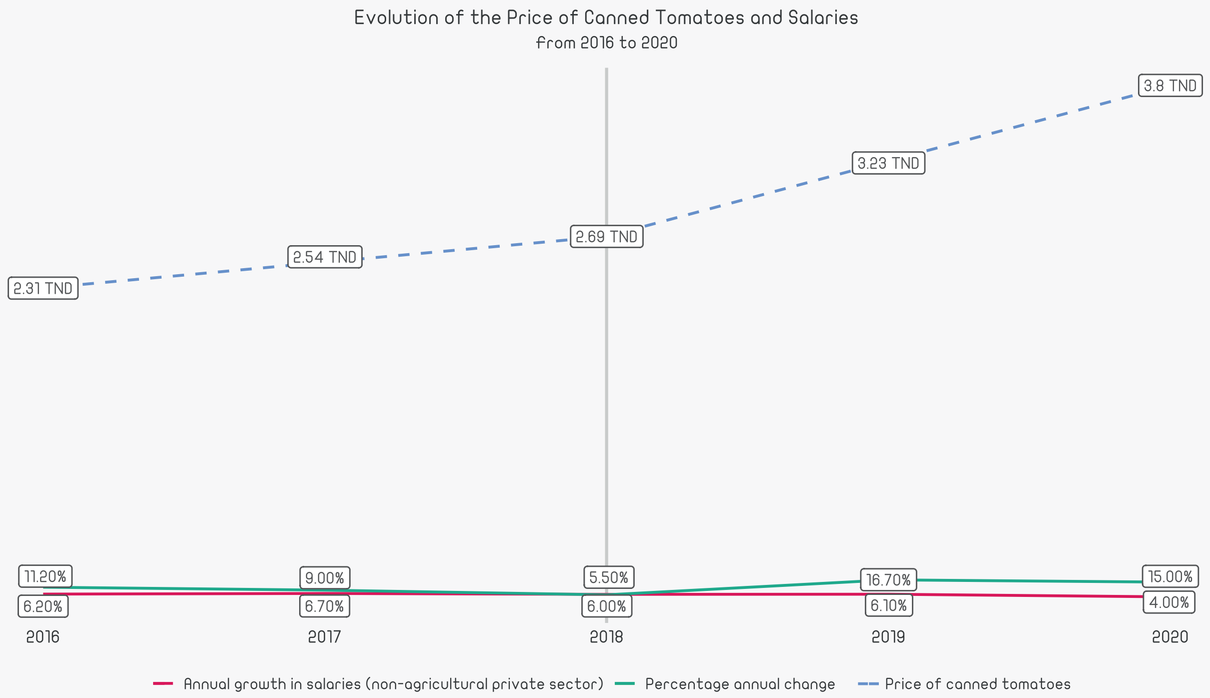

Table 4: Evolution of the Price of Canned Tomatoes and salaries (2014-2020)

Over the period of 2014-2020, the prices of canned tomatoes increased at an average annual rate double that of the increase in salaries in the non-agricultural private sector. This mismatch is only set to further intensify as the rate of increase in the prices of this produced accelerated in the recent

105 ns.tn. 2020. L'impact socio-économique du COVID-19 sur les ménages |1ère vague | INS. [online] Available at: <http://ins.tn/publication/limpact-socio-economique-du-covid-19-sur-les-menages-1ere-vague>

106 Ins.tn ,Rapport de l'enquête nationale sur la migration internationale Tunisia-HIMS,p:20, available at:http://www.ins.tn/publication/rapport-de-lenquete-nationale-sur-la-migration-internationale-tunisia-hims

107 Mosaïque FM (2019) Taboubi : la hausse des prix a absorbé les majorations. .link: https://www.mosaiquefm.net/fr/actualite-national- tunisie/538091/taboubi-la-hausse-des-prix-a-absorbe-les-majorations.

years, as of early 2023, the price for the 800g canned tomato reached 4,900dt[108] which represents 29% of increase in the course of two years.

Inability to address persistent inequality

Perhaps one of the main observations to be made from the SAP, is its contribution to the gradual disappearance of the middle class. This rise in inequality was one of the main igniters of the Tunisian revolution as people went out to the street demanding social justice. This outcry sadly did not find attentive ears, not among successive governments nor IFI's that hailed development at any opportunity. At the contrary, the policies implemented after the revolution have maintained this sharp inequality.

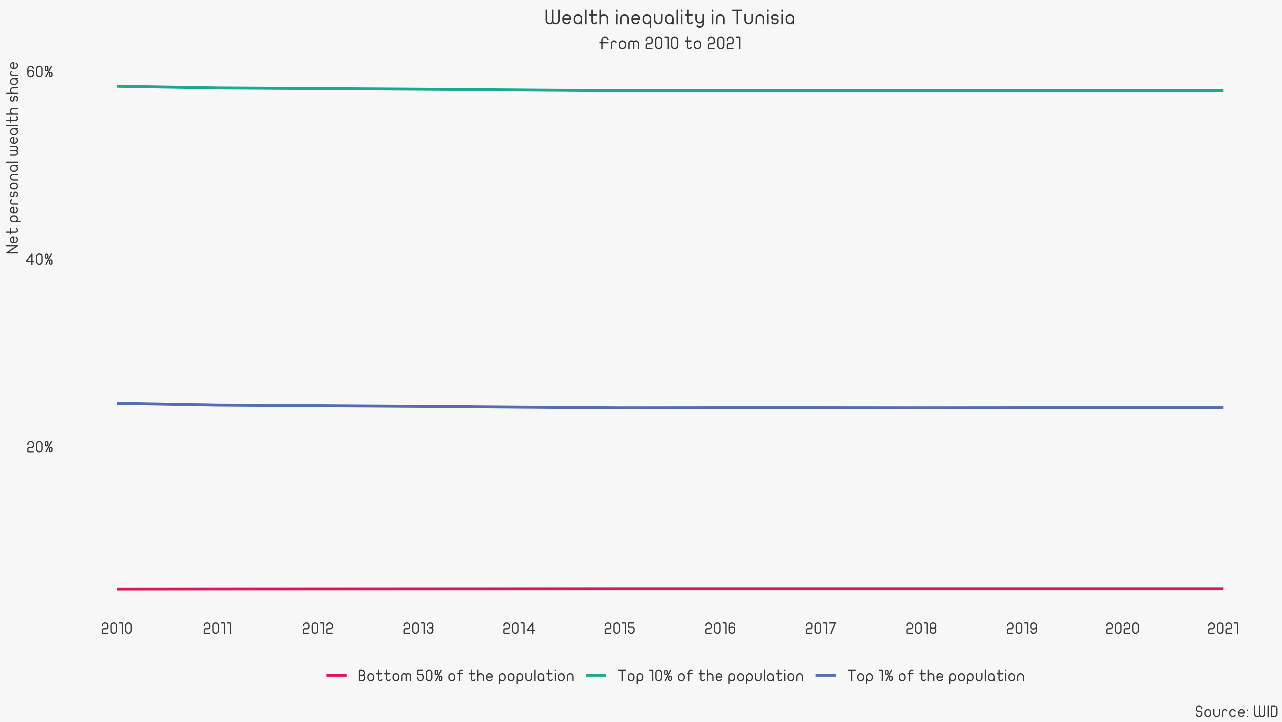

figure 10: wealth inequality in Tunisia (2010-2020) (source: WID)[109]

The graph above depicts a horrifying reality, that of a stagnate sharp inequality. The top 10% in terms of net personal wealth controlled persistently 58% of the total wealth created in the past decade as opposed to a mere 4,9% owned by the bottom 50% of the population. While the inequalities stated in these findings are already sharp, a study published by the European Journal of Business and Management Research concluded that COVID 19 impacted income disproportionally as people with lower education and belonging to middle and low-income brackets suffered from income loss in a more severe manner over this period[110]. This phenomenon is surely to further sharpen the already deep entrenched inequality.

108 Geandrive.tn,link:https://www.geantdrive.tn/tunis-city/49-doubles-concentres-de-tomates?order=product.price.desc

109 world inequality database,Link:https://wid.world/share/#0/countrytimeseries/shweal_p99p100_z;shweal_p0p50_z;shweal_p90p100_z/TN/2015/eu/k/p/yearly/s/false/1.1410000000000005/70/curve/false/2009/2021

110 Kasraoui, A., & Mekni, K. (2022). Income Loss and COVID-19: Evidence from Tunisia. European Journal of Business and Management Research, 7(4), 163–168. https://doi.org/10.24018/ejbmr.2022.7.4.1545

B- The suggested program (2021-2023)

It is essential to note that up to the elaboration of this research report, no concrete agreement has been signed with the IMF as negotiations struggled over 2022.

The Bouden government's economic program, as outlined in the "Midterm Budgetary Framework 2022-2024" report[111] , the leaked negotiation program[112] and the finance law of 2023[113] presents a clear continuation of the austerity policies implemented by the previous governments.

In terms of budgetary austerity, the government plans to reduce the public wage bill, which will likely lead to lower real salaries for civil servants as wage increases can't meet the general increase in prices. Additionally, the government aims to cut subsidies, which will result in higher prices for essential goods and services, particularly affecting low-income households. Furthermore, the retreat of the state's role in state-owned companies in favour of the private sector may lead to privatization of public enterprises, potentially resulting in higher costs for consumers and job losses for workers.

In terms of tax measures, the government aims to widen the tax base. In fact, the discussed law corporate tax rate of 15% was not modified in the Finance law of 2023[114] which ought to persistently impact negatively the state resources. Hence the government may continue to rely on indirect and regressive taxes, such as the VAT, to raise revenue. These taxes disproportionately affect low-income households, who spend a higher proportion of their income on essential goods and services subject to VAT.

Regarding monetary policy, the government aims to simplify foreign exchange regulations, allowing for more flexibility in the exchange rate and reducing restrictions on capital flows. However, this may cause capital flight from Tunisia, leading to a further fall in the value of the Dinar and potentially triggering inflation. Moreover, this policy may lead to the concentration of wealth in the hands of a few, as those with greater access to capital can take advantage of opportunities presented by a more open and flexible exchange rate.

Overall, even without revealing the matrix of reforms to be presented to the IMF, the Bouden government's economic program represents a clear continuation of the austerity policies that have been implemented in Tunisia over the past decade under different IMF programs. While these policies aim to reduce the budget deficit to allow essentially for debt repayment, they will not address the structurally failing economic model, thus exacerbating inequality and leading to social unrest.

111 Finances.gov.tn. 2022. midterm budgetary framework. [online] Available at:<http://www.finances.gov.tn/sites/default/files/2022-02/ANNEXE_02_03_04.pdf>
112 Ministry of finance, 2022. leaked economic program. Tunisia: media agencies and NGOs
113 Ministry of Finance,2023,finance law of 2023 LINK:http://www.finances.gov.tn/sites/default/files/2022-12/LF.pdf
114 Ministry of Finance,2023,finance law of 2023,P:104 LINK:http://www.finances.gov.tn/sites/default/files/2022-12/LF.pdf

By country profile/ case study

Egypt and the IMF [115] [116] [117]

Egypt's first attempt at market-based development began in 1974 when President Anwar El-Sadat (1970–1981) launched the open-door policy (Infitah). However, overwhelming protests and riots in January 1977 forced Sadat to back down. Political turmoil ensued until his assassination in 1981, temporarily halting further pursuit of austerity measures.

Since this first attempt, Egypt and the IMF have struck deals about once a decade, which have resulted in loan packages and austerity programs in 1976, 1987, 1991, 2003, 2016 and the latest in 2022. These agreements aimed to shift Egypt's economy into a market-based system guided by neoliberal principles. However, the Egyptian people have seen little to no benefits from these efforts.

President Mubarak was hesitant to push the same austerity agenda in the 1980s. Instead, he relied on Egypt's access to oil-related rents. However, after the oil glut of 1986 denied the government critical revenues, and Egypt's participation in support of the United States in the Kuwait War in 1990 and 1991, new adjustment agreements were signed with the IMF in 1987 and 1991. The latter agreement was coupled with a generous debt-relief scheme.

Since that period, liberalization efforts in Egypt have intensified greatly. However, as questioned by Adly (2018), even though Egypt was considered an IMF top-performer in the 2000s, the repeated need for greater and greater IMF intervention raises several questions about the success of SAPs in brining macroeconomic stability. This suggests that Egypt's problems are structural, requiring more than macroeconomic stabilization and austerity.

Economic transformation under adjustment:

Throughout the several decades of attempted establishment of market-based development, few tangible impacts have materialized for the majority of Egyptians. In the early 2000s, coherent neoliberal-oriented teams of technocrats and businessmen came to dominate Egyptian economic policy-making. Mubarak's cabinet committed to more intense liberalization of trade and capital movement, broad-scale privatization of state-owned enterprises, and attraction of Foreign Direct Investments (FDIs). Following the guiding principles of the reforms, liberalization, deregulation, private-sector development, and austerity measures were implemented in Egypt in order to create a market driven economy that would integrate individuals and households into the global flows and division of capital and labour.

Following the transformation, many sectors that were once controlled by the state were deregulated, opening areas for domestic and foreign private companies to occupy them. To advance market-based development, the state provided direct as well as indirect subsidies in a variety of sectors, including manufacturing, tourism, financial services, telecommunications, agricultural exports, real estate, and construction. By the early 2000s, the private-sector started continuously growing, contributing more

115 Adly, Amr." Short Term Fixes for Long Lasting Troubles: Why IMF Reforms Won't Solve Egypt's (Political) Economic Problems". FES MENA. 2018. https://library.fes.de/pdf-files/iez/14933.pdf
116 Abdo. " The Gendered Impact of IMF policies in MENA." OXFAM International. 2018.
117 Hussein. " Spill of Flaws". ANND. 2018.

and more to GDP growth. For example, privately-owned enterprises manufacturing sector increased their share of the market from 58% in 1991 to 85% in 2001. Similarly, the share of the private sector in construction grew from 71% in 1991 to 88.4% and 89.1% in 2006 and 2010 respectively.

While Egypt was praised as an IMF top-performer during this period, social and economic vulnerabilities were building up under this model of development. As summarized by Adly (2018):

"This strategy created a nonmarket-based capitalism, dominated by private monopolies and cartels that used (or rather abused) their political influence and the asymmetries of power and information to generate unnatural profits at the expense of the general welfare of consumers, smaller businesses and the state budget and the economy as a whole."

While there have been some positive developments, such as measurable increases in per capita income, life expectancy, and educational achievements, the overall result of Egypt's capitalist transformation has been exclusionary. The country has failed to create jobs that are of higher quality for the growing number of highly educated young people.

In accordance with the IMF's involvement, the government shifted its focus from providing welfare services to the lower and middle classes to prioritizing the sustenance of the market through tax cuts, subsidies for large corporations, and ultimately, massive bailouts following the 2008 economic crisis. As a result, welfare programs were being cut while poverty, unemployment, and underemployment continued to persist. Similar to other countries, the neoliberal measures implemented in Egypt led to increasing inequality and poverty, particularly between regions.

During this period, state expenditure as part of the GDP remained mostly constant as the government did not have much fiscal space for public investments. The transformation of the Egyptian economy and the state have led to decreasing state capacity to collect taxes. Average state revenues as a percentage of GDP declined steadily with the start of the transformation from 30.8% in 1990 to around 20% in 2000. While this percentage saw a relative increase in the following period (average of 26.4% between 2005 and 2010), the majority of this increase was due to the expansion of indirect taxes, the most regressive form of taxation. It is for this reason that Egypt continued to suffer from a budget deficit that required constant borrowing, particularly from domestic banks, even though state expenditure did not grow greatly due to austerity.

The over-reliance on domestic debt in Egypt, rather than progressive taxation, represents an important structural issue that should raise concern for other countries undergoing similar conditions. Starting from the 1990s, government borrowing from banks increased steadily to reach a staggering 87% of the GDP in 2006. As the state became the greatest single borrower in Egypt, banks no longer had an incentive to play their supposed role in the economy and invest in entrepreneurship. This was particularly harmful for small and medium-sized companies that required capital to expand and generate bottom-up growth or industrial upgrading. Thus, Egypt's capitalist transformation did not deliver industrial deepening or upgrading nor the production of higher value-added items.

The failure to upgrade the outputs of the economy are tied to other important structural issues. First, the large profits accumulated at the top of the Egyptian society were not invested in highly productive and tradeable sectors. Instead, investment was made in non-tradable sectors such as real estate and construction. With deep political ties between economic and political powers, these investments were minimally taxed and did not generate revenue for the state, further limiting state revenue. Additionally, due to investments being concentrated in real estate and construction, no large-scale industrial upgrading took place in the years of growth, leading to a reliance on imported inputs for industry and continuous dependency on raw material exports for the economy. To boost exports and deliver growth, a first wave of currency devaluation took place in 2003. Nominally, this measure increased export volume in comparison the 1990s. Due to the aforementioned structural issues in addition to the lack of state investments in the necessary infrastructure to expand and upgrade exports, the share of manufactured goods stagnated in the composition of exports.

The growth achieved in this period, however, came from capital and energy intensive industries that had a limited capacity to create jobs. Between 2004 and 2010, Egypt attracted foreign investment in the industries of iron and steel, cement, fertilizers, and petrochemicals thanks to large energy subsidies to producers. Accordingly, fuel subsidies spiralled out of control, constituting one-fifth of total government expenditures during the period between 2010 and 2014, roughly equal to the state budget deficit during the same period. The sectors generating most of foreign currency needed for this economic system to function were rather volatile. Similar to countries like Tunisia, these primarily include tourism and remittances. Therefore, weak foreign-currency-generating performance combined with import intensiveness for domestic industries constituted the structural factors behind the cyclical shortages of foreign currency that caused the repeated balance of payment of debt obligations.

2016 Adjustment Plan

In 2016, Egypt was confronted with a foreign reserve crisis that necessitated the intervention of the International Monetary Fund. Subsequently, in November of that year, the IMF granted Egypt a $12bn loan as part of a three-year structural adjustment program aimed at restoring economic stability and confidence. Under the 2016 program, the Egyptian government was required to shrink public spending and reduce the public sector's role in service provision, increase state revenues via value-added taxes, and liberalize the foreign exchange rate. It is important to see how the Egyptian debt and economy faired since this issue was only approached as a budgetary problem with no aim of transforming the structure of the economy.

However, since the program's inception, Egypt's foreign debt has continued to grow at an alarming rate. The country's stock of external debt surged from $48bn in July 2015 to $81bn in July 2017, representing an increase of 66% in just two years. By the third quarter of 2018, the debt had reached a staggering $92bn. The increase has also been accompanied by a rise in the ratio of debt service to total export earnings, which implies significant pressure on the economy to generate the required foreign currency for servicing the considerable foreign debt.

As a result, in the fiscal year 2016/2017, debt servicing accounted for 30% of total government expenditure. To create room for such spending, between 2015 and 2018, the share of budget expenditures on wages and subsidies declined from 26% to 19% and from 25% to 22%, respectively. In contrast, the share of interest payments increased to 38% in 2018. Moreover, despite commitments made, government expenditure on health as a percentage of GDP decreased from 1.63% in 2015 to

1.35% in 2016. Additionally, in accordance with the IMF's recommendations, Egypt adopted a general VAT rate of 13% in 2016, which was later increased to 14%.

Briefly put, the large-scale and socially costly adjustment plan undertaken by Egypt in 2016 did not stabilize the debt crisis. This observation recently became conclusive as Egypt has just signed yet another agreement with the IMF on October 27, 2022. During the period preceding the pandemic, some macroeconomic stabilizations did take place. However, the improvement of most of these indicators is due to the suppression of imports rather than growth. The Egyptian experience underscores the fact that IMF intervention and neoliberal reforms, while they may provide a short-term boost to a country's debt solvency, cannot on their own bring about sustainable development. The structural economic issues that a country faces must be addressed through a comprehensive state strategy that takes into account the country's unique economic, social, and political context. The victims of this continued denial are, unfortunately, the majority of the Egyptian people.

Social Costs of adjustment

The IMF program implemented in Egypt in 2016 had significant social consequences on Egyptian society. The latest household income and expenditure surveys revealed that poverty in the country increased from 27.8% in 2015 to 32.5% in 2018. This is due to various factors, including the lifting of subsidies, which resulted in price increases of essential goods and services. Since 2011, a combination of currency floating and reforms to fuel and energy subsidies has resulted in a significant rise in electricity bills for both low-income households and middle-income families, increasing by 218% and 271% respectively. The price of liquified petroleum gas has skyrocketed, with an increase of 712% since 2014. In addition, the prices of fruit and vegetables have risen by more than 203% between July 2014 and May 2019. While the metro ticket fare in Cairo has increased by 600%.

To mitigate these adverse effects, the IMF-backed Karama and Takaful programs were established in 2015 with the support of the World Bank. These programs aimed to reach 1.7 million households, increasing the amount of cash transfers to provide social security. The programs exceeded their goal, reaching 2.5 million households. However, this increase is due to more people becoming eligible for support, reflecting the deteriorating social conditions in Egypt. According to Egypt's Social Progress Indicators, cash transfer programs, including Takaful and Karama, are estimated to cover only 49% of the population living in poverty.

The impact of the IMF program on women in Egypt has been particularly significant. Women in Egypt are heavily employed in the public and governmental sector, with 42.4% of them working with the government in 2018. To secure resources to pay back debts, starting from 2015, public servants have suffered from layoffs and cuts to their pay. Additionally, due to the gender dynamics of Egyptian society, subsidy reduction had additional impacts on women. For example, the seven-fold price increase of LPG (Liquefied petroleum gas), which is used in household cooking for example, could lead women to switch to alternatives that may be harmful to their health. In addition, the increased electricity bills may result in households using less energy-consuming appliances, such as washing machines, which may increase the time women spend on unpaid housework. Moreover, the currency devaluation in Egypt has led to shortages of medicine, including contraceptive pills, which has had detrimental effects on women's sexual rights.

III -Alternatives to austerity

Public spending as a tool for economic transformation

The aim of this section is not to delve into the academic origin of Keynesian economics or explore the intricate nuances of this theory. Instead, the focus will be on the circumstances that led to its rise in the 1930s and how it relates to Tunisia's current economic and political climate.

The 1929 stock market crash in the United States triggered a global economic crisis, plunging the world into an extended period of stagnation. It was during this time that Sir John Maynard Keynes began to question the classical economic school's belief that markets would self-regulate without the need for government intervention. Instead, he argued that economies needed state intervention, particularly during times of economic downturns.

Keynes believed that during periods of stagnation, the state should increase its spending to stimulate demand and boost the economy. This intervention would benefit the most affected class, increasing their purchasing power and social welfare. The state's involvement in creating jobs with decent salaries and investing in social programs, such as healthcare and education, would alleviate the economic burden on the affected class, leading to a boost in demand and, consequently, the economy.

Keynes' belief was that markets alone took too long to stabilize the economy, and the drastic increase in unemployment, lack of social security, and poverty would lead to social unrest, negatively impacting the national standard of living. Hence, the need for immediate governmental intervention via its budget.

Governments around the world started embracing Keynesian economic policies in the late 1930s and early 1940s, leading to sustainable economic growth in both developing and developed countries. Today, Tunisia can learn from the success of these policies, especially in terms of reducing unemployment, inequality, and poverty.

Alternative examples for public spending and progressive taxation

Bolivia, a different approach to employment and social spending

A study conducted on the Bolivian economy from the 1940s till 2012 confirmed that public investment in education and providing quality health service contribute decisively to extreme poverty reduction and general income growth[118]. Admittedly, this study englobes a long period but it is fair to assume that the relative impact of public spending on social welfare is higher in an economic crisis when the classic market mechanisms are stagnating

118 Bojanic, A., 2013. The Composition of Government Expenditures and Economic Growth in Bolivia. Latin American Journal of Economics, 50(1), pp.83-105.

Employment

One of the main mechanisms in which Keynesian economics operates is by providing employment be it direct or indirect. Governmental spending generates jobs either by hiring employees into the public sector or as an indirect effect of public investment. The latter is what's called the multiplier effect. In simpler terms, if the state invests one dollar in the economy, its effect stimulates private individuals to invest as they perceive a stronger possibility of future economic growth, hence the initial state investment provides the necessary economic boost for wealth creation generating in the process several job opportunities. A clear example would be infrastructure; a paved road attracts a new concentration of population which in turns draws private investment and hence jobs. This approach was undertaken heavily post World War 2 in countries such as France, the UK, and the US.

The success of this approach can be observed in Bolivia as the national unemployment rate has witnessed a decrease starting from 2006.

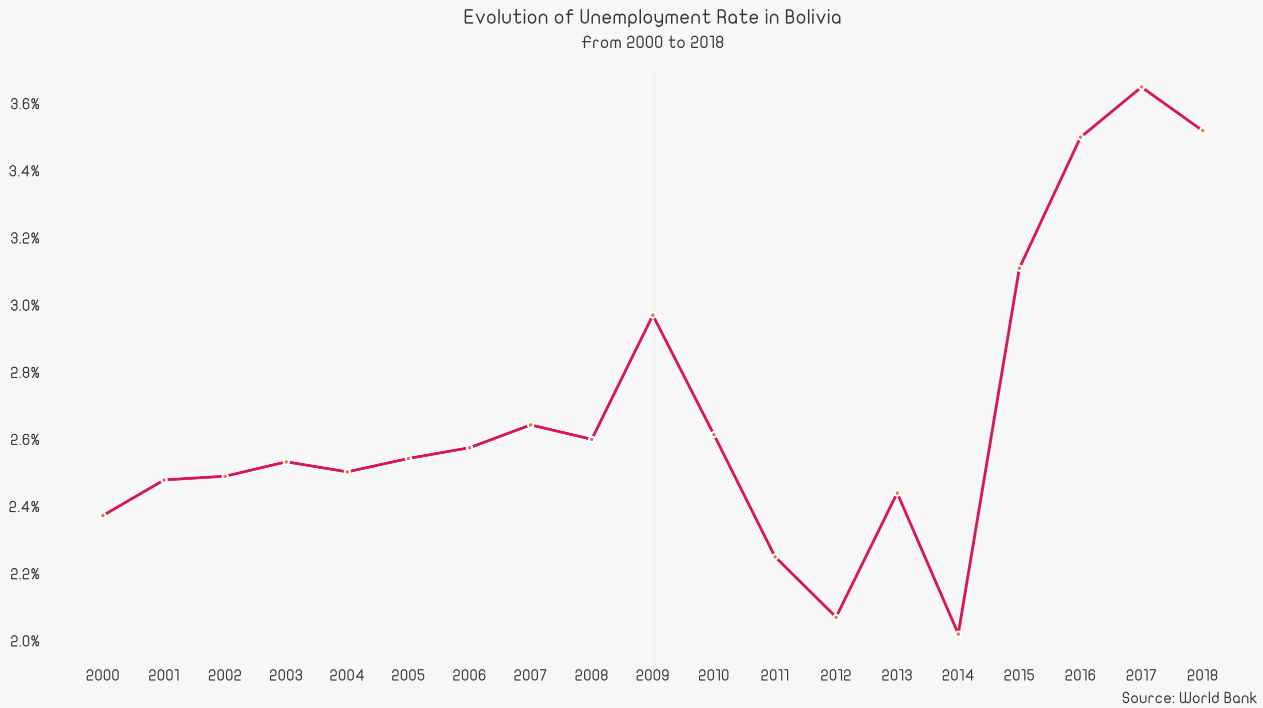

figure 11: Evolution of unemployment rate in Bolivia 2000-2018 (source: World Bank[119])

With an average of 3% unemployment rate over the period of 18 years, Bolivia managed to tackle a major socio-economic problem that Tunisia still struggles with. This further highlights the important role public spending can play in order to achieve socially sustainable growth.

Social impact

Perhaps one of the main economic and social achievements of the Bolivian government between 2006-2016 is the drastic decrease in poverty levels. Due to targeted social programs, national poverty rates fell from 59% in 2006 to 39% in 2014 whereas extreme poverty rates went from 37% to 17% over the same period[120]. It is worth noting that the poverty levels above are not calculated on the

119 World Bank, link: https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?end=2018&locations=BO&start=2000
120 Bojanic, A., 2013. The Composition of Government Expenditures and Economic Growth in Bolivia. Latin American Journal of Economics, 50(1), pp.83-105.

basis of monetary poverty levels of less than 2 dollars a day (which stand at 4,5%[121]), but are instead based on the minimum income required to purchase a basket of goods allowing for decent living. In that sense, this method is more accurate in depicting multidimensional poverty.

The decrease in poverty was naturally accompanied by an improvement in all round social standards most notably health and education, with the latter registering an improvement in relation to literacy levels : over the period of 2001 to 2012 literacy levels among adults over the age of 15 jumped from 87% to 94%[122], an impressive leap in the matter of a decade.

In conclusion, the Bolivian case serves as an example of how public spending can be utilized to tackle economic problems efficiently creating in the process a virtuous economic circle in which direct public investment in key social sectors such as education and health generates both an economic growth and an improvement in social standards. In return, a healthier and more educated population is a key factor in economic growth[123]. This strategic public investment in the aforementioned sectors is the cornerstone of Keynesian economics.

Iceland and Portugal: tax reforms instead of budget cuts to create fiscal space

In a briefing paper of the Center for Social and Economic Rights entitled ASSESSING AUSTERITY: Monitoring the Human Rights Impacts of Fiscal Consolidation[124], the NGO not only studied the impact of austerity policies from the lens of human rights, but also provided alternatives where countries chose to approach economic crisis from a different perspective:

Portugal experienced a severe economic crisis in 2008, similar to Greece, which resulted in an international bailout and strict measures such as public sector wage cuts, pension benefit reforms, labour market flexibility, and VAT increases. However, these measures adversely affected low- and middle-income households, leading to unemployment, dependency on public assistance, inequality, and a stalled economy. Portugal learned from its mistakes and decided to abandon austerity after public protests, Constitutional Court rulings, and an election in 2015. The new administration increased social security spending for poor families, reversed regressive tax increases, reintroduced public holidays, and restored state pensions, wages, and working hours to pre-bailout levels. As a result, public investment increased, and the economy grew for 14 consecutive quarters, bringing the deficit down to 2.1% of GDP in 2016, in compliance with EU fiscal rules without compromising human rights. Similarly, Iceland faced a bank collapse in 2008 and rejected measures to make private debt public through two referendums in 2010 and 2011. Instead of cutting wages and social spending, Iceland implemented heterodox policies such as debt repudiation, mild capital controls, stricter financial regulations, and currency depreciation. Iceland also replaced its previous flat tax system with a progressive tax structure, contrary to Hungary's flat tax reform.

121 Bojanic, A., 2013. The Composition of Government Expenditures and Economic Growth in Bolivia. Latin American Journal of Economics, 50(1), pp.83-105.
122 World bank data,link:https://data.worldbank.org/indicator/SE.ADT.LITR.ZS?end=2011&locations=BO&start=1993&view=chart
123 Bojanic, A., 2013. The Composition of Government Expenditures and Economic Growth in Bolivia. Latin American Journal of Economics, 50(1), pp.83-105.
124 CSER,ASSESSING AUSTERITY:Monitoring the Human Rights Impacts of Fiscal Consolidation,p(22,30),link:https://www.cesr.org/sites/default/files/Austerity-Report-Online2018.FINAL_.pdf

What is worth noting from these experiences, is that not only are there alternative methods to escape an economic crisis, but most importantly is that through progressive taxation countries can aim at creating fiscal space while also mitigating the impact by equitably sharing the economic burden. Surely, Tunisia can learn from these experiences. Sadly it has not been the case, along this decade politicians and decision makers announced on several occasions that “tough” policies should be taken that were consistently hurdled over the backs of the already impoverished and vulnerable classes.

Recommendations for Tunisia

An urgent need for restructuring debt payments

Sadly, it is hard today to provide any form of recommendation if the matter of debt payments is not brought into question. If the goal is to create fiscal space in order to make targeted public investments, there is no escaping addressing the hidden highest state expense which is debt payment

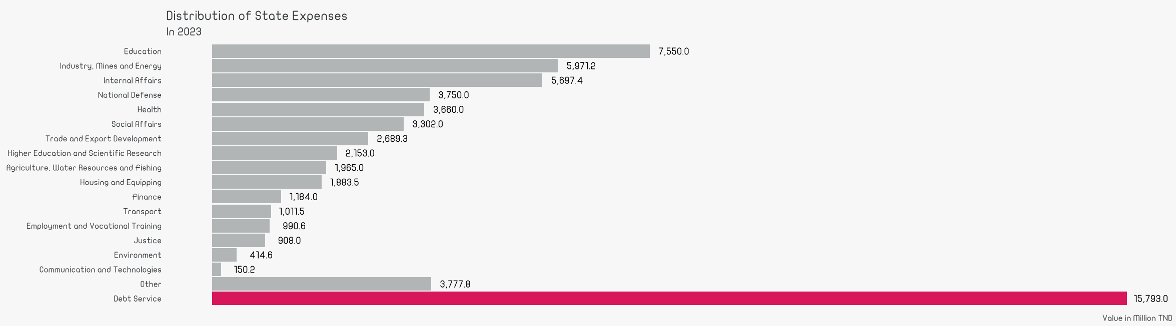

figure 12: distribution of state expenses in 2022 (source: AlBawsala)[125]

In 2022, debt payments were larger than the total sum of expenses on the three most important ministries in Tunisia (ministry of education, interior and commerce) suffocating the state budget and leaving no room for manoeuvring to invest in key sectors. This trend is not stopping any time soon, if anything debt payments are ought to grow in the coming years.

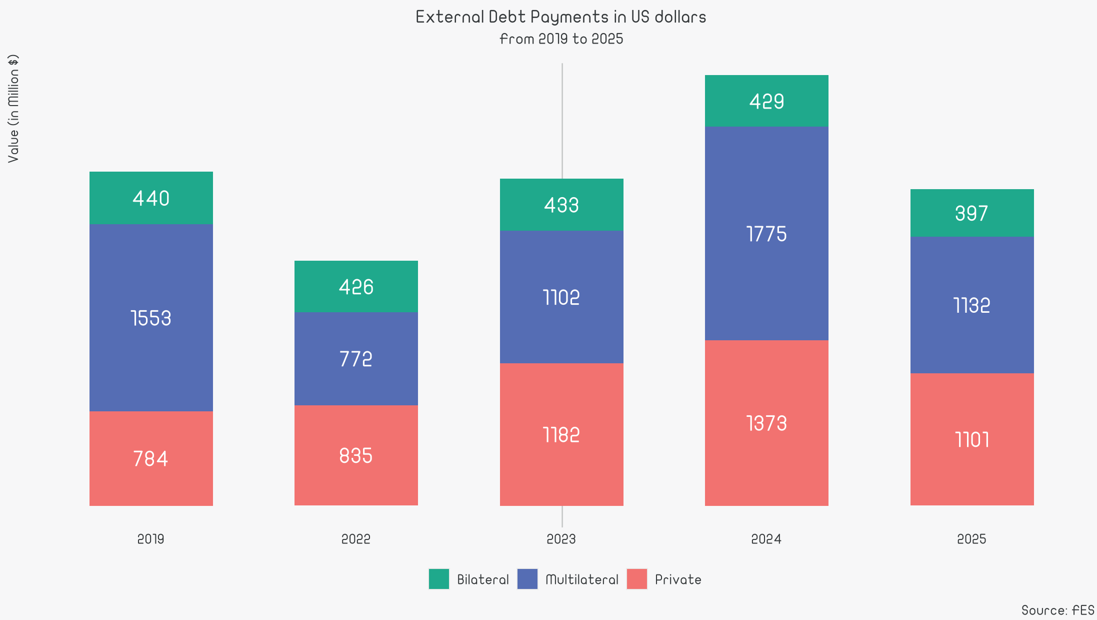

figure13: external debt payments in US dollars 2019-2025 (source: FES)[126]

125 Albawsala,article on the 2022 state budget,link:https://www.albawsala.com/ar/publications/20225215
126 FES,THE TUNISIAN DEBT CRISISIN THE CONTEXT OF THE COVID-19 PANDEMIC DEBT REPAYMENTS OVER HUMAN RIGHTS?,P10,link:https://library.fes.de/pdf-files/bueros/tunesien/18186-20210910.pdf

The calculations provided in this graph carry an ominous letter for the Tunisian public finances, future debt payments are going to be devouring an even bigger chunk of the state budget worsening in the process the already dire situation.

Since the SAP in the 80s, whenever the issue of state budget deficit is brought into question, the answer provided by international financial institutions was always in relation to cutting subsidies, freezing recruitment or decreasing state intervention through public enterprises. This formula succeeds only in directing the problem of the lack of resources on the marginalised groups that benefit from the aforementioned programs that are being phased out. In these dire times and faced by ever rising social tensions, perhaps it is time for these IFIs along with Tunisia international partners to carry this burden through honest negotiations aiming at restructuring Tunisia's debt payment. As it was mentioned in previous chapters of this paper, the core issue of the budget deficit lays within the balance of payments.

Progressive taxation: an Approach for a transformative economy

As highlighted in the chapters above, austerity measures were always accompanied by regressive taxation policies. This was apparent through the SAP, as Tunisia underwent a radical shift in its taxation approach via the introduction of the VAT- a consumption tax that does not discriminate based on income and therefore negatively impacts middle and lower-income groups-, or its "reform" of the personal income tax towards a system with less brackets and a lower maximum rate for people with high incomes. This approach demonstrated its inefficiency and its contribution to inequality. Therefore it is as crucial as ever to implement alternative taxation measures.

A more progressive and just personal income tax

It comes as no surprise that the remedy to what was described is the introduction of a more equitable personal income tax in Tunisia. AlBawsala has modelled a template for a new personal income table based heavily on the system Tunisia had prior for the SAP while accounting for inflation.

Barème actuel				Barème alternatif			
Les tranches d'imposition en Dinars		Taux marginaux	Taux effectifs à la limite supérieure	Les tranches d'imposition en Dinars		Taux marginaux	Taux effectifs à la limiote` supérieure
0	5 000	0%	0%	0	5 501	0%	0%
5 000	20 000	26%	19%	5 501	7 945	5%	1,54%
20 000	30 000	28%	22,33%	7 945	9 168	10%	2,67%
30 000	50 000	32%	26,20%	9 168	12 224	15%	5,75%
Au-delà de 50 000		35%		12 224	15 280	20%	8,60%
				15 280	18 336	25%	11,33%
				18 336	21 392	30%	14%
				21 392	24 448	36%	16,75%
				24 448	30 559	42%	21,80%
				30 559	36 671	48%	26,17%
				36 671	48 895	54%	33,13%
				48 895	61 119	56%	37,70%
				61 119	85 566	58%	43,50%
				85 566	152 797	60%	50,76%
				152 797	244 475	62%	54,98%
				244 475	366 713	64%	57,98%
				366 713	488 922	66%	59,99%
				Au-delà de 488 922		68%	

Figure14: alternative personal income tax brackets (author:AlBawsala source:Albawsala[127])

This table proposes a higher number of brackets where rates increase progressively, this ought to distribute the tax burden more equitably along the different social groups along with increasing the net income of low- and middle-income classes which in term will go towards consumption benefiting the economy as a whole. This proposal also brings back a maximum rate of 68% ensuring that the "losses" in state revenues from decreasing the rates on low-income classes will be compensated by individuals with a very high income that are more financially equipped to contribute to the national efforts.

Reviewing the VAT

Given the significant deterioration in the purchasing power of Tunisian citizens and the now global inflationary trend, it is urgent for the government to take action. One lever that is within reach is the reduction of VAT on essential goods. This measure has both a social dimension and would also sup-

127 Bouzaine .A, LA JUSTICE FISCALE,UN ENJEU DE SURVIE À LA PORTÉE DE LA TUNISIE,P:3,link:https://www.albawsala.com/files/2022/06/Rapport-La-justice-fiscale-1-1.pdf

port popular consumption, fill order books, and contribute to restarting a stalled national economy. It would allow, in a way, to somewhat correct the unfairness of this tax. Another measure to correct the unfairness of VAT is to restore the 29% rate applied to a list of “luxury” products. This rate existed in Tunisian tax legislation before being abolished in 2007. This measure would target the consumption of affluent households and generate additional tax revenues[128].

128 for a more in depth look into alternative tax reforms please refer to a publication by AlBawsala entitled “LA JUSTICE FISCALE,UN ENJEU DE SURVIE À LA PORTÉE DE LA TUNISIE”

Conclusion

In conclusion, the research conducted on the social negative impact of austerity measures in Tunisia during the SAP and after the revolution provides valuable insights into the detrimental effects of such measures on society. The study reveals that austerity measures have resulted in significant social and economic costs, including unemployment, poverty, inequality, and reduced access to public services. which manifested through policies such as phasing out subsidies with no prior plan to provide a social safety net and with an already failing direct cash transfer programs, or through a continuously regressive taxation that contributed to enlarging inequalities by concentrating the tax effort on low and middle-income groups.

Furthermore, the research highlights the international context of austerity and how these measures derive from the same recipe. By focusing on where similar IMF debt conditionalities have been applied, the research exposes the ideological nature of austerity measures as opposed to the dominant narrative portraying them as country specific recommendations and as their own reform programs. The case study of Egypt provides a compelling example of the negative social impact of austerity measures on its citizens especially on the already marginalised social groups such as low and middle-income groups and women.

The comparative examples of Bolivia, Portugal, and Iceland demonstrate that alternative measures to austerity are possible and have been successful in improving social and economic conditions. These countries have implemented measures such as progressive taxation, and investment in public services that have resulted in positive outcomes for their citizens and succeeded at mitigating the impact of the economic crisis away from vulnerable groups.

Based on the research findings, it is recommended that Tunisia consider restructuring its debt payments and implementing a more equitable taxation system as a viable alternative to austerity measures. This would help to address the social and economic challenges faced by the country through creating the much needed fiscal space for the state to be able to spend on planned public investments.

In conclusion, this research highlights the negative impact of austerity measures and provides valuable insights into alternative approaches that can be implemented to improve social and economic conditions. The findings of this study have important implications for policymakers and stakeholders, and it is hoped that they will be used to inform decision-making processes and promote more equitable and sustainable policies.

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