

THE PERSPECTIVE OF THE WORLD REVIEW

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INTERESTS, IDENTITY AND BRAZILIAN PEACEKEEPING POLICY

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The Perspective of the World Review

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CONTENTS

FOREWORD	5
EDITORIAL.....	7
INTERESTS, IDENTITY AND BRAZILIAN PEACEKEEPING POLICY	9
Kai Michael Kenkel	
FAR MIDDLE EAST, BRAVE NEW WORLD: THE BUILDING OF THE MIDDLE EAST AND THE ARAB SPRING.....	37
Leonardo Schiocchet	
THE TORTILLA CRISIS IN MEXICO (2007): THE UPWARD TREND IN COMMODITY PRICES, FINANCIAL INSTABILITY AND FOOD SECURITY	81
Lais Forti Thomaz Carlos Eduardo Carvalho	
DETERMINANTS OF THE SOVEREIGN WEALTH FUNDS AND THE BRAZILIAN CASE.....	109
Andre Simas Magalhaes	
TURBULENCES IN THE ARAB WORLD: TOWARDS A NEW ORDER?	137
Reginaldo Nasser	
SUBPRIME CRISIS IN THE UNITED STATES: PUBLIC SECTOR'S REACTION AND THE IMPACT ON THE EMPLOYMENT RATE.....	167
Carlos Pinkusfeld Bastos Fernando Augusto Mansor de Mattos	

FOREWORD

The *Perspective of the World Review* is an international periodical sponsored by Ipea (Institute for Applied Economic Research), a body belonging to the Presidency of the Federative Republic of Brazil, through the Secretariat for Strategic Affairs (SAE).

The journal, which will feature versions in Portuguese and English, has been created in order to present and promote contemporary debates, emphasizing the development issue, in a South – South perspective. Its field of knowledge is that of political economy, with plural approaches on the essential dimensions of development such as economic, social and sustainability related issues.

The goal is to enrich the debate in order to formulate proposals for the development of public policies and, accordingly, to encourage international comparisons and interdisciplinarity, always highlighting the importance of planning. *The Perspective of the World Review* takes the ambition to formulate questions faced by contemporary civilization, which wants to enjoy comfortable living standards and dignified living conditions, but must simultaneously respect the limits of what the planet can support in terms of environmental exploitation.

It is important to point out the tribute given to Fernand Braudel, through the enhancement of his formulation of the “*perspective of the world*”, which together with the “*structures of everyday life*” and the “*wheels of commerce*”, shapes his originality. Braudel always sought to address issues surrounding the dimensions of development through a historical and long-term perspective. He emphasized that a world dominated by a mode of production based on capital accumulation had always had to balance society, market and the State. As taught by the master, in places where the task was most successful, there was prosperity, and where the difficulties were persistent, results were controversial.

This initiative is not new in Brazil, and its great precursor was Celso Furtado, in *The Economic Growth of Brazil*. This seminal work was welcomed by Braudel as innovative, under a methodological prism.

Editorial Board

EDITORIAL

The sixth edition of *The Perspective of the World Review* brings six papers which, under different points of view, discuss essential aspects of the economic and social development process. The international crisis is a constant theme in this Edition, whether by its possible impacts on countries development or by the uncertainties that are still present in the economic international scenario. Besides, novel issues regarding international relations and political science are brought to the debate, in such a way that current issues like the Brazilian leadership in MINUSTAH and the Arab Spring find space for reflection and dialog.

The topics addressed include those regarding the sovereign wealth funds (SWFs). André Simas Magalhães presents the macroeconomic characteristics of countries that hold the SWFs and analyses the Brazilian Sovereign Fund (FSB, in Portuguese), created in 2008.

Brazil's interests and motivations on being part of peace operations are the subject of the paper by Kai Kenkel. He associates a theoretical approach of the tension experienced by the country during its attempt to become an emerging power, and analyses the possibilities and limitations of the external and security policies of Brazil in the definition of a basis for peace operation actions.

Furthermore, Laís Forti Thomaz and Carlos Eduardo Carvalho hold a debate about the Tortillas Crisis in Mexico, studying the origins of the high prices for corn *tortillas* which has given rise to popular protests in early 2007 in that country. The paper approaches similar manifestations in other countries and examines the complexity of the main causes for the trend of commodities prices rise.

Regarding international crises, Carlos Pinkusfeld Bastos and Fernando Augusto Mansor de Mattos evaluate the impacts of the subprime mortgage crisis on the American economy under two main aspects: first, they make a critical evaluation of the measures taken by the American State to face the crisis; secondly they approach the impacts of such measures on the job market.

Following that, Reginaldo Nasser discusses the turbulences in the Arab world and the possibility of having a new order established, by showing that Bush's project of a New Middle East, which was reviewed by Obama, has been rejected by the "Arab street".

Finally, and following the previous article's theme, Leonardo Schiocchet argues about the construction of the Middle East and the Arab Spring, revealing that even long periods of domination by dictatorships – centenary or religious ones, socialist or not – have been incapable of diminishing the wish for self-determination of most Arabs.

INTERESTS, IDENTITY AND BRAZILIAN PEACEKEEPING POLICY*

Kai Michael Kenkel**

ABSTRACT

Using the theory of competing logics (identity- and norm-based appropriateness and rationally calculated expected consequences) developed by March and Olsen, this paper examines Brazilian motivation for participation in peace operations and how they have changed in recent years. Following the presentation of its theoretical basis, the paper reviews highest-order Brazilian policy documents on foreign and security policy, which are presented with a view to illustrating their incapacity to serve as bases for consistent action in the area, *inter alia*, of peace operations. It proceeds by illustrating how these vague bases have been translated into past peacekeeping policy. It applies the theoretical approach to the tensions the country's foreign policy has experienced as it has risen as an emerging power. Finally, there is brief discussion of the peacebuilding model the country has instituted in Haiti, which has outperformed the problems and weaknesses plaguing the political process. The paper closes by offering suggestions for the clarification of Brazilian objectives with regard to peace operations with an eye to the formulation of the country's first Defence White Paper in 2011.

Keywords: peace operations; Brazil; Haiti; peacebuilding; policy making; decision making process.

RESUMO

Usando a teoria de lógicas concorrentes (identidade e adequação baseado em normas e racionalmente calculada consequências esperadas), desenvolvido por March e Olsen, este trabalho examina a motivação para a participação brasileira em operações de paz e como eles mudaram nos últimos anos. Após a apresentação de suas bases teóricas, o texto revisa os documentos políticos da mais alta ordem brasileira de política externa e de segurança, que são apresentadas com o objetivo de ilustrar a sua incapacidade para servir como base para a ação consistente na área, *inter alia*, das operações de paz. Ele prossegue, ilustrando como essas bases vagas foram traduzidos para a política de manutenção de paz no passado. Aplica-se a abordagem teórica para às tensões que a política externa do país tem experimentado, uma vez que cresceu como potência emergente. Finalmente, há uma breve discussão sobre o modelo de construção da paz no país instituído no Haiti, que superou os problemas e fraquezas que assola o processo político. O texto fecha, oferecendo sugestões para o esclarecimento dos objetivos do Brasil no que diz respeito às operações de paz com um olho para a formulação do país o primeiro Livro Branco da Defesa em 2011.

Palavras-chave: operações de paz; Brasil; Haiti; peacebuilding; policy making; decision making process.

* This text was submitted for publication on 2 April 2011. The delay in the publication of its English version necessitate two clarifications. First, though it refers to a future Brazilian Defence White Paper and its "recently initiated formulation process", the White Paper was released in July 2012; it has not been possible to modify the text to take account of this fact. Second, sections 3 and 6 of the text are based on analysis since presented in a further publication by the author: Out of South America to the globe: Brazil's growing stake in peace operations". In: KENKEL, Kai Michael. South America and peace operations: coming of Age. London: Routledge, 2013, p. 85-110.

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1 INTRODUCTION

Accompanying the recent rise in the overall theoretical and methodological sophistication of the literature on peace operations, analyses of states' motivations to contribute troops to such missions have gained in both number and in rigour over the last several years.¹ These studies have grown simultaneously with the rise of new troop contributors, often from the category of "emerging powers". Brazil is one such emerging contributor, having moved in 2004 from sending what had until then been a constant trickle of military observers and liaison officers to providing both the lead contingent and the military force commander of one of the United Nations' largest missions, the Stabilization Mission in Haiti (MINUSTAH). At the nexus of these two developments, this article seeks to bring a more theoretically grounded approach to the study of Brazil's foreign goals and how these translate into motivations for participation in peace operations.

Though the country has both very clearly defined foreign policy guidelines and highly professional armed forces and diplomatic personnel, the public and political decisionmaking criteria for its participation in peace operations remain subjective, underinstitutionalised and (perhaps intentionally) ill-defined. This stands in sharp contrast to what is increasingly being referred to as a separate Brazilian model of peacebuilding, which increasingly reveals clearly-defined objectives in both the short and long terms, and is implicitly geared towards implementable versions of what have heretofore only appeared as vague declarations of intent in official documents. In this sense, practice leads policy and politics in the cases both of Brazil's motivations to contribute to UN peace operations, and in the manner of that contribution. This paper argues there is need for considerable consolidation and clarification in Brazilian policy on peace operations (especially on view of the country's growing profile in this area), and that the appropriate forum for doing so is the recently initiated formulation process for the country's first Defence White Paper in 2011.

After outlining the theoretical considerations that serve as the framework for its analysis, the paper begins with a review of the highest-order Brazilian policy documents on foreign and security policy, which are presented with a view to illustrating their shortcomings in serving as bases for consistent action in the area, *inter alia*, of peace operations. It proceeds by illustrating how these vague

1. See, for example, the numerous analyses in the field's leading journal, *International Peacekeeping*, as well as, indicatively of studies of state motivations, the work of Arturo SOTOMAYOR VELÁZQUEZ, Why Some States Participate in UN Peace Missions While Others Do Not: An Analysis of Civil-Military Relations and Its Effects on Latin America's Contributions to Peacekeeping Operations. *Security Studies*, v. 19, n. 1, p. 160-195, 2010; Different Paths and Divergent Policies in the UN Security System: Brazil and Mexico in Comparative Perspective, *International Peacekeeping*, v. 16, n. 3, p. 364-378, 2009; Unintended consequences of peace operations for troop-contributing countries in South America: the cases of Argentina and Uruguay, in Chiyuki AOI, Cedric DE CONING and Ramesh THAKUR (eds.), *Unintended Consequences of Peacekeeping Operations*, New York: United Nations University Press, 2007, p. 171-192.

bases have been translated into diplomatic statements that are equally inchoate as a basis for concrete policy. Here, other factors from outside foreign policy traditions, particularly the country's rise as an emerging power, are brought to bear as well. The theoretical framework is then used to crystallize out objectives and motivations which can serve as the basis for a clear and implementable policy with regard to peace operations, as developed for and in the Haitian environment.

2 SELFISH ALTRUISM: WHY STATES CONTRIBUTE TO PEACE OPERATIONS

As with other forms of humanitarian intervention, states' motivations for engaging in peace operations are variegated. Some motivations are internal: a decision to participate may derive from the use of peacekeeping as a means of pursuing a country's own unilateral interests (although this, to an extent, is anathema to the character of peacekeeping as practiced by the UN);² in some cases states view a peacekeeping contribution as conducive to greater international prestige or more inclusions in UN decisionmaking bodies; there may also be genuine altruism mixed in with these motivations on specific occasions. Some motivations, on the other hand, are external: states have been pressured by allies into participating in intervening coalitions, or have altered their position vis-à-vis a specific conflict context as a result of changes in the interpretation of international norms by their leading policy partner.³ Yet others participate in peace operations for reasons of financial compensation.

Though it is not the most recent, Laura Neack's 1995 analysis of state's motivations to participate in PKOs remains seminal in that avails itself of the distinction—novel in, and indicative of, the time of its publishing, steeped in the rise of institutionalism—between what are termed the realist and the idealist motivations for participation. Though analyses of participation have advanced considerably since this time, this distinction remains crucial, and is taken up here; its relevance to the Brazilian case is enhanced further by Neack's focus on middle powers (a category into which Brazil has recently emerged), and her explicit inclusion of Brazil in the study.

In accordance with specialists on middle powers, Neack situates peacekeeping as a quintessential activity for this category of state, for which international institutions have become the primary vehicle for the pursuit of national interests. She notes the contradiction this creates in terms of separating the rational calculus of interests from altruist dedication to the maintenance of the common good – reified in the global institution – and illustrates how this tension is at its most pointed in the case of multilateral interventions:

2. A frequent example cited in this regard is the Russian military presence in its "near abroad", particularly the CIS "peacekeeping" sent to accompany UNOMIG.

3. A strong current of analysis among German scholars locates the German government's motivation for dispatching troops to Bosnia in 1994 to this source.

The origin of UN peace-keeping, then, has an internal contradiction that characterizes it to date. Participation in UN peace-keeping is supposedly an act that transcends narrow national interests, while in no small way peace-keeping has developed as a way for middle powers to demonstrate their power in and importance to world politics.⁴

Neack then seeks to disaggregate the two motivating factors for peacekeeping participation, which she labels as idealist and realist:

Two competing explanations for state participation in UN peace-keeping can be developed from this contradiction. First, state participation that transcends narrow national interests can be explained from an idealist perspective. Briefly, states will participate in UN peace-keeping out of an obligation to protect the international peace and to preserve international norms and values. States will do so even in the face of conflicting national interests.

The realist explanation of state participation in UN peace-keeping is that states do whatever they can, given their power resources, to protect and preserve their national interests. If national leaders see their states' interests inexorably linked to the continuation of the international status quo, they will support and defend the status quo. International organizations, particularly the UN, are the main beneficiaries of such support.

For Neack, middle powers are the strongest supporters of peace operations, and have both idealist and realist motivations for doing so. From an idealist standpoint, they "...are the most likely states to protect the international system, and thus more likely to participate in multi-lateral activities such as peace-keeping because of their strong commitment to international peace".⁵ However, rational calculus also leads these states to the same conclusion, "because of the aggregate power they can wield. Middle power interests are served by a continuation of the international status quo because in the status quo they have achieved relative affluence and influence..."⁶

While this is a crucial first step in getting at the roots of states' decisions to participate, Neack's two motivations remain weakly differentiated, particularly with respect to the very states on whom she has placed the focus. How does one differentiate in practice between a middle power's idealist support for structures conducive to international peace as a foreign policy virtue, and its support thereof as a means of maintaining an order from which it benefits? It is not the purpose of Neack's initial analysis to clarify this point in great detail; this is left to later scholars of the nature of state interests in international institutions.

4. NEACK, Laura. UN Peace-Keeping: In the Interest of Community or Self? *Journal of Peace Research*, v. 32, n. 2, p. 181-196, 1995; here, p. 183.

5. NEACK, p. 183-184.

6. NEACK, p. 184.

In this vein, James March and Johan Olsen's oft-cited work posits two contending logics which by extension explain state action within institutions (of which participation in peace operations is one form). One is rationalist; the other has been associated with varying success to the constructivist, or at least the normative, school of thought. Rationalist motivations, based on the analysis of relative cost and benefit, are encapsulated in the notion of the "logic of expected consequences": "[t]hose who see actions as driven by expectations of consequences imagine that human actors choose among alternatives by evaluating their likely consequences for personal or collective objectives, conscious that other actors are doing likewise."⁷ March and Olsen contend that

[f]rom this perspective, history is seen as the consequence of the interaction of willful actors and is fully understood when it is related to expectations of its consequences and to the interests (preferences) and resources of the actors. Individual actions are "explained" by identifying consequential reasons for them. Foreign policy is "explained" by providing an interpretation of the outcomes expected from it.⁸

Within the opposing, normatively grounded "logic of appropriateness",

actions are seen as rule-based. Human actors are imagined to follow rules that associate particular identities to particular situations, approaching individual opportunities for action by assessing similarities between current identities and choice dilemmas and more general concepts of self and situations. Action involves evoking an identity or role and matching the obligations of that identity or role to a specific situation. The pursuit of purpose is associated with identities more than with interests, and with the selection of rules more than with individual rational expectations. Appropriateness need not attend to consequences, but it involves cognitive and ethical dimensions, targets, and aspirations. As a cognitive matter, appropriate action is action that is essential to a particular conception of self. As an ethical matter, appropriate action is action that is virtuous. We "explain" foreign policy as the application of rules associated with particular identities to particular situations.⁹

Succinctly put with regard to decisions related to intervention, "decisions of states to intervene are usually related to two issues: positive cost-and-benefit calculations, and their moral obligations either towards the belligerents or within a generally altruistic behavior."¹⁰ The lack of clear distinction between these categories is perhaps the most vexing among the number of problems subsequently identified with March and Olsen's approach.¹¹ Though there is a temptation, in

7. MARCH, James G. and Johan P. OLSEN, The Institutional Dynamics of International Political Orders. *International Organization*, v. 52, n. 4, p. 943-969, 1998; here, p. 949.

8. MARCH and OLSEN, p. 950.

9. MARCH and OLSEN, p. 951.

10. NALBANDOV, Robert. Battle of Two Logics: Appropriateness and Consequentiality in Russian Interventions in Georgia. *Caucasian Review of International Affairs*, v. 3, n. 1, p. 20-36, 2009; here, p. 23.

11. GOLDMANN, Kjell. Appropriateness and Consequences: The Logic of Neo-Institutionalism. *Governance: An International Journal of Policy, Administration, and Institutions*. v. 18, n. 1, p. 35-52, 2005; here, p. 40-41.

the interest of methodological parsimony, to construct the logics as totally distinct, March and Olsen themselves recognize the impossibility of this goal, and thus work to clarify the relationship between the logics, which they admit are

not mutually exclusive. As a result, political action generally cannot be explained exclusively in terms of a logic of either consequences or appropriateness. Any particular action probably involves elements of each. Political actors are constituted both by their interests, by which they evaluate their expected consequences, and by the rules embedded in their identities and political institutions. They calculate consequences and follow rules, and the relationship between the two is often subtle.¹²

Nonetheless, March and Olsen do not retreat from viewing the two logics as sufficiently separate for operationalization, and offer four possible characterizations of the interrelationship between the two.¹³ Ultimately, the most analytically compelling formulation, especially for those interested in peace operations, is Kjell Goldmann's. Goldmann points out the inherent inequality between the two categories, arguing that while the logic of appropriateness is able to assimilate the calculation of interest, the logic of consequences in March and Olsen is somewhat of a straw man:

This, at first blush, is simple enough. It turns out, however, that whereas [the consequentialist position] excludes th[at based on expectations], the reverse is not true. Those on the latter "side," in contrast to those on the former, are deemed capable of taking more than one thing into account. They do not link action "exclusively" to anything: they emphasize identities but do not exclude interests; they do not deny "the reality of calculations and anticipations of consequences". In other words, those who "interpret" action in terms of the "logic of expected consequences" are simple-minded and unimaginative, whereas those who do it in terms of "the logic of appropriateness" are open-minded and sophisticated. This may be seen as (relatively) innocent academic salesmanship, but it undermines the idea that we are dealing with mutually excluding perspectives, theories, or ideal types.¹⁴

In this way, the approach based on contending logics is subject to what might be termed the "normative rationality of action"; actor's felt identities are embedded in their calculation of consequences (and interests).¹⁵ Goldmann contends that in essentially taking both preferences and identities as previously given, even when focussing on identities the approach does not truly transcend structuralism:¹⁶

12. MARCH and OLSEN, p. 952.

13. MARCH and OLSEN, pp. 953-4.

14. GOLDMANN, p. 39-40.

15. SENDING, Ole Jacob. Constitution, Choice and Change: Problems with the "Logic of Appropriateness" and its Use in Constructivist Theory. *European Journal of International Relations*, v. 8, n. 4, p. 443-470, 2002; (here, p. 444). Sending explicitly references in this regard Thomas RISSE "Let's Argue!": Communicative Action in World Politics, *International Organization*, v. 54, n.1, p. 1-39, 2000.

16. This point is taken up by SENDING as well.

the “logic of appropriateness” provides for a more complex view of human motivation, because it does not exclude the consideration of consequences whereas the “logic of expected consequences” is taken to “ignore” rules and identities. ...[J]ust as the “logic of expected consequences” assumes preferences instead of accounting for them, the “logic of appropriateness” assumes identities. The omission is not complete in either case: reasoning along the lines of the “logic of expected consequences” is often based on a structural theory of interests, just as March and Olsen emphasize the social formation of identities. The parallel is clear, however: while the “logic of expected consequences” essentially leads us to derive actions from given preferences, the “logic of appropriateness” essentially leads us to derive actions from given identities.¹⁷

In this sense, in applying contending logics in analysing motivations to participate in peacekeeping, one might begin with the assumption that states are more likely to follow the logic of appropriateness, though one imbued strongly with the drive to follow rationally calculated interests as the situation befits. However, in the case of a practice whose normative basis and practical implementation are driven by international institutions such as the UN, it is clear that a normative concern with identity will limit the expression of exclusively consequence-based action in the ambit of international peacekeeping.¹⁸ In other words, a practice historically crafted with an eye to quintessentially Northern elements of identity may not dovetail quite as smoothly with the pursuit of interests of a Southern state without normative tensions and significant adaptations of practice.

3 OFFICIAL BRAZILIAN POLICY ON INTERVENTION AND PEACE OPERATIONS

How, then, does this theoretical lens allow us to elucidate the motivating factors behind Brazilian policy and decision-making on peace operations? For all its abovementioned shortcomings, by disaggregating normative from material policy motivations, the competing-logics approach is particularly helpful with regard to two aspects central to understanding Brazilian peacekeeping policy. These are the normative tension between historical, regionally-bound foreign policy traditions and newly evolving international norms of intervention; and the effects of the country's fractured and underinstitutionalized decisionmaking process in the area of peace operations.

In its foreign policy orientation, Brazil is very firmly rooted in the Latin American security subculture. Shaped by almost two centuries of a continued interventionist stance by the United States in the hemisphere, this culture has focussed largely on the development of legal protections against American intervention.

17. GOLDMANN, p. 44.

18. Roland PARIS makes this point in *Peacekeeping and the Constraints of Global Culture*, *European Journal of International Relations*, v. 9, n. 3, p. 441–473, 2003.

As a result, its highest principle is respect for the norm of non-intervention, an interpretation which has a corollary in the equation of the principle of sovereignty with the inviolability of borders.

Following independence from Portugal and Spain, the newly independent states of South America largely settled their borders by negotiation rather than force, and have adopted a strong preference for negotiation, coupled with the strong repudiation of the use of force in the resolution of disputes. Historically speaking, in global terms Brazil's perception of its identity was long that of a weak peripheral state in need of the protection of absolute sovereignty against the will of the stronger Northern powers. The normative frameworks of multilateral institutions and international law have long been seen as an essential protection against the vagaries of the power distribution in the international system.

In this sense, the key role of multilateral institutions in the expression of Brazil's foreign policy identity underscores the commingled nature of normative and material interests within it: sustaining international institutions and their practices are a form of pursuing the national interest, which in turn derives partially from normative feedback from those fora. Tellingly, in its role as the primary architect of Brazilian foreign policy, the Ministry of External Relations, also known as Itamaraty, has a pronounced predilection for the multilateral form and its normative sequelae.¹⁹ By contrast, the Armed Forces, primary designers of the country's defence policy and primary implementers of its peacekeeping policy, hew to the line, common to almost all military establishments, of placing at the centre of their analysis a primarily material national interest. This has resulted in a nefarious vagueness in both declaratory policy and the specific process with regard to peace operations.

The documents which ground Brazil's foreign policy conduct strongly illustrate this point. Article 4 of the 1988 Constitution subjects Brazil's international action to the following principles:

- I – national independence;
- II – prevalence of human rights;
- III – self-determination of the peoples;
- IV – non-intervention;
- V – equality among the States;

19. Indeed it is the conflict between this predilection, manifested in participation in peace operations, and the absolutist interpretation of sovereignty, manifested in the strict non-intervention norm, that is at the basis of the larger tensions surrounding Brazilian policy on peace operations as the country emerges into a more prominent international role. See KENKEL, Kai Michael, *Global Player, or Watching from the Sidelines? The "responsibility to protect": definition and implications for Brazil*, *Revista da Escola de Guerra Naval*, v. 12, p. 6-59, 2008.

- VI – defense of peace;
- VII – peaceful settlement of conflicts;
- VIII – repudiation of terrorism and racism;
- IX – cooperation among peoples for the progress of mankind;
- X – granting of political asylum.²⁰

Beyond its decisive function, what makes this paragraph interesting is that it does not establish a hierarchy between the values in question; in the case of a clash between the values of “defense of peace” or “non-intervention” with “self-determination” or “human rights”, it is explicitly left to politics to decide which precept is to prevail. This “post-modern” aspect of the Brazilian Constitution²¹ is both a blessing and a curse; it allows great freedom of interpretation while providing less of a firm guideline in specific situations. Article 4’s precepts could indeed be used as reasoning for Brazil to act in divergent ways during the same crisis, if intervention were deemed an option in attaining, for example, the defence of peace.

As a result, Article 4 attributes a powerful interpretative role to both the Executive and the Legislative. Partially as a result of the stigmas on dealing with military issues resulting from the era of military rule, both branches have largely shied away from taking on this role. There is a general lack of expertise and interest regarding military issues within Parliament, and the executive branch – which indeed has only possessed a civilian Ministry of Defence since 1999 – has yet to lay out policy guidelines truly capable of serving as the basis for implementable policy. This is due to change with the drafting of the country’s first Defence White Paper in late 2011.

A case in point are the two iterations of the National Defence Policy (*Política de Defesa Nacional*) put forth in 1996 and 2005. The history of the first document is telling: after having been submitted in the form of “Foundations of a [future] National Defence Policy”, during the consultation process the “Foundations of a” was simply removed and the document published in essentially unrevised form as a government document. This is reflected in its vagueness, particularly as regards the complex of issues surrounding peace operations. Consistent in adopting a preference for pacific, non-military approaches to defence (and pervasively referring to the armed forces and diplomacy with largely unquantifiable notions such

20. CONSTITUTION OF BRAZIL. Article 4. 1988. Available from <http://www.v-brazil.com/government/laws/titel.html>. Accessed 9 March 2011.

21. On the postmodern nature of the Brazilian Constitution, see Luis Roberto BARROSO, *Fundamentos Teóricos e Filosóficos do Novo Direito Constitucional Brasileiro: Pós-modernidade, Teoria Crítica e Pós-positivismo*. Available from http://www.direitopublico.com.br/pdf_6/DIALOGO-JURIDICO-06-SETEMBRO-2001-LUIS-ROBERTO-BARROSO.pdf. Accessed on 9 March 2011.

as “expressions of national sovereignty and dignity”),²² the document establishes, *inter alia*, three values as defence policy priorities:

- e. the fulfilment and maintenance of Brazilian interests abroad;²³
- f. the projection of Brazil within the international community and its better insertion into international decision-making processes; and
- g. its contribution to the maintenance of international peace and security.²⁴

Committing the country to “the search for the pacific settlement of disputes, with the use of force only as a means of self-defence”,²⁵ the final guidelines of the 1996 document, with relevance to peace operations, are:

- a. active contribution to the building of an international order, based upon the rule of law, which will promote universal and regional peace and the sustainable development of humanity;
- b. increasing participation in international decision-making processes;
- c. the improvement and increase of Brazil’s negotiating capacity on the international scene;
- e. participation in international peacekeeping operations, in accordance with national interests.²⁶

The 1996 policy document shows very clearly the overlap between the logics of appropriateness and consequences as expounded by March and Olsen and critiqued by Goldmann and Sending. The policy defines as interests aspects generally associated in the “logics” approach with identity, and subordinates to interests – at home in the logic of consequences – the practice of peacekeeping generally held to be subject to the dictates of norms and identity.²⁷ This results from the aforementioned Brazilian historical self-identification – now increasingly contested – as a peripheral state whose best chance at achieving influence on the international stage is through a commitment to the multilateral form.

In this sense, it can be said that March and Olsen’s distinction belies its origins in the analysis of stronger Northern states capable of retaining, in their interaction with international institutions, a vision of interests separate from their actualization in these fora. Their approach, however, does provide the possibility

22. BRAZIL. MINISTRY OF DEFENCE. *National Defence Policy*. Brasília: Ministry of Defence, 1996; paragraph 2.13. Available from <http://merln.ndu.edu/whitepapers.html>. Accessed 9 March 2011.

23. As the country grows in international economic and security profile, the prospect of the defence of Brazilian commercial interests abroad through the Armed Forces is likely to arise as a hypothetical consideration—once which historical patterns dictate would be rapidly discarded.

24. 1996 National Defence Policy, paragraph 3.3.

25. 1996 National Defence Policy, paragraph 4.2.

26. 1996 National Defence Policy, paragraph 5.

27. See PARIS, “Global Culture”.

of pointing out the conflation of interests with values in the policy document, to the detriment of the necessary clear definition of the former. While the policy documents paint a clear picture of facets of Brazilian security identity, they do not refine these aspects into pursuable interests or a sharp decisionmaking criterion.

The situation only improves slightly with the 2005 revision of the National Defence Policy. The 2005 version makes the link between upholding the international system, multilateral institutions and peace operations:

The prevalence of multilateralism and the invigoration of the principles consecrated by international law as sovereignty, no-intervention and equality among States, are the promoters of a more stable world, turned to the development and well being of humanity.²⁸

Brazil acts in the international community respecting the constitutional principles of self-determination, no-intervention and equality among States. In those conditions, under the protection of multilateral organisms, the country participates in peace operations, seeking to contribute to peace and international security.²⁹

(Prevention in the National Defence Policy is based on)

IV– [the] search for the peaceful solution to controversies;

V – [the] valorization of multilateral forums.³⁰

The 2005 document repeatedly highlights the importance of peace operations, without offering greater detail on their preparation or deployment, or a criterion for commitment to either:

To enlarge the country's projection in the world concert and to reaffirm its commitment with the defense of peace and with the cooperation among the peoples, Brazil should intensify its participation in humanitarian actions and in peace missions with the support of multilateral organisms.³¹

The importance of peace operations as a strategic objective, stated in the last section of the 1996 document, is repeated unchanged nine years later.³² Once more, the 2005 National Defence Policy does not offer a guideline as to how the principles of Article IV of the Constitution are to be related to one another in practice, and what are to be the fixed criteria, or even political parameters, for the deployment of forces. The maintenance of multilateral structures and strong participation in them are enshrined as the preferred way to make Brazilian interests heard at the international level, in such a way as to obviate the distinction

28. BRAZIL. MINISTRY OF DEFENCE. *National Defence Policy*. Brasília: Ministry of Defence, 2005; paragraphs 2.3. Available from <http://merln.ndu.edu/whitepapers.html>. Accessed 9 March 2011.

29. 2005 National Defence Policy, paragraph 4.12.

30. 2005 National Defence Policy, paragraph 6.2.

31. 2005 National Defence Policy, paragraph 6.17.

32. 2005 National Defence Policy, paragraph 7.25.

between March and Olsen's two logics. Brazilian interests are defined in terms of a multilateralist, pacifist, sovereigntist identity, and peace operations subordinated to those interests.

This confusion stems in no small part from differences in the approaches taken by the different ministries involved in crafting the country's security policy, particularly where peace operations are involved. Whereas the Ministry of External Relations is steeped in a "Grotian"³³ culture of negotiation, multilateralism and pacifism, clearly aligned with a logic of appropriateness, the military-heavy Ministry of Defence tends to adopt a logic of consequences, assuming the pursuit of a rationally calculated national interest. This leads to a situation where military documents subordinate peacekeeping participation to consequence-based national interests, whose definition is given by the Foreign Ministry as a function of norms and identities aligned with notions of appropriate action. This is clearly consistent with Goldmann's abovementioned critique concerned the logics' ability to be cleanly separated. As a result, is a sense, evaluating the consequences of action is a practice already couched within perceptions of their appropriateness. To wit, the 2008 National Defence Strategy takes a step towards the operationalization of the concepts outlined in the interministerially negotiated Defence Policy, with a view to implications for the Armed Forces and the Ministry of Defence. Interestingly, it does so first by further enshrining elements of identity relevant to peace operations:

Brazil is pacific by tradition and conviction. It lives in peace with its neighbours. Its international relations are governed, among others, by the constitutional principles of non-intervention, the defence of peace and the peaceful resolution of conflicts. This trait of pacifism is a part of national identity and a value to be conserved by the Brazilian people.³⁴

Only later does the document revert, in the specific section on peace operations, to the need to subordinate actual deployment to notions of consequences and national interest: it sets as an objective

To promote the increase in training for the participation of the Armed Forces in peace operations, in UN forces or those of regional multilateral organizations.

1. Brazil should increase its participation in peace operations under the auspices of the UN or regional multilateral organizations, in accordance with national interests as expressed in international commitments.³⁵

33. See, for example, Gustavo S  n  chal de GOFFREDO J  NIOR, *Entre poder e direito: A tradi  o grotiana na pol  tica externa brasileira*. Bras  lia: Instituto Rio Branco/FUNAG, 2005.

34. BRAZIL. MINISTRY OF DEFENCE. *Estrat  gia Nacional de Defesa* (Bras  lia: Ministry of Defence, 2008), http://www.mar.mil.br/diversos/estrategia_defesa_nacional_portugues.pdf, p.8.

35. *ibid.*, p. 62.

It is interesting to note the increasing importance given peace operations by the successive policy documents, without an attendant amelioration of content or level of executable detail. Though it devotes a separate heading to peace operations, the National Defence Strategy limits itself to repeating previous documents, adding the desire to assume a regional leadership role in training for such missions. Finally, the 2007 Military Defence Doctrine also highlights the importance of peace operations to the country's foreign policy objectives, and once more attempts to create a hierarchy of national interests over multilateral participation: "the armed forces may participate in peace operations, in conformity with the prescriptions of the United Nations Charter, as long as the principles of non-intervention and the self-determination of peoples are respected."³⁶

These documents illustrate the tensions inherent in laying out a policy based on the potentially conflicting principles outlined in the Constitution. The two main ministries involved can be said to take up sides within March and Olsen's division between contending logics. As a result, there are clear tensions between the responses called for in the documents. For example, the country's commitment to non-intervention – fostered most actively by the Foreign Ministry – by nature grants it a sceptical stance with regard to certain types of peace operations, particularly those deployed under Chapter VII of the UN Charter. The military document, on the other hand, argues strongly in favour of increasing overall participation across a range of mission types.

This raises the question of what interests are to be safeguarded through peacekeeping beyond of the declared (almost tautological) goal of further participation in international institutions. Of what is peacekeeping an example, in terms of national aims, other than improving the relationship with multilateral organizations and the international system? To date, the interpretation of these questions has tended to favour the line taken by the Foreign Ministry; nevertheless, there is necessity for a criterion to identify clearly which types of missions strike an acceptable balance between Constitutional objectives, and which form of participation can be routinely excluded. The delay in elaborating such a criterion is exacerbated by the fractured and underinstitutionalized nature of the political decisionmaking process.

36. BRAZIL. MINISTRY OF DEFENCE. *Doutrina Militar de Defesa*. (Brasília: Ministry of Defence, 2007), paragraph 6.7.4. Available from www.arqanalagoa.ufscar.br/pdf/doutrina_militar_de_defesa.pdf. Accessed 9 March 2011. See also CANINAS, Osvaldo Peçanha. *Enquadramento Jurídico-Normativo Nacional das Operações de Manutenção da Paz: Situação Atual e Proposta de Mudanças*. Thesis, Curso Estado-Maior para Oficiais Superiores. Rio de Janeiro: Escola de Guerra Naval, 2007; p. 15.

4 THE DECISIONMAKING PROCESS FOR DEPLOYMENT OF BRAZILIAN TROOPS TO PEACE OPERATIONS

Currently, the decisionmaking process for the deployment of peacekeeping troops in Brazil is ad-hoc and underinstitutionalised. As a result, it is quite malleable in that personalities play an excessive role in either speeding it up or holding it hostage. The legal basis for decisions is outdated, having been established as a temporary measure in 1956 with the country's first participation in the United Nations Emergency Force in the Suez – 32 years before the ratification of the current Constitution. The lack of clear definition of formal pathways, or their complex and redundant nature when they are present, are not an uncommon feature in the Brazilian political process, and are in fact indicative of a frequent pattern of spontaneous solutions made permanent. From these origins, a fixed process has crystallized out of repeated practice.

The process begins when the United Nations, typically by way of DPKO, informally requests the Permanent Mission of Brazil for a stance on a possible contribution of troops to an operation under planning. The Permanent Mission evaluates the request in light of the country's interests at the United Nations and forwards it to the Ministry of External Relations.³⁷ The MRE informally consults with the Defence Ministry (MD) on the availability of troops, and with the Presidency regarding the domestic political expediency of deployment. A formal request is sought from DPKO; the MRE and the MD respond in a Joint Statement of Motives (*Exposição de Motivos Conjunta*). Input is sought here as well from the Ministry of Planning and Budget, which must approve the stocking-up of the military budget for the operations. The process then moves to the Legislative Branch, by means of a Presidential Message to Congress containing the request and the Ministries' evaluation. The Parliament then must approve the details of the deployment by means of a Decree under Law 2.593/1956.³⁸

Brazilian analysts have identified a series of difficulties with this process, among which one diplomat has identified the most problematic:

1. there is very low institutionality, given that the steps are not determined by a norm and might be circumvented or questioned. Further, the progress of the decision depends on the constant application of political pressures, above all on organs that are not directly involved in the topic (such as the Planning Ministry and the President's Chief of Staff);

37. Note the prominence this accords both "interests" (consequences) and Itamaraty, whose preference is taken to be for appropriateness.

38. See UZIEL, Eduardo. *O Conselho de Segurança, as operações de manutenção da paz e a inserção do Brasil no mecanismo de segurança coletiva das Nações Unidas*. Thesis, Curso de Altos Estudos, Instituto Rio Branco, Brazilian Ministry of External Relations. Brasília: MRE, 2009; p. 81.

2. In this area there persists an acute dependency on personal relationships between the area officers for a request to be processed;
3. The Congress normally does not receive systematic information about the conflicts in questions and on peace operations and depends on news from the press;
4. As a result of the previous factors, it frequently happens that the decision is morose and ends up not meeting the expectations of the United Nations, which needs to mobilize contingents quickly.³⁹

This makes the actual outcome of the process highly dependent upon politics and personality. Therefore, the overarching attitude of the government in power can leave a strong (occasionally party-political) mark on the country's pattern of deployments to peace operations. Indeed, the country's participation in MINUSTAH has very demonstrably shown this to be the case, in contrast to the pattern prior to the Haiti engagement.

5 HISTORICAL PATTERNS: BRAZIL AND PEACE OPERATIONS (1956-2004)

Prior to the country's adoption of a leadership role in MINUSTAH, Brazil was a constant, yet small, contributor to peace operations. The country sent a steady stream of individual officers on UN PKOs as liaison officers, staff officers, and military observers. There were three exceptions to this rule, in the form of battalion-sized forces sent to the United Nations Emergency Force (UNEF) I (1956-1967), the United Nations Verification Mission in Angola (UNAVEM) 1995-1997 and the UNOMOZ in Mozambique in 1993-1994, for which the country also briefly supplied the Force Commander.⁴⁰ The country adhered very strictly to the norm of non-intervention, which was interpreted as prohibiting participation of missions under anything other than Chapter VI of the UN Charter, Chapter VII being seen as a violation of its Article 2(7).

The country took this stance so far as to abstain from voting on several resolutions on Haiti – and, tellingly, the decision to establish a more robust peace operation in Rwanda – during its stint as a non-permanent member of the Security Council in 1994. With the exception of the early missions in the Suez Peninsula, which afforded the opportunity for a clearly neutral contribution to the maintenance of international order under the strictest of guidelines relative to the use of force, Brazilian peacekeeping contributions were subject to deployment in areas of clear national interest and affinity. Mozambique and Angola are former

39. UZIEL, pp. 81-82.

40. The most detailed works of reference by Brazilian authors are Paulo Roberto Campos Tarrisse da FONTOURA, *O Brasil e as Operações de Manutenção da Paz das Nações Unidas*. Brasília: FUNAG, 1999; and Afonso José Sena CARDOSO, *O Brasil nas Operações de Paz das Nações Unidas*. Brasília: FUNAG, 1998. More recently, see Sérgio Luiz AGUIAR (ed.), *Brasil em Missões de Paz*. São Paulo: Usina do Livro, 2005; and Joao Paulo Soares ALSINA JÚNIOR, *Política externa e poder militar no Brasil*. Rio de Janeiro: FGV, 2009.

Portuguese colonies and members of the Community of Portuguese-Speaking Countries (CPLP), which began to play an increasing role in Brazilian foreign policy at the time. In other terms, the deployments followed the logic of appropriateness, though not divorced from considerations of consequences, and these consequences were not filtered through a lens of increasing international profile (a national interest) through such participation.

Brazilian troops contributed largely in non-combat roles such as the provision of medical assistance, and their presence was not explicitly connected to declared broader foreign policy aims.⁴¹ This participation was to become much less reluctant as the country increasingly took on the characteristics of an emerging power, and began to undergo a series of shifts in the self-identification underlying its foreign policy, including its attitudes towards participation in peacekeeping.

6 NEW INTERESTS AND IDENTITY ARISE: BRAZIL AS AN EMERGING POWER⁴²

Brazil's historical stance clearly reflects the country's grounding in a specific Latin American regional security subculture that – in terms, for example, of the competing values enshrined in the Brazilian Constitution – values sovereignty and non-intervention over the (forceful) defence of peace and human rights. The advent of President Lula da Silva's second term would lead to changes both in perceptions of Brazil's international identity and in the nature of cost-benefit analysis associated with it.

The underinstitutionalised and personality-dependent decisionmaking process in fact facilitated a change in policymaking goals and their rapid implementation in practice. In terms of March and Olsen's approach, a dual shift began to occur as a result of Brazil's adopting a position typical of an emerging power: just as within the logic of appropriateness Brazil's identity began to be redefined, away from a regionally anchored understanding towards that of a global player, the balance between the two logics began to shift as well, with more emphasis placed upon a cost-benefit analysis geared towards increasing the country's global clout.

One way of encapsulating the internal tensions in Brazil's policy towards intervention during this period is to frame them in terms of a clash between regional norms that have until recently been adequate to the country's previous focus, and the attitudes inherent to the quest for greater influence at the

41. KENKEL, Kai Michael. South America's Emerging Power: Brazil as Peacekeeper, *International Peacekeeping*, v. 17, n. 5, p. 644-661, 2010; and New missions and emerging powers: Brazil's involvement in MINUSTAH. In LEUPRECHT, Christian, Jodok TROY and David LAST (eds.), *Mission Critical: Smaller Democracies' Role in Global Stability Operations*. Montréal/Kingston: McGill-Queen's University Press, 2010, p. 125-148.

42. This section is closely based on the analysis in KENKEL, Kai Michael. Brazil and the *Responsibility to Protect*: Once Bitten, Twice Shy?, Paper prepared for presentation at the 52nd Annual Convention of the International Studies Association, 16-19 March 2011, Montréal, Québec, Canada.

international level. In realistic terms, the utility of peace operations as a means to attain more clout internationally derives strongly from the expressed availability to assume global responsibility signalled by participation in them. The succinct expression of this tension is that it relates to a shift in self-identification from a weak peripheral power (in need of the protection of 'sovereignty as shield') to a global stakeholder prepared to take responsibility for the international system and (particularly in the case of potential Council members) for those in it who cannot fend for themselves.

As a result, the balance between the Constitutional principles shifts away from those favoured in the regional context and towards those whose pursuit and support is seen as leading to a greater ultimate payoff at the international level. In the case of peace operations, this translates into a granting priority to the defence of human rights and of peace at the cost of (albeit the strictest form of) adherence to the principle of non-intervention.

One useful way of analysing emerging powers is to view them as a subclass of middle powers, harnessing the advances inherent to studies on that analytical category and highlighting differences between the traditional and the emerging middle powers. Here the author builds on a previous application of the emerging power concept to Brazilian policy regarding peace operations; the conclusions apply to the country's stance on the "responsibility to protect" (R2P) as well. In line with March and Olsen's analysis, and Paris' conclusions, middle powers,⁴³ as a result of their position in the international system, tend to pursue foreign policies that align with a logic of appropriateness as the most effective means of attaining objectives, with the attendant identity based on negotiation and compromise; strong support for international order, in the form of multilateral institutions; and "good international citizenship".⁴⁴ Middle powers self-identify with the status quo from which they benefit, and are often conservative supporters of the *status quo ante* from which they profit.

States who emerged as middle powers after the end of the Cold War have a more ambiguous and often instrumental relationship with the international system.⁴⁵ They are typically regional leaders who have sought to parlay their regional preponderance into increased global position.⁴⁶ As Neack pointed out as early as 1995,

43. See CHAPNICK, Adam. The Middle Power, *Canadian Foreign Policy*, v. 7, n. 2, p. 73-82, 1999; here, p. 76.

44. This analysis is based on Andrew F. COOPER, Niche Diplomacy: A Conceptual Overview, in Andrew F. COOPER, Richard A. HIGGOTT and Kim Richard NOSSAL (eds.), *Relocating Middle Powers: Australia and Canada in a Changing World Order*, Vancouver: UBC Press, 1993; and Robert W. COX, Middlepowermanship, Japan, and Future World Order, *International Journal*, v. 44, n. 4, p. 823-862, 1989.

45. See Kenkel, 'Emerging Power'.

46. Analysts such as Andrew HURRELL disagree on the need for regional dominance as a springboard to global player status as an emerging power, which is of particular relevance to Brazil's situation in Latin America. See Hegemony, liberalism and global order: what space for would-be great powers? *International Affairs*, v. 82, n. 1, p. 1-19, 2006.

Non-Western middle powers or even 'small' or 'weak' powers may also support the status quo, even though the status quo is undeniably Western in origins. For these states, it is unrealistic to imagine completely revising the world system to better serve their interests. However, these states can attempt to find for themselves a position within the established order from which they can offer and defend non-status quo interests. India's and Brazil's involvement in the UN system can be understood in this way. Thus, participation in UN peace-keeping can derive from an interest in protecting the international system and the participant state's current or desired position in that system.⁴⁷

The abovementioned tension between the regional and global ambits is thus typical of these actors who are both central leaders and peripheral followers in the international system.⁴⁸ Emerging powers have a more ambiguous relationship with international structures, supporting them when doing so is advantageous and seeking their reform or even obstruction when it is not.⁴⁹ Thus an emerging power such as Brazil would be expected, within this form of analysis, to continue to support, at the very least rhetorically, international structures while seeking both a stronger role for itself within them, their overall reform in favour of a more advantageous outcome for the group of states it represents, and the prevention of developments counter to its own preferences.⁵⁰ Overall, analysts have noted a more assertive stance in Brazil's policy position in security matters⁵¹ and an increasing instrumentalization of peace operations towards objectives associated with the emerging power position.⁵²

7 BRAZIL AS AN EMERGING POWER: MINUSTAH AS CRUCIBLE

Brazil's contribution to MINUSTAH, the United Nations Stabilization Mission in Haiti, represents a clear break from a series of previous policy principles related to intervention. Though the Foreign Ministry is correct in insisting that greater involvement in MINUSTAH is an expression of continuity in the country's commitment to international institutions,⁵³ the nature of the change (principally to

47. NEACK, p. 184.

48. SCHIRM, Stefan A. Leaders in Need of Followers: Emerging Powers in Global Governance, *European Journal of International Relations*, v. 16, n. 2, p. 197–221, 2010.

49. See FLEMES, Daniel. Brazilian foreign policy in the changing world order. *South African Journal of International Affairs*, v. 16, n. 2, p. 161–182, 2009.

50. As evidenced in the recent Western intervention in Libya and Brazil's abstention during the Security Council vote authorizing the use of force.

51. DUARTE VILLA, Rafael Antonio and Manuela TRINDADE VIANA, Security issues during Lula's administration: from the reactive to the assertive approach. *Revista Brasileira de Política Internacional*, v. 53, special edition, p. 91–114, 2010.

52. See CAVALCANTE, Fernando. Rendering peacekeeping instrumental? The Brazilian approach to United Nations peacekeeping during the Lula da Silva years (2003–2010). *Revista Brasileira de Política Internacional*. v. 53, n. 2, p. 142–159, 2010.

53. On this point see Eugênio DINIZ, Brazil: Peacekeeping and the Evolution of Foreign Policy, in FISHEL, John T. and Andrés SAENZ (eds.), *Capacity Building for Peacekeeping: The Case of Haiti*, Washington: National Defense University Press, 2007, p. 91–111.

a mission which, despite semantic sophistry, undeniably belongs in the Chapter VII category)⁵⁴ belies fundamental changes in both the way the country sees its identity, and in the cost-benefit analysis that underlies how it defines its interests. The change is, in essence, a shift from a regionally-bound mode of conduct to one geared to growth toward filling global objectives.

In terms of the identity-based logic, Brazil no longer sees itself merely as the lead power in a particular (relatively peripheral) region of the world, but as a global player in its own right. As a result of its strong commitment to the United Nations and other multilateral institutions, there has been a realization that such a shift comes with a change in the costs and benefits of action. In important ways, in particular the Latin American interpretation of sovereignty and the ensuing response to changes in international norms such as the “responsibility to protect” have been a handicap in New York, as in the eyes of several countries key to an eventual reform of the UNSC, it clouds the country’s ability to project readiness to take on increased international responsibility.⁵⁵ Indeed President Lula da Silva has recognized this as a motive for the country’s role in MINUSTAH: “This is how we responded, Brazil and other Latin American countries, to the call from the UN to contribute to the stabilization of Haiti. Whoever defends new paradigms in international relations cannot be absent from a concrete situation.”⁵⁶

This realization was to have certain effects on the logic of consequences and its cost-benefit analysis. Despite well-known misgivings about deserting an absolutist interpretation of sovereignty for a more participative stance on humanitarian intervention, Lula’s Foreign Minister Celso Amorim also realized that the emerging power’s desire for global clout came with a steeper price tag:

Our participation in the UN mission in Haiti also arises from the principle that peace is not a free international good: the maintenance of peace has a price. That price is participation. To be absent from or to evade giving an opinion or to act in a crisis situation can signify exclusion from the decisionmaking process or worse, dependency in relations to other states or regions.⁵⁷

In this sense, the basic metrics of the logic of consequences have changed: there is now a greater cost to non-intervention, and its perceived peace-bringing benefits are not valued in the same way at the global level (where the protection of

54. On this point, see FONTOURA, esp. p. 261. Brazil has a longstanding, if not extensive, tradition of participation in peacekeeping operations. With the exception of battalion-size commitments in the Suez, Angola and Mozambique (and now the country’s leadership role in MINUSTAH), the pattern has been of contributing individuals or small groups as observers.

55. See KENKEL, *Once bitten*.

56. CANINAS, p. 15.

57. AMORIM, Celso. *Conceitos e estratégias da diplomacia do Governo Lula*. Available from <http://www.itamaraty.gov.br/sala-de-imprensa/discursos-artigos-entrevistas-e-outras-comunicacoes/embaixador-celso-luiz-nunes-amorim/artigo-conceitos-e-estrategias-da-diplomacia-do>. Accessed 9 March 2011.

human rights are increasingly paramount) as they were historically in the region. There is a growing though reluctant realization that with power comes responsibility, and that if peace operations are to be a key vehicle for these aims, these may not be attainable without more robust participation in peace operations. This is combined with a shift in self-identification, as described above, that has led to the expected shift towards a middle power's more ambiguous and instrumental stance towards multilateral engagement. The bulk of diplomatic response to Northern states' equation of responsibility with the readiness to use force has been to seek to demonstrate that responsibility can be exercised without recourse to force through a focus on development and the export of social policies that have met with success at home.

8 LESSONS FROM THE FIELD: MOTIVATIONS AND RESULTS

It is therefore paramount to note that the availability of military force is not the most important element of the country's effort in Haiti. Alongside sending the largest contingent to MINUSTAH, as well as – in a break with normal UN practice – consistently providing its Force Commander – in parallel with its military contribution Brazil is engaged in a highly successful and targeted attempt to develop a specifically Brazilian, Southern, form of peacebuilding as a counterproposal to the liberal-democratic Northern model that pervades the UN approach today.⁵⁸ In addition, Brazil has taken on a leadership role in coordinating the efforts of South American contributors to the missions, who make up slightly over half of its composition. Participation in peace operations has undeniably become the nucleus of a crucial part of the country's projected identity, and a prominent way for it to stake its claim to greater participation and to regional and bloc leadership.

In practice, as a number of previous analyses⁵⁹ show, there is a clear idea in the field as to what Brazilian priorities are in peace operations, how they fit into a larger plan for maximizing Brazil's international profile, and how they can be employed as a tool both in pursuit of national interests and the realization of the precepts of Brazilian identity. It is within the context of the "Haitian laboratory" that a model has emerged that has gone far further than the political process in transforming into concrete actions the precepts set out in both Brazilian declaratory policy documents and in its long-standing foreign policy traditions.

58. For much more detail on this point see Kenkel, "Emerging Power".

59. See for example CHAGAS Vianna Braga, Carlos. MINUSTAH and the Security Environment in Haiti: Brazil and South American Cooperation in the Field, *International Peacekeeping*, v. 17, n. 5, p. 711-722, 2010.

This model couples the Brazilian penchant for negotiation and peaceful conflict resolution with the country's traditional focus both internally and in foreign policy on sustainable economic development. Though there is emphasis on negotiation and pacific means – bolstered by an approach that places an incentive on close contact with the local population – Brazilian troops have not shied away from using force effectively and very robustly when called upon to do so – although this came as the result of considerable pressure from other states present in the Haitian context. In development terms, there is a preference – somewhat distinct from that of other “emerging donors” – on smaller-scale integrated projects rather than major infrastructure projects.

A further forte of the burgeoning Brazilian model is the export of technologies and techniques used in the country's own domestic context in situations of underdevelopment and violence. This is embodied chiefly in the activities of the agricultural development agency EMBRAPA and the microlevel community violence reduction projects of the NGO Viva Rio, which receives its funding from Canadian, Norwegian and Brazilian sources. Taken holistically, this approach represents a distinct Brazilian contribution to the development of peacebuilding paradigms, and as such constitutes a diplomatic “niche”⁶⁰ of great utility to Brazil in advancing its foreign policy goals through participation in peace operations and broader peacebuilding efforts.⁶¹

What, then, are Brazil's objectives and motivations to participate in peace operations? Peace operations allow Brazil to attain a specific set of objectives which bridge the logics of consequences and appropriateness, and the rationales of material interest as well as normative identity. Indeed, though the focus here is on the precepts of foreign policy, the benefits of PKO participation are not limited to diplomatic objectives and include the training and equipment of the Armed Forces,⁶² as well as the provision for the military of a new, prestigious mission intimately tied to the country's image abroad.⁶³ One Brazilian diplomat has reduced Brazilian interests to the following useful chart:⁶⁴

60. See COOPER.

61. Information obtained in interviews with actors involved in implementing the model in Haiti, 2009 and 2011.

62. LIRA GOÊS, Fernanda and Almir OLIVEIRA JÚNIOR, A presença brasileira nas operações de paz das Nações Unidas, in ACIOLY, Luciana and Marcos Antonio MACEDO CINTRA (eds.) *Inserção Internacional Brasileira: temas de política externa*, Brasília: IPEA, 2010, p. 407-440.

63. For more details see LIRA GOÊS and OLIVEIRA JÚNIOR; ALSINA, and the extensive body of work of Antonio Jorge RAMALHO DA ROCHA.

64. UZIEL, p. 91.

CHART 1

Internal, bilateral/regional and institutional interests

Internal	Bilateral/regional	Institutional
<ul style="list-style-type: none"> - achieve principles in Article 4 of Constitution; - training for the Armed Forces; - promote the role of the military in society. 	<ul style="list-style-type: none"> - show solidarity with the conflict-stricken country; - deepen relationship with host country or neighbours; - deepen relations with other TCCs; - promote Brazilian trade and investments. 	<ul style="list-style-type: none"> - legitimate candidacy for a permanent seat on the UNSC; - strengthen multilateralism and the peaceful resolution of conflicts; - maximize influence in UNSC during elected periods; - demonstrate capacity for mobilization.

Participation in peace operations allows Brazil to satisfy the logic of appropriateness by conducting itself in a manner that is plainly supportive of the United Nations as an institution, specifically with regard to strengthening its mechanisms for the peaceful resolution of conflicts. As such it is an excellent vehicle for the transformation of the country's Grotian stance into concrete action. Sending blue helmets concomitantly fulfils the logic of consequences as well, not only bringing the benefits of demonstrating the country's fitness and willingness to assume international responsibility (and thus its aptness for a veto-endowed seat on the Security Council), but it hedges against the cost of losing influence by not engaging actively in fora where the major powers are active.⁶⁵

This latter calculus, however, is contingent upon engaging in peace operations in a form perceived as demonstrating more international responsibility by those same major powers. In this sense, the Brazilian peacebuilding model serves a broader purpose. As intervention norms move towards underpinning an increased willingness on the part of major powers to use force to protect civilians' human rights, it serves as a way for Brazil to demonstrate responsibility and effectiveness without recourse to increased levels of force. In this sense, an important element of future Brazilian peacekeeping policy centres around the exportability of the model beyond Haiti to contexts in which the Council deems it useful. This specialization on certain development-related aspects of the peacebuilding process dovetails nicely with the division of labour in PKOs propounded, *inter alia*, in DPKO's *New Horizon* Report.⁶⁶ In short, the ensemble of opportunities presented by the Haitian experience serve to show the way for the broader transformation of notoriously vague policy objectives into concrete actions that both advance Brazilian interests and serve to consolidate its international identity.

65. LIRA GOÉS and OLIVEIRA JÚNIOR, p. 424.

66. UNITED NATIONS. DEPARTMENT OF PEACEKEEPING OPERATIONS. *New Horizon* Report. 2010. Available from www.un.org/Depts/dpko/dpko/newhorizon.shtml. Accessed 1 April 2011.

9 ATTAINABLE GOALS AND NECESSARY REFORMS

The attainment of these objectives, however, requires a set of clear reforms. First, a new generation of Brazilian analysts have pointed out the dire need for systematization and automatization of the decision-making process, which is seen as generating inconsistent results that might jeopardize the functioning of a consolidated agenda in the area of peace operations:

Some might say that this is indeed a deliberate strategy and that participating in UN peacekeeping operations on a case-by-case basis is indeed in Brazil's national interest. However, this interpretation is misleading. In fact, as noted by Diniz ..., the Brazilian bid for a permanent seat on the UNSC, for instance, was threatened by the country's scarce participation in UN peace operations and hence Brazil had to accept the call to join MINUSTAH. Considering this reasoning, and bearing in mind the current status of an emerging power that has recently been attributed to Brazil (see, e.g., Burges, 2008), it seems likely that the maintenance of such inconsistent positions in the realm of international security may have a negative impact on Brazil's 'emergence'.⁶⁷

Among the various factors in need of clarification and reform on the internal side of Brazilian engagement with peace operations, three in particular come to mind as most urgent. The first is the development of a clear decisionmaking criterion for participation in peace operations and other military interventions, which enumerates definitively how to balance historical positions and constitutional principles in given situations. This criterion must explain consistently why, for example, a mission under Chapter VI is acceptable and one under Chapter VII is not, and under what specific circumstances a mission under Chapter VII, or with peace enforcement characteristics such as MINUSTAH, might be contemplated. Ideally this norm would be enshrined in a legal decree to be applied consistently throughout the decisionmaking process. Such a criterion is not a new phenomenon internationally, having been installed in a number of countries where contributions to peace operations are controversial, such as Germany and the United States.

Second, the decisionmaking process itself should be streamlined and formalized in order to reduce dependence on personalities, increase both parliamentary and popular participation, and remove spaces for the abuse of the issue at hand through political or bureaucratic manoeuvring. This too should be subject to a legal decree establishing clearly the relationship between the competencies of each Ministry and particularly those of the Parliament, which continues to be beset by a lack of interest and competence in matters related to security policy.

67. CAVALCANTE, p. 155.

Thirdly and finally, at the basis of the elaboration of the criteria and objectives for Brazilian participation in peace operations must lie the clear elucidation of the motives for contribution, along the lines of both logics espoused by March and Olsen: the logic of appropriateness and identity favoured by the MRE and the logic of consequences and rational interest espoused by Defence. Beyond the role of these two Ministries in the process, the country would benefit immeasurably from a broad process of public involvement and debate, including scholars, journalists and the informed public, much along the lines of the Peacebuilding Consultations held in Canada. The natural timeline for such a process to culminate is in the formulation of the country's first Defence White Paper, scheduled to begin later in 2011.

Indeed the coming White Paper represents an inestimably crucial opportunity to systematize the country's approach to peace operations – an absolute prerequisite for the use of participation to further its foreign policy aims, especially with a view to demonstrating aptitude for a Security Council seat. If Brazil succeeds in professionalizing the political side of how it deals with its role in peace operations the same way it has created a successful paradigm through rooted practice at the operational level, not only will the country benefit in the pursuit of its larger aims for more stake in global affairs, but the field of intervention and conflict resolution will reap the benefits of the rise of an engaged, innovative and powerful partner in the global South.

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FAR MIDDLE EAST, BRAVE NEW WORLD: THE BUILDING OF THE MIDDLE EAST AND THE ARAB SPRING*

Leonardo Schiocchet**

ABSTRACT

The main purpose of this article is to explain the so-called Arab Spring not mainly in the political context of the last few decades, but rather from a wider historical perspective on the region. The Arab Spring is just one moment in a complex process of settlement and overlap of political, social, ethnic, economic, religious and national forces. This text is as much about the main historical issues related to the Middle East as it is about the main contemporary perspectives on it – the Middle East is defined here as a cultural area. This text seeks to answer the following questions: what caused the Arab Spring and what does it imply politically? What is intended with these revolts and, thus, what will come next? Finally, should we fear “the Islamists”?

Keywords: Arabic Spring; revolution; post-colonialism; Middle East; nationalism; religion; ethnicity.

RESUMO

A principal tese deste artigo é que o que explica a chamada Primavera Árabe não é especialmente o contexto político das últimas décadas, mas sim, o contexto histórico mais amplo da região. Isto é, a chamada Primavera Árabe é apenas mais um momento em um complexo processo de assentamento e imbricação de forças políticas, sociais, econômicas, étnicas, religiosas e nacionais. O texto aborda as principais questões históricas relacionadas ao Oriente Médio, assim como as principais perspectivas contemporâneas sobre este. O Oriente Médio é aqui definido enquanto uma área cultural e o texto visa responder as seguintes questões: o que levou à Primavera Árabe e no que ela consiste politicamente? O que se pretende com estas revoltas e, portanto o que virá depois? E, por fim, deve-se temer os “islamistas”?

Palavras-chave: Primavera Árabe; revolução; pós-colonialismo; Oriente Médio; nacionalismo; religião; etnicidade.

1 BRAVE NEW WORLD?

Osama Bin Laden is dead and the West rejoices in his execution. Despite his real importance in the Middle East and the Muslim World, Bin Laden still evokes a disproportionate significance in the West. But the world once again contemplates the Middle East and the Muslims, seeing something new. The events that took place in North Africa and the Middle East in 2011, which some call the Arab Spring, have been challenging much of what people thought they knew about the

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region. In the process, much of Bin Laden's significant power has waned. Some believe that the mid-2011 Arab riots are a form of sociocultural and political-historical redemption, in which a past that needs to be redeemed because it is imbued with religious meanings, is the one that the riots leave behind headed toward (our) Brave New World. How can we understand today, then, the role of Islam as a political force in the Middle East?

Many political analysts have been tempted to explain the possibility of the so-called Arab Spring, for which few had previously suggested tangibility. Where would be the political actors capable of transforming the region in this way? Who would be the political elites behind this process, the transnational ties and interests of the great powers? Little did the majority know that the main agent was already right there: their own people. They did not know why in the "West" the people in the Middle East evoked other imaginary forms. These forms are today, especially after 9/11, dominated by representations of a conflict understood as ontological between the cultural forces of the "West" and the cultural forces of "Islam".

A world in which the hegemonic view of the West-Middle East relations is that of Samuel Huntington's "clash of civilizations" (1993, 1996), is a radically polarized world. And, mainly because of people like Samuel Huntington, our times have been increasingly polarized. We could say this, at least until the political flourishing in mid-2011. In this Huntingtonian world, the Middle East belongs to the "Islamic Civilization" – classified not in accordance with unilineality typical of positivist history, but with anthropological plurilineality similar to that of the classical – and, for modern anthropology, deceased – concept of "race". In other words, for Huntington and his followers, civilizations are plural according to their origins and their intrinsic characteristics; and these intrinsic characteristics are then seen as essential. So from this "culturalist" viewpoint, Huntington believes that "Islamic Civilization" is not politically backward but almost ontologically different – an argument that in logical perversion finds fertile ground in a pluralistic and relativistic world like the Western world today. Huntington borrows the term *clash of civilizations* from Bernard Lewis (Lewis, 1990). Lewis is an expert in the Arab and Muslim worlds, and he typically focuses on issues such as "the roots of Muslim rage" or "what went wrong in the Arab world", which have now earned him a prominent place as an enemy of Islam – and labeled him as lacking neutrality because of his Jewish origin. However, some argue that Lewis, unlike Huntington, believes that the supposed radicalism inherent to Arabs and Muslims today is a 20th century development, which finds no justification in Islamic texts or in Islamic tradition.

The conclusion of many who follow Huntington's theory is that authoritarianism, violence and other qualities so characteristic of Islamic Civilization – such as their intrinsic (Islamic) values – make the Middle East practically incompat-

ible with the idea of democracy (which, in turn, was based on Western values). Thus, given the expansion of the Islamic world within and outside the borders of the West, many Huntingtonians today conclude that the post-Cold War world is bound to see a clash between “us” and the “Muslims” in which the latter are represented as potentially bringing “our” twilight. That is, unless “we” – superior in technology and values – now protect ourselves, we will be in danger of losing the freedoms that have taken us so long to achieve.

Another part of humanity dubbed this form of characterizing Islam, as radically incompatible and intrinsically hostile to the West, “Islamophobia,” also characterizing the Middle East as deeply Islamic in this sense. The purpose of this paper is to demystify some of these views on the Middle East by placing the region in a new historical and cultural context in order to provide input and analysis for thinking about the uprisings that began in January 2011, especially in the Arab world. More directly, this paper focuses on the following key questions: what led to the Arab Spring and what does it consist of politically? What is the idea behind these riots and, therefore, what will come next? And lastly, should the “Islamists” be feared?

The main thesis of this article is that what explains the so-called Arab Spring today is not particularly the political context of the last decades, but rather the broader historical context of the region. That is, the so-called Arab Spring is just another moment in a complex settlement and overlapping process of political, social, economic, ethnic, religious and national forces. This moment is more clearly understood by adopting a broader historical view (not only Arab) centered on events that pervasively and permanently marked and transformed the region. Some of these major events worth mentioning, for example, are the Ottoman domination, European colonization and transformation of the territories into nation-states, the creation of Israel and the Palestinian question, and the Cold War.

This first section should be understood as a provocation to essentializing a Middle Eastern “East” as a “Western” “other”, while aiming to present arguments related to the key issue addressed in this paper (presented in the preceding paragraph). Thus, the subsequent discursive strategy adopts the following logic: section 2, entitled *Far Middle East*, seeks to provide elements to denaturalize the Middle East and Middle Eastern ideas widely held by public opinion, especially those based on a mystification of a faraway East without much western influence.

Section 3, *The Middle East as a Cultural Area*, intends to discuss further these definitions, offering others in their place – which will be the basis for discussions in the rest of the article. The focus on the inclusion of North Africa as part of the proposed definition of the Middle East is to act as a basis for understanding why the uprisings in the Arab world began in Tunisia and Egypt, spreading “so suddenly” and solidly to the rest of the Arab world.

Section 4, *The reinvention of the Middle East in nation-states*, continues to develop the historical context of the region, this time calling attention to a more recent context, in marked relation to European colonial powers and the development of national realities bound to the creation and maintenance of the local nation-states. Here the main historical elements are addressed to establish the thesis that the Arab Spring is much more a continuation of a long historical settlement process of political, religious, ethnic and national elements almost continuously expressed by uprisings throughout the region, than a historical moment *sui generis* to be understood as a historical rupture.

Next, section 5, *The Arab Renaissance and Post-colonial Context*, goes further in depth on building the region's historical context by putting in perspective a myriad of ideologies such as socialism, pan-Arabism and various nationalisms in the region, which today are forces essential for understanding the current context of uprisings in the region.

Continuing this topic, *A new era in the Middle East: Israel and the Palestinians between Yom Ha'atzmaut and Nakba* (section 6), states that the creation of Israel redefined the terms of the political, ethnic, religious and national vernacular of the region, highlighting the atypical case of Palestinian nationalism that develops in the practical impossibility of building a nation-state. This section also presents the creation of Israel as a symbol of the beginning of a policy largely defined by the Cold War in which the political developments of the region – including the creation of most nation-states in the Middle East – were inscribed. Both the creation of Israel and the Cold War even now strongly mark the Middle Eastern policy setting that has culminated today in the Arab Spring.

The (re)ascension of Islam (section 7), questions how, partly linked to Israel's own politics and the post-Cold War context, Islam is now increasingly the political language of the Middle East. However, social motivations encoded as religious do not necessarily have such origins, and other sorts of motivations dispute space with local pre-1948 elaborations. It is stated then that the essentialization of Islam (and especially of a fundamental theological distance between this and Christianity) as a source of friction with "the West" (*sic*) – an explanation already broken down in the previous sections – prevents the understanding of Islam as a "cultural language" in which other motivations (for example, political and national) are expressed.

Such thinking deepens a rift between a liberal "West" and extreme "East" created and maintained very much on account of discourses generated earlier by non-Middle Easterners. Here Islam as archenemy of the "West" is demystified. This, in turn, provides important elements for understanding the future of regional policy and relations between the Middle East countries and the Western

world as an imagined community – beyond the imagination of a nation-state according to Benedict Anderson (2006).

Finally, *The Arab Modernity* (section 8) discusses an essentialized construction of modernity as an inherently Western characteristic, to which other regions of the world are either close or distant. In criticizing this posture, this section presents some of the key features of Arab modernities and how they fit into the region's history. This section also intends to tie down the discussion in the previous section. Here the (re)ascension of Islam as a major force of the regional cultural language is understood to a large degree as an autochthonous modern reaction to the post-Cold War contemporary political language rather than “fundamentalism” and social backwardness.

Hence, the Middle Eastern social context is finally reintroduced in a new light to permit the final conclusion of the article. Thus, the “conclusion” based on the historical discussion herein discusses the five aforementioned interrelated issues: *i*) what led to the Arab Spring; *ii*) what does it politically comprise; *iii*) what is the reason behind such uprisings; *iv*) what comes next; and finally, *v*) should the “Islamists” be feared?

2 FAR MIDDLE EAST

Since the days of the Roman Empire, Byzantine Empire and the Crusades, the European imaginary about the East was largely defined as an inverted mirror image of the West, which should be transformed (civilized) through the European imperial conquests. The 19th century showed special interest in whatever was Oriental. The attraction was precisely because the East continued to occupy the extreme place of the “other”: harsh lands (desert); another morality; uncontrollable sensuality; the exotic oasis to be conquered by Western adventures, and often the East was celebrated for such qualities. Many artists, writers and travelers portrayed their views of the East, usually after brief (or not so brief) stays among the Orientals. These were the Orientalists and the ones responsible for much of the knowledge production about this Eastern world – depicted in the form of travel journals, stories, poems, novels, paintings, photography and so on.

This East, an old and always exoticized acquaintance of Europe, an extreme “other,” did not correspond to what we call East (East Asia) today, but to what we call North Africa and the Middle East. And, given that the Orientalists represented what they called East from a Western (European) view, Edward Said coined the term *Orientalism* meaning the Westerner's own view of the East – denouncing that this knowledge, thus located, creates an asymmetry that informs the interventions of the West in the East and, therefore, is a form of imperialism. Thus, an Orientalist is anyone who looks to this East through interests, categories

of understanding, and exoticised social representations that have little or nothing to do with the viewpoint of those thus represented. Bernard Lewis is severely criticized in *Orientalism* (SAID, 1978), but on other occasions Said denounced even anthropology as a discipline based on keeping the distance between “us” and “others” (SAID, 1989), therefore still completely bound to its colonial past.

Although this criticism certainly has an element of truth, it is also a little too categorical – losing precisely by demonstrating the same lack of nuance that Said’s own concept criticizes in his statement. Perhaps no discipline has criticized and opposed colonialism more than anthropology – witness the production of anthropologists such as Talal Asad and others (ASAD, 1973; 1993; 2003; 2007). Today, the so-called Middle Eastern Studies – coming from anthropology or any other discipline of the humanities – are established largely in contrast to the Orientalists. For example, the logic of anthropology strongly counters the logic of the cult of folklore (a counterpoint that somehow encompasses its opposite). Anthropology, at least today, does not regard culture as something given, static and uniform, as Huntington regards “Islamic Civilization”, but precisely as something relative to the viewpoint of subject and context, a complex, dynamic and heterogeneous construct. It is therefore unfortunate that the idea of “culture” is being used to justify the political analysis of this “Culturalist” branch represented by Huntington, which tends to essentialize subjects according to characteristics that have little or nothing to do with those that the actual subjects so classified recognize in themselves and in how they see the world. This Culturalism – quite different from what anthropologists understand by the term, incidentally – is nothing less than a form of prejudice. And, with each new disciple of the thesis, the world grows increasingly the same as the Orientalist world imagined by Huntington.

In terms of this article another definition is needed for the Middle East, stressing that the Middle East and what I call the “Islamic world” are not the same thing, although they have various angles in common. Bearing this in mind, emphasis is given here to some of the Middle Eastern continuities and social fractures in order to understand the Arab Spring without having to immediately assign “the” agency to the “Islamists”, or without immediately thinking that a new post-revolutionary order would or will be necessarily printed by radical Islamic groups.

From the Roman Empire until today, the ideas about the Middle East certainly have changed considerably. However, I am inclined to agree with Said when he says that this exercise of exoticism tends to pervade our ideas about the Middle East ever since the days of the founding of the dichotomy between East and West. This exoticism is so entrenched in our views of the world that it is hard to leave behind premises and start looking at the Middle East with fresh eyes.

As mentioned previously, many political and social analysts tended to consider that such uprisings would not be a common occurrence in the Middle East, not only because of the inscrutable iron fist of dictators, but also because of the inevitable submissive character of the people dominated under their charismatic leadership or religious legitimacy. In other words, such people had the leaders that they “deserved”.

To understand the “domino effect” that the uprisings had (and still have) in the region, it is first necessary to understand the continuities of more general social processes in the region – and not attribute the local continuities to a theology of violence or to an essential out-of-context symbology. In other words, the following is an attempt to present some of the political forces in the Middle East and to address the region as a sociological unit. This will be the basis to understand the nature of such uprisings through the tensions and divisions of the region’s social fabric. Therefore, it is necessary to understand a little more of the current political context of the region beyond mere Orientalist Culturalism, the developmentalist label (whether Marxist or positivist) of “backwardness”, or fragmentary analyses of recent times. Below are some of the concrete socio-historical processes that help to understand such uprisings.

3 THE MIDDLE EAST AS A CULTURAL AREA

What connects North Africa and the Middle East? The straightest answer is: North Africa is composed of an Arab and Muslim majority, and has undergone similar historical and social processes. Many empires have passed through the region. It is possible to perceive the interconnection between the Near East and the region of Egypt from 3,000 years ago, and later, even before the expansion of Islam, there is the political, cultural and social approximation of the whole of North Africa to the Near East and Mesopotamia. To see more clearly this connection, however, it is necessary to take a short trip in time to understand the depth of historical political regimes in the region. The intention here is to show traditional historical ties between the present countries of North Africa and the Middle East.

We could start more or less 3,000 years ago with the beginning of the Middle Kingdom of Egypt. The Hittite Empire appeared soon after, followed by the Kingdom of Israel. Then came the Assyrian Empire, and with its dissolution the Babylonian and Persian Empire. Throughout this time – more than 3,350 years – Egypt was always much more closely linked to the Middle East than to the rest of North Africa. With the arrival of the Persians, the Mediterranean coastline of North Africa became definitively politically bound to the Middle East in a more radical way.

Only then did the Macedonian Empire of Alexander the Great emerge – a symbolic milestone for most Westerners as the beginning of Western culture.¹ It is well known that Rome (the Roman Republic and the Roman Empire) brought the downfall of the Empire of Alexander the Great. The greatest empire the world had ever seen had roots, like its predecessor, in what is now considered Western territory. The fall of the Roman Empire, however, brought dominion over the Mediterranean once more to the edge of Europe with the rise of the Byzantine Empire – the first empire to rule the region that from start to finish was defined as Christian.² During the Byzantine Empire the powerful Sassanid Empire appeared and disappeared. However, until then the region had developed without Islam, as did the rest of the world.

Since its dawn, Islam did not take long to spread to the farthest corners of the Middle East already with the Umayyad Dynasty. The territories of the Muslims at the time of Muhammad's death had spread throughout the Persian Gulf. But it was during the reign of the *Rashidun* (the first four caliphs, known as the Rightly Guided) that Islam (and with it, the Arabs) became a political landmark throughout the Middle East occupying from the north of Libya through the Persian Gulf, as far as Syria and the Caucasus in the north, and to Pakistan and Afghanistan in the west. Since then, many other Islamic dynasties followed, often occupying different parts of the Muslim domain. At their peak, these territories included the Iberian Peninsula, Morocco, almost all of Algeria, Tunisia, most of Libya, Egypt, Israel and the Occupied Territories, the Persian Gulf, Syria, Lebanon, Eastern Turkey, the Caucasus, Iraq, Iran, Pakistan, and Afghanistan (LAPIDUS, 1988; LINDHOLM, 2002). The spread of Islam by Arabs can be today understood as a “critical event” – to use the term of Veena Das (DAS, 1997). This is so because of its transforming power, since Islam and Arabs have come to radically influence the region that largely still today is defined by this event. It is also important to note that most of the Arabian Peninsula and Morocco just started to share the same flows and historical processes of the Middle East after the expansion of Islam.

Not only Arabs represented Islam. Soon other ethnic groups in the region joined the list of Muslim empires that somehow sought political legitimacy through this religion. First came the Seljuk Empire (Turkish), followed by the dynasty of the Ayyubids (Kurdish) – known as Saladin's empire – the Mongol Empire (Mongolian) and finally the Ottoman Empire (Turkish). Meanwhile, other ethnic groups of Muslim religion came to power, such as the Persians in Iran under the Shia dynasty of the Safavid (LAPIDUS, 1988; LINDHOLM, 2002).

1. Via the rise of Greek civilization.

2. Along with the Kingdom of Armenia, in the medieval period, the Byzantine Empire was the only one in the Middle East that from beginning to end was defined as Christian.

During the Seljuk Dynasty, Europe on behalf of Christianity decided to fight back its political and religious losses by beginning the Crusades – which took place in several different periods between the end of the 11th and 13th centuries. This is when the Ayyubids appeared, reclaiming Jerusalem and expanding into other territories. Then came the rise of the Mongol Empire conquering everything in its path. This was the largest empire ever in the world in terms of adjoining land occupation; it occupied what is today Korea and all of China to the Romanian border with Serbia, passing through Iran, Northern Iraq, a stretch to the north of Syria, the Caucasus and almost all of Turkey, among others. It is worth recalling that the Mongol Empire became Muslim during its expansion and after contact with the Middle East. Finally came the power that ruled the Middle East for longer, the Ottoman Empire. This empire over time conquered Northern Algeria, Tunisia, almost all of Libya, Israel and the Occupied Territories, Lebanon, Jordan, Syria, Turkey, Greece, the Balkans, the Caucasus, the Northwest and East boundaries of Iran, Iraq, Kuwait, most of Yemen and a stretch to the East and another to the North of Saudi Arabia (LAPIDUS, 1988).

Both because of the extremely long duration of the Ottoman Empire, and because of the relatively short period of its dissolution, this empire is undoubtedly among those that most marked the region today. For example, currently many of the countries that emerged in the Middle East are based on Ottoman administrative regions – many of which, in turn, were based on enclaves and ethnic and political flows. Another good example is the Lebanese political system (confessionalism), which is the result of political relationships and social organization in the remaining lands of the late empire. Such bonds were mostly informal, but very important. They owed part of their origins to the Ottoman *millet* system, which eventually defined the religious minorities as corporate groups, in addition to then assigning differentiated rights and duties to each group thus formed.

As a result of all this history of occupation, the Middle East should be understood not only as formed by Arab Muslims, but also by ethnic and religious minorities that today dispute political space complicating the regional political arena. Another major lesson that history teaches is that, beyond the critical event of the spread of Islam, North Africa already belonged both to the Mediterranean and the Middle East. The term belonging here refers to the anthropological concept of “social belonging”, which means something similar to familial belonging and the possibility of multiple forms of loyalty (SCHIOCCHE, 2011b). However, while the European Mediterranean now had a relatively separate development, especially with the arrival of the Middle Ages, North Africa from the Arab conquest on was increasingly linked to historical and social processes in the Middle East. That is, its identity was linked historically, socially, ethnically, politically, economically and religiously to the Middle East – at least as much as the

local ethnic, political and religious discontinuities link different groups to other imagined geographies. A key part of the argument of this article is that it is precisely the imagined historical continuities between this whole region – stretching from North Africa, through the Caucasus and Arabian Peninsula and reaching East to Pakistan and Afghanistan – that explain why the uprisings in Tunisia spread so quickly and so consistently through the whole region. Moreover, as will be explained at the end of this article, the same regional continuities explain why the Arab Spring should be understood according to a historical context broader than just the Arab World, one that also includes recent elections in Turkey and uprisings in Iran (called the Green Revolution).

Hence, from now on, the term Middle East is now referred to as encompassing North Africa. For this paper, the definition of “Middle East” follows neither a geological definition nor a political geography that tends to emphasize continental continuities and discontinuities, but rather social and cultural affiliations among which politics, ethnicity and religion are subsumed.

Finally, this history also exposes some of the weaknesses behind the Eurocentric thesis (like Huntington’s) that, while Western Civilization has Greece and Rome as founding members, the East is founded on a completely different basis. It was in fact, to a great extent, through a majority of Jewish intellectuals during the Arab caliphates, that Greek scholars became part of the so-called Western intellectual tradition. Beyond the sequence of political belonging mentioned here – which shows that Greece and Rome are part of the historic heritage of both Europe and the Middle East – it should also be remembered that many of the great ideas and inventions of the West were actually iterations of elements from the East. Two major inventions worth mentioning are the Latin alphabet itself (and even Cyrillic), which comes from modifications to the Greek alphabet, which in turn was a modification of the Phoenician alphabet (Middle East – region of today’s Lebanon). Some argue that even the very dichotomy between good and evil, a foundation of Christian theology, is indeed borrowed from the Manichean doctrine of Persian Zoroastrianism disseminated through the imperial conquests of the East. The list of such elements is virtually endless.

We can conclude, therefore, that both Westerners and Easterners built civilizations based on this common knowledge, beyond particularities. The stronger emphasis on differences rather than similarities that civilizations choose for themselves is a selective construction of ancestral “lineages” (with all their implications) rather than the supposed truth perpetrated by the axiom that their origins are completely distinct and that any parallel historical developments they have with each other is only seldom tangential. Such “invention of tradition” (HOBBSAWM & RANGER, 1983) is then, first and foremost, a political-ideological attitude with illocutionary force and perlocutionary effects that very often escape the intention

of those who see the world as such (AUSTIN, 1975). Consequently, we can only understand that this “other Easterner” is not as distant from “us” as both sides sometimes make it seem. Although different, Westerners and Easterners share much common history and many social processes.

4 REINVENTION OF THE MIDDLE EAST IN NATION-STATES

Whereas much of the Middle East was under Ottoman rule until the end of World War I, what happened to the region after liberation from this imperial yoke is the key to understanding the Middle East today. Essentially, since the Ottomans had aligned with Germany, the British and their allies (especially France) sought political support from local groups dissatisfied with the “Porte” (name given to the Ottoman state bureaucracy). Ethnic minorities of the Ottoman Empire, including the Arabs, Armenians and Jews (the latter being Arab or otherwise), formed the hard core of internal fighting against the Ottomans.

Records show that the British negotiated with one group and another, sometimes promising the same concessions without one group being aware of the negotiations with the other. Support for the Jews, mainly through Zionist entities linked to Theodor Hertzl (the father of modern political Zionism), was assured by the promise of founding a land for them. Some of the most important Zionists and their allies were not Jews but English Christians who at that time held some of the top positions in the British bureaucracy (FROMKIN, 2009). The Arab support, on the other hand, was assured by the promise of devolution of Arab lands under Ottoman command to the Arabs and resulted in the 1916 Arab Revolt led by the Hashemite Sherif Hussein Bin Ali (emir of Mecca). The vast volume of correspondence between the British and Hussein Bin Ali shows such promise and illustrates the mediation.³ However, the ultimate downfall of the Ottoman Empire brought the realization of different political projects, now in preparation for negotiations concurrently with the internal groups that had rebelled against the Ottoman Empire. In the end, what prevailed were the agreements with France and the more immediate political interests of the British Empire, first and foremost, agreements and treaties such as Balfour and Sykes-Picot. Some of these coincided with demands of the elites from ethnic minorities that had supported the Europeans, but almost never corresponded to the interests of the masses, and often failed to coincide with any local interest.

The 1916 Arab Revolt happened partly because the Ottoman caliphate had never been fully accepted by the Arabs. In the views of Britain and France, this

3. Some of this correspondence between Hussein Bin Ali and the British (especially in the figure of the High Commissioner Henry McMahon) are found in British archives analyzed by Fromkin (2009). This transaction was famously portrayed in novels and even in a movie. The most famous example is undoubtedly the classic novel (later released as a movie) *Lawrence of Arabia*.

then meant that to win the trust of the Arabs, they should support another leader who had a good claim to the title. This leader was, from the European viewpoint (partly misunderstood, partly actively constructed), Hussein Bin Ali, Sharif and Emir of Mecca, who back in 1917 had conquered space between the Europeans proclaiming himself “king of Hijaz.” In fact, when the Ottoman Caliphate was formally abolished in 1924, Hussein Bin Ali was briefly vested with the new title of Caliph. The Europeans did not understand that there was more than one leader qualified for the position of caliph, that this title was not exactly equivalent to that of “king of the Arabs”, and that even when someone called himself “king of Arabs”, this meant little to the vast majority of the local population. Because of this equation, both Hussein Bin Ali and most of the leaders that the Europeans had chosen as “puppets”⁴ to their mandates lacked sufficient legitimacy to answer to the territories that they now controlled (and even fewer had the legitimacy to represent the Arabs as a whole). Even in Hijaz itself, and under British protection, Hussein suffered humiliating defeat among Arabs. Early on, Britain tried to safeguard the kingdom of Hussein from the Ibn Saud domain (also a British ally),⁵ but, after 1925, the Brotherhood of Purity had conquered the whole of what is now Saudi Arabia. The Brotherhood also tried to extend its borders to areas of the British mandate in Iraq and Jordan, but the good diplomat Ibn Saud – also known as Abdul Aziz – tried to reach an agreement with the British, who in turn ended up butchering the Brotherhood and legitimizing the reign of Abdul Aziz under what had then become Saudi Arabia (FROMKIN, 2009).⁶

European colonies (or mandates) in the Middle East spread to what today corresponds to the territories of Morocco, Algeria, Tunisia, Libya, Egypt, Sudan, Israel and the Occupied Territories, Jordan, Lebanon, Syria, Iraq, Cyprus, UAE, Qatar, Bahrain, part of Yemen and Oman. This colonization, however, had

4. The term “puppet”, far from my choice, was the term used by the British to refer to King Hussein during the conquest of Ibn Saud: “We shall look fools all over the East if our puppet is knocked off his perch as easily as this” – said a British officer at the time, according to Fromkin (2009, p. 426).

5. Abdul Aziz Ibn Saud had more than British support, as the alliance between the Saud and Wahhab “houses” (one of the names for family in Arabic) dates back to the 18th century, when Muhammad Ibn Saud (founder of the first Saudi state and ancestor Ibn Saud) offered protection to Muhammad Bin Abdul-Wahhab in Al-Dariya. The alliance between the Wahhab and Ibn Saud houses was also greatly strengthened by frequent marriages between the two families. Since late 1912 a revivalist religious Wahhabi movement (al-Ikhwan al-Safa – Brotherhood of Purity) took power in today's Saudi Arabia. This both boosted Ibn Saud militarily, and reinforced the legitimacy of his appeal to conquer the Arabian Peninsula. As had happened with the original Islamic movement of Muhammad, the religious movement of the Brotherhood of Purity diminished or even sometimes obliterated tribal and other local disputes.

6. Wahhabism may be considered a neo-traditionalist movement that became a hybrid with Salafism in the 1960s, with the influence of Saudi petrodollars. Salafism preaches a return to the caliphate in its search for an original Islam, for it finds a perfect Islam at the time of the Rashidun (the first caliphs). Many of the Salafi movements have in the caliphate a replacement for the nation-states of today. Many of these Salafi groups are, therefore, anti-nationalists (more than trans-nationalists) and offer extensive support to those Muslim militants who by proselytizing Islam (whether through violence or not) make it their universal cause. In this sense, both the massacre of the Brotherhood of Purity by Ibn Saud and the cordial relationship between the Saudi kingdom and England and the USA, nurture the political-religious view of some radical Sunni Islamist networks such as al-Qaeda (source: personal communication with Paul Pinto). For more about Islam and politics, read *Islã: Religião e Civilização*, by Paulo Pinto (2010).

already begun even before the dissolution of the Ottoman Empire, and lasted more precisely from 1830 (with the conquest of Algeria by France) until 1975 (with the departure of the British from Oman). At the end of the First World War, France kept the land that today corresponds to Syria and Lebanon, while the British created mandates in Palestine and Mesopotamia. However, France had already conquered Algeria in 1830 (for a long time treated as an integral part of French territory), signed an agreement (Treaty of Bardo) that transformed Tunisia into French colony in 1883, and established a protectorate in Morocco in 1912. In addition, the British had already made Kuwait a protectorate in 1899, and taken Egypt from the Ottomans⁷ making it officially a protectorate in 1914. The mandate of Palestine was soon divided into Palestine and Transjordan (today Israel, the Occupied Territories and Jordan). The remaining Ottoman territories with an Arab population in the Arabian Peninsula were then distributed as favors to the Arab political elites who supported them during the war.

The outcome of this partitioning was a series of treaties relating to the breakdown of the Ottoman Empire, among which the most important were the secret Sykes-Picot agreement (1916), the Balfour Declaration (1917), the Treaty of Sèvres (1920) and the Treaty of Lausanne (1923).

The Sykes-Picot agreement was so named because it was signed by Sir Mark Sykes (lieutenant colonel in the British Army during the World War I and *protégé* of Lord Kitchener, then Secretary of War of the British Army) and François Georges-Picot (French diplomat), besides the minor participation of the Russian government. According to David Fromkin, drawing the sphere of influence of the European powers obeyed first and foremost the wishes of the British. Thus, a French mandate over Syria was well regarded by the British, for it would generate a proxy zone between them and the Russians that would protect the Empire in case of war between the two powers (FROMKIN, 2009). The agreement provided that the territories of the Middle East then belonging to the Ottoman Empire would be administrated as follows: *i*) an international mandate over most part of what are now the Occupied Territories and Israel; *ii*) a French direct zone of control over what is now Lebanon, the Syrian coastline and southern Turkey; *iii*) a zone of French influence over most of what is now Syria and western Iraq; *iv*) direct British control of a territory that stretched from Baghdad, passed through Basra and as far as Kuwait today, and includes a narrow strip of land linking

7. From the beginning of their governing of Egyptian territory, the British conceived of Sudan according to the same logic that connected the entire course of the Nile River. Since then – and until Sudan's independence in 1956 – its fate would be linked to that of Egypt. According to Fromkin, the British ruled Sudan in the name of Egypt, which allowed them to defend it from other European demands, but they dealt with the territory as if it were part of their own empire (Fromkin: 2009). From 1924 the British ruled Sudan according to two different administrative areas: the Muslim north and Christian south. This division was the basis for the recent creation of the state of "South Sudan" (tentative name), which is scheduled for July 9, 2011 – after a referendum suggested the separation of the territory, and the Sudanese President, Omar el-Bashir, approved the separation.

Kuwait to the west of the Arabian Peninsula; and *v*) a narrow band of British influence that would extend from the territory that is today Jordan and southern Israel to Persian lands, while at the same time following the path of direct British control on the left of the map to the south of the Arabian Peninsula. When at the advent of the Russian Revolution of 1917 the Russians made the agreement public, the Arabs – especially Hussein Bin Ali – felt discredited (MANSFIELD, 1973) because the treaty violated the promises made to them by T.E. Lawrence (Lawrence of Arabia) and others.

In turn, the Balfour Declaration was a letter from the British government addressed to Baron Rothschild – one of the leaders of the Jewish community in Britain. While the correspondence promised “a Jewish home” in Palestine, it did not specify how the Jewish settlement would proceed nor whether it would be a national state. The declaration also pledged not to harm “the rights and political status of non-Jewish communities in Palestine” (ENCYCLOPEDIA BRITANNICA, [s.d.]). At the time, most Arabs in Palestine viewed the Zionist plans with suspicion, because since the late 19th century they had witnessed the arrival of Zionist Jews with intent to repopulate the entire country. At the time, Jews bought Arab land – sold mostly by absent landowners many of whom were not even Palestinian – while the peasants, who were then the vast majority of the Palestinian population, found themselves jobless and landless as Jewish labor replaced them (KHALIDI, 1998). Nevertheless, the lack of clarity in the Balfour declaration allowed the British to negotiate with Arabs and Zionist Jews simultaneously, without being completely unmasked by either.

The Treaty of Sèvres was the peace treaty signed in San Remo between the late Ottoman Empire and the Allies. It was signed after the Treaty of Versailles in 1919 (which stipulated the creation of the League of Nations), and canceled anything that differed therein from the subsequent Treaty of Lausanne. The Treaty of Sèvres consolidated the Ottoman sharing agreements among the European powers along the lines of Sykes-Picot, with the exception of Palestine, which eventually became yet another British mandate. This treaty also led to the creation of the Kingdom of Hijaz under the leadership of Hussein Bin Ali – later annexed to what became Saudi Arabia. The Kingdom of Hijaz corresponded then to the East of the current Saudi Arabia, more precisely, the region of Mecca, Medina and the first center of expansion of Islam as early as the times of Muhammad. Moreover, Sèvres allowed for the creation of Armenia, expanded the Greek borders, prescribed British sovereignty over Cyprus and the creation of Kurdistan to the east of what is now Turkey. Of these last proposals, only that relating to Kurdistan was rejected in the later Treaty of Lausanne, because it was unsatisfactory even from the Kurdish viewpoint as it excluded the lands claimed by the Kurds in current Iraq, Syria and Iran. Since

Lausanne did not discuss Kurdistan again, the Kurdish demand for autonomy persists today in several different ways.

Both Zionists and Arabs had signed the Treaty of Sèvres (UNISPAL, 2011a), but the Arab elite that signed the document was far from representing all Arabs, as will be examined below. Also worth pointing out, upon being interviewed about the Treaty of Sèvres, Lord Arthur Balfour said the mandates had been a limitation imposed by the very powers who conquered the region, since the autonomy of the League of Nations only allowed it to supervise putting in place the agreement (UNISPAL, 2011b). In other words, England and France would have to decide what to do with the newly acquired lands.

Finally, the Versailles Treaty annulled that of Sèvres with regard to the territory of Anatolia, which was once again disputed during the Turkish War of Independence led by Mustafa Kemal “Ataturk”. This treaty defined the boundaries of the newly created state of Turkey on the ruins of the Ottoman Empire, and was ratified in 1924 by Turkey itself and also by Britain, Japan, Greece and Italy, and finally filed with the League of Nations. In this treaty, Turkey formally abdicated its former territories in the Middle East (including North Africa), Cyprus, and other places.

The British appointed Faisal, son of Sherif Hussein, as leader of the mandate over Mesopotamia. The British mandate over Palestine was registered at the League of Nations in 1920 in the San Remo Conference. In 1922 the mandatory power, Britain, through the so-called Memorandum of Transjordan, then separated the territory of Transjordan (those to the east of the Jordan River) from Palestine (to the west of the Jordan River). To Transjordan (which later became Jordan) was granted the right to autonomy, and another of Hussein’s sons, Abudullah, was appointed ruler of the new kingdom. Meanwhile in Palestine, Britain imposed direct rule, which lasted until 1948 with the creation of the State of Israel – at British recommendation and by approval at a meeting of the new international entity created from the League of Nations, the Organization of the United Nations (UN).⁸ During the mandate period there were two small changes to the territorial constitution with major consequences in the present.⁹

8. The UN Commission in charge of partitioning Palestine in 1948 was chaired by the Brazilian Osvaldo Aranha. Some insist that on that same occasion Osvaldo Aranha also gave the casting vote in favor of the creation of Israel, but this is still today a controversial point.

9. The first was known as the issue of the “Seven Villages” (*Kura Saba’a* in Arabic): in 1920 the British Lieutenant Colonel Stuart Newcombe suggested that the border dividing the lands of the Near East between Britain and France not divide villages and social groups. Of the 24 villages that were in question, all then became part of the British Mandate (today incorporated into Israel), except the seven Shiite villages that at the suggestion of the French General Henri Gouraud, were incorporated into the French territory (now Lebanese) (Schiocchet, 2011a). The second was in 1923, when the Golan Heights were transferred by the British to the French dominion of Syria in exchange for the Metula region, part of today’s Israeli territory (Pappe, 2004).

Similar to the British intent towards Jews in Palestine, Lebanon was created from the French mandate in Syria. This means, the French intention was to give autonomy to the Maronite Christians in a territory that for centuries was shelter for ethnic minorities in the Middle East in order to gain absolute influence in the region.¹⁰ Conflicts between various political groups, organized according to religious belonging especially among Maronites and Druze, eventually took on a sectarian tone at the end of the 19th century (still during the Ottoman rule). This was largely on account of how France, especially through the Lebanese Maronite church, and the British, mainly through Druze leadership, offered support to these local elites who thus came under the respective European influences (MAKDISI, 2000).¹¹

In general, the Arabs from the start did not accept this new Middle East shaped by European hands and the interests of local elites. After 1919, uprisings were felt throughout the Middle East. The prelude was the revolt in Egypt for independence in 1918, followed by the revolt of 1919. Later still in 1919, war broke out on the border between Afghanistan and India. In 1920, there was an Arab revolt against Zionist Jews in the Western Palestine mandate, and shortly after, also in 1920, a revolt broke out in Iraq (FROMKIN, 2009). On the other side of the European border, France decided to wage war against Syria, which demanded independence. Meanwhile, part of the new “Lebanese”, especially Sunni and other inhabitants of the largest coastal cities, took up arms to try to prevent

10. There were already Sunni Muslim Arabs in Lebanon, of course, since the early Islamic expansion in the 7th century. But, in the 11th century the region of Mount Lebanon (now part of Lebanon), and the entire region around Antioch (now in Turkey), received an influx of Maronite Christians who sought refuge from persecution by the Byzantine Empire. In 1016 many of those Muslims (and even Christians and Jews) in Mount Lebanon, Jabal ‘Amil (today southern Lebanon), Galilee (today northern Israel) and Jabal el-Druzi (today in western Syria) became Druze. The Shiites were added to these groups departing from the 12th century – first through a mass conversion to Shiism in the region of Kesrawan (part of Mount Lebanon) and then in Tyre – in southern Lebanon – (Trabulsi, 2007). As the Kesrawan community migrated into the Beqa Valley (west of Lebanon), both the south and the east of the country today (to the border with Syria) are majority Shiite. These two Shiite communities lived almost entirely politically disengaged and almost isolated from each other until the coming of the Iranian cleric of Lebanese origin Musa al-Sadr to the Lebanon in 1959 (Ajami, 1986). After the second Israeli invasion of Lebanon in 1982 (year of the creation of Hezbollah), many Shiites fled from southern Lebanon toward the southern Beirut suburbs (especially Dahyeh), which today is also one of the Shiite majority areas in Lebanon.

11. The Lebanese political system was then conceived by the French as follows: the President of the Republic would always be Maronite; the prime minister always Sunni; the spokesman of the government, Shiite; and there would be a ratio of 6:5 in favor of the Christians in parliament. Because Lebanese citizens were represented by a political authority based on their religious belongings, such a system was called “confessionalist democracy” (in Arabic, *ta’ifiyah*) and provided that legal issues related to the spheres of private life of citizens (such as marriage, inheritance, etc.) would be regulated by denominational bodies within the state itself. This, in effect, meant that not all Lebanese citizens had the same rights and duties, and that civil marriage would not exist, in addition to other specifics (Saadeh, 1993). Apart from Mount Lebanon (of absolute Christian majority), this Grand Liban created by the French in 1920 incorporated the following territories: the large coastal cities of Tripoli, Beirut, Sidon and their surroundings, and the Akkar region to the north of Mount Lebanon (all Sunni majority); and South and East Lebanon, including Tyre and Baalbek (of Shiite majority). The equation helped make an economically viable country because it annexed the important port cities, and the fertile lands of the Beqa Valley and of the South, while at the same time putting the Maronite elite in a position of control. Altogether, in a Lebanon so created, about 51% of the Lebanese citizens were then Christian, while 49% were Muslim, which to the French legitimized – a confessional state in the hands of the Maronites (Trabulsi, 2007).

autonomy of the new state of Lebanon (TRABULSI, 2007).¹² The Turks, supposedly politically destroyed, also resisted the European treaties in 1920, and even Russia suffered political resistance in Central Asia. Moreover, virtually all conflicts in the Middle East even today (including the Arab Spring) should be viewed as having at least some inspiration and motivation in this process of building national borders initiated by European colonization – as will become clearer in the next sections.

It is evident, given all that has been addressed in the previous section, that the nation-states of the Middle East were created in line with a certain respect for local boundaries. However, it is also clear from this section that such boundaries, like those sometimes used as imperial frontiers, served the interests of the conquerors. There was a popular uprising in the Arab world against the Ottomans, but this was contained by European powers through the appointment of local puppet leaders. Neither local leaders nor Europe was able to successfully contain the riots that followed such appointments, even though both had sought to stay in power using violence especially. Some of these leaders fell during the socio-political processes that followed, while the iron fists of others (often joined by European military aid) kept them in power. Many of the social rifts that began with these local processes, such as tribal, religious and social affiliations, persisted (muffled) under a cloak of normality (and legality).

Moreover, the social rifts that were the basis for Europe in redesigning the map of the Arab World merely obeyed the logic of local loyalties that had to be accommodated and that of European interests. Thus, while Mosul gained special status under the semblance of Kurdish autonomy and Lebanon gained independence under the discreet protection flag of Christianity,¹³ other regions and social rifts have not had the same fate – triggering persistent social and territorial demands from other minorities. In the years that followed, the map of the Middle East would suffer further major changes that will be addressed in the following sections.

To conclude this section, it is worth mentioning that Western common sense and even many political analysts such as Huntington failed to realize the broader social context and the widespread desire for autonomy and self-determination of the people of the region. The goal here is to understand the Arab Spring focusing on its continuity with the social processes described so far and others

12. It was a Christian who led the resistance against the creation of Lebanon. His name was Antoun Saadeh, founder and president of Hizb al-Qawmi al-Suri (Syrian Nationalist Socialist Party) of nationalist orientation inspired in part by European Nazism. Antoun Saadeh had an important connection with Brazil, where he lived in two different periods, and where for a time he led his party founded in 1932. He was killed by the Lebanese government in 1949 (Saadeh, 2000).

13. Because of this, the West has seen the Lebanese Civil War (1975 – 1990) not as a legitimately secular and democratic revolution of the majority of the Lebanese people, but through the prism of sectarianism. In that regard, it is also important to note that for political and not necessarily religious reasons, most but not all Lebanese involved in this initially very secular revolution were Muslims.

that will follow, although in political terms today's uprisings have indeed generated a number of major disruptions. Therefore, it is important to clarify that my analytical position implies that the only way to properly understand the major social, ethnic, political and religious issues of the Middle East today is from a post-colonial perspective. In other words, rather than understanding the Middle East through theology, out-of-context cultural symbolism, or its supposed political and social backwardness, this article proposes understanding the flows and social processes of the Middle East today as an expression of modern social processes that persist in the contemporary world.

5 THE ARAB RENAISSANCE AND POST-COLONIAL CONTEXT

On one hand, as seen in the previous section, the process of forming nation-states in the Middle East cannot be understood as being only related to the post-colonial period and the actual declarations of independence of the countries as they are today. Religious, ethnic and political borders were drawn centuries ago – long before the European colonial invention. On the other hand, the mandates and colonies were responsible for bringing a final (or almost final) shape to the vast majority of nation-states that followed. Moreover, they also acted as political artifice to internationally legitimize certain local political leaders (allied to the West) at the expense of others before the League of Nations, a body custom-made for this purpose.

Even considering important specificities, what most independence processes among Middle Eastern countries have in common is that local governors suffered from a lack of legitimacy in the eyes of the people under them. Moreover, such processes of independence – some very long – tended to be quite marked by the popular desire for political autonomy, which was now regarded as having been curtailed by European imperialism. The impact of such changes, collective desires and their influence as a mobilizing agent still today should not be overlooked, since the process of independence from the European yoke in the region lasted from 1922 until 1971, and the vast majority of the countries that are known currently in the region became independent between the late 1940s and late 1960s.

Egypt formally became the first country free from the colonial yoke in 1922, although colonial relations were to persist for much longer.¹⁴ Then, came Iraq in 1932, followed by Lebanon, Jordan and Syria in 1946, Israel in 1948,¹⁵ Libya in

14. The colonial yoke persisted directly until 1936 and indirectly until at least 1953, when finally the Free Officers Movement (movement from which emerged Gamal Abdel Nasser) decided to nationalize the Suez Canal. At that time, it belonged to the British and French, who in turn kept about 80,000 troops in the region – so far the world's largest military concentration (Scholze, 2008). Over the years, the Suez Crisis involved Israel and led to the Six-Day War.

15. However, its present official territory was defined only after the widespread expansion of 1967 and other later acquisitions, still not recognized by UN or the international community.

1951, Morocco and Sudan in 1956, Kuwait in 1961, Algeria in 1962, Yemen in 1967, Oman in 1970, and finally Qatar and the United Emirates in 1971.

Driven mainly by anti-colonial feelings, the vast majority of these independence processes involved a dialectic between the armed resistance by local groups and violent repression by the colonial powers – the case of Algeria perhaps being the most emblematic case. And since the vast majority of these processes were consolidated in the midst of the Cold War (1947-1991), many countries benefited from or found themselves compelled to align with one party or another. Some tended to align with the USA and its *ad hoc* partners, while others tended to join somehow the Soviet Union.

However, such alignment is only illustrative of a trend since in practice, the Middle East was not so polarized and local leaders would play one power against another to facilitate their own agenda. For example, during the Lebanese civil war, a myriad of internal political forces would align themselves more or less with one or the other side of the bipolarized world. The Middle East, with its oil and natural gas reserves, had become an important political arena of the Cold War. Almost the full spectrum of political forces there, however, tended to align with the Soviet Block especially because of the centrality of the Palestine question after the creation of Israel in 1948, and the anti-European (and therefore anti-American) post-colonial political position of many countries in the region. These last two questions were and still are closely linked, as discussed below.

The creation of Israel by designation of the UN General Assembly in 1948 was one of the strongest expressions of modernity in the Middle East, and one still decisively influencing the region. Thus, together with the Arab and Islamic expansion, the creation of Israel can be understood as a key point in the history of the region. However, before understanding the Arab reaction to the creation of Israel, it is necessary to understand a little more of the context of the region at the time.

In 1948, the prevailing thought in the Near East was a direct effect of centuries of Ottoman rule and almost three decades of European hegemony. Pan-Arabism, which emerged in the 1920s, became a central force in local political processes, and the Egyptian leader Gamal Abdel Nasser was seen by many as the great representative of this ideology. The ideology was based on the aesthetic movement called “*Nahda*”, or “Arab Renaissance”, which in turn had already emerged in the late 19th century in Egypt and spread to most of the region decades later. Besides Cairo, other key centers of *Nahda* were Beirut,¹⁶ Damascus and Baghdad (KASSIR, 2006).

16. Many journalists who participated or covered the *Nahda* in Egypt were of Lebanese descent, which caused the rapid spread of the movement to Lebanon and the rest of the Near East (Kassir, 2006).

During the rule of Muhammad Ali¹⁷ over Egypt and Syria, the *Nahda* found inspiration for the rearticulation of what was genuinely Arabic, especially nationalist ideas (KASSIR, 2006). Accordingly, the *Nahda* was a movement that stimulated not only a fresh artistic aesthetic, but also an innovative Arab nationalist political aesthetic.¹⁸ Thus, Muhammad Ali inspired not only the definition of what was considered truly local, but also the idea that the Arab world should now be free of Ottoman rule. In the book *Being Arab*, Samir Kassir's main idea is that the Arabs themselves divide their legacy in three main phases besides the current one, partly as a result of Orientalist interpretations of Arab history. These are: *i*) the Golden Age, roughly four centuries around the time of the Umayyad and Abbasid dynasties; *ii*) '*Asr al-Inhītat*'¹⁹ ("Age of Decadence"), also called the Arab Middle Ages and marked by the fall of the Abbasids, the invasions of the Mongols and the Crusades, the rise of the Mamluk dynasty²⁰ and most of the Ottoman rule;²¹ *iii*) the *Nahda*, with its roots in the mid-19th century and lasting until the end of World War I according to some, while others consider that it continued until the creation of Israel; *iv*) the present day, represented by a new decadence (KASSIR, 2006).

Although according to the most generous hypotheses the *Nahda* ended at the time of Israel's creation, many of the ideas on which it fed are very important forces in today's Arab world – its major political result being Pan-Arabism. Most nationalist variations that appeared then also arose from a similar feeling of ethnic belonging and are still more or less influential in the Arab world today. For example, with clear inspiration from the *Nahda*, a number of political parties of nationalist and socialist orientations have appeared in the post-colonial Arab world. The Syrian National Socialist Party (of Antun Sa'adeh in Lebanon) is just one example. Another good example is the myriad of socialist and nationalist parties that appeared throughout the Arab world under the name of *Ba'ath* (in Arabic: "renaissance" or "resurrection") that are quite different from each other in practice. At one end, the Syrian *Ba'ath* (of Hafez al-Asad) and the Iraqi *Ba'ath* (Saddam Hussein) were in fact historical political archenemies, but what is common among them all is the search for something autochthonous with both ethnic and "anti-imperialist" political tones, which in turn can be seen as fundamental to a popular Arab socialist trend.²²

17. Or Ali Pasha, an Albanian who first "liberated" Egypt from Napoleon for the Ottomans, and then established Egypt's autonomy against the Ottoman Empire.

18. According to Akram Khater, in addition to the influence of the *Nahda*, nationalist ideas in the Middle East (especially in the uprising) would have emerged precisely in the *Mahjar* (migration places) due to devices of contrast occasioned by the contact with "the other" and the influence of the *Muhajirin* (immigrants) once back in their homeland (Khater, 2001).

19. In Arabic, *inhītat* is exactly the opposite of *Nahda*.

20. The origin of the word comes from the Arabic *mamluk*, which means "belonged" or "slave." Part of the reason why this dynasty figures here is because they were not Arabs, but mostly Turks (Cumans and others).

21. Until the series of modernizing political reforms called the *Tanzimat*.

22. In order to have an idea of the scope of such ideals, between 1958 and 1961 such an inspiration caused even the union between Syria and Egypt, forming a country then called the United Arab Republic led by Gamal Nasser.

Thus, it can be said that both Pan-Arabism and Arab National Socialism arose directly as a result of the *Nahda*. This is one of the more concrete reasons for the abovementioned political alignment of countries such as Egypt, Syria, and Iraq, and for the importance of parties such as the Syrian National Socialist Party (a political minority in Lebanon) and the Palestine Liberation Organization (PLO), the latter gestated by Nasser himself. Meanwhile, Saudi Arabia had first the British and then the Americans as political partners, Afghanistan was invaded by the Soviet Union (USSR), Israel was created at the behest of the British themselves and the Lebanese state had secured its Christian hegemony through French effort. Of all these Arab countries (on one side or the other), the most divided was Lebanon, where the bipolarization of the world at that time encouraged internal divisions strongly fostering the wars that followed.

Between 1920 and 1948 the major political events in the Middle East were mostly motivated by the social and political reorganization that came with the desire and utopian possibility of autonomy. Egypt, a strong influence throughout the modern Arab world since the *Nahda*, soon expressed this trend and inspired much of what happened later elsewhere in the region.

In 1914, Britain declared Egypt its protectorate by creating the Sultanate of Egypt. After the war, Saad Zaghlul – leader of the nationalist party *Wafd* – then exiled by the British in Malta, led the Egyptian nationalist movement that culminated in a revolution in 1919. This movement caused the British to declare unilaterally the independence of Egypt in 1922. In 1923 a constitution was drafted, and in 1924 Zaghlul became Prime Minister of the Kingdom of Egypt, which existed until the 1953 Revolution led by the Free Officers, who in turn deposed King Farouk and finally made Egypt a Republic (HOURANI, 1991).²³

Just ten years after the Egyptian independence, Iraq also became nominally independent. In 1932, Britain entered into an agreement with the Hashemite King Faisal (the family whom the British had granted the territory of the mandate years ago) in which the British had accepted the formal independence of Iraq in exchange for maintaining its military bases and right of passage for its troops. Then, in 1941, a coup by a group of Iraqi army officers called the Golden Square, inspired by pan-Arabist secularist ideals, overthrew the then representative of the Hashemite monarchy Abd al-Ilah (the regent for Faisal II who was Faisal's grandson and still too young to govern). This caused Britain to invade Iraq using troops stationed in India and Jordan, restoring the Hashemite monarchy, which lasted until another Iraqi military coup in 1958 that transformed the country into a republic (HOURANI, 1991).

23. This event definitively put Nasser on the political map of the Middle East as one of its main social actors.

In 1946 (and then 1948) the Middle East was again politically redefined. In addition to specific locations – such as Palestine, Mount Lebanon or the Damascus region – the Middle East had a common identity that came from before the Ottoman rule (HOURANI, 1991). The entire area that today includes Lebanon, Syria, Jordan and Israel and the Occupied Territories, was called “Greater Syria”, or “*Bilad al-Sham*”²⁴ – the name given by the Mamluks. As mentioned in the previous section, after the Ottoman defeat, Greater Syria was divided between the French (responsible for the northern part) and the British (responsible for the southern part). While the French divided the northern part into Syria and Lebanon, the British divided the south into Jordan and Palestine. That was when in 1946 Lebanon, Syria and Jordan became independent.

Regarding the ideal of extending French culture – which included language, customs and behavior²⁵ – the French mandate in Lebanon adopted a model similar to that imposed in Algeria decades before. Its main specificity was the deployment of the confessional system (*ta’ifiyah*), based on the Ottoman *millet* system – as previously defined – when “*Grand Liban*” was created in 1921. The first creation came in 1926, but Lebanon became independent from the French as late as 1941. And, it was only in 1943 through cooperative action between Muslims and Christians, that Lebanon was truly independent, despite continuing French influence until today. The so-called 1943 “National Pact” acknowledged that the political power of the State would be divided respectively according to the size of each confession (*ta’if*, singular; *tawa’if*, plural). Although today most of the country is Shiite (VERDEIL, FAOUR & VELUT, 2007), the National Pact is maintained with minor modifications, such as the largely Christian concession made at the end of the Lebanese Civil War in 1990.²⁶

The “Arab Kingdom of Syria”, formed in 1920 under the local leadership of King Faisal (son of Bin Ali Hussen), was short-lived. Neither France nor Britain recognized the kingdom as such. France then disposed of Faisal, having the mandate stipulated by the League of Nations and signed in the Treaty of Sèvres

24. *Bilad al-Sham* in Arabic means “northern country” and comprises the Muslim lands that were to the north of Mecca. Today, Sham is the city of Damascus as many in the region still call it. This understanding was largely cultural and political, and was the basis for the integralist nationalism of parties such as the Syrian National-Socialist Party (*Hizb al-Qawmi al-Suri*).

25. To date there is an Arab elite of French tradition in Lebanon, and many within it still have French as their first language and Arabic as a second. Many of them also claim to be descendants of the Phoenicians, and some (mostly Christians) even completely reject an Arab identity. This ideology – in the sense described by Dumont (1994) – is called Phoenicianism (SALIBI, 1971). Despite the historical relationship due to the Phoenician maritime expansion, this ideology is not found in the same way in other Arab regions such as Tunisia, Libya or Morocco.

26. This new human geography is one of the main motivations behind the political demands of the Lebanese Shiite groups such as Hezbollah and Amal. But it is important to note that today the demands of both groups are not specifically Shia, and it is possible to find a relatively large number of Christians who politically support Hezbollah in particular.

as a justification, and about 9,000 troops as agents.²⁷ Between 1925 and 1946 the Syrians fought for their independence from the French. In the first phase, Sultan al-Atrash fought the French between 1925 and 1936, after which a treaty of independence was signed. However, the French refused to ratify the treaty. Syria then unilaterally declared its independence in 1941, taking advantage of the fall of the French in 1940 during World War II and the establishment of the Vichy government. However, it was only in 1944 that Charles de Gaulle, leading a reemerging France, recognized the independence of Syria. Thus, in 1946 the last French troops left the country (HOURANI, 1991).

In the British part of the former Ottoman territories, in 1921 Abdullah Bin Hussein – another of Hussein Bin Ali's sons – was sworn in for his emirate in the lands to the east of the Jordan River and west of Mesopotamia, then called Transjordan. Not until 1923 did Transjordan gain some autonomy. In 1928, it formally became independent and only in 1929 was the treaty ratified, although the region remained under very strong British political and financial influence. While on one hand the Mufti of Palestine refused to accept the separation of Transjordan from the rest of Palestine, on the other hand a group of Zionists²⁸ also took a dim view of this separation since they were seeking a Jewish state in all Mandatory Palestine. It was only after the end of World War II in 1946 that Transjordan became a kingdom under the leadership of then King Abdullah (FROMKIN, 2009).

By way of concluding this section, between 1920 and 1948 the main motivation of the major political events in the Middle East was the social and political reorganization that came with the desire and utopian possibility of autonomy. Egypt, a strong influence throughout the modern Arab world since the *Nahda*, demonstrated this trend earlier and inspired much of what came later in other parts of the region. But it was the creation of Israel, which is also the “myth²⁹ of origin” of Palestinian refugeeeness, that became a critical event (DAS, 1997). National independence of other States of the Middle East and, in particular, the Arab World, only occurred after 1948. All these were marked then, somehow, by the Palestine issue and all the leaders of the emerging independent nations today, somehow, express their political commitment to the “Palestinian cause”. I call the urge to express this solidarity (sincere or not), which constitutes a political vernacular language among Arabs and Muslims (WICKHAM, 2002, WHITE, 2002), “nominal solidarity”. It is understood that this nominal solidarity toward

27. Across the treaty line, the British, suffering at the hands of rebels in the Mesopotamia protectorate, decided to create the Kingdom of Iraq under the local command of Faisal I (this a de facto British command).

28. Revisionist Zionists, whose names today are associated with the Likud Party in Israel.

29. In the anthropological sense of the word, independent of attributing the value of truth or untruth to the fact described as myth (Lévi-Strauss, 1981). In this sense, science itself can be considered as a founding myth of society whose ideal is to be modern (Latour, 1994).

what one actor or another would consider the “Palestinian cause” is since the creation of Israel an element of profound influence and impact on Arab and Muslim politics. Therefore, nominal solidarity is today yet another key element composing the spectrum of forces and political discourses expressed in the Arab Spring.

To recapitulate, while in the first half of the 20th century the Middle East was marked by colonialism and European protectorates, the end of World War II submitted the region to the context of the Cold War (1947-1991). Therefore, the creation of Israel in 1948 is also a landmark from one context to another. Since during the first half of the 20th century the Middle East was completely at the mercy of Europe, there were many countries or social groups that in the second half of the 20th century approached the USSR.³⁰ These Middle Eastern groups with anti-imperialist inspiration and/or national socialist tendency that looked to the USSR for support were precisely those perceived by the West – of growing American influence – as a threat. Thus, the “threat” at that time, far from being Islam,³¹ was first and foremost Arab national socialism and Pan-Arabism, which flirted with ideas common to Communism, and for this reason approached the West’s enemy number one at the time. Such political forces (arising from kingdoms and elites allied to the West as much as from socialist-inspired social groups, pan-Arabist or Arab nationalisms) persist to a greater or lesser extent until today and are also expressed in the political myriad enclosed in the Arab Spring.

6 A NEW ERA IN THE MIDDLE EAST: ISRAEL AND THE PALESTINIANS BETWEEN YOM HA’ATZMAUT AND THE NAKBA

At the same time as the historical processes described in the previous section, the newly created UN was discussing a plan for the partition of Palestine between the Zionists and the Arabs who lived there. In 1947 Resolution no.181 from the UN General Assembly decided to divide the area in two, while Jerusalem would be under international mandate on behalf of the UN itself. However, only the Zionists accepted the proposal. This was the beginning of the main phase of the conflict that continues to this day, with about 250,000 Palestinians fleeing or being expelled from Palestine. When the term of the mandate expired in 1948, Ben Gurion declared Israel’s independence, causing a declaration of war by a junta of Arab countries comprising Lebanon, Syria, Egypt, Iraq and Jordan. Seven hundred thousand Palestinians had to leave the region during the conflict. With the ceasefire in 1949, Egypt annexed the Gaza region (now known as the “Gaza Strip”) and Transjordan annexed the West Bank, where East Jerusalem is located. After annexation of the West Bank, Transjordan was renamed simply Jordan (PAPPE, 2004; SAYIGH, 2007).³²

30. Just as Hajj Amin al-Husseini had once approached Nazi Germany.

31. See, for instance, the U.S. support of Afghan *mujahedeen* (holy warriors) against the Soviet invasion around 1979.

32. The United States officially recognized both Israel and Jordan only in January 1949.

While the independence of Israel (Hebrew, *Yom Ha'atzmaut*) is celebrated every year, the event that caused the exodus of Palestinians from almost all the lands of the mandate to the neighboring Arab countries was called by Palestinians and Arabs in general "*al-Nakbah*" (The Catastrophe). This event changed the Middle East forever informing social actions of individuals who somehow relate to the region. More directly, the construction of "Palestinianness" and the daily lives of Palestinians is marked by the *Nakbah* (SCHIOCCHEIT, 2011a; 2011b), as much as the establishment of Israel radically qualifies the identity of Israeli Jews and Zionists worldwide. Hence, the creation of Israel as the myth of origin of Palestinian refugeeness.

Israel would also extend its borders to face up to what it claimed to be a constant Arab threat. Nevertheless, the decisive moment did not come with one of the many internal Palestinian uprisings, but with a joint military operation between England, France and Israel, based on a French plan to regain control of the Suez Canal located on Egyptian territory. According to the plan, Israel invaded Egypt, which had already nationalized the Suez Canal under the leadership of Nasser in 1956 (a year before the invasion). The so-called Suez Crisis brought two immediate results: a profound crisis of legitimacy of the British themselves and the international community in the region, and the intensification of the conflict between the Arab World on one hand and Israel and European powers on the other. Nasser found an ally in the USSR – a fact that branded forever the political configuration of the Arab World as a potential enemy of the West (PAPPE, 2004).

It would be impossible to cover here all the events relating to the Arab-Israeli conflict due to its length and nuances. However, the idea below is to highlight some of its key points. To start, the conjunction of three elements resulted in the official recognition of Yasser Arafat's PLO as the legitimate representative of Palestinian interests across the Arab world in 1964. These consist of the centrality of Arab solidarity for the Palestinian cause, the importance of Nasser's leadership, and the momentum gained from the Suez crisis between the Arabs and Israel. Prior to this, the Palestinians saw themselves represented in practice according to the interests of non-Palestinian Arab leaders, especially the King of Jordan (SAYIGH, 2007).

The Six-Day War started in 1967 largely motivated by the Suez Crisis, but also because one of the most important platforms of Nasser's Pan-Arabism was precisely the "liberation of Palestine". The trigger for the onset of the war was the expulsion of UN troops from the Sinai Peninsula (one of the banks of the Suez Canal), which according to the Israeli government justified an invasion. Not only Egypt but also Jordan, Syria, Iraq and Lebanon were involved in the conflict, and as a result of the invasion, Israel occupied in addition to the Sinai, the Golan Heights and Shebaa

Farms, East Jerusalem, the West Bank and the Gaza Strip.³³ Israel left the Suez Canal just after the Yom Kippur War in 1973, in exchange for the right to use the Canal. Yet an effective peace accord came only in 1978, now in the middle of the Lebanese Civil War and with Egypt under the leadership of Anwar Sadat. Israel agreed to permanently vacate the Sinai in 1979 with the “Camp David” agreement, and the eviction took place gradually between 1979 and 1982. Jordan sought the restoration of the West Bank as part of its own territory giving up only in 1988 on behalf of the PLO. Both the Gaza Strip and the West Bank would then be under the military control of Israel. As time passed, Israel gradually left the interior of these territories so as to more effectively control their borders, and during this period made only periodic military incursions into them. However, East Jerusalem, the Shebaa Farms and the Golan Heights were never completely returned to their own governments and are still today at the center of the Arab-Israeli conflict (PAPPE, 2004).

The national independence of other states in the Middle East, and in particular the Arab World, occurred only after 1948. The Palestine question marked all of them somehow, and virtually all their leaders even today feel the need to express their political commitment to the “Palestinian cause” in one way or another.

Libya gained independence in 1951, following the suggestion of a UN resolution dated from 1949, and became a monarchy under the rule of King Idris. The influence of Arab National Socialism and pan-Arabism can be felt in Libya since the 1950s resulting from Nasserism. However it was only in 1969 that Muammar al-Qaddafi performed the coup called “Libyan Revolution” that established the Republic of Libya today. Since then Qaddafi ruled with an extremely heavy hand, trying to stay in the position of leader of the Arab World – this post once occupied by Nasser. One of the points in common with Nasser’s policy was solidarity to the Palestinian cause as a motto for his government, blending inextricably with the anti-imperialist discourse, which in turn, in the view of Qaddafi, placed him as legitimate representative of the Arab people (HOURANI, 1991). However, it is necessary to emphasize here that there are many differences between the two, although addressing them is not relevant in this paper.

The year 1956 brought independence to Morocco, Sudan and Tunisia. Morocco became independent from the French colonial yoke, although part of the territory claimed by the Moroccan government is still in dispute, particularly with Spain, which retains control over Ceuta and Melilla along the Moroccan coast (in addition to some islands in the Mediterranean). Moreover, Western Sahara, although annexed by Morocco, is still awaiting final international legitimization. Unlike Iraq, Egypt, Libya, Syria and others – and like Jordan, Saudi Arabia and other oil-rich countries in the Persian Gulf – Morocco never underwent an

33. Hence the term used by the United Nations, “Occupied Territories”.

Arab national socialist phase, and even today retains the original monarchical form legitimized by European powers after the fall of the Ottoman Empire. Thus, Morocco, as well as Saudi Arabia, Jordan and others are regarded by the West as political allies in the region (HOURANI, 1991).

Sudan, on the other hand, became independent from Britain and Egypt in 1956 when Nasser's Egypt abandoned its effective demand for the territory and the British were able to secure their influence. However, the civil war (1955-1972 and from 1983-) between the north, ethnically of Arab and Muslim majority, and South Sudan, mostly of other ethnic groups and Christian majority, had broken out a year earlier. The violent struggle between these parties continues today with a succession of military governments in Sudan since then. Tunisia, meanwhile, became independent from France through the efforts of Habib Bourguiba, who ruled until the coup d'état of Zine El-'Abddine Ben Ali in 1987 (HOURANI, 1991).

The civil war for independence in Algeria began in 1954, and in 1961 the then French President Charles de Gaulle called a referendum. While in "European France" the vast majority of citizens voted for independence of the then African province, less than half of the population voted for independence in Algeria. Negotiations between the National Liberation Front (NLF – in Arabic, *Jabha al-Tyahrir al-Watany*) and the French government were held in Évian-les-Bains/France, and in 1962 the French government called for a new referendum, which resulted in 90% of people in favor of independence this time. As a result of independence, however, by 1962 a large number of Algerian-French moved to France, causing one of the first mass migrations of an ex-colony (in this case, considered part of the French territory) to a colonizer country. In 1965, the national socialist inspired government of the then President Ahmad Bin Bella (NLF) was deposed by Houari Boumedienne, who launched an even greater investment policy in the country's industrialization, and further reinforced the Arab national socialist character of the state. Boumedienne stayed in power until 1978, when he was succeeded by Chadli Benjedid, who at the end of the 1980s ended the one-party policy stipulated in 1962 (HOURANI, 1991). Since 1999, Abdelaziz Bouteflika has governed the country, and from mid-2011 his government has been threatened more than ever by the will of the people.

In the Arabian Peninsula, the 1960s brought one more critical event: after prospecting in 1960, in 1962 the Arab Emirates region began exporting oil. Also in 1962, Yemen saw its genesis as a republic under a socialist government, when monarch Muhammad al-Badr was deposed and British rule was reduced to only the southern territory, and North Yemen was created.³⁴ It was only in 1967 that

34. At that time Jordan and Saudi Arabia supported the regime of Muhammad al-Badr, and Egypt supported the coup that created North Yemen.

the territory remaining under the British became South Yemen, adopting a Communist government in 1970 (HOURANI, 1991). And as late as 1990 the two territories were united under the same flag of Ali Abdullah Saleh. In 1994, the country broke into civil war the consequences of which are felt to this day. In 2011 the Arab Spring in Yemen found a post-civil war context between the North and South of the country, where Zaydi rebels (a Shia denomination that holds just under 50% of Yemen's population) fight against the State regime, which they believe favors the Sunni.

Since the late 1950s the Sultanate of Oman has ruled the entire territory with relative success. Previously, other local authorities – notably the imamate of Zanzibar – had relative control over part of the Oman territory. In the period 1960-1980, Zanzibar still claimed authority supported by local communist-inspired guerrillas (subsidized by the then government of South Yemen). Then in 1970, Qabus bin Said al-Said came to power and there remained until today. His success in staying in power is due largely to the relatively open economic and political policies that he adopted in order to contain the rebellions started in previous decades, while actively reprimanding those who continued with attempts to remove him from power. He has even received direct military aid from Iran, Jordan, the UK and USA (HOURANI, 1991).

In 1968, under international pressure, Britain announced its plans to leave its protectorates in the Persian Gulf. Qatar and Bahrain announced their independence in 1971, abandoning negotiations to form a single united state in conjunction with the various emirates of the eastern Gulf that had remained independent from Saudi Arabia and Oman because of agreements with the United Kingdom. Four of the remaining emirates decided to join Abu Dhabi and Dubai that same year. The following year, the last emirate joined the proposal, resulting in today's United Arab Emirates. Like Saudi Arabia and others, none of these countries had a secular nationalist or pan-Arab government, and their main political alliances have been marked by the oil trade with the West (HOURANI, 1991).

The autonomy of Kuwait in relation to Iraq had been provided by the British under the Uqair Protocol in 1922, and put in place in 1923 when the British (and not Faisal I, King of Iraq)³⁵ recognized the borders mentioned in the previous year's protocol. Then, in 1961 Kuwait gained its independence from the British. Saddam Hussein invaded and annexed Kuwait in 1990, using the illegality of the Uqair Protocol as one of his main justifications. This event caused the Gulf War, when the UN countries led by the United States launched a military

35. It is worth remembering that Iraq itself was only recognized as independent in 1932, when the British Mandate officially ended. The reign of the Sunni Muslim Faisal I was immediately met with protests from the Shiites in the South (the majority in the territory of the new country).

offensive against Iraq. In 1994, Iraq finally accepted the independence of Kuwait, which became a major American and European political ally in the region.

To conclude this section, while in the first half of the 20th century the Middle East was marked by colonialism and European protectorates, the end of World War II submitted the region to the context of the Cold War (1947-1991). Since the Middle East was completely at the mercy of Europe during the first half of the 20th century, there were many groups that, in the second half of the 20th century, moved closer to the USSR. It was these Middle Eastern groups with anti-imperialist and/or socialist tendencies seeking support from the USSR that were perceived by the West as a threat. As a result of this, the older Islamic governments in the region are precisely those who stayed to the West of the political border during the Cold War. However, on one hand some social elites discontent with their place in local politics and political groups of pan-Arabist, nationalist or socialist ideology can be found in most of these countries with governments historically aligned with Europe and the United States. On the other hand, traditional elites and other social groups dissatisfied with the pan-Arab, nationalist or socialist governments can be found today in opposition to their governments. Thus, on both sides and for different reasons, groups are found avowedly of Islamic ideology. All these groups, and those mentioned in the previous sections, can be found today as part of the social and political movement expressed by the Arab Spring. It is these so-called “Islamists” – not yet properly introduced – that will be discussed below.

7 THE (RE)ASCENSION OF ISLAM

Turkey, one of the non-Arab Middle Eastern countries, has also withstood a long secularizing period. This period began with the package of political reforms called *Tanzimat* in the late 19th century, passed through the new political vision of Cemal Pasha and the Young Turks (“*Jön Türkler*”, in Turkish) in 1908, and finally reached its most radical stage with the revolution of Mustafa Kemal Atatürk in 1922.³⁶

Iran, during 1953-1979, under the command of the Shah Mohammad Reza Pahlavi, became an important European and then American ally. In fact, in 1970 the Iranians were the largest group of immigrants to the United States. In 1979 a people’s revolution erupted in Iran. Several Western intellectuals supported the revolution, for example, Michel Foucault. However, after the Shah’s government

36. When recalling all the empires that passed through the Middle East before the Europeans, it should be mentioned that the Hittite Empire (with its capital in the center of Anatolia) was not only restricted to the Middle Eastern territory, but also occupied only a small part of it. Partly because of that, Atatürk chose Ankara (and not Istanbul), where there are the remains of a large Hittite castle, to be the capital of the new Turkish State. The change emphasizes the new territory and the political break with Islam. Atatürk’s own mausoleum in Ankara is illustrated by typical Hittite figures on the walls, while modern soldiers with modern weapons mix in similar style to the Hittite figures. The symbolic power of this new image should not be underestimated.

was overthrown, Ayatollah Khomeini took control of Iran with a moralizing and rectifying platform against the Shah's corrupt government. Most Western intellectuals who had supported the revolution withdrew their support when they realized that the uprising had been appropriated by a group of clerics who founded an Islamic Republic that used repression as its main form of legitimization; among them was Michel Foucault (AFARY, 2005). Inside Iran, the new Islamic Republic was warmly welcomed, but popular support had been eroding over the years, culminating in the largely urban and young so-called Green Movement of 2009.³⁷ However, the government of Mahmoud Ahmadinejad severely rebuked the riots and is still in power.

Much of the Western fear of governments that expressed themselves somehow as Islamic had its origin in the example of the 1979 Iranian Revolution. Iran is not the only example, however, of a government committed to Islam. In addition to the Gulf states, Jordan and Morocco, there was a change recently in the Turkish political paradigm when the Justice and Development Party (JDP – *Adalet ve Kalkınma Partisi*, in Turkish) won the elections as a result of its religious appeal – for the first time in decades the power has waned for the Kemalists and their secularism. Nevertheless, the new Turkish government represents a fresh moderate Islamic trend, unlike the hereditary governments of the Gulf, Morocco and Jordan, and diametrically opposes the Islamic Republic of Iran. Politically, the new government has not agreed to either end of the current international political configuration, a position that has secured strong popular support for the JDP.

In 1978, when the Iranian revolution was still only a strong people's uprising, Israel invaded Lebanon for the first time³⁸ during the Lebanese Civil War. And, in 1982, in a second Israeli invasion, Hezbollah emerged claiming its existence as necessary resistance against the Israeli occupation. With close ties with Iran, Hezbollah still keeps its main goal, which is the resistance to Israeli occupation that continues to hold the Shebaa Farms. However, Hezbollah has evolved from a military organization involved in terrorist attacks and an Islamist agenda in the 1980s and 1990s, to a complex entity composed of an armed militia, a political party and numerous charity institutions. Since then, Hezbollah has refrained from attacking civilian targets directly, with the exception of outright war especially after the beginning of the 21st century when bombings involving Israel and Hezbollah became common (NORTON, 2007).

37. The Green Movement was an uprising of notably young people that questioned the legitimacy of the regime of President Mahmoud Ahmadinejad and the results of the Iranian presidential election of 2009.

38. In addition to Shebaa farms.

Also, in 1982, after years of planning and undertaking the Palestinian armed struggle, especially outside the Occupied Territories, the PLO withdrew from Lebanon and went first to Tunisia and then to the Occupied Territories. In 1987 political competition emerged that could actually challenge the PLO leadership: Hamas. Before that, only smaller organizations, most of which had once participated in the PLO, existed beyond the PLO's authority.

Hamas emerged from the Muslim Brotherhood in Palestine (*Al-Ikhwan al-Muslimin*), which in the 1970s had renounced violent means to achieve its goal of making Islam a benchmark in the lives of Muslim-majority countries (STARRETT, 1998; WICKHAM, 2002; MAHMOOD, 2005). Thus, from the outset, Hamas kept its autonomy.

Another Palestinian Islamist group, Islamic Jihad (*Harakat al-Jihad al-Islamy fi Falastin*) appeared in the 1970s, withdrawing from the Muslim Brotherhood for reasons similar to those of Hamas: to join the armed struggle that they understood was political resistance to the imperialist Christian West. Apart from the fact that Islamic Jihad had firmly established itself only in the 1980s (concurrently with Hamas), the movement is much smaller than that of its closest relative and with much less popular appeal within the Occupied Territories.³⁹

Another common element between the two movements is a very strong nationalist component, which at least in the case of Hamas in practice is even more important than its Islamist component. Thus, the actions of both are always directly linked to the Palestinian issue, though often expressed through religious jargon. In terms of discourse, Hamas continues to present a rhetoric marked by symbols of the sacred law of armed struggle against an imperialist West, as is clear from the reaction of Ismail Haniyeh – the Hamas leader in Gaza – to the recent death of Osama Bin Laden at the hands US forces:

We condemn the killing of an Arab holy warrior. We ask God to offer him His mercy with the true believers and the martyrs. We take this as the continuation of the American policy based on oppression and the shedding of Muslim and Arab blood (AL-JAZEERA, 2011a).

Nevertheless, this kind of discourse, at least in the case of Hamas, must be understood as arising partly from a “nominal solidarity” this time addressed to the *Ummah* (transnational community of Muslims), similar to what Arabs and Muslims feel compelled to address toward the “Palestinian cause”.

Although possessing some common genesis, each branch of the Muslim Brotherhood in each country became something relatively distinct, adapting to

39. As a counterpoint, the Islamic Jihad operates firmly from bases in Lebanon and Syria, which provide important popular support, especially among Palestinian refugees.

the different local realities. While in some countries the Brotherhood became a political party acquiring all its qualities, in others it continued as a social movement (MITCHELL, 1993). Almost everywhere, the Brotherhood's commitment today with a vision of political and social reform through religious devotion and adherence to Islamic values – not violence – is striking (WICKHAM, 2002). See for instance, in Europe, the convictions of Tariq Ramadan (grandson of Hassan al-Banna – founder of the Muslim Brotherhood in Egypt). For this reason many groups chose to leave the Brotherhood or maintain militias in parallel to follow the path of armed struggle.

Because of the local context, the Muslim Brotherhood in Palestine was historically more willing to engage more directly in politics – even though its political participation during the entire time of the PLO hegemony (from the late 1960s until the rise of Hamas) had been marginalized. This marginalization occurred not only in Palestine, but also in most Arab countries that had adopted secularist and nationalist militaristic dictatorial political regimes, whose platform was the formal policy of resistance against European colonialism and its local “puppets”. For example, the Egypt of Gamal Nasser,⁴⁰ Saddam Hussein's Iraq, Syria of Bashar al-Asad and others (WICKHAM, 2002). Thus, there was a trend in Arab nationalism toward a post-colonialist repression (sometimes brutal) against the Muslim Brotherhood. Not surprising, therefore, that Islam returns today as an icon of freedom and as the main element capable of sustaining the authenticity and legitimacy of a new Arab government regime and that the Brotherhood represents this ideal.

The outbreak of the First Intifada was also in 1987, at the same time as the rise of Hamas. And like many of the uprisings presented in this article, the first Intifada was also a people's revolt without clear leadership in any political faction. Later, in 1990 *al-Aqsa Intifada* (or the Second Intifada) burst onto the scene. Although this also was a people's uprising, one of its main consequences was the exponential growth of support for Hamas and the concomitant growing power of social mobilization – and therefore control of the event itself – by the Islamist group. Another factor that mobilized popular support around the group was the assassination of Sheikh Ahmed Yassin, at the end of the Second Intifada in 2004. Ahmed Yassin has since become one of the great martyrs of the Palestinian cause and symbol of Hamas' Islamic libertarian cause.

40. After the death of Nasser, Egypt gradually became part of the U.S. sphere of influence, first with Anwar Sadat and then with Hosni Mubarak. Sadat tried to capitalize political resources building an image of a president devoted to religion, making a gradual political opening to the Muslim Brotherhood. However, seeing that the group's influence grew because of the new political context, Sadat tried again to control the Brotherhood and eventually ended up assassinated by a radical member. Mubarak, besides trying to control the Nasserists, severely rebuked the Muslim Brotherhood and other groups with Islamist character. Partially because of that, Mubarak's popularity was very low at the time of his deposition in mid-2011.

During the Intifada period, other political processes in the early 1990s had shaken the confidence that the Palestinian people had in the PLO led by the Fatah of Yasser Arafat, further motivating popular support for Hamas and other similar groups. The first was the Madrid Conference in 1991, and the second was the subsequent Oslo Peace Process started in 1993. After such events, due to political concessions that Arafat was willing to make on behalf of a peace agreement with Israel, the Palestinian popular support for the PLO was permanently damaged. One of the most important of these concessions was not mentioning the *Right of Return* of about four million Palestinian refugees to Palestine (now Israel), which meant for many refugees that their national representation had forsaken Palestinians outside the Occupied Territories in exchange for the possibility of building a nation-state (SCHIOCCHEIT, 2011a). In 1994, the Palestinian Authority emerged following guidelines stipulated in the Oslo Peace Process that also had foreseen its creation from within the ranks of the PLO. Hamas and other movements (Islamist and secularist) outside the PLO felt snubbed by the decision, and in 2007, Hamas consolidated its power by taking the Gaza Strip from the Palestinian Authority led by President Mamhoud Abbas.⁴¹

8 THE ARAB MODERNITY

The Middle Eastern context, since the fall of the Ottoman Empire and even before it, as outlined here, points to a constant influence of the West either because of colonialism, protectorates, zones of influence, military interventions, economic treaties, political ideologies, annexations as part of Europe's own national territory, or other factors. Thus, I suggest that the Middle East today cannot be seen as politically "backward" when compared to the West, since this version of history demands an evolutionary perspective – be it liberal, Marxist, or other. In particular, I suggest that to grasp the Middle East, one should first understand it as "modern", just like the West. This is because the Middle East actively participated in virtually every social process generally listed as a trigger of modernity in the West. From my point of view, some of these major social processes include: the territorial construction of social identities tied to nation-states beginning in the early 20th century; people's uprisings in favor of self-determination very often

41. In early May 2011 Hamas and Fatah (majority faction in the PLO and the Palestinian Authority) announced an agreement of understanding. Such an agreement, on the part of the PLO, also encompassed negotiations to include Hamas in the PLO itself. It was not the first time that such negotiations had been announced, but it was perhaps the most serious announcement to that effect since Hamas seized the Gaza Strip from the Palestinian Authority. Although it is too early to predict the extent to which such negotiations will accrue on a new alignment of forces in practice, this disposition to trading can be seen as directly motivated by the Arab Spring. As part of the process, Ismael Hanyiah, the Hamas leader also announced that he would support the decision of the Palestinian Authority (PA) to opt for a two-state creation (one Palestinian and one Israeli) as a way to resolve the conflict. However, unlike the PA, the Hamas leader expressed that this does not mean the renunciation of the "original" territory of Palestine, the renunciation of violence as a form of resistance, or the renunciation of The Right of Return of the Palestinian refugees to what now corresponds to the State of Israel as a precondition for resolving the conflict.

democratically – albeit democracy in the Middle East may mean something quite different from the liberal canon proposal; ideological reordering caused by the Cold War, and later the post-polarized world; an intellectual and revolutionary modern art movement (in the case of the Arab world, the *Nahdah*); and so on.

However it would be wrong to think that these social processes would provoke the same kind of effect worldwide. According to Turkish sociologist Nilüfer Göle, it is understood, therefore, that these processes were responsible for generating a world of multiple modernities (GÖLE, 2000), and that the various forms of modernities generated in the Middle East were unique. There are several examples of the specificities of such modernities, many of which were addressed here such as those listed below:

- The *Nakbah* (creation of Israel according to the Palestinians) and the pan-Arabist and nationalist ideologies that made the event a central ideological theme;
- transformation of a large number of Palestinians into refugees and their relationship with new social actors called “humanitarian” and with the establishment of the nation-state of Israel;
- the radical secularism of Atatürk in Turkey;
- Lebanese sectarianism as an early form of affirmative action (MAKDISI, 2000);⁴²
- the advent of an Islamic Republic in Iran (although its totalitarian character has confused many analysts who fail to understand the government as an effect of modernity);
- the economic rise of the Persian Gulf countries and their role in the oil production and trade policy; and
- the rise of avowedly anti-imperialist Islamist guerrillas.

Concerning Islam more directly, the strong popular support that Islamic-oriented groups find in some regions of the Middle East occurs largely because of their given ideology of liberation through politics, and not only through personal religious devotion. Thus, during the time when I lived in the Middle East, I met many atheists, including some Communists, who supported Hamas or Hezbollah for political and not necessarily religious reasons.

In these terms, the entire social structure of certain groups deemed “Islamist”, such as Hamas, Hezbollah, the Turkish JDP and Egyptian Muslim

42. In this sense, the comparisons of the Lebanese case with the Belgian case and with the Dutch case in Europe are interesting.

Brotherhood, depends on a highly modern format developing a political, social, religious and very often military complex. The following set of elements partially composes such a complex: the use of media as many of these groups have their own newspapers and television channels; the provision of community and humanitarian services to Muslims and very often non-Muslims, such as what Hezbollah does in Lebanon; the acceptance of political participation as only a faction of the whole – such as a party in the case of Hamas, Hezbollah and the JDP, or a social movement in the case of the Muslim Brotherhood, and so on (MITCHELL, 1993; STARRETT, 1998; WICKHAM, 2002; NORTON, 2007).

However, there are indeed other kinds of Islamist groups. For example, those based on informal solidarity networks and a decentralized transnationalist structure, such as the *al-Qa'eda* “franchising”, or others more centralized such as *Fatah al-Islam*. Many of these groups (the majority perhaps of Salafi ideology) seek the restitution of the Islamic caliphate throughout the Muslim world, and are therefore frequently labeled pre-modern by analysts and public opinion. However, I agree with Oliver Roy (2004) that these groups are best understood as a consequence of post-modernity; noting also that many of their leaders had a Western education (Osama Bin Laden himself, for example). Therefore, the return to a caliphate, and thus to the Golden Age of Islam, is a desire that only emerges among those who Kassir (2006) mentions as accepting the modern history division of the Arab periods, as presented earlier in this paper. According to such division, the current period is one of Arab decline that followed the *Nabdah*, which, in turn, ended at the time when the nation-states were created in the Middle East, and especially with the emergence of Israel. Moreover, like Kassir, I hold reservations about the ideological characterization of such historical periods.

9 CONCLUSION

Relying on the historical lessons learned here, some conclusions can be finally reached about the current Arab Spring. First and foremost, it should be understood why the Arab Spring occurred and what it implies politically. What drove Middle Easterners, especially Arabs, to the mid-2011 uprisings were some of the same forces generated shortly before the fall of the Ottoman Empire, synthesized in the desire for self-determination. These forces caused Middle Easterners to revolt against the Ottoman Empire. Later, they caused them to rebel against Europeans in the region and against local leaders imposed on the new nation-states. In some cases, this led to internal pan-Arabist or nationalist uprisings, in addition to other internal conflicts of ethnic or religious character, which today are generally also in one way or another strongly marked by nationalism. Some of the social groups involved in the different affected countries are, depending on the context: those that in one way or another express support for the Palestinian cause; traditional

elites dislocated by nationalist or socialist pan-Arabist movements, as well as popular political movements against these trends; elites and popular political groups of nationalist, socialist and pan-Arabist ideology that fail to find space in the political regimes of local monarchies; Islamists of various tendencies; human rights groups; democracy-inspired youth; groups who demand better economic conditions and/or political and moral autonomy; and so on.

The title “Arab Spring”⁴³ suggests a blooming of something that has remained dormant for decades. It even suggests that the present decline of the Arab World, from an Arab perspective itself or even that of Lewis, has come to an end. The term does not indicate exactly what will come next, but implies that it will be better than what existed before. History as presented here suggests a different understanding. It highlights that decades of domination by secular or religious dictatorships, socialist-oriented or not, did not quench most Arabs’ desire for self-determination. Therefore, this Brave New World is not that new. The events of mid-2011 may still be called the Arab Spring if meaning a *momentum* gain in feelings, desires, political goals, and other forces that were already in motion before Tunisia’s Jasmine Revolution – the event that triggered the whole wave of uprisings that followed in 2011.

That said, the media and many analysts also seem to forget that these forces are not only in motion in the Arab World. In the Middle East they were also responsible, for example, first for the 1979 Iranian Revolution – whether applauded or otherwise – and then for the “Green Movement” in 2009 and 2010⁴⁴ that can be widely understood as a counter-revolution to the Iranian Revolution. More recently, a more peaceful transition of a governist paradigm in Turkey – radically secularist for an Islamist-revisionist model – can also be seen as having been leveraged by the same forces that leveraged the Arab Spring.

The following question is: what does this Spring, which is so far more or less successful depending on the context, mean? The Green Movement of millions of Iranians criticized especially the authoritarianism of the current regime and its over-involvement in the private sector. While the rise of the JDP in Turkey was a sign of popular support for a less antithetical commitment to Islamic values and local secularism of the State. However, Tunisia’s Jasmine Revolution began with a riot against the high cost of living for the local population and ended as a revolution against the authoritarian regime of Ben Ali. The Jasmine Revolution took

43. Although it is virtually impossible to pinpoint the origin of the term “Arab Spring” as a reference to its current meaning, it began to be used profusely by the Al-Jazeera network. This term had also been used by other media since 2005 with another meaning concerning the Iraq War. Since mid-2011, however, its meaning has radically changed, as instead of having the Iraqi invasion as a reference, today the concept suggests the character of popular revolts of mid-2011.

44. This happened when, after the fraud in the national Iranian elections, several people of distinct ideological positions went to the streets seeking the deposition of the Iranian President Mahmoud Ahmadinejad.

on a new dimension when, more by contagion as Sir James Frazer would say,⁴⁵ it spread to the rest of the Arab world becoming the Arab Spring, and thus adopting a much more complex form of diverse inspirations and demands. Despite the differences, what all these uprisings have in common is that they all began at least as popular movements, the goal of which was somehow to improve the quality of life and political accommodation of local social values. One was inspired by the success of another, moving on to believe in a success that had until then seemed unattainable. In the process, not only dictators of nationalist and secularist ideology but also monarchs or emirs with strong ties to the West and seeking legitimacy in Islam have come under strong public pressure.

The next question is about what will come next. Comprising the spectrum of rebellious forces, especially in countries with an Arab secular-nationalist government, are Islam-motivated social movements and individuals. However, by the very popular nature of the uprisings, Islam is just one force among others. Although some parties and social movements use Islam as a moralizing discourse of politics, such as the Muslim Brotherhood in Egypt, Islam is much more than just a political or even religious perspective. Proof of this lies in the variety of discourses on politics in the Middle East, using a language with a variable Islamist component, by the insurgents themselves. Similarly, in Libya and Syria, for example, some of those who have supported the current state leaders are also adopting a partly Islamic language. The point here is that Islam should not be addressed only as a religion in the Middle East, and Islam in politics should not be understood necessarily as anti-secularist. Islam is, first and foremost, a cultural component of the Middle East, and as such a source of building and maintaining local values in general.

Thus, a government with Islamic values is not necessarily more religious than a Western secular government whose values are grounded on the history of Christianity. Similarly, the current Turkish “Islamic” democracy is no less democratic than the US or Brazilian democracy. This answers the last important question that the West has put to the Arab Spring: should the Islamists be feared? According to the previous idea, the straightest answer to this question is *no* – at least not unconditionally as if Islam were essentially a source of problems, while Christianity is not; as if a government with Islamic ideals would raise more problems than a government – even secular – built on Christian values; as if Muslims were by definition (for example, by some theological ethic) more religious or more radical than Christians.

As mentioned at the start of this article, such thinking is partly an Orientalist construction – and, therefore, Western – and partly the reality of a radical minority strongly influenced by Western thinking and political practices.

45. In *The Golden Bough* (Frazer, 1982).

In practice, in a large part of the post-colonialist Middle East, repression (sometimes brutal) against the Muslim Brotherhood and other Islamist groups has been the rule. Not surprisingly, therefore, Islam comes back as an icon of freedom and the main element that can sustain the authenticity and legitimacy of new government regimes in the Muslim World, and it tends to be seen as a viable alternative between the harshness of colonialist repression and the severity of Western-inspired and secularly aligned post-colonialist repression.⁴⁶ In this sense, Islam is the current language of not only radical Muslims but also of those with more moderate reformist political views that seek accommodation of the “East” with the “West”. Islam is the local cultural language, or at least an important part of it. It does not follow, however, that we are in any way authorized to reify a fictional and radical anti-Western Islamic theology at the expense of the region’s entire post-colonial context. As mentioned earlier, the Arab Spring is only part of a much broader movement that for some time has been happening in the Middle East. Accordingly, a wave of protests has happened in practically the entire Middle East, except for Turkey (or at least not in the same way), in which new political trends are accommodated democratically and relatively peacefully, a fact that only demonstrates a commitment between some form of secularism and Islam.

In light of the above, if on one hand the Middle East is certainly modern in its own way even before the Arab Spring, on the other hand Western World views such as those of Samuel Huntington – and his paradigm of the clash of civilizations – have been absorbed by Arabs and other Middle Easterners (such as Pakistanis, Iranians, Afghans), strengthening the cultural estrangement between Muslims and the West (with economic, ethnic, political and religious repercussions). Bin Laden’s point of view was not, in that sense, very far from Huntington’s. According to Samir Kassir,⁴⁷ the decline of the Arab World has been attributed to an impossibility to modernize it. The current problem is precisely to understand the Middle East from an Orientalist view,⁴⁸ according to which modernization and Islam cannot go hand in hand (KASSIR, 2006), and consequently democracy and Islam are incompatible.

This was precisely where the Arab Spring surprised everyone, since it is possible to understand that the current uprisings can turn the history page of the Arab World according to the Arabs themselves, bringing with it the start of a new era in the Middle East as a whole. Robert Fisk, who interviewed Bin Laden in person on two occasions, actually said that the Arab Spring has made Bin Laden

46. A comparison with the process of democratization in Latin America would be interesting here, as the major religion of the colonized Middle East was different – and remained different – from that of the colonizer, while in Latin America religion was very little, if at all, related to the autochthonous character of the anti-colonial forces.

47. Kassir was assassinated in 2006, shortly after Rafiq al-Hariri, by forces not yet fully known.

48. The term is used here in the sense given by Said, since Kassir does not use this term.

and the kind of ideology that he held much less appealing to the Arab World (ALJAZEERA, 2011). Agreeing with Fisk, I also point out that the Arab Spring will only succeed in bringing the Middle East to a new phase of history if it can find a middle ground between the two main regional modern trends, as addressed in this article: *i)* on one side nationalism and pan-Arabism flirting with socialism and authoritarianism; *ii)* on the other, a transnationalist radical and sectarian Islamism, both in its Sunni and Shia forms. Therefore, the reformist ideology of the Muslim Brotherhood appears among the Arabs as one of the possible sources of idealization of the new Middle East, while post-modern Turkey of today (religious but more tolerant than the earlier authoritarian laïcité) is sometimes seen as a practical model. Despite all its limitations, which do not need to be mentioned here, the example of Turkey shows how a democratic government based on Islamic values can exist in practice.

Nonetheless, the Arab Spring has not brought and probably will not bring a Brave New World characterized as an Islamic Middle Eastern utopia seen with disbelief by the West, or as a liberal democratic Western utopia seen with disbelief by the East. Nor is this about thinking that moderate Islam will bring solutions to some of the major social issues of the Middle East, for example, sectarianism and ethnic politics. Sectarianism is indeed present in the basic political and legal system in Lebanon, on the rise in the post-Saddam Hussein Iraq, Egypt (mainly between Copts and Muslims), Yemen (between Zaydi Shiites and Sunnis) and Bahrain (between Sunnis and Shiites). Ethnicity very much defines the relationship of the Kurds, Armenians, Berbers, Jews and Palestinians in Turkey, Iran, Iraq, Lebanon, Egypt, Syria, Israel and the Occupied Territories, and also elsewhere. The case of Jews and Palestinians who live all over the Middle East shows how religion and nationality are very often treated as ethnicity in the Middle East – as I pointed out on more than one occasion (SCHIOCCHEIT, 2011th; 2011b). In Egypt, the Arab Spring has seen rare images, for example of Copts forming a human chain to protect Muslims praying in Liberation Square (*Saba al-Tahrir*) during the demonstrations. However, as soon as the Mubarak government bowed to pressure, sectarian violence regained momentum. It would be naive to think that the Arab Spring or a moderate political Islam will accommodate all social forces in the Middle East, and even to think that such accommodation is possible anywhere. Nevertheless, there is apparently no reason to think that an Islamist government would necessarily aggravate ethnic or sectarian tensions even further – at least no more than many of the secular governments that were or are threatened by the Arab Spring.

Moreover, right at the heart of the friction between the Huntingtonian East and West – which I suggest that as such should cease to exist among Easterners and Westerners alike – there is still the question of Palestine as an essential diffusing element of any force that emerges in order to accommodate the differences

between “us” and “them.” In other words, a “more permanent” accommodation⁴⁹ of the borders between the West and the Muslim East will only be possible when a solution to the Palestinian issue is finally underway. Thus, by means of conclusion, the Arab Spring is best understood as a process of accommodation of forces (ethnic, political, religious and social) that have not yet emerged in a definite direction and that can last much longer than uprisings normally last. It is also not a revolution, as many claim, because revolutions usually have a defined ideology, or at least produce one as soon as a power vacuum is in place.

Academically speaking, I understand – as does Samir Kassir – that in order to better understand this historic moment, the Huntingtonian clash of civilizations should be replaced by the Lévi-Straussian concept of civilization, whereby

civilization (...) is not a category and hence cannot contain ‘natural’ hierarchies; and humanity is one, since it rests on a common anthropological foundation (...) we must not confuse terrorism with resistance, as the West confuses resistance with terrorism.⁵⁰

Kassir hoped that, accordingly, the Arabs would learn how to “integrate plurality in their unit of time and space” and stop thinking about the differences as a form of division. Symmetrically, not only Arabs should consider Kassir’s advice, but also other Middle Easterners, and especially “us” Westerners. Only then, perhaps, the next Samir Kassir will not be murdered – as he was – for repudiating on the one hand a world as seen by radical Muslims such as Bin Laden, and on the other hand the world of Bin Laden’s executor that recently displayed his head as a trophy of the supposed Western victory over a terrorism that it locates, mistakenly, quite far from itself.

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49. The quotation marks express my relative opinion that in no social context is there a permanent accommodation of forces.

50. KASSIR, 2006, p. 85-86

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THE TORTILLA CRISIS IN MEXICO (2007): THE UPWARD TREND IN COMMODITY PRICES, FINANCIAL INSTABILITY AND FOOD SECURITY*

Lais Forti Thomaz**

Carlos Eduardo Carvalho***

ABSTRACT

The paper analyzes the origins of the soaring in the price of corn tortillas that provoked a wave of popular protests in early 2007 in Mexico. Similar manifestations elsewhere and the uptrend in commodity prices, recovered in 2010, increased the concerns about food security for countries dependent on food imports. The interest in the Mexican episode is justified by the complexity it presents. As for other products, the rising price of corn was influenced by the combined effects of increased global demand, speculative movements in financial markets and the allocation of a portion of grain to produce ethanol in the U.S. The biggest increase of tortillas, however, occurred before the peak of corn prices, and slowed down while the corn was still rising, suggesting the existence of problems in price formation in Mexican markets. There are also the complex effects of heavy subsidies practiced by the United States, with a strong impact beyond a discussion on the support of subsidies in the United States.

Keywords: Tortilla Crisis; Mexico; corn; United States; biofuels.

RESUMO

O trabalho analisa as origens da forte alta dos preços das tortilhas de milho que provocou a onda de protestos populares do início de 2007 no México. Manifestações semelhantes em outros lugares e a tendência de alta das *commodities*, retomada em 2010, acentuaram as preocupações com a segurança alimentar de países dependentes da importação de alimentos. O interesse pelo episódio mexicano se justifica pela complexidade que apresenta. Como em outros produtos, a elevação do preço do milho foi influenciada pelos efeitos combinados dos seguintes fatores: aumento da demanda mundial; movimentos especulativos nos mercados financeiros; e destinação de parte dos grãos para produzir etanol nos EUA. A alta mais forte das tortilhas, contudo, ocorreu antes do pico de preços do milho, e desacelerou enquanto o milho continuava a subir, o que sugere a existência

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de problemas na formação dos preços nos mercados mexicanos. Há também os efeitos complexos dos pesados subsídios praticados pelos Estados Unidos, de forte impacto no México com o Tratado de Livre Comércio das Américas do Norte (Nafta). O trabalho discute este conjunto de elementos explicativos para a crise de 2007 e faz uma análise da sustentação dos subsídios nos Estados Unidos.

Palavras-chave: Crise das Tortilhas; México; milho; Estados Unidos; biocombustíveis.

1 INTRODUCTION

On January 31 2007 tens of thousands of people protested in Mexico City against the soaring prices of *tortillas*, from US\$ 5.00 a year before to up to US\$ 20.00 in some regions, demanding the lowering of prices and changes in economic policy (DENIS, 2007; ABC, 2007; CONTEXTO, 2007). Recently inaugurated President Felipe Calderón faced similar protest all over the country (NAVARRO, 2007).

Mexico consumes 630 million *tortillas* a day (SMALL, 2007), a staple for more than 50 million people, despite a reduction of consumption between 1998 and 2007 as a result of *per capita* income rise and the withdrawal of price subsidies (GILES, 2008). Corn is the main ingredient for *tortillas*, and because of its significance in the national economy and identity, many Mexicans agree with the expression “*sin maiz no hay país*” (“without corn there is no country”). (ESTEVA e MARIELLE 2003). The Government reacted by setting *tortilla* prices at US\$ 8.50 through the Agreement to Stabilize *Tortilla* Prices (AEPT), besides taking other steps to combat speculation and ensure supply. The President announced his willingness to enforce the law and fight against speculators, who were denounced as responsible for the rise deemed unjustified. (SÓLIS, 2007).

The *tortilla* crisis exposed a food security problem in Mexico. Similar situations recurred in following years in several countries: very strong fluctuations in food prices in a context of trade liberalization and definition of production policies and domestic offer based only on prices. The worsening of the financial crisis in the United States, in September 2008, brought down economic activity and commodity prices around the world, as well as otherwise affecting food producing countries (MAYER, 2010, p. 74).

Two relatively new problems came to the fore: *i*) food security risks, caused more by the uptrend in prices than by a contraction of offer; and *ii*) risk that strong price fluctuations generate balance of payment problems in food importing or exporting countries.

The national concept of security, sometimes criticized for emphasizing only military or state-centric issues, was challenged by problems previously considered irrelevant and which acquired great prominence in international relations. Buzan

and Waever (2003) developed the concepts of “securitization”¹ and “de-securitization” in order to characterize issues that were not considered as essentially questions of security but that became threatening to it. Regarding the food scope, Buzan, Waever and Wilde (1998) stated that

What constitutes an existential economic threat depends upon the referent object. For individuals, economic security can be understood most clearly in terms of basic human needs. Individuals live or die (or in the case of malnutrition in children, have their development as human beings compromised) according to the provision of the basic necessities for sustaining human life: adequate food, water, clothing, shelter and education. So-called food security and call to eradicate mass starvation are clearly within the realm of human needs, as a disaster relief (BUZAN, WÆVER, WILDE, 1998).

Concerns with food security predate the *tortilla* crisis. In the 2003 report on Trade Reforms and Food Security, the United Nations Food and Agriculture Organization (FAO) discusses its evolution as an operational public policy concept and points out more than two hundred definitions that appeared since the 1970's. The official definition adopted since 2001 in *The State of Food Insecurity* is:

Food security exists when all people, at all times, have physical and economic access to enough safe and nutritious food to meet their dietary needs and food preferences for an active and healthy lifestyle.

Food securitization became a very important issue for the international community and has required action from national States. Ziegler (*apud* CHADE 2009, p. 11), a former UN rapporteur for the right to food, stressed that “in 2008 hunger killed more people than all wars taken together during the same year”. Jamil Chade (2010, p. 23) argues that for about twenty years the International Monetary Fund (IMF) and the UN itself gave up helping small farmers in poor countries, which aggravated the problems when prices of commodities rose.

Interest for the Mexican case is also justified on account of some peculiarities. Internally, the crisis was fueled by the oligopolistic structure of the *tortilla* market and by speculative movements in Mexican markets (table 1). Externally, the crisis questioned the effects of the trade and financial opening. Mexico liberalized its market through the North American Free Trade Agreement (NAFTA) and the United States kept the subsidies to its production, which lowered corn prices with harmful effects to small Mexican farmers and increased the power of the large producers. Despite having increased its output of white corn, basically used as human food, Mexico was unable to attend to its demand of yellow corn,

1. This term is used in international relations to designate something that was not considered a security concern and becomes one, either circumstantially or lastingly. The meaning has nothing to do with the concept of securitization in economics, which refers to the process of rendering financial assets (securities) negotiable.

used for animal fodder, starch production and biofuels. Mexico became a large importer of yellow corn. When the United States started subsidizing its ethanol production, thus increasing demand for yellow corn, speculative movements on price trends² of the two varieties of corn arose, with combined expectations of growing incentives to biofuels, strong rise of oil prices, instability in commodity markets and movements toward devaluation of the dollar.

This paper intends to analyze the reasons of the *tortilla* crisis in order to identify the determining causes for what happened at the time and, as much as possible, to distinguish what was unique to the Mexican case and what can be ascribed to international problems and trends. More widely, the aim is to understand the causes and implications of Mexico's transition from self-sufficiency to the situation of importer of the most relevant item of its agricultural activity and its people's nourishment, as well as the determining factors of the strong rise in corn prices, among which is its use for biofuels, after many years of a long price-reducing effect provoked by United States' subsidies.

For this end the text contains three other sections, besides this introduction. The second one summarizes the processes that stimulated the strong instability of commodity prices in the past few years. The third analyzes the Mexican agricultural structure and issues relating to the country's food security with regard to corn and *tortillas*. The fourth section presents a wide panorama of the subsidies to corn and ethanol in the United States. A short final section shows the conclusions and research indications.

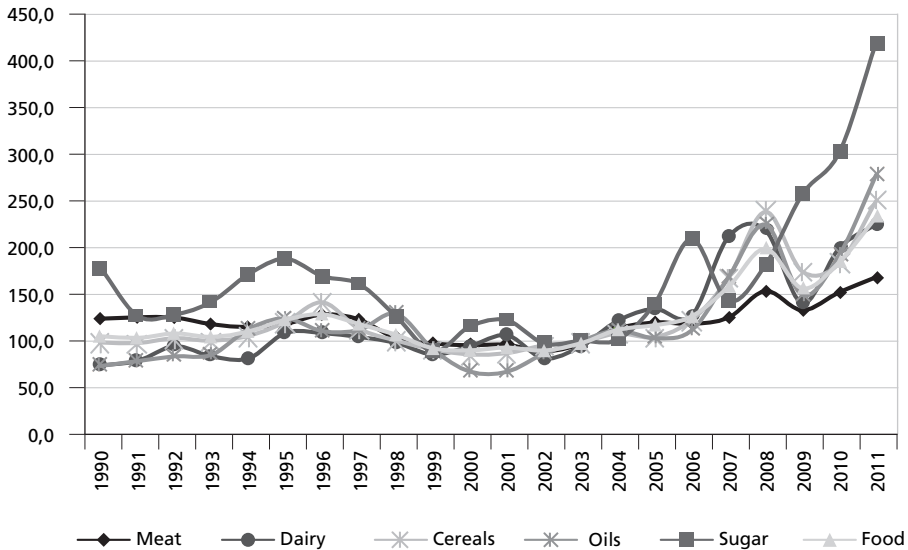
2 THE UPWARD TREND AND THE VOLATILITY IN COMMODITIES; DEMAND, CLIMATE, FINANCIARIZATION.

The uprising trend in commodities prices and their volatility (chart 1) are the subject of growing concern in recent years. "In 2006, the FAO Food Price Index stood at 122 points. It rose to 214 in June 2008 and dropped to 140 in March 2009. It reached 215 in December 2010" (SILVA, 2011).

A number of factors are usually picked out as responsible for these trends, but there is much controversy about each one's weight (SILVA, SCHETZ and TAVARES, 2008; PRATES, 2011). A schematic split of the analyses on the relative weight of such factors identifies two fields: the "fundamentalist" one looks for explanations in the offer and demand conditions; the other stresses the strong instability effects of financial markets.

2. "In view of the lack of standardized products and the absence of efficient information systems, the market of physical products rests on a context of trust and not on standards. While in other markets the corn with high value-added (as it can be for its oil contents, color, etc.) is differentiated, in Mexico prices continue to be formed from the price of yellow corn" (Sagarpa, 2010).

CHART 1
Commodities price indexes (2002-2004 = 100)



There is ample agreement in the fundamentalist field on the effects of the increase in demand stemming from changes in eating patterns in the most populous Asian countries, but there are divergences on the magnitude of the effects of the demand for biofuels, whether for direct use (as corn for ethanol) or by the occupation of fields previously utilized for food production. On the supply side, it is pointed out that production continues to increase, which should moderate prices, but the counterpoint of the more frequent occurrence of climate problems is stressed, albeit in certain periods and regions.

Pressures coming from the rapid growth of Asia suggested the term “sino-centric world”, characterized, among other factors, by the prolonged increase of the demand for commodities in general. In the case of foodstuffs, it is argued that this trend should persist for a long time, with changes in eating patterns of countries in rapid process of growth and the combined effect of urbanization and income increase. As is well known, the lower the *per capita* income in a country, the higher the income elasticity for food products, besides the larger amount of grains required to feed livestock for beef production.

On the supply side, despite the increase in food production, “extreme climate events, increasingly frequent unsettle the economic calculations of producers and feed speculation” (SILVA, 2011).

The impact of climate change in agriculture has been quite evident in the past few years. Drought and floods are recurrent in some areas. Among the 37 countries presently in crisis, 22 suffered adverse climate conditions and six experienced an exceptional deficit in food/input production (Lesotho, Somalia, Zimbabwe, Swaziland, Iraq and Moldova). The others face wide difficulties in access to food (provoked by climate changes, internal displacements, conflicts, economic limitations) or severe food insecurity in some regions. Prospects for Ethiopia, Kenya, Somalia and Zimbabwe are also worrying. In the long term, climate changes will probably reduce global food production, keeping prices at a high level for a long time (VIGNA, 2009).

Fear of food shortages impels many strongly import-dependent countries to make purchases ahead of time in spot markets in order to build stocks or in financial markets in future operations, which greatly increases pressure on demand in some moments (BID, 2011, p. 3).

The other field stresses the so-called “*financiarization*”³ of commodities” to explain price instability. As is well known, food prices are increasingly formed in organized markets, with high liquidity and very connected with other financial markets (stocks, currency exchange), which favors the action of speculators and traders (large corporations that commercialize these products) who can operate in all markets. Thus, food prices come to embody volatile expectations on short term interests and currency exchange, on longer term trends such as dollar depreciation and possible re-evaluation of other currencies, and on the profitability of financial assets in general. Schulmeister (2009) proposes the expression “bull-bear assumption”⁴ to characterize the volatility effects of financial markets on commodity prices in spot markets.

With the financial deregulation and wide interconnection among markets, commodities became the target of speculative movements, following the intense price fluctuations of financial assets and currencies.

The *financiarization* of commodity markets derived from the incorporation of stock exchanges and over the counter markets that trade in derivatives linked to those goods by the financial globalization process. Historically, such derivatives were used as a hedging instrument against the high volatility of the prices of those items by the so-called commercial investors (producers and consuming industries). Since the start of the 1990’s, financial (or non-commercial) investors came to treat these goods as a new class of financial assets, side by side with stock, bonds and real estate. In the beginning, when the participation of such

3. The term *financiarization* is used here to indicate only the strong interconnection of speculative markets with the commodity markets. As is well known, in economic literature the term has meanings that point to an alleged growing predominance of financial activity over the production of goods and services.

4. In the United States stock trade jargon *bull* designates expectations of rise and *bear* those of decline.

instruments in investment fund portfolios was still small (mainly hedge funds), investment in commodities markets arose as an excellent alternative to diversify risks due to the low historic correlation with the yield from securities or stocks. (...) After the outbreak of the subprime crisis, investments in those markets gained additional push due to the strategy of loss mitigation on the part of several investment funds of a more speculative character using the other classes of financial assets by means of the increase in their positions in derivatives linked to commodities, which pushed up, above all, the prices of grains and oil in the Chicago Exchange (PRATES, 2011, p. 12-13).

In the same vein, Mayer (2010) argues that the motivations to operate in commodities are linked to the fact that in the long run the same average yield from applications in stocks can be obtained, but with lesser volatility.

Another stimulus is the relationship between future markets and inflation:

Unlike stocks and securities, future commodity contracts also possess good properties as a hedge against inflation, since their yield is positively correlated with it. Such contracts are wagers against future raw material prices, such as energy and food, which weigh heavily on the basket of goods that make up the price indexes. Besides, since they reflect information on expected changes in commodity prices, future prices rise or decrease in accordance with the fluctuation of expectations about future inflation (MAYER, 2010, p. 77).

In this way, applications in commodities were a more profitable alternative, mainly after the crises of “dot com” corporations in 2000, and even more in the initial phase of the subprime crisis, between mid-1970’s and September 2008.

Schulmeister (2009) also agrees that the *bull-bear* hypotheses are a better explanation for the rise in commodity prices than the fundamentalist theories, also because food production broke records in 2007, which should have inhibited price rises.

Financial speculation entered the agenda of the financial G20, with the suggestion of measures to contain commodity speculation proposed by the French president Nicolas Sarkozy, besides the “reorganization” of the international monetary system (NETTO, 2011).

Besides this set of factors, the analysis of price formation should include the question of the effects of long-term subsidies from the central countries to their producers, which depress prices and lead to disorganization of the productive structures in many agricultural countries. In 2008, food prices fell but hunger got worse because small producers in debt were no longer able to buy seeds and fertilizers (CHADE, 2009, p. 32; THE ECONOMIST, 2010). Without support from their governments, small producers in the poor-

est countries cannot have enough incentives to produce and neither do they benefit when price rises occur.

Added to these factors was the search for the substitution of fossil energy by biofuels, with the rise in oil prices and global concern over the environment. The *tortilla* crisis brought to the fore a confrontation between international entities and organizations that question the production of the so-called “green fuels”, on the one hand, and biofuels producing countries and ethanol entrepreneurs in the United States, on the other.

There is wide disagreement over this question. FAO questions the high subsidies by rich countries to the production of biofuels, which utilize 5% of grain production and contribute to the prices rise (CHADE, 2009, p. 25). The papers *How Biofuels Could Starve the Poor*, by Rudge and Senauer, and *Food for Fuel?*, with the participation of Dashle, both published in *Foreign Affairs* in 2007, strongly blamed biofuels for the rise in food prices.

The controversy grew with Chakraborty's article (2008) in *The Guardian*, stating that a reserved World Bank document attributed to biofuels the 75% rise in food prices. However, Ferran Tarradellas, from the European Parliament's Industry committee, said that the supposed paper had been refused by the bank and that the report finally adopted indicated the rise in oil prices as the main factor responsible for the problems (CORREIO DO PATRIOTA, 2008).

Another study, from the International Food Policy Research Institute (IFPRI) by Mark Rosegrant (*apud* VON BRAUN, 2008), acknowledges that the impact of biofuels should have been of 30% in the weighted average of grain prices and of 39% in the case of corn, the highest rise among grains. This same study presents two future scenarios:

- 1) based on the plans of the current biofuels producers and on the identification of countries with a high production potential, the impact would be of 26% on corn and 18% on oilseeds in 2020; and
- 2) based on a more drastic expansion of biofuels, assuming a doubling of the rate of expansion of production over the levels of the first scenario, corn prices would rise 72% and that of oilseeds 44%.

There is a large variety of analyses due to the diversity of focus and of vested interests. For Machado (2008) the debate is conditioned by groups opposed to the production of biofuels, ranging from interests linked to oil to “World Bank, IMF, United Nations and European Union high officials, all of them pointing an accusing finger to the shifting of plantations to ethanol production and hence to food inflation”. The author also mentions the action of lobbyists hired by

the Grocery Manufacturers Association (GMA), which brings together powerful groups from the food and beverage sector – Coca Cola, Nestlé, Campbell, Sara Lee, Procter & Gamble and Unilever.

To blame ethanol for the crisis became a matter of passion. Not even within the United Nations specialists agree. The British John Holmes defended ethanol, while another faction in the organization argued for a moratorium in the production of that biofuel. The UN ended by admitting that ethanol production could be one of the factors responsible for the crisis, but only subsidized production. That is, the American (from corn) and the European (from grain). For this reason the organization requested rich countries to restrict subsidies to the sector. No government, however, listened to the UN (CHADE, 2009, p. 26).

One must add that Brazil tried to defend itself from criticism against the impact of ethanol on food production by arguing that its production is based on sugar cane, which is able to generate fuel with much higher efficiency at much lower cost than corn ethanol.

Even so,

There is a risk that high demand for ethanol might stimulate bigger farmers to change their food production from foodstuffs to sugar cane in order to supply ethanol industry. In São Paulo, the biggest producer of ethanol from sugar cane among the Brazilian states, there was a rise of more than 300.000 ha for sugar cane production last year. At the same time, the area devoted to other cultures shrunk by approximately 170.000 ha. While sugar cane is not as critical for food security as corn, wheat or rice, the probability of competition with relation to the production inputs (land, water, fertilizers) could lead to a decline in food production. Thus, regulation and agro-ecological zoning are essential in Brazil to prevent the reconversion of food production areas into sugar cane crops (VIGNA, 2009).

In the beginning of 2010, the Environmental Protection Agency (EPA) of the United States, assisted by the Institute of International Trade and Negotiations (Icone) unveiled the results of a research that describe ethanol from sugar cane as an “advanced fuel” which reduces carbon dioxide emissions (CO_2) by 61% in comparison with gasoline, thus contributing to the reduction of the emission of greenhouse gases.

In Section 4 the arguments in support of biofuels producers regarding such accusations will be reviewed, but before that let us discuss how Mexico became an importer of its basic foodstuff.

3 MEXICO: DEPENDENCE FROM THE UNITED STATES, CORN PRODUCTION AND PROBLEMS IN DOMESTIC MARKETS

3.1 Adherence to NAFTA⁵ and the effect of subsidies in the USA on Mexican corn production

Critical evaluations on the effects of NAFTA highlight the impoverishment of Mexican producers in the face of competition of strongly subsidized corn in the United States. This kind of subsidies is condemned by the World Trade Organization (WTO).⁶ It is estimated that corn prices have fallen by 70% as a result of such measures, which rendered its production by Mexican farmers impracticable. The pressure of imported corn discouraged and impoverished small farmers (SUBSÍDIOS..., 2003) and provoked sharp decline in rural employment (AUDLEY *et al*, 2004, p. 17, 20).

The free trade agreement allowed Mexico to maintain market protection for fifteen years, but growing demand led the government to liberalize imports just in the first few years of the treaty (UNITED STATES, 2009a). Imports topped by a large margin the quota established in NAFTA in almost every year since 1994 (chart 2) and imports came to represent one fourth of the offer between 2005 and 2008 (table 1).

Mexican losses due to subsidies and other United States' commercial practices would have amounted to US\$ 11.1 billion from 1990 to 2008, according to Wise (2009, p. 23).

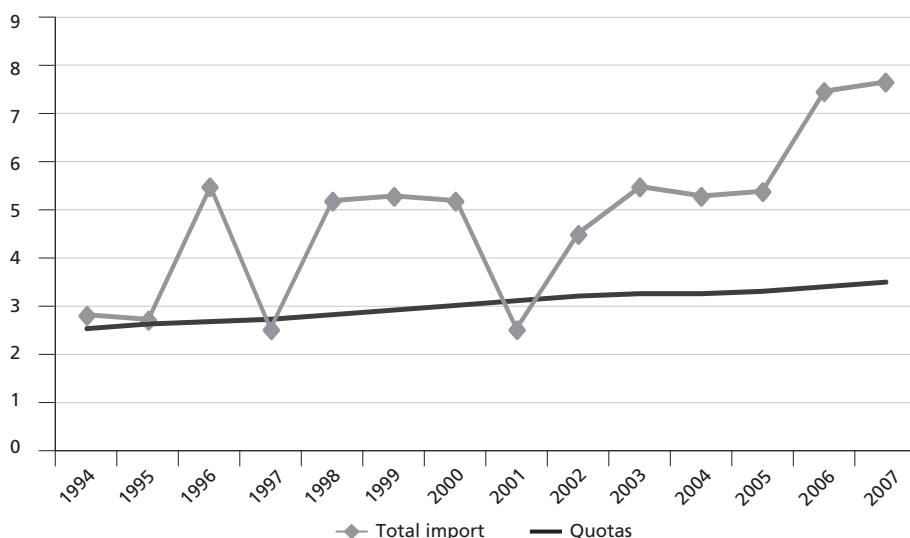
Assuming Mexican producer prices were depressed by the same percentage as the dumping margins, below-cost exports cost Mexican producers of corn, soybeans, wheat, cotton and rice an estimated \$9.7 billion from 1997-2005, just over \$1 billion per year. Corn showed the highest losses. Average dumping margins of 19% contributed to a 413% increase in U.S. exports and a 66% decline in real producer prices in Mexico from the early 1990s to 2005. The estimated cost to Mexican producers of dumping-level corn prices was \$6.5 billion over the nine-year period, an average of \$99 per hectare per year, \$38 per ton.

5. On Mexican objectives in NAFTA, see, for instance, Moreno-Brid (2009).

6. Domestic subsidies are measures aiming at supporting or protecting national producers through price guarantees or payments to them. They are divided into three types of "boxes": yellow, green and blue. In the yellow one are the subsidies most harmful to the market: minimum price policies, subsidized credits for current expenses, investment and commercialization, fiscal exemptions, complementary payments. In the yellow box are the direct payments and programs conditioned to mechanisms of production limitation, which are those that have the least negative impact on the commerce. In the green box are the subsidies that supposedly do not distort the market, such as infrastructure, research, sanitary and phytosanitary programs, agrarian reform and direct payments unlinked from production. The subsidies practiced in the United States were of the yellow box kind. With the 2008 Farm Bill, the global amount of subsidies stayed practically the same, but there was a migration from yellow box subsidies to the blue and green box kinds.

CHART 2

Corn imports originating in the United States and quota established by NAFTA (2004-2007)
(In million tons)



Source: Mexico (2007, p. 10).

TABLE 1

Foreign trade and corn food security
(Million tons)

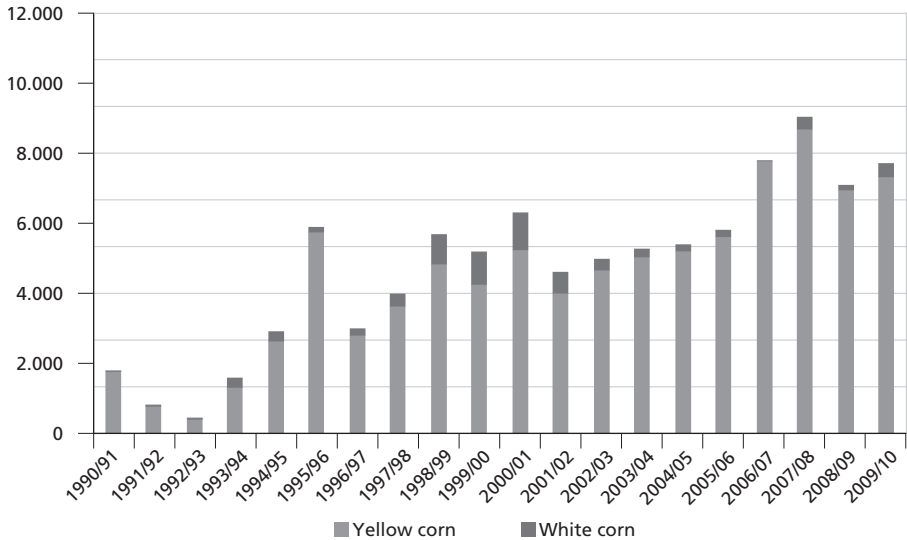
Year	Foreign trade			National offer	Apparent consumption	consumption per capita (kg)	Food security index (%)
	Production	Import	Export				
2000	17,56	5,33	0,0058	22,89	22,88	232,00	77
2001	20,13	6,14	0,0074	26,27	26,27	263,00	77
2002	19,30	5,50	0,1640	24,80	24,63	244,00	78
2003	20,70	5,74	0,0066	26,44	26,43	259,00	78
2004	21,69	5,52	0,0071	27,21	27,20	264,00	80
2005	19,34	5,74	0,0530	25,08	25,03	243,00	77
2006	21,89	7,61	0,0184	29,50	29,48	279,00	74
2007	23,51	7,95	0,2640	31,47	31,20	293,00	75
2008	25,12	8,20	0,2350	33,32	33,09	310,00	75

Source: Mexico (2009, p. 2).

Corn production in Mexico increased by 73% after NAFTA if compared with the 1984-1993 average, pushed by an expansion of irrigated plantations. Even so, the Mexican government had to top the export targets stipulated by NAFTA, especially with regard to yellow corn used as livestock fodder, and of starch products (chart 3) as outlined above.

CHART 3

U.S., corn exports to Mexico consist primarily of yellow corn (1990/91 – 2009/10)
(Mil. metric tons)



Source: ERS/USDA Feed Grains Database.

Mexico is practically self-sufficient in the production of white corn and depends on imports of yellow corn (MEXICO, 2007, p. 6). White corn, used mainly to make *tortillas* and other foods for human consumption, stands for less than 5% of Mexican exports. However, due to the growth of livestock consumption, more than 1 million tons of white corn were devoted to animal fodder in 2006. On the other hand, between 1995 and 2008, annual *per capita* consumption of *tortillas* dropped from about 120 kg to approximately 89 kg (ARREOLA, 2008, *apud* United States, 2009a). This caused exports of white corn from the United States to Mexico to fall almost uninterruptedly between 2000 and 2007. In 2008, however, exports of the white variety reached 528 thousand tons, the highest level since 2002 (UNITED STATES, 2009a).

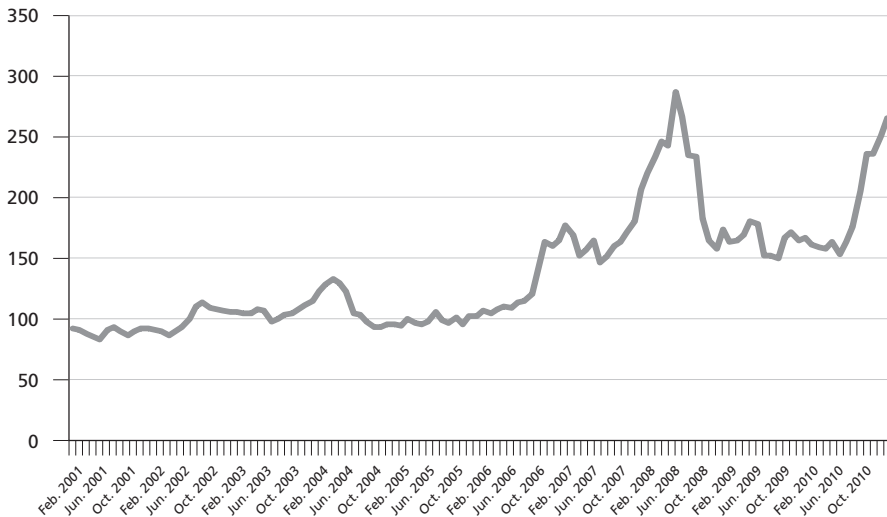
Divergences about the effects of NAFTA persisted in the face of the sharp rise in prices in 2007 and in the start of 2008.

For some economists, to blame NAFTA is a paradox: thanks to the treaty, they argue, Calderón was able to import urgently large quantities of corn in 2008 (...). IATP (Institute of Agricultural Policy and Trade) does not endorse this argument entirely, but stresses that the explosion of prices can help Mexican farmers to regain some competitiveness and increase production. About 2 million new hectares of corn should be sown this year (DENIS, 2007).

3.2 The 2007 crisis

The price of *tortillas* jumped from US\$5.00 in January 2006 to up to US\$ 20.00 one year later, when there were popular protests and the government decided to set the price at US\$8.50 in the (AEPT), under the justification that a just price for the population had to be maintained, speculation should be combatted and supply assured. It must be observed that the National System for Market Information and Integration (SNIIM) records average *tortilla* prices only since 2007 and that for January of that year the data show an average price around US\$14.00. Prices vary among the states and the US\$20.00 levels were probably the maximum in some of them.

CHART 4
Maize (corn) – Monthly Price
(US Dollars per metric ton)



Source: USDA Market News *apud* Index Mundi (2011).

Modified by the authors.

Obs.: U.S. No. 2 Yellow, FOB Gulf of Mexico, U.S. price.

Corn prices showed a different pattern. According to CEFPI, corn jumped from US\$ 2.10 dls/bu in May 2000 to US\$3,52 dls/bu in June 2007, or 67,1% in seven years. From August 2007 to April 2008 the increase was 57,9%, peaking at US\$ 5.48 dls/bu in June 2008, 68% above August 2007 (as in all other markets, there was a sharp decline since mid-2008 and in October corn was back at US\$ 3.99 dls/bu – a fall of 27.2% below the June peak). Thus, the jump in the price of *tortillas* took place much before the strong increase of corn prices, which remained until mid-2008 as seen in chart 4.

However, even after the sharp decline in corn prices in 2008 (chart 4), the price of *tortillas* stayed at US\$ 9.17, well above levels prior to the 2007 increase (SNIIM), 2010). The sharp divergences between the prices of *tortillas* and corn may be ascribed to differences in market structure, with a strong concentration of companies in corn flour and high participation of small producers in *tortillas*.

The combination of such diverse market structures would help to explain, at least in part, the differences in price trends: the increase might have been induced by a rise in the price of corn flour, promoted by the large companies in the sector, where commercialization is dominated by only three enterprises: (SAGARPA, 2010, p. 175). According to data provided by Quintanilha (2008, p. 81), there are only 48 companies devoted to this sector, of which 22 concentrate 95% of the jobs and 99% of the added value. A single one, Gruma, commercializes 60% of the total.

In the sector of production and sale of *tortillas*, the trend should be of an alignment of prices with those of flour and other costs incurred by the sector. It is a segment with a significant number of small size establishments, with eased access to new producers and competition with other products. Suffice it to recall that, as already mentioned, the consumption of *tortillas* had declined by 10% in the ten years prior to the crisis, due to the substitution by other products in the face of the increase of *per capita* income and the elimination of price subsidies (GILES, 2008).

The production of bakery and *tortilla* items generates 425.4 thousand jobs and congregates 121.000 economic units. 28% of total manufacturing production and 84% of the food industry subsector. This branch is mainly composed of family companies, with small size production units. *Tortilla* factories are usually smaller than bakeries and both use grains as raw material (corn and wheat) initially processed by the flour industry by grinding. The flour is then distributed to *tortilla* factories and bakeries (SAGARPA, 2010, p. 147).

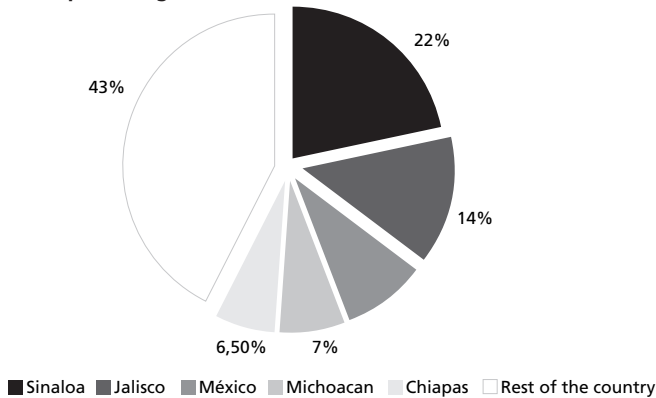
Notwithstanding, Gruma has a strong presence in *tortilla* sales, with 738 tons yearly, besides other foodstuffs from corn and wheat (QUINTANILHA, 2008, p. 91), which suggests a market structure in which there are also big producers and a large number of very small ones.

There are other problems to be considered in the formation of *tortilla* prices. According to the Federal Competitiveness Commission (CFC, 2010), there are several municipal regulatory barriers, which include limitations in the number of *tortillarias* and a minimum distance between them.

Another problem is the regional concentration of corn production in the states of Sinaloa and Jalisco (chart 5). The remaining Mexican states face transportation and storage costs, with a precarious structure in both sectors in Mexico.

The effects of the rise of oil prices must also be taken into account. Trucks obtained a market share in exports from the United States to Mexico, to the detriment of sea and rail freight, due to the greater flexibility allowed by the more extensive road grid (SALIN, 2010).

CHART 5

Main states producing white corn in Mexico

Source: Mexico (2009, p. 1).

4 THE UNITED STATES: SUBSIDIES AND BIOFUELS

4.1 Support policies to corn production in the USA

The production of corn and ethanol in the United States is concentrated in the “Corn Belt”, which brings together the states of Iowa (IA), Indiana (IN), Illinois (IL), Missouri (MO) and Ohio (OH), besides parts of South Dakota (SD), Nebraska (NE), Kansas (KS), Minnesota (MN), Wisconsin (WI), Michigan (MI) and Kentucky (KY). The ensemble is represented by the National Corn Growers Association (NCGA). Founded in 1957, it is a state federation, organized in councils and committees dealing with the development and implementation of programs and policies on the agriculture of corn at the national level to help protect and maximize growers’ interests. Despite having sprung from the need to ensure cheap food and an acceptable income for the producers, agricultural protectionism was maintained because of the strong political weight of those states, chiefly because congressional elections are carried out by districts, which often generate parochial action.

Such interests were already protected before NCGA came into being. The pattern of agricultural protection in the United States was framed by the 1933 Agricultural Adjustment Act (AAA), aiming at restricting offer in order to

increase the prices of seven basic commodities. Despite some changes, ulterior legislation consolidated this agricultural policy in the New Deal. The Commodity Credit Corporation, also created in 1933, was another tool that enabled the government to exert influence on the offer and the market prices of the production by means of “nonrecourse loans” (LIMA, 2008, p. 33). In this way it helps to keep a balanced and adequate supply of agricultural commodities and participates in their distribution, through the authorization to buy, sell, loan, make payments and other activities in order to increase production, stabilize prices and facilitate the commercialization of agricultural products.

According to Wise (2009, p. 8) the problem of overproduction, with high and low cycles, was practically inherent to agricultural production in the United States. The institution of the Department of Agriculture (USDA) aimed at managing and balancing offer and demand. A minimum price for foodstuffs was set, together with buffers for surplus production, besides programs to exempt land from cultivation. These measures had the objective of generating fair market prices to farmers by purchasing surpluses at times of high production and selling in the market at low production times.

The central issues behind this protectionist pattern are focused on the preservation of income in the agricultural sector, the search for productivity gains and cheap prices to the consumer, as well as the prevention of surplus offer of foodstuffs. This system of offer management stood at the base of agricultural policy in the United States until 1996, despite the fact that reforms instituted at the start of the 1970’s progressively weakened those policies. The Agricultural Act of 1996, popularly known as the Freedom to Farm Act, signaled the end of offer management. The term “freedom” refers to the dissociation between government payments and production decisions. Since then, farmers should take their planting decisions not in response to governmental price control incentives but according to the signals from the market, despite receiving “direct payment” from the government that takes into account their historical production. In this way, such payments were deemed less distorting and more pro-market, since it is up to the market to define prices and prevent overproduction. In practice, the program created an instant crisis. Millions of hectares of land previously kept uncultivated were brought back into production and prices plummeted, generating the risk of a rural banking crisis (WISE, 2009).

The result of the crisis was a set of emergency payments to farmers in order to compensate for the low prices, the so-called “market loss assistance payments” included in the 2002 Farm Bill as anti-cyclic payments. Such disbursements were combined with “loan deficiency payments”, based on the prices and production

of specific crops. These two programs, together with direct payments, formed the basis of agricultural subsidies after 1996.

The agricultural law of the United States, known as Farm Bill, is put to the vote every five years. In 2002 there were many complaints made by the international organizations with regard to its protectionist policy. In the case of corn, subsidies were ten times higher than the total agricultural budget (VIGNA, 2008).

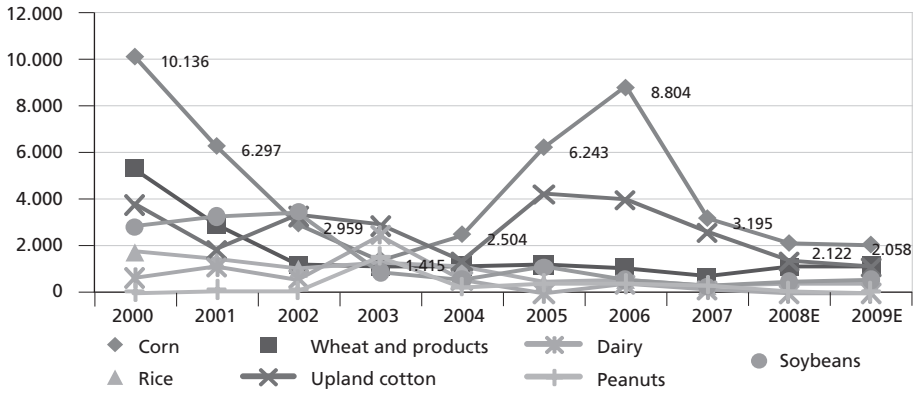
Despite the denunciations, additional subsidies were added, for instance, for the provision of irrigation, energy, agricultural insurance and soil conservation, as well as ethanol (from 2001). The result was an increase in payments of goods, from pre-1996 levels – about US\$ 10 billion yearly – to about US\$ 20 billion yearly (WISE, 2009). Such subsidies were renewed and once again increased in the 2008 Farm Bill, in which biofuels continued to be highlighted.

In May, 2008, the U.S. Congress passed the Food, Conservation, and Energy Act of 2008, the new farm bill that will accelerate the commercialization of advanced biofuels, including cellulosic ethanol, encourage the production of biomass crops, and expand the current Renewable Energy and Energy Efficiency Program. Section 9003 provides for grants covering up to 30% of the cost of developing and building demonstration-scale biorefineries for producing “advanced biofuels,” which essentially includes all fuels that are not produced from corn kernel starch. It also allows for loan guarantees of up to \$250 million for building commercial-scale biorefineries to produce advanced biofuels. (U.S. DEPARTMENT OF ENERGY, 2008).

It must be stressed, however, that the onus of these subsidies was transferred from the consumers to the taxpayers, which represented a tremendous benefit for the interests of agribusiness, because the majority of crops in the United States is not sold in the form of foodstuffs directly to the consumers, but as raw material for agribusinesses, food producing companies, clothing manufacturers and others. These subsidies resulted in a stable offer of raw materials at low prices for the entrepreneurs (WISE, 2009, p. 8).

In any case, according to the Environmental Working Group, from 2005 to 2009 corn subsidies were of US\$ 73,8 billion, in the form of direct payments, crop insurance, loans and anti-cyclical payments. The most important programs were; Production Flexibility (US\$ 16.3 billion), Loan Deficiency (US\$ 13.5 billion), direct Payments (1.9 billion), Crop Insurance Premium Subsidies (US\$ 11.6 billion), Market Loss Assistance (US\$ 8.5 billion) and Counter Cyclical Payments (US\$ 5.4 billion). Besides, the corn sector is among those that benefit most from the Commodity Credit Corporation (CCC) (chart 6).

CHART 6
CCC Net Outlays by selected commodities (2000-2009)
 (US\$ millions)



Source: United States (2008).
 Modified by the authors.
 Obs.: E = Estimate.

With these incentives, corn production, according to the National Agricultural Statistics Service (NASS) of the USDA, posted an exceptional increase in 2007, partially compensated by a reduction in soy hectares in the Corn Belt and the Great Plains, as well as less hectares of cotton and rice in the Delta and the Southeast. Farmers expected to plant 67.1 million hectares of soy, the lowest total since 1996 – a decline of 8.4 million hectares (or 11%) since 2006. The area of cotton plantations was also reduced, with a total of 12.1 million hectares, that is, 20% less since 2006.

Still according to NASS, in 2009 corn producers already intended to plant 85 million acres. This represents a decline of 1% with regard to the previous year and 9% less than 2007. Even so, it would be the third largest planted area since 1949. The largest reductions were in North Dakota and Colorado, with 250 thousand and 200 thousand hectares, respectively. In California there were 120 thousand hectares less than in the previous year, while producers in Iowa, Michigan, Minnesota, Pennsylvania and Texas intended to reduce 100 thousand hectares of the area of corn plantations. The largest increases were expected in Missouri, up to 250 thousand hectares, South Dakota, up to 150 thousand hectares, and Illinois, up to 100 thousand hectares.

An analysis of corn production in the United States from 2005 to 2009 shows that only the chief states are considered as part of the Corn Belt, concentrating 44% of the production in average. The total production in the country reached 93,527 acres – an increase of almost 20% in comparison with the previous year. By its turn, in the years 2008 and 2009 there was a reduction of that planted area, according to NASS and the USDA.

4.2 Incentives to ethanol production

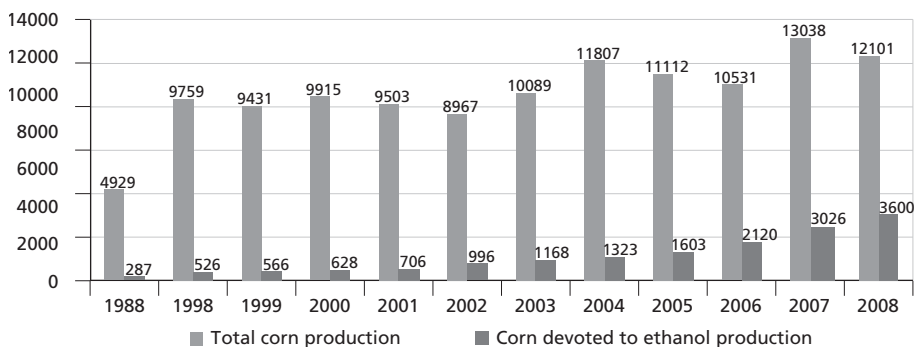
Due to the demand for bio-fuels, producers have started to pressure the government in order to obtain biggest incentives to the development of technologies for a more efficient ethanol production from corn. In October 2004, President George Bush enacted HR 4520, the American Jobs Creation Act of 2004 (JOBS Bill), which created the Volumetric Ethanol Excise Tax Credit (VEETC). This is a fiscal credit program dealing with the mix of ethanol and gasoline, with a credit of US\$ 0.51 ascribed to each gallon of ethanol added to gasoline. Besides, there is a tariff protection of US\$ 0.54 on each imported gallon. In the 2008 Farm Bill, VEETC was reduced to US\$ 0.45 per gallon.

Based on chart 7, one can say that in 2006 20% of the corn production was used for ethanol in the United States. In 2007 that proportion increased to 23% and in 2008 to approximately 30%. This means that the production of corn for ethanol represented about 12% of the world total corn production (SILVA, SCHETZ and TAVARES, 2008).

Table 2 shows the high correlation between ethanol producing states and the capture of the largest share of federal subsidies to corn, as measured by the Environmental Working Group. The ten states with largest ethanol producing capacity receive more that 80% of all federal subsidies to corn, topping the national average. The most extreme case is Illinois, whose farmers receive about 30% of subsidies per hectare more that the national average. Iowa does not lag very far behind, with 23% over the average. Nebraska, which has a higher ethanol producing capacity (2nd place in the ranking) than Illinois, does not receive as many subsidies. Even Indiana, 6th in the ranking, receives more incentives. Once again, this is only understandable because of the lobbyists from the associations of these states in the Corn Belt.

CHART 7

Total corn production in the United States and corn production devoted to ethanol
(Million tons)



Source: National Corn Growers Association (2009) and United States (2009b).

TABLE 2

Differential subsidy capture for large ethanol – producing states

State	Ethanol production		Capture of federal subsidies			
	Capacity (mmgy)	National rank	% of national total (1994 - 2004)	Rank, share of national total	Corn subsidy/Acre of corn planted, 2004	Subsidy/Acre as % of average
Iowa	1,962	1	19	1	68.32	123
Nebraska	1,051	2	12	3	58.68	106
Illinois	881	3	16	2	71.4	128
South Dakota	703	4	4	8	37.2	67
Minnesota	594	5	10	4	52.23	94
Indiana	392	6	8	5	65.82	118
Kansas	268	7	3	9	65.82	92
Wisconsin	228	8	4	7	51.1	88
Michigan	207	9	3	11	48.89	97
Missouri	155	10	3	10	53.82	91
Total top 10	6,440		81		59.83	108 ¹
National					55.6	100

Source: United States (2006b); Environmental Working Group's Farm Subsidy Database; and United States (2006a).

Note:¹ Weighted average values for top ten, based on group share of total acreage planted with corn in 2004.

Through specific studies by LECG Corporation, a specialized consultant and support company, the Renewable Fuels Association demonstrates the way in which the industry of ethanol contributed to the economy of the United States: in 2007, the number of jobs generated by the ethanol industry in the sector of corn was of 84.191, and came to represent 43% of the total jobs created by that industry. In total, however, more than 230 thousand jobs are said to have been created in the ethanol productive chain. The combined expenditures for annual operations, transport of ethanol and capital spent for new facilities under construction should have added US\$ 47.6 billion to the gross national product (GNP).

Thus, this study states that the ethanol industry should have financed itself in 2007. Family income added to the GNP should have been of approximately US\$ 4.6 billion. The whole of the 6.5 billion liters produced in 2007 were commercialized, which generated a cost estimated at US\$ 3.4 billion linked to the two main federal incentives, the VEETC and the Small Ethanol Producer Tax Credit.⁷ With this, the ethanol industry should have generated a surplus of US\$ 1.2 billion for the Federal Treasury. Besides, it should have generated about US\$ 3.6 billion in added revenue for local and state governments. So, according to the LECG, ethanol should have reduced the dependence on imported oil and lowered the trade

7. The Small Ethanol Producer Tax Credit is a fiscal incentive of the value of US\$ 0.10 per gallon of ethanol sold and used by the purchaser in the purchaser's trade or business to produce an ethanol fuel mixture. Small ethanol producers, who make not more than 60 million gallons of productive capacity of any type of alcohol, must be registered in the Internal Revenue Service (IRS) to qualify for this credit. (The Alternative Fuels and Advanced Vehicles Data Center, U.S. Department of Energy).

deficit of the United States. That is, the production of almost 6.5 billion gallons of ethanol should have meant that the United States would have needed to import less 228.2 million barrels of oil in 2007 for gasoline production which equals approximately 5% of total crude oil imports by the country. Such is the economic relevance of the corn and ethanol sector in the United States.

In response to several charges from the bio-fuels versus foodstuffs dilemma, NCGA has mobilized and called upon its members for action to communicate directly with the foodstuffs producing industries involved in the GMA, which denounce corn from farmers and the U.S. ethanol production. NCGA points to three main companies: General Mills, Kraft Foods and Lakeside. NCGA members argue that the grains most used for human consumption are wheat and rice, which are not used for bio-fuels production, but whose prices also increased in the period under study. Only 10% of American corn is used in products for human food, such as corn syrup, starch and cereals. They also say that corn production per day is greater than in any period and that corn scarcity is unthinkable. Ethanol production would separate starch from the other components, which, even in lesser quantities, still contain protein and other nutrients and can be used. An issue that cannot be neglected is that farmers have searched for new technologies to increase corn production and at the same time reduce the acreage occupied by that production. As Silva, Schetz and Tavares stress (2008, p. 9), “the offer of arable land is a function of the technology used”, and this also becomes an argument for the production of bio-fuels, inasmuch as their producers have increasingly looked for technological innovation in this regard.

Finally, these producers try in all possible ways to inform the population that they should not be seen as the sole or chief culprits for those food crises and that they are only looking for energy independence, which would contribute to the interest of all American citizens, just as the argument for strategic independence vis-à-vis the Middle Eastern countries.

5 CLOSING REMARKS

The *tortilla* crisis is a very complex event, in its causes and in the circumstances it occurred. As far as its immediate origins are concerned, there are well-known problems such as world demand for foodstuffs and the speculative processes in commodity markets besides the use of foodstuffs for bio-fuel production, despite a large increase in the output of food products. Less attention has been given to internal factors, such as market concentration and price hardening; present in the cases of corn flour and of *tortillas* in Mexico themselves. There are also the heavy subsidies with which the United States protects its producers, depressing the prices of imported corn and weakening the small Mexican producers.

The interaction among all these determinant factors reinforces the need for approaches that try to consider the ensemble of factors and analyze each one's peculiarities. In other words, the question is to analyze the international processes linked to the rise in food prices but also the specific aspects of processing and commercializing domestic markets.

The significance of internal issues in Mexico is apparent in the low synchrony between *tortilla* and corn prices: the peak in *tortilla* prices predated in over a year the peak in corn prices, and *tortilla* prices remained high even when those of corn started to decline. The analysis of this process suggests the relevance of the capacity of the large producers of corn flour and of *tortillas* to induce the formation of prices, including on account of the interest to follow the speculative processes in international markets.

It is important to stress that despite an increase in its production, Mexican demand for corn accelerated further, turning Mexico into an importer of an essential item in its basic basket. This became a problem of food security when corn prices soared in the international market, with high demand and speculative movements fueled by United States subsidies, which was linked to the use of corn for ethanol.

A very relevant element is the persistence of subsidies in the central countries and their consequences in low income countries. The losses incurred in periods of low prices practiced by the United States were very significant for the Mexicans. The protectionist policies adopted render more difficult action on equal terms in commodity markets. As examples of this question the effects of Mexican adherence to NAFTA on the agricultural development of the country were examined.

American producers of corn and bio-fuels struggle to keep protection mechanisms under the argument that the corn destined to bio-fuels is not the same corn that would be used for human consumption. At the same time they try to increase the productivity of their crops, which can increase the offer, but with prices backed by governmental support policies in the United States.

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DETERMINANTS OF THE SOVEREIGN WEALTH FUNDS AND THE BRAZILIAN CASE*

Andre Simas Magalhaes**

ABSTRACT

This article studies the sovereign wealth funds (SWF), which, especially after the establishment of the Chinese SWF, in 2007, gained importance in the economic debate and are considered today as a significant institutional investor. This article analyzes the macroeconomic indicators of the countries with SWF and proposes that the determinants for their establishment are: significant current account surpluses; dependence on exports of fuel and ore; and/or high levels of domestic savings. In this context, the case of the Brazilian Sovereign Fund (BSF), established in 2008, stands out. The reasons for the establishment of the Brazilian fund appear to be related more to the adoption of this type of financial instrument by major developing countries and the dynamics between domestic authorities responsible for economic policy than to the macroeconomic fundamentals of the country. The BSF could become a traditional sovereign wealth fund, if used in the future to save the revenues of Brazilian pre-salt oil exports. The change, however, would not happen in the short term.

Keywords: international reserves; sovereign wealth funds; current account balance; fuel exports; domestic savings.

RESUMO

Este artigo estuda os fundos soberanos de investimentos (FSIs), que, principalmente depois da criação do FSI da China, em 2007, ganharam importância no debate econômico e são considerados, hoje, como investidores institucionais significativos. Ao analisar as características macroeconômicas dos países que possuem FSIs, este artigo propõe que os determinantes para seu estabelecimento são: superávits significativos de conta corrente; dependência das exportações de combustíveis e minérios; e/ou altos níveis de poupança interna. Neste contexto, o caso do Fundo Soberano do Brasil (FSB), criado em 2008, sobressai. As razões para o fundo brasileiro parecem estar mais associadas à adoção deste tipo de instrumento financeiro por importantes países em desenvolvimento (PEDs) e à dinâmica entre as autoridades domésticas responsáveis pela condução da política econômica que aos fundamentos macroeconômicos do país. O FSB poderá tornar-se um FSI tradicional, se for utilizado, no futuro, para acumular os recursos das exportações brasileiras de petróleo do pré-sal. A mudança, no entanto, não aconteceria no curto prazo.

Palavras-chave: reservas internacionais; fundos soberanos de investimentos; balanço de conta corrente; exportações de combustíveis; poupança interna.

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1 INTRODUCTION

The sovereign wealth funds (SWF) have gained importance in the economic debate and they are considered today as significant institutional players. The Organization for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) have created work groups to study the topic, and the major investment Banks have disseminated reports warning on the impact of this new financial instrument in the markets.

The term *sovereign wealth fund* describes, according to Truman (2008a), a separate set of financial assets held or controlled by governments that include assets abroad. Other definitions are more restricted and exclude funds investing in the domestic market. This article takes on Truman's definition (2008a), but it does not consider the pension funds and the sub Federal entities' funds.¹

The SWFs exist since the 1950s when Kuwait and Saudi Arabia's funds were created. The purpose was simple: to accumulate funds from natural resources exploitation for future use and to allow for long term investments with high returns. Oil is a finite resource; therefore, a mechanism was necessary in order to save revenues and to promote inter-temporal optimization of consumption. Additionally, the SWFs could invest in several categories of assets, which would allow higher returns than those obtained from international governments' reserves. Other objectives, such as avoiding exchange rate excessive valuation and making available an instrument of government's anti-cyclic operation were also considered, but the principle governing the operation was related to the establishment of savings for future generations with revenues derived from natural resources exploitation. During the following decades, new countries decided to have similar instruments and the objectives were broadened.

In 1974, Singapore set up the Temasek to control government's assets in its major domestic enterprises. The country was undergoing a process to become a major exporter of manufactured goods, and it increasingly accumulated trade surpluses. Temasek, along with the Government of Singapore Investment Corporation, established in 1981, was the first SWF of a country that did not fit in the category of natural resources exporter. The fund's objective was related not just to resources savings, but also to the active management of the country's development.

The United Arab Emirates set up, in 1976, the largest SWF in activity which manages US\$ 627 billion. Chile set up its fund in 1985 with resources from copper exports. Norway also decided to set up a sovereign wealth fund in 1990, aiming at reserving profits from oil exploitation, which was discovered in the North Sea, for future generations. The number of existing SWFs doubled in the past decade. There are currently 43 sovereign funds in operation, according to the definition used in this paper.

1. Definition based in Aizenman and Glick's work (2009).

The issue presented is: why only now, after decades of operations, do the SWFs draw so much attention? The answer seems to be associated to the establishment of a Sovereign Fund by China in 2007 and the growing role of the developing countries in the international scene. Symptomatically, every paper on the SWFs included in this paper's bibliography, was written from 2007 on, because before there was not a significant amount of papers on the topic. The Chinese sovereign wealth fund put the developed countries in alert and it encouraged other developing countries, including Brazil, to establish similar funds. Currently, China has reserves of over US\$ 2 trillion and its SWF was initially capitalized with US\$ 200 billion. The potential to influence markets and the fear that it is used by the Chinese government to pursue strategic goals led developed countries' governments and private sector to an "analytical race", aiming at understanding SWFs and to assess the risks of their operations. Additionally, legal controls on foreign investments were reinforced, and several operations were discouraged with the premise that they affected the recipient country's interests.

The reaction of developed countries to SWFs investments was exacerbated due to strong global macroeconomic imbalances. The greatest imbalance takes place between developed countries, with deficits in their current accounts, and developing countries presenting surpluses. It is worth noticing that some large developed countries, such as Japan and Germany, also have surpluses, and they depend on exports to keep the strength of their economies, while contributing for the global imbalances as well.

The accumulation of international reserves arose as a result of such imbalances. The major feature of this accumulation of reserves, during the last decade, was the growing participation of the developing countries,² which, with greater economic power, began to demand for more importance in the global decision making process. The Group of 20 (G20), which includes major emerging countries, actually replaced in economic issues the Group of 8 (G8) that was limited to the developed countries. It was in this context of changes in the global economic governance that the Brazilian Sovereign Fund (BSF) was created, in 2008.

In addition to this introduction, this article includes, in its Section 2, a discussion on the theory of international reserves, which huge accumulation in the past years, mainly among developing countries, is associated to the increasing number of sovereign wealth funds. Section 3 summarizes the SWF major features, comments on the existing literature on the topic and highlights the macroeconomic and political scenarios that allowed for proliferation of this type of fund. The determinants of the SWFs are analyzed in Section 4 through statistical analysis of data from countries with sovereign wealth funds. The Brazilian case is studied in Section 5, which highlights the particularity of the BSF. Section 6 concludes the paper.

2. Reserves increased fourfold between 2001 - 2009, and BRIC's member countries (Brazil, Russia, India, and China) accounted for almost half of this increase (44%).

2 INTERNATIONAL RESERVES AND THE NEW MERCANTILISM

The discussion on sovereign wealth funds is inserted in a broader debate on international reserves. The significant increase in number of SWFs during the past decade is related with the vertiginous accumulation, without precedence in history, of international reserves mostly by the developing countries. After the 1997 Asian crisis, the importance of reserves increased as a cushion against capital flight. However, the current accumulation seems to surpass reasons usually associated to reserves, resulting in a discussion of a new type of mercantilism practice by countries that manage their exchange rates in order to get high trade surpluses – markedly China.

This is not the first time that reserves are brought into the economic discussion, as Flood and Marion have noted (2001). The discussion during the 1960s on the needed reforms of the Bretton Woods system led many analysts to question if the level of international reserves was adequate and if these were optimally distributed among countries. By the end of the 1970s and the beginning of the 1980s, researchers were interested in evaluating if demand for reserves had changed after the collapse of Bretton Woods. They were also curious in knowing if the developed and developing countries differ in their demands for reserves. The attention over the topic decreased when the premise that international reserves would be stable and, probably, low, during a time marked by exchange rates flexibility and high mobility of capital, was disseminated.

It was necessary, according to Flood and Marion (2001), by the end of the 1990s, to revive the debate on international reserves, considering that 20th Century's last decade had been marked by three trends that influenced their accumulation: the growing mobility of capital; the intensity of financial crises; and the increase in the number of countries that adopted the floating exchange rate regime. The authors sustained that greater mobility of capital, although in some respects beneficial, resulted in high levels of uncertainties in the international economy and in greater vulnerability of some countries to financial crises, partially explaining reserves accumulation.

Griffith-Jones and Ocampo (2008) highlight that there is clear evidence that the international reserves accumulation by developing countries started with the series of financial crises, mainly the Asian crisis in 1997. Therefore, it was a rational response of the developing countries, as a way to get insured against future turbulences. IMF policies, imposed to countries that needed extra resources, were considered excessively intrusive; therefore, they represented an additional factor motivating reserves accumulation. The financial deepening contributed also for greater demand of precaution, considering the risks of the flight of short term capital for the economy.

Aizenman and Lee (2007) stated that the 1997 Asian crisis led to deep changes on the demand for international reserves. The magnitude and the speed of changes in

capital flows surprised major observers. Many analysts saw the region as less vulnerable than Latin America, which had suffered the Mexico crisis in 1994. Southeast Asia was characterized for greater trade openness, better fiscal policies, and stronger growth of the product. In spite of it, it had contraction of the product and investment, emptying of credit and banking crises. The international reserves began to be seen as an insurance against this sort of shock. But the authors state that, to this precaution reason, it was added the modern incarnation of mercantilism: accumulation of reserves motivated by competitiveness of exports. Under this strategy, accumulation of reserves may facilitate exports growth by preventing or diminishing local currency appreciation. The precaution reason is associated to risks of product contraction, flight of capital and volatility, while the mercantilist perspective sees accumulation of reserves as part of the industrial policy.

The mercantilist explanation was first presented by Dooley, Folkerts-Landau and Garber (2003), particularly for the case of China. The authors argue that current global economic dynamics is the same that was predominant during the Post-War period, under the Bretton Woods system. The United States, in the 1950s, were the Center, with uncontrolled capital and goods markets. Europe and Japan, which had their capital destroyed by the war, comprised the emerging periphery. The peripheral countries of that time adopted a strategic development policy based in devaluated currencies, in controlling capital and trade, in accumulation of reserves and in using the central region as financial intermediary in order to provide credibility to their financial systems. The United States, in return, financed the periphery in the long term by means of direct foreign investments (DFIs). When Europe's development strategy changed into that of a free market and the end of financial controls, the fixed exchange rate regime collapsed into the floating regime of the 1970s.

In the authors' view, in the period that followed, there was no important periphery that could use the strategy of growth based in exports. The communist countries were irrelevant for the international monetary system.

Most other developing countries – especially the former colonies – either considered socialism as a possibility or adopted import substitution industrialization systems. Such development strategy was hostile to trade and fostered the production of domestic goods that could not compete globally, resulting in inefficient accrued capital. With the discredit of the socialist model by late 1980s, and the collapse of the Soviet Union during the period of 1989-91, a new periphery was attached to the Center composed by the United States, Europe, and Japan. The new peripheral countries were leaving behind decades of closed systems, with inefficient capital stocks, repressed financial systems and manufacturing goods that did not have enough quality to be exported towards the Center. The Washington Consensus encouraged some of those countries to a development strategy that involved

immediate annexation to the Center through opening of their capital markets. Other countries, however, mostly in Asia, chose the same peripheral strategy adopted by Europe and Japan, during the Post-War, devaluating their currencies, intervening in their currency exchange markets, imposing controls, accumulating reserves, and fostering growth based in exports to the Center countries. The authors conclude that the incredible success of this second strategy resulted in the return of the international financial system to the Bretton Wood's format. In some point in the future, the current Asian periphery will reach development stages in which they may join the Center and let their currencies float. At this time, other large countries, like India, will take place in the emerging periphery. The authors conclude, then, that the Bretton Woods system does not change; it only changes the periphery.

Dooley, Folkerts-Landau and Garber (2003) divide the current world into three main economic and currency exchange zones: the trade balance region, Asia; the center country, the United States; and the capital account region, comprised by Europe, Canada and Latin America. Asia, as a region based in trade balance, is concerned mainly with their exports to the United States. Exports lead to growth; therefore, their governments are willing to buy North American government bonds without much consideration on risks and returns. These countries currency exchange policy is interventionist in order to keep the exchange rate under control. Countries from the capital account region, on the opposite, have floating exchange rates, and their governments are concerned with risk/return of their international investments positions. The United States do not try to manage their exchange rate and act as intermediary for the system described by the authors. Dooley, Folkerts-Landau and Garber (2003) stress the fact that criticism in the United States are concentrated in China's devaluated currency, but not that of Japan, whose exports compete more directly with the North American goods.

According to Dooley, Folkerts-Landau and Garber (2003), Latin American countries have to choose: either to join Asia, in the trade balance region, or join Europe, in the capital account region. Those who are impatient for promoting growth by means of exports will advocate for the Asian model, with their exchange rates devaluated and attached to the dollar, and they will promote interventions and control over capital. Contrastingly, the Central Banks and the IMF tend to favor for floating exchange rates and mobility of capital from the European region.

It is worth noticing that, in spite of the 2008 financial crisis, the system described by Dooley, Folkerts-Landau and Garber (2003) does not seem to have collapsed. China continues to keep its exchange rate devaluated and it does not seem to be willing to promote significant changes in its growth strategy. It uses, to that end, the rhetoric that the country still has a large number of poor and its per capita income is one tenth of that in developed countries; therefore, it cannot

opt for measures that affect domestic income increase.³ Additionally, there is not any sign of change in the investors' behavior who still are willing to finance North American debt, despite the twin deficits. It is important to highlight that during the crisis the US Treasury bonds were considered as safe heaven by private investor. Governments continue to accumulate reserves nominated in Dollar, mainly because of the confidence crisis currently experienced by the Euro Zone.

3 SOVEREIGN WEALTH FUNDS

The first SWF, in accordance with the current definition for this kind of fund, was created by Kuwait, in 1953, when it still was a United Kingdom colony. According to the Sovereign Wealth Fund Institute,⁴ Sheikh Abdullah Al-Salem Al-Sabah's objective was to reduce the Emirate's dependence on a single non-renewable commodity. Resources from oil exploitation would be invested in the financial market, aiming at ensuring, at least partially, income for future generations. Until 1970, just two other countries had created SWFs: Saudi Arabia, also an oil exporter, and Kiribati, a country rich in phosphate. Since then, the number of sovereign wealth funds doubled in every decade, achieving the current 43 existing funds.⁵ In addition to commodities exporting countries, the example was followed by large manufacture exporters which also get high trade surpluses in their transactions with the rest of the world.

Despite the increase in the number of SWFs, over 50 years went by without greater attention was paid to this type of financial instrument at governments' disposition. The situation changed radically when, in March 2007, China announced that it would create a sovereign wealth fund.⁶ Since then, the academy, investment banks, international organizations, think tanks, and governments themselves turned to study the SWFs. The Chinese initiative generated an "analytical race", aiming at defining these funds, delimiting their particular characteristics, estimating their volume, projecting their impact and, finally, creating rules for their operation. The first articles on the topic sought to understand the phenomenon and they manifested a certain surprise with the SWFs, as shown by the title of Stephen Jen's article (2007a), director of the Morgan Stanley bank and one of the first to study the topic: *Sovereign wealth funds: what they are and what's happening*. The first issue dealt was SWFs definition. There is not a particular one that has predominated, with variations that range from more comprehensive concepts involving any kind of investment fund controlled by the government to the more restricted that exclude funds investing in the domestic market. Chart 1 summarizes the definitions presented for the SWFs.

3. Prime-Minister Wen Jiabao's speech at UN 65th General Assembly in December 23, 2010. Available at: <<http://gadebate.un.org>>.

4. Site at internet: <www.swfinstitute.org>.

5. The number of existing SWFs depends on the definition used. The concept used by this article excludes sub Federal entities' funds and pension funds, as it will be detailed further on in the text.

6. According to Martin (2008), the Chinese SWF was announced, for the first time, in March 2007. Officially, the fund was established in September 2007.

CHART 1
Definition of SWFs

Author	Definition ¹
Clay Lowery – quoted by Jen (2007b)	Investments vehicle of government that invests in assets nominated in foreign currency and whose management is separated from the official reserves.
Jen (2007b)	The SWFs need to have five characteristics: sovereignty; high exposition to foreign currencies, no explicit liability – which excludes pension funds; high tolerance to risk, and long term investments horizon.
IMF (2008)	The SWFs are investment funds of governments, created for a variety of macroeconomic purposes. Usually, they are financed by transfer of long-term assets that are invested abroad.
Truman (2008a)	SWF is a term that describes a separate set of financial assets owned or controlled by governments that includes assets abroad.
OECD (BLUNDELL-WIGNALL, HU and YERMO, 2008)	SWFs are sets of assets owned and directly or indirectly managed by governments to achieve national objectives.

Elaborated by the author.

Note: ¹ Our translation.

Definitions leave a relative margin of flexibility, acknowledging the complexity of this new type of instrument, and they allow that funds with marked difference be encompassed as SWFs. The next step of the researches was, therefore, to set a typology of these funds, differentiating them in accordance with their investment form, the type of applications for their resources and their main objectives. The existing SWFs do not fit in just one category, having more than one objective and way of financing, but they may be classified in accordance with their major characteristics.

Chart 2 has the classifications of these funds.

CHART 2
Classification of SWFs

Author	Classification
Fernandez and Eschweiler (2008)	Way of financing: i) commodity; ii) fiscal; and iii) foreign reserves
Sovereign Wealth Fund Institute ¹	Way of financing: i) oil and gas; ii) copper; iii) phosphate; iv) diamonds and minerals; and v) non-commodity
Fernandez and Eschweiler (2008)	Objectives: i) stabilization of revenues; ii) savings for future generations; iii) holdings; and iv) generic
IMF (2008)	Objectives: i) stabilization; ii) savings for future generations; iii) investments of international reserves; iv) development; and v) pension

Elaborated by the author.

Note: ¹ Available at: <www.swfinstitute.org>.

With the SWFs defined and classified, it was possible to estimate the volumes of resources involved in their operations. The first estimates seem to be exaggerated, in terms of relative size and their growth potential (JEN, 2007a).

The surprise which these funds were initially received may have generated this initial overestimation that, as it shall be seen, resulted in cautious reaction by governments. Resources under SWFs management are indeed significant, but their importance compared with other financial instruments still is relative. The estimates of resources managed by these funds are summarized in table 1.

TABLE 1
Assets of the SWFs
(In US\$ trillion)

Author	Current assets	Assets in 2015
Kern (2007)	3.2	-
Blundell-Wignall, Hu and Yermo (2008)	2.6	-
Sovereign Wealth Fund Institute ¹	3.3	-
Jen (2007a)	2.9	12
ING Bank (2009)	3.5	6.8

Elaborated by the author.

Note: ¹ Available at: <www.swfinstitute.org>.

The largest SWF is the Abu Dhabi Investment Authority, from the United Arab Emirates, as shown in table 2. It is worth noticing the extreme concentration of these funds. The five countries with the largest SWFs have 68% of the total managed resources.

TABLE 2
Sovereign Wealth Funds
(In US\$ billion)

Country	Fund	Date of foundation	Assets (Jun./2010)	Origin of resources
United Arab Emirates	Abu Dhabi Investment Authority	1976	627,0	Oil
	Investment Corporation of Dubai	2006	19,6	Oil
	International Petroleum Investment Company	1984	14,0	Oil
	Mubadala Development Company	2002	13,3	Oil
	RAK Investment Authority	2005	1,2	Oil
Norway	Government Pension Fund – Global	1990	443,0	Oil
Saudi Arabia	Saudi Arabian Monetary Agency Foreign Holdings	1952	415,0	Oil
	Public Investment Fund	2008	5,3	Oil
Singapore	Government of Singapore Investment Corporation	1981	247,5	Non commodity
	Temasek Holdings	1974	122,0	Non commodity
China	China Investment Corporation	2007	288,8	Non commodity
	China-Africa Development Fund	2007	5,0	Non commodity

(Continues)

(Continued)

Country	Fund	Date of foundation	Assets (Jun./2010)	Origin of resources
Hong Kong (China)	Hong Kong Monetary Authority Investment Portfolio	1993	227,6	Non commodity
Kuwait	Kuwait Investment Authority	1953	202,8	Oil
Russia	National Welfare Fund ³	2008	142,5	Oil
Libya	Libyan Investment Authority	2006	70,0	Oil
Qatar	Qatar Investment Authority	2005	65,0	Oil
Algiers	Revenue Regulation Fund	2000	54,8	Oil
Kazakhstan	Kazakhstan National Fund	2000	38,0	Oil
South Korea	Korea Investment Corporation	2005	30,3	Non commodity
Brunei	Brunei Investment Agency	1983	30,0	Oil
France	Strategic Investment Fund	2008	28,0	Non commodity
Malaysia	Khazanah Nasional	1993	25,0	Non commodity
Iran	Oil Stabilization Fund	1999	23,0	Oil
Chile	Social and Economic Stabilization Fund	1985	21,8	Cooper
Venezuela	National Development Fund	2005	20,0	Oil
	Macroeconomic Stabilization Fund – FEM	1998	0,8	Oil
Azerbaijan	State Oil Fund	1999	14,9	Oil
Nigeria	Excess Crude Account	2004	9,4	Oil
Bahrain	Mumtalakat Holding Company	2006	9,1	Oil
Brazil	Brazilian Sovereign Fund	2008	8,6	Non commodity
Oman	State General Reserve Fund	1980	8,2	Oil and gas
Botswana	Pula Fund	1994	6,9	Diamonds and minerals
Mexico ¹	Oil Income Stabilization Fund	2000	6,8	Oil
East Timor	Timor-Leste Petroleum Fund	2005	5,0	Oil and gas
Trinidad and Tobago	Heritage and Stabilization Fund	2000	2,9	Oil
Vietnam	State Capital Investment Corporation	2006	0,5	Non commodity
Kiribati	Revenue Equalization Reserve Fund	1956	0,4	Phosphate
Gabon ²	Fund For Future Generations	1998	0,4	Oil
Indonesia	Government Investment Unit	2006	0,3	Non commodity
Mauritania	National Fund for Hydrocarbon Reserves	2006	0,3	Oil and gas
Sudan ²	Oil Revenue Stabilization Account	2002	0,1	Oil
São Tomé and Príncipe ²	National Oil Account	2004	0,02	Oil
Total			3.255,12	

Source: Sovereign Wealth Fund Institute. Available at: <www.swfinstitute.org/fund-rankings>.

Elaborated by the author.

Note: ¹ Data of June 2009.² Data of 2007.³ The amount includes the Reserve Fund, which, as the National Welfare Fund, replaced the Stabilization Fund, created in 2004.

About 70% of the assets are concentrated in SWFs whose main source of resources are commodities exports, predominantly oil and gas (69% of total). Only 1% of SWFs resources may be associated to minerals exports, whose main example is

Chile. The other funds (non commodity) represent 30% of total resources and they are, in their majority, owned by large manufacture exporters, such as China and Singapore.

The SWFs created in the past decade emerged in a context of macroeconomic imbalances and international reserves accumulation by part of the developing countries.⁷ Aizenman and Glick (2007) consider the phenomenon of these funds as byproduct of the international reserves growth. The commodities exporting countries would have learned that use of resources derived from temporary price increases may result in inflation and exchange rate appreciation, as well as jeopardize international competitiveness. The increase of commodities prices in 1973 did not show as sustainable in the 1980s, and had significant drops. The recent increase in commodities prices, therefore, was profited in a more rational way, and part of the gains was accumulated in SWFs. A second factor motivating these funds increase, according to the authors, is the developing countries efforts to decrease the costs of maintaining international reserves. Many of these countries have reserves above what would be necessary due to prudential reasons, and there is a move to get higher returns by transferring the control of part of the reserves from the Central Banks to a SWF.

The reasons for reserves accumulation and SWFs proliferation, therefore, may be found in the economic theory related to precaution, stability, and diversification. However, the phenomenon of these funds cannot be fully understood without political considerations. Both, the creation of funds and the reactions that they generated are related to discussions on the role of the State in managing the economy and to the increasing presence of developing countries in the international scenario.

The economic importance of the so-called *emerging countries* in the past decade increased significantly. The issue, as presented by Santiso (2008), is that “the Center is increasingly less central and the Periphery is increasingly less peripheral”. The growth is not boosted anymore only by the OECD countries, which now represent less than 55% of the world product, compared to 75%, five decades ago. In 2007, the emerging economies traded, for the first time, more among themselves than with OECD countries. With the 2008 financial crisis, originated in the United States and with harmful repercussion in Europe, this trend was accentuated.

These changes could not happen without reactions and discussions on the new global order. One of the main debates has been about the role of the State in the economy. The North American and European governments interventions to prevent a greater catastrophe during the 2008 financial crisis, which generated the largest drop in the product since the II World War (IMF, 2009), was seen as a recognition that the State had trusted too much on markets.

7. Developing countries had current account surplus of US\$ 703 billion in 2008, while developed countries registered a deficit of US\$ 493 billion. The size of the difference had a drop in the past two years due to the financial crisis, but it shall return to pre-crisis levels in coming years, according to IMF projections (2010). International reserves accumulation, which achieved US\$ 9.4 trillion in 2009 (The World Bank, World Development Indicators. Available at: <<http://data.worldbank.org/indicator>>), emerged as a result of such global imbalance.

According to Bremmer (2010), in perhaps a too simplistic evaluation, two systems would be in competition. Capitalism with strong state intervention, promoted mainly by Russia and China, in addition to Saudi Arabia and Venezuela, presents a growing challenge to private corporations and to Western free market capitalism. Some emerging countries, like Brazil and India, would be between the two systems, and they would have to choose between the two options. In face of such scenario, the author advocates for an alliance between the United States and Europe to face a “war” for hearts and minds as a mean to promote Western capitalism.

The political discussion on the SWFs is inserted in this context. Some countries, such as Singapore, France, and Brazil, seem to wish to use this type of instrument to boost their domestic economies. The French President, Nicholas Sarkozy, when announcing France’s SWE, stated that its objectives would be to provide support to economic activity and to prevent the denationalization of French enterprises.⁸ The French fund was idealized as one of the main instruments for the country’s industrial policy. In the same line of France and Singapore’s funds, the Brazilian fund, which will be analyzed later in the text, has among its stated objectives to support the internationalization of domestic enterprises.

The launching of China’s SWF, in 2007, was seen as one more step of State intervention in the economy, and it generated a strong reaction from developed countries’ governments, which feared the strategic use of SWFs to buy enterprises, to take hold on major sectors and to acquire technologies. The United States Congress called in Edwin M. Truman, from the Peterson Institute, to analyze these funds. Truman (2008b) stated that the SWFs did not present a new significant threat to the United States security and to its economic interests. However, the author mentions some cases that, such as China and potentially Brazil, raise concerns regarding conflict of interests, because the sovereign funds can be used to promote domestic enterprises.

As Cohen remembers (2009), there was little fear regarding geopolitical ambition of the first countries to have SWFs – for example, Kuwait – and those that followed later its example – for instance, Norway. Investments seem to be conservative and beneficial to the recipient countries. But, the establishment of the Chinese fund, followed by Russia announcement concerning the establishment of the Reserve Fund and the National Welfare Fund, with total resources of US\$ 150 billion, changed the situation.⁹ Individually, the developed countries began to review the legal instrument at their disposition to deal with the new investors, representing a change in the favorable environment for foreign direct investments that predominated in the 1980s and

8. Speech by the President of France, Nicolas Sarkozy, made in the Department of Loir-et-Cher, in November 20, 2008.

9. In February 2008, Russia announced that the Stabilization Fund, created in 2004, would be split into two entities, the Reserve Fund and the National Welfare Fund.

1990s. Cohen (2009) notes that, in 2000, of the 150 regulatory changes related to SWFs monitored by the United Nations Conference on Trade and Development (UNCTAD), almost all of them (147) were toward liberalizing investments. The trend underwent inflection even before the creation of the Chinese and Russian SWFs. In 2005, the Chinese corporation China National Offshore Oil Company (CNOOC) tried unsuccessfully to buy the Union Oil Company of California (Unocal), North American oil producer. In 2006, the United States negative political reaction made the state enterprise Dubai Ports World to give up in taking control of the North American operations of the Peninsular and Oriental Steam Navigation Company (P&O), British ports operator bought by the United Arab Emirates Company. Cohen states that, since 2005, at least 11 major countries, in economic terms, representing two fifth of all world FDIs, decided to change their laws to expand control or full ban investments in certain sectors (UNITED STATES, 2008b; MARCHICK and SLAUGHTER, 2008).

The multilateral economic institutions were set into action to respond to the challenge presented by the dimension of the new SWFs. The G8, gathered in Heiligendamm, Germany, in June 2007, stated that restrictions on investments by these funds apply only to a limited number of cases that concern mainly to national security. Cohen (2009) stresses that, four months later, under pressure from the United States and France governments, the G8 Finance Ministers formally requested that OECD and the IMF analyzed the issue. The IMF would develop guiding principles for the SWFs behavior, and the OECD would concentrate on recipient countries.

In the IMF, a series of meeting, called International Working Group of Sovereign Wealth Funds, was called in November 2007. Less than one year later, the 24 Principles of Santiago were adopted, which should govern SWFs operations (IWG, 2008). Cohen (2009) stresses the negative reaction by some of these funds, which did not consider the treatment as fair, taking into consideration that there are no rules for financial investors similar to the SWFs. The author mentions the executive vice-chairman of the Chinese SWF (China Investment Corporation – CIC), who stated: “We don’t need outsiders to come tell us how we should act”. Despite the reaction, the United States Treasury was able to persuade Abu Dhabi and Singapore, owners of the two largest SWFs, to issue a joint communicate, in March 2008, letting go of “geopolitical objectives” (UNITED STATES, 2008a).

According to Cohen (2009), OECD works were less productive than those of the IMF. After less than six months of deliberations, OECD Investments Committee had limited itself to rectify the status quo, in a report of April 2008 (OECD, 2008). The document only recommends countries to use national security exception with restraint.

The fear of the developed countries governments concerning SWFs proliferation seems to have been exaggerated. A series of studies, which analyzed the phenomenon with greater detail and with less political bias, reached the conclusion that the majority of SWFs investments did not differ from traditional investors' operations, such as pension funds and hedge funds. Only a few SWFs, like those of France, Singapore, and Brazil are explicitly targeted to promote domestic enterprises and may be associated to greater desire of State interference in the economy. Avendaño and Santiso (2009) analyzed investments of a group of these funds and found that differences between investments in SWFs stocks and other institutional investors are less evident than originally thought. To demand that these funds disclose their investments strategies and portfolio allocation will set them in disadvantage in relation to other investors. Balding (2008) also analyzed SWFs portfolios and reached similar conclusions to those of Avendaño and Santiso (2009), stating that these funds seem to operate like ordinary investors. SWFs managers diversify risks by applying in stocks, debt bonds, and alternative instruments.

The threat of the Chinese SWF, boasted in 2007, did not reflect in practice yet, at least in the developed countries, which rely in legal instruments to deal with investments considered as strategic. The Chinese vice-Minister ensured that CIC would not invest in foreign markets in sectors considered as strategic, such as in air transportation, telecommunications, and oil, attempting to diminish political reaction to the fund (CHINA, 2007). Wu and Seah (2008) called attention to political reaction of Western governments, mainly from the United States government, and they suggest that the CIC keep its cautious attitude in investments as a way to prevent been treated as another of the "Chinese threats".

The 2008 financial crisis contributed to change developed countries' opinion regarding SWFs. The stabilizing operation of some of the main funds led to the question raised by Couturier, Sola and Stonham (2009): "*Are sovereign wealth funds white knights?*" The authors state that private corporations can deal with the SWFs as ultimate saviors, prepared to provide financing when other sources of credit are inaccessible. The authors remind, however, that these funds are requiring stiffer terms to provide their resources, considering their privileged bargaining position and a history of losses with large investments in sectors that were weakened by crises.

The influent investment bank Goldman Sachs (O'NEILL, NIELSEN and BAHAJ, 2008) also came out advocating for the SWFs, stating that those have two major and positive functions: they allow for developing countries to invest their profits for future use and they provide for highly demanded resources to countries depending on foreign capital. In spite of acknowledging that these funds could provide more information on their operations, in order to increase the transparency level of the sector, the authors stress that the major issue is the change in the structure of

global economic governance. The developed countries governments cannot demand more information on SWFs beyond those they disclose about their reserves management and require from other investors in their jurisdiction. The authors conclude that, instead of criticizing the SWFs, some large developed countries with excessive reserves, such as Japan and the Western Europe, should create their own sovereign wealth funds.

4 DETERMINANTS OF THE SOVEREIGN WEALTH FUNDS

There are, currently, 43 SWFs owned by 35 countries according to table 2. Sovereign wealth funds are different among themselves, regarding financing modes and investments objectives. Countries that own funds also present wide diversity, ranging from Mauritania, with per capita Gross Domestic Product (GDP) of US\$ 450, to the wealthy Norway with per capita GDP of US\$ 41,000. Some of the features, however, seem to be common to almost all countries that have established SWFs. As previously seen, the creation of sovereign wealth funds was in the beginning related to the desire of accumulating wealth derived from exploitation of exhaustible natural resources. Therefore, the first characteristic marking SWFs owner countries is a high dependence on fuel – in most cases, oil – and ore exports.

The establishment of SWF by large exporters of a single commodity is related to several objectives acknowledged by the economic theory. As highlighted by Das (2008), the invention of the new instrument, in the beginning of 1950s, was motivated by the necessity of dealing with excessive liquidity. When countries have excessive liquidity, it is not desirable or possible to channel all resources for current consumption through increasing imports. The author stresses that exploiting possibilities of inter-temporal use is the most prudential way of dealing with wealth, mainly when resources result from minerals, precious stones, and oil exploitation, which are non-renewable natural resources. In these cases, the SWF operates as a pragmatic way of saving resources for future generations. Even when there is still availability of natural wealth to be exploited, notes Das (2008), the economy may face volatility of prices and supply. In these situations, the SWFs may help to stabilize revenues.

The second macroeconomic feature present in the majority of countries that have decided to create SWFs is the positive balance in current accounts. The sovereign funds are used as a way to accumulate abroad surplus resources in order to prevent exaggerated appreciation of the exchange rate, which could harm the exporting performance of the economy, resulting in the so-called “Dutch disease”.¹⁰

10. The term “Dutch disease” refers to difficulties that natural resources exporting countries have to maintain an exchange rate that allows for their industry to remain competitive. The denomination arose in 1977, when the magazine *The Economist* described Netherland’s drop in exports after the discovery of important natural gas reserves in 1959.

In addition to countries depending on one major natural resource exploitation, that achieve surpluses in their trade balance, there are more recent cases of countries that accumulate international resources by means of robust manufactured goods exports.

The Chinese wealth fund, despite being the fund that called attention to the SWFs phenomenon and set the developed countries in alert, finds justifications in the economic theory. The growth of China, intensively based on industrial exports, resulted in reserves accumulation that reached US\$ 2.7 trillion in 2010.¹¹ According to Zhang and He (2009), an adequate level of international reserves is necessary to deal with international trade and finance, but the huge volume of accumulated reserves also poses serious risks for China. Firstly, the opportunity cost of Chinese reserves is increasing. The largest portion of the Chinese reserves is invested in the United States Treasury Bonds, which are liquid and safe, but provide low returns. Secondly, the currency exchange risk may lead to a significant drop in Chinese reserves purchasing power. Since the reform of the currency exchange regime of the renminbi, in July 2005, the Chinese currency has been gradually appreciated in relation to the dollar, leading to annual losses for China's reserves. Lastly, the authors highlight that the accumulation of reserves led to excessive liquidity in China's financial markets. In order to offset the inflationary impact of dollar purchases, the Chinese Central Bank has issued bonds for sterilization, but the practice does not seem to be sustainable. In this scenario, Zhang and He (2009) state that the Chinese government has two alternatives to deal with the challenges: either decrease the accumulation of reserves, which would have to be considered within the scope of structural economic change that would foster domestic consumption, or to manage reserves by means of a more active policy that seeks to get higher returns from investments. The second alternative led to the establishment of the CIC, which sought to diversify investment of reserves through purchases of stocks, commodities, real estate, and other financial products.

In addition to be fuel and ores exporters and/or have high surpluses in current account, a third characteristic, which is also found in the majority of the countries that have created SWFs, is the expressive volume of domestic savings. Countries that have sovereign funds save large ratios of their domestic product, and the SWFs emerge as an alternative to keep part of the savings in the international markets, in investment with long term horizon.

Table 3 shows the mentioned features (fuel and ore exports, surpluses in current account and domestic savings), in addition to the reserves ratio to GDP and per capita GDP. Countries that have created SWFs and with population over 200 thousand inhabitants were included.¹²

11. IMF Estimates (2010).

12. Kiribati (100 thousand inhabitants) and São Tomé and Príncipe (160 thousand inhabitants) were not considered in spite of having created SWFs in 1956 and 2004, respectively.

TABLE 3
Countries with SWFs: economic indicators (2004-2008)

Country	Current account balance/GDP %	Fuel exports/total exports %	Ores and metal exp./ total exp. %	GDP per capita 2000 US\$	Reserves/ GDP %	Domestic savings/GDP %
United Arab Emirates	13,17	69,93	1,72	24.033	21,29	41,22
Norway	15,78	66,24	6,98	41.226	15,30	38,41
Saudi Arabia	25,84	90,00	0,22	9.902	9,30	49,58
Singapore	22,26	13,40	1,35	27.589	97,99	49,72
China	8,14	2,07	1,93	1.633	40,25	50,50
Hong Kong (China)	11,77	1,84	4,45	31.970	74,61	31,96
Kuwait	41,66	94,67	0,16	21.503	14,34	53,68
Russia	8,55	58,46	7,29	2.654	27,64	33,75
Libya	37,24	n. d.	n. d.	7.206	101,54	57,80
Qatar	29,52	89,59	0,14	29.217	11,45	66,23
Algiers	20,25	97,67	0,50	2.128	70,99	55,04
Kazakhstan	(1,37)	68,24	13,46	2.135	17,84	43,26
South Korea	1,24	5,20	1,97	14.436	24,87	31,72
Brunei	53,30	94,81	0,06	18.261	6,15	52,59
France	(0,72)	4,03	2,52	23.254	3,92	19,79
Malaysia	15,35	14,27	1,41	4.804	50,69	42,82
Iran	7,54	78,63	1,30	1.948	n. d.	40,49
Chile	2,23	1,68	60,03	5.853	13,63	31,87
Venezuela	13,45	88,30	2,43	5.357	17,94	38,10
Azerbaijan	10,36	84,41	1,24	1.556	12,03	53,86
Nigeria	15,54	95,12	0,15	457	26,28	n. d.
Bahrain	11,08	77,53	14,49	15.463	19,86	50,02
Brazil	0,60	7,20	10,43	4.137	9,56	19,77
Oman	10,39	89,96	1,01	9.215	16,37	45,25
Botswana	11,24	0,16	16,47	4.369	67,51	46,67
Mexico	(0,79)	15,20	2,26	6.352	8,51	23,61
East Timor	n. s. ¹	n. d.	0,00	309	46,20	n. d.
Trinidad and Tobago	26,80	68,58	1,35	9.939	32,81	45,02
Vietnam	(5,32)	23,01	0,65	576	23,12	28,75
Gabon	17,88	69,45	4,42	4.069	9,96	56,63
Indonesia	1,23	27,02	8,71	994	12,25	29,34
Mauritania	(23,43)	23,71	60,33	450	4,79	2,88
Sudan	(10,86)	87,51	0,49	468	4,61	18,24

Source: IMF (World Economic Outlook Database), for the current account balance and the World Bank (World Development Indicators), for the remaining indicators.

Elaborated by the author.

Note: ¹ East Timor current account balance is 193%.

Obs.: 1. n. d.: Not available.

2. n. s.: Not available.

Table 4 compares selected macroeconomic rates of countries that have SWFs with the global average, in order to highlight high surpluses rates of current account, fuel exports, international reserves and domestic savings.

TABLE 4

Average of economic indicators of countries with SWFs and global average (2004-2008)

Country	Current account balance /GDP	Fuel exports/ total exports %	Ores and metal exp./total exp. %	GDP per capita 2000 US\$	Reserves/GDP %	Domestic savings/GDP %
Average of countries w/ SWF	12,19	51,87	7,19	10.105	28,55	40,28
Global average	(1,70)	16,74	7,76	8.226	18,89	19,10

Source: World Bank (World Development Indicators) and IMF (current account balance).
Elaborated by the author.

Only three examples do not fit among exhaustible natural resources exporters countries¹³ or with significant current account surpluses:¹⁴ South Korea (fund created in 2005), France (fund created in 2008) and Brazil (fund created in 2008). If domestic savings is considered also, outstanding countries are just France and Brazil, considering that South Korea saves 32% of its GDP.

5 THE BRAZILIAN CASE

In October 2007, one month after the establishment of the Chinese sovereign fund, the Ministry of Finance (MOF) of Brazil confirmed the intention of having a similar financial instrument (FAZENDA, 2007). Russia announced its entry in the club of countries with SWFs in February 2008, leaving only India, among BRIC countries, without a SWF. These funds were seen as the offensive side of emerging markets State capitalism, using as resources the billionaire international reserves accumulated in the past decade and the renewed speech in favor of a more active role of government in the economy as a mantra. For the Brazilian government it was only natural that the country should also covet the new investment mechanism. Brazil's reserves, at the time, were US\$ 180 billion and they reached US\$ 289 billion in 2010. The historical external debt no longer was a significant concern and the country became a net external creditor.

The project to create the Brazilian SWF, emblematically, was announced officially with the new industrial policy, in May 2008, at the National Economic and Social Development Bank (BNDES) (NOVA., 2008).

13. Defined, by the author, as countries whose fuel or minerals exports represent more than 15% of total exports.

14. Defined, by the author, as countries presenting current account surpluses higher than 8% of GDP.

The Productive Development Policy would lower the cost of domestic investments and exports, including the expansion of the Exports Financing Program (Proex) from R\$ 500 million to R\$ 1.3 billion. The BSF, in its turn, would support investments abroad of the Brazilian enterprises, confirming the State support toward a more active international performance by national businessmen. Five objectives were listed in the Ministry of Finance presentation on the BSF (BRASIL, 2008): to support the country's strategic interest projects; to expand profitability of financial assets held by the public sector; to increase public savings; to decrease the fluctuations in the economic cycles; and to promote the internationalization of Brazilian enterprises. The MOF stressed that the economic scenario was favorable for the creation of the BSF, mentioning the high level of the international reserves, Brazil's net external creditor position, the consistent fiscal policy (nominal surplus result in the first quarter of 2008), and the investment grade received from major risk rating agencies.

The BSF was created by the Law no. 11,887, of December 24, 2008, in order to promote investments in assets in Brazil and abroad, increase public savings, mitigate economic cycles effects and foment strategic interest project of the country located abroad. The description highlights the different purposes between the BSF and what it is defined as a traditional SWF. The Brazilian fund does not aim at managing part of the international reserves as a means to get higher financial returns, as are the cases of China and South Korea, or saving exports resources from a certain natural resource, as it is the case of the Persian Gulf countries' SWFs. The BSF has strategic objectives related to the promotion of growth and the maintenance of economic stability.

The 2008 Law was complemented by Decree no. 7,055, of December 28, 2009, regulating the BSF, and Decree no. 7,113, of February 19, 2010, which created the Executive Board of the Brazilian Sovereign Fund (CDBSF). The decrees attribute to the MOF the responsibility to operate this fund, but submit to the CDBSF, comprised also by the Ministry of Planning, Budget and Management (MP) and by the Central Bank of Brazil (BCB), decisions related to maximum allocation in each class of assets, approval of national strategic interest projects, the preparation of budgetary proposal and definition of its internal by-laws. The BSF was capitalized with initial contribution of R\$ 14 billion by the Treasury. In June 2010, it was announced that the BSF would buy stocks of *Banco do Brasil* (BB) (FUNDO., 2010a) and, in September 2010, the MOF informed that the fund would be used to capitalize Petrobras, related to planned investments by the state enterprise to exploit the pre-salt oil (MP., 2010). Around 80% of the BSF assets is applied in stocks of Petrobras and 10% in those of BB (FUNDO., 2010b). The portfolio of the Investment and Stabilization Fiscal Fund (FFIE), whose sole shareholder is the BSF, is monthly informed by the Securities and Exchange Commission (CVM).¹⁵

15. Information on the FFIE available at: <<http://www.cvm.gov.br>>.

The debate on the BSF was intense, first in newspapers, and later, in the academia, which recently began to disseminate the first studies on the Brazilian fund. In the press, due to the nature of the media, the discussion was often more passionate. The executive director of Brazil in IMF, Paulo Nogueira Batista Jr., came out in defense of the fund, stressing that the National Treasury action should be welcomed, as with what happens in the United States, where the Federal Reserve System (Fed) and the Department of the Treasury share currency exchange authority, working coordinately (BATISTA JUNIOR, 2008). Mariano Laplane evaluated positively the BSF, and highlighted its developmental feature, with potential to accelerate the internationalization process of Brazilian firms (REHDER, 2008). Criticisms were concentrated in costs associated to the BSF, in the still high total public debt, in Brazil's fiscal and current accounts deficits, and in the low internal savings (GIAMBIAGI, 2008; NAKANO, 2008; KUNTZ, 2008).

Academic analysis on SWFs, as well as public debate in the press, were also marked by favorable and contrary stands regarding the establishment of the fund, in accordance with the author. Sias (2008) highlights that "the sovereign fund became a powerful economic policy instrument, since it assists the fiscal, monetary, currency exchange, and industrial policies". The author highlights that countries that established SWFs improved the management of their economy by institutionalizing the anti-cyclic feature of government expenditures, mitigating the currency exchange appreciation problem, and diversifying investments abroad. Bello (2008) notes that, by providing resources to national enterprises abroad, the SWF would be operating as a development fund and not as instrument to increase international reserves profitability. The author questions possible transfer of SWF resources to BNDES and she states that this bank would have conditions to access the international market directly in order to finance its operations. Freitas (2009), in a paper on oil revenues and the institution of the sovereign wealth fund, advocates that there are strong economic policy arguments favoring the creation of the SWF, but reminds that the objective of dampening economic cycles or accumulating savings for future generations can be achieved by means of the adequate control of public spending. The difference between the Brazilian case and other countries that have created SWFs is emphasized by Caparica (2010), who reminds that Brazil does not have surpluses in current account and cannot rely in high domestic saving rates. Additionally, the author notes that "the fiscal policy has not been anti-cyclic, which serves a strong argument opposing the creation of the Brazilian Sovereign Fund". Finally, he states that Brazilian interests rates are the highest in the world and, therefore, it will be difficult for the Brazilian fund to be able to offer returns over the public debt cost. Lima highlights also the specificity of the Brazilian fund and states that the government (...) seeks to use an economic policy instrument mistakenly denominated as sovereign fund, ultimately, to improve Brazilian industries competitiveness abroad (LIMA, 2009, p.106).

As previously pointed out, Brazil appears – like France – as a country that created its SWF without having the main features of the other countries that have such instrument; which are, sustained current account surpluses, dependence on fuel exports and high levels of domestic savings. The specificity of the Brazilian case is evidenced in table 5.

TABLE 5

Average of economic indicators of countries with SWFs and data from Brazil (2004-2008)

Country	Current account balance /GDP %	Fuel exports/ total exports %	Ores and metal exp. / total exp. %	GDP per capita 2000 US\$	Reserves/ GDP	Domestic savings/GDP
Average of countries w/ SWF ¹	12,56	53,36	7,08	10.291	29,16	40,96
Brazil	0,60	7,20	10,43	4.137	9,56	19,77

Source: World Bank (World Development Indicators) and IMF (current account balance).

Elaborated by the author.

Note: ¹ Excluding Brazil.

The decision of creating the SWF, in this context, cannot be explained by the fundamentals of the Brazilian economy. The fund was created as one of the development funds that, according to the IMF (2008), assist socioeconomic projects or promote industrial policies to boost the country's GDP growth. The MOF evidenced the character of the SWF when it established, among the fund's objectives, the support to the country's strategic interest projects. After the 2008 financial crisis, when it was clear that developed countries governments were – actually, they always have been – willing to make huge sacrifices to defend their national enterprises, it is difficult to criticize the government desire of having a strategic economic role and support the internationalization of Brazilian enterprises.

But one may question if the fund is the best instrument to pursuit such objective. The BNDES, as reminded by Bello (2008), may raise funds abroad and directly finance Brazilian firms' expansion projects. Since 2003, the bank supports Brazilian direct investment abroad, through financing or as shareholder.¹⁶ In August 2009, it opened an office in Montevideo, Uruguay, aiming at structuring and facilitating businesses of Brazilian interest in South America, particularly with the Southern Common Market (Mercosul) member countries. BNDES opened a subsidiary in London, in November 2009, with the objective of increasing the bank's visibility to the international financial community and assisting Brazilian firms' projects abroad.

16. BNDES international operations. Available at: <www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/O_BNDES/A_Empresa/internacional.html>.

The BSF, actually, seems to have responded to a MOF's aspiration of having a role in the exchange market. It is worth noticing that, in the United States, the Treasury also has responsibilities on exchange rate management. Among MOF objectives may be the maintenance of more devaluated exchange rates. The perspective of the ministry seems to be aligned with the description of the world made by Dooley, Folkerts-Landau, and Garber (2003), highlighted in Section 2 of this article. Brazil should be concerned in keeping the exchange rates devaluated in order to promote growth by means of exports and to establish itself close to the "Asian group", which profits from the competitive advantage of the exchange rates to supply goods for Europe and the United States. The constitution of the Brazilian Sovereign Fund arises, in this context, as an instrument to support the MOF view on the international position of Brazil, a view that would differ from that of the BCB, responsible for managing the Brazilian huge reserves.

For mitigating the exchange rate appreciation, the alternative to the creation of the BSF would be a more active role of the BCB, as well as the possibility to introduce ways of controlling or taxing foreign capital. A more restrictive fiscal policy, which would contribute to the fall of Brazilian real interest rates, would also have impact on exchange rates. The debate continues in Brazil over the exchange rate issue, but the Brazilian Sovereign Fund, until now, did not reveal itself as an effective instrument to deal with the issue.

Another objective of the BSF, according to the Decree of its creation, is to create public saving. Brazil, as it has been said already, is characterized by relative low levels of domestic savings. The increase of public saving could help changing the situation. But, again, the issue is to evaluate if the BSF is the best available instrument for the Brazilian government to attain such goal. It is worth noticing that the constitution of the fund in itself does not help this savings, as stressed by Freitas (2009). The fund serves as an instrument for using saved resources, but it does not foster the generation of fiscal surpluses directly. The existing alternatives for the use of the resource that may be eventually saved should also be evaluated. The decrease of existing debt would be an alternative to the creation of the fund which would have a positive impact on interest rates. Another option would be the creation of sectorial funds dedicated to, for example, infrastructure investments.

Therefore, the reasons for the creation of the Brazilian fund are more associated to the economic policy and to the dynamics among authorities responsible for the country's economic management than to economic fundamentals. The BSF could be justified by pure economic theory if it had been created with resources from Brazil's international reserves. As in the South Korean case, this fund would decrease the cost of carrying reserves, by investing a portion of those reserves in more profitable long term assets. Perhaps the MOF intension was that, by initially proposing the creation of the fund, but it was not made feasible due to the BCB's different view on the issue (BC..., 2008).

However, the BSF may become a traditional SWF if oil exploitation of pre-salt layers turn Brazil into a major exporter of the commodity. Throughout the past decade, Brazilian fuel exports have grown and they reached US\$ 18.7 billion in 2008, or 9.5% of total exports, falling back to US\$ 15.0 billion in 2009, or 9.8% of total exports, due to the financial crisis.¹⁷ According to BNDES projections, Brazil's oil exports may reach US\$ 108 billion in 2030, in a scenario that takes into consideration oil price at US\$ 85.00 per barrel (BNDES., 2008). In more optimist scenarios, with the price of barrel in US\$ 143.00, oil exports would reach US\$ 182 billion, which would represent 5.6% of the GDP, according to BNDES. The projections consider that significant pre-salt commercial exploitation would begin in 2015.

The pre-salt oil exploitation could lead Brazil to have economic indicators similar to those of countries having SWFs today, because it would increase the importance of fuel in the country's exports, and it would imply growing trade and current account surpluses. Additional resources, moreover, could help increasing domestic savings by collaborating with public finances. Therefore, the three determinants of the sovereign wealth funds would be impacted. However, according to projections, Brazil would still have to wait over one decade for the change to take place.

6 CONCLUSION

The announcement of the creation of China's sovereign wealth fund, in 2007, called attention of the international community to this kind of financial instrument controlled by the governments. The developing countries, which in the last decades have accumulated huge volumes of international reserves, looked at the SWFs as a way to increase profitability of their assets and to decrease carrying costs. Nevertheless, the developed countries had a cautious reaction. They encouraged international organizations to study the topic, and they created behavioral guides for these funds in spite of not encouraging this type of control for similar instruments, such as the hedge funds. Additionally, they increased the regulatory power of competent authorities in order to protect sensitive sectors and deal with funds that set strategic interests ahead of the economic rationale.

The concern is justified by the global macroeconomic imbalance and by the SWFs potential, which already add up around US\$ 3 trillion in assets and can increase much more in the coming years. The majority of these funds, however, do not operate in a strategic way. They are instruments used to accumulate resources of countries that are large natural resources exporters – mainly oil -, such as the United Arab Emirates and Norway, or manufacturing goods, such as China and South Korea. Applications are of long term, if compared to those of Central Banks, but most of the SWFs

17. The World Bank (World Development Indicators), for the 2008 data, and Ministry of Development, Industry and Foreign Trade (MDIC), for 2009

investments are passive, without stock control, aiming at higher returns than those of the North American government bonds.

The countries that decided to create SWFs are characterized by fuel and ores exports, sustained current account surpluses and/or high levels of domestic saving, as evidenced by statistical analyses in the Section 4 of this article. In this context, the case of Brazil stands out. The country has recorded current account deficits, does not depend on oil exports and it has relatively low level of domestic savings. The rationale for creating the traditional SWF, therefore, does not seem to work for the Brazilian case. The decision of establishing the BSF is more related to the adoption of this kind of financial instrument by major developing countries, and the dynamics among authorities responsible for the country's economic management than with economic fundamentals.

However, the situation may change if Brazil becomes a large oil exporter with the pre-salt layer exploitation. If the current hypotheses are confirmed, the country will become a major producer and exporter of the commodity and it will start to register current account surpluses. Brazil would get closer, in macroeconomic terms, to countries that today count on SWFs. Nevertheless, the change would not happen in the short term.

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TURBULENCES IN THE ARAB WORLD: TOWARDS A NEW ORDER?

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ABSTRACT

The paper deals with the revolts in the Arab world, leading to demonstrations that are appearing in the media as a powerful and instructive warning sign that the ballyhooed project of a New Middle East, designed by Bush and redesigned by Obama, has been discarded by the "Arab street". The political regimes that previously used Islamic fundamentalism are quite shaken. With the successful mobilization of the "Arab street", a third way appears. Additionally there are the rentier states, sustained by multilateral foreign aid payments, such as military development or assistance aid, now also called "strategic incomes". Nationalism and Islamism are key points throughout the paper. It is demonstrated that the revolts in the Arab world go far beyond the alleged messianic manipulation of the masses, and the waves of protest in every Arab country are powerful. The social media, in turn connects in real time with international public opinion.

Keywords: Middle East; revolutions; geopolitics; nationalism; Islamism.

RESUMO

O texto trata das revoltas no mundo árabe, que estão aparecendo na mídia como um poderoso sinal de alerta de que o alardeado projeto de um novo Oriente Médio, projetado por Bush e reelaborado por Obama, foi descartado pela "rua árabe". Os regimes políticos que antes usavam o fundamentalismo islâmico se mostram bem abalados. Com o sucesso da mobilização da "rua árabe", surge uma terceira via. Ademais, há os Estados rentistas, os quais se sustentam com pagamentos multilaterais de ajuda externa, tais como ajuda ao desenvolvimento ou assistência militar, agora denominadas também de rendas estratégicas. O nacionalismo e o islamismo são pontos fundamentais ao longo do texto. Demonstra-se que as revoltas no mundo árabe vão muito além da alegada manipulação messiânica das massas, e que as ondas de protesto em todos os países árabes são poderosas. As mídias sociais, por sua vez, conectam-se em tempo real com a opinião pública internacional.

Palavras-chave: Oriente Médio; revoluções; geopolítica; nacionalismo; islamismo.

1 INTRODUCTION

The popular mobilizations that occurred in several cities of the Arab world, shown live by television networks and internet channels to the entire world, are a powerful and enlightening alert that the touted project of *a new Middle East*, projected by Bush and reworked by Obama, has been discarded by the "Arab street".

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There is strong evidence that revolts are making the institutional foundations of the Arab political regimes convulse, regimes which have, for decades, used the threat of Islamic fundamentalism – in the domestic sphere, as with the Al-Qaeda, and in foreign relations, as with Iran – to justify both the existence of repressive institutions and their military alliances with Western countries. The success of the mobilization of the “Arab street”, which, for a long time, was seen oscillating between two poles (authoritarian secularism and Islamic radicalism), showed it was far beyond those two options, and indicated the existence of a third way, which has surprised almost everyone (HROUB, 2011).

Although it is not surprising to reveal the authoritarianism of Arab States and the participation of Western powers in this power structure, the insurgents manifested, publicly, that what was at issue was the political and economic model, not who ruled it. The images in the streets no longer corresponded to the clichés frequently associated with Arabs: they are demonstrators of all age groups who, peacefully, spontaneously and without any ties to any ideology or charismatic leadership, adopted extreme measures to demand the end of tyranny and the collective championing of universal values. Those who assured that any mobilization of masses in the Arab world could only be led by Islamists were foiled. The mobilization was initiated and maintained by a new generation that does not call for sharia (Islamic Law) or theocracy as the solution to their problems, though many of them are religious. The new demonstrators are a population increasingly informed and connected to the outer world, wishing to send a message to the whole world: unconditional rejection of dictatorships and their respective economic models.

However, the mainstream in the United States is still trying, desperately, to fit these revolts – although recognizing their merit – into their strategic planning. In this sense, the statement by the influential international analyst Fareed Zakaria is very significant. He said, in fact:

Both George W. Bush and Barack Obama deserve some credit for what has happened [the uprisings]. Bush put the problem of the Middle East’s politics at the center of American foreign policy. His articulation of a “freedom agenda” for the Middle East was a powerful and essential shift in American foreign policy (as I wrote at the time). But because so many of Bush’s policies were unpopular in the region, and seen by many Arabs as “anti-Arab,” it became easy to discredit democracy as an imperial plot (...). Obama has had a quieter approach, supporting freedom but insisting that the United States did not intend to impose it on anyone (ZAKARIA, 2011).

Despite Zakaria’s powerful rhetoric, it is difficult to sustain this thesis.

The first official comment of the United States government on the protests in Egypt came from the American vice-president, Joe Biden, who stated in an interview to the program *News Hour*, on PBS, that the Egyptian president, Hosni Mubarak, was not a dictator and should not leave his post. He complemented his explanations by recalling that he “has been an ally of ours [the United States] in a number of things and he has been very responsible on, relative to geopolitical interests in the region: Middle East peace efforts (...)” (LEHRER, 2011). In the very beginning of the revolts, the Secretary of State Hillary Clinton declared that “the Egyptian government is stable as seeks ways to respond to the legitimate needs and interests of the Egyptian people” (AWAD and ZAYED, 2011). On January 27, 2011, Hillary changed her tone a little, but continued defending the permanence of Mubarak: “We believe the Egyptian government has an important opportunity at this point in time to implement political, economic and social reform, to respond to the legitimate needs and interests of the Egyptian people”. According to an article published by the Israeli newspaper *Haaretz* (BARAK, 2011), Israel is supposed to have sent a confidential message to the United States and European countries, requesting that they support the stability of the regime of the Egyptian president, Hosni Mubarak, stressing that the maintenance of stability of the Egyptian regime is “in the interest of the West” and of “all the Middle East”. Hillary Clinton appealed to all the political heads of the regime to put in place a set of policies that would placate popular rage. Clinton insisted:

We want to continue as partners of the Egyptian government and people. As partners of Egypt, we appeal for restraint by the security forces, that there be no hurry in imposing very restrictive measures that are violent, and for there to be dialog between the government and the people of Egypt (GRANADO and NEVES, 2011).

As a sign that the Obama administration was not yet ready to let Hosni Mubarak fall, the Pentagon decided to go ahead with the meetings with the highest leadership of the Egyptian military, which began in the end of January, in Washington. Among the interlocutors of the United States Department of Defense was the Chief of the Joint Staff of the Armed Forces, Sami Anan. A few days later, on February 6, 2011, even with the intensification of protests, the Secretary of State, Hillary Clinton, insisted on the thesis that keeping the president of Egypt, Hosni Mubarak, in power, was a guarantee that elections would be held.

Zakaria regrets that North American actions are seen as rhetoric and that one of their effects has been allowing the Arab revolts of 2011 to be “totally controlled by Arabs”, in such a way that the success of these changes will be seen as something purely endogenous, and will probably lead to a revival of national movements (ZAKARIA, 2011.) In this point, there can be no disagreeing with the analyst, for the revolt that began in Tunisia and spread throughout the entire region surprised not only external observers but, above all, its own protagonists,

who discovered the strength of popular movements. Through action without violence, they challenged decades of dictatorship, leading to the abdication of a few chiefs of State (Egypt and Tunisia) and the ferocious resistance of others (Syria, Libya, Bahrain and Yemen) and the concession of salary increases and subventions, such as in Saudi Arabia.

The unpredictability of the revolt is obviously not exclusive to the Arab world. It was not different in 1989, during the fall of the regimes in Eastern Europe, even for the dissidents who pointed out communist vulnerabilities. Days before the Iranian revolution, in 1979, the CIA, the intelligence service of the United States, issued a report characterizing the Iranian monarchy as an “island of stability”. Even one of the greatest revolutionary leaders in history, Lenin, made predictions, shortly before February 1917, that the revolution in his country would occur in a distant future.

In the beginning of the revolts, the great majority of international commentators argued, skeptically, that what had occurred in Tunisia was incidental. Even afterwards, when the demonstrations in Egypt already showed signs that something greater was under way, there was still those who considered the demonstrations episodic. Although the eruption of each crisis can be identified individually, if they are placed in historical perspective one realizes they are attempts at change that have had significant repercussion throughout the entire region.

Despite the ever present risks of speculating about the long term meaning of recent events, it can be plausibly stated that the current revolts may be as important for the region, in certain aspects, as were the events that resulted in the disintegration of the Ottoman Empire in 1918, beginning the current organization of the Arab inter-state system.¹

Other important periods of transition that became veritable traumas for the Arabs were: 1945- 1949, with the British and French retreat, in formal terms, from the region, and the establishment of Israel; and the Arab defeats in the wars of 1949, 1956, 1967 and 1973. The course of events in the Middle East from the end of the Cold War (1991) to the beginning of the 2000's was framed, above all, by four regional events, with their impacts upon the world: the invasion of Iraq

1. The redesign of the modern Middle East map began during the period between 1918 and 1926, through the colonial delimitation by the British and the French, on the one hand, and the appearance of the first independent Arab countries (Arab Republic of Yemen and Saudi Arabia), on the other. It was also this event that framed the structures within which the modern nations in the region were created, based on a heterogeneous set of preexisting peoples, geographical conditions, myths and ideologies. Actually, the “great war” of 1914-1918 concluded a process that began in the 19th Century, when colonial Europe installed itself in the peripheries of the Ottoman Empire: the French and Italians in Northern Africa, the British in Egypt, Cyprus and Aden, and smaller states in the Persian Gulf. But it was after the Ottoman defeat in the great war that French and English properties invented what later became Iraq, Lebanon, Syria and Palestine (HALLIDAY, 2007).

by Kuwait in 1990; the signing of a peace treaty between Israelis and Palestinians in 1993; the attack of Al-Qaeda on the United States on September 11, 2001; and the Anglo-American occupation of Iraq in 2003 (ROY, 2008).

With the international response to the invasion of Kuwait by Iraqi forces in 1990, an opportunity was opened for the United States to constitute a new international order after the fall of the Berlin Wall, using the Middle East as an experiment. Freed from the paralysis that reigned during the Cold War, the United Nations Security Council (UNSC) met quickly and effectively to impose sanctions and authorize military action. This led to the belief, later widely diffused by Western political leaders, that a new world order, based on American-Soviet cooperation in the United Nations (UN) and on the effective maintenance of international peace and security, was being put in place. For the first time, the accomplishment of the UN's role, foreseen in the Charter of the United Nations, became possible. This optimism was even greater because of the feeling of failure that had surrounded the security function of the UN. However, "winning the Cold War" did not solve the constant entanglements of the United States foreign policy in the Middle East. When the Cold War ended in 1991, the United States began enjoying a privileged condition, mainly due to its unquestionable military superiority. Since then, all political leaders of the United States, democrats or republicans, have tried to preserve the United States as the "only superpower", avoiding at any cost the appearance of another power that might challenge its supremacy. However, at the same time, these same leaders have started to realize that military superiority is not the exclusive determinant of world supremacy, and have become increasingly concerned with the growing dependence of the country on imported petroleum, especially from the Persian Gulf. Klare (2008) recalls that, during World War II, the American military consumed 1 gallon of oil per soldier/day. During the first Gulf war, in 1990-1991, the rate increased to 4 gallons of oil per soldier/day; in the wars of the Bush government in Iraq and Afghanistan, it leaped to 16 liters per soldier/day (KLARE, 2008).

If the Cold War has been defined, mainly, as a competition for the domination of international politics between the Soviet Union and the United States, then, to a great measure, as noted by Hallyday (2005), it ended a decade earlier in the Middle East, with the Iranian revolution and the beginning of the war between Iran and Iraq (1979-1980). An examination of the global consequences of the end of the Cold War requires, therefore, an accompanying more specific analysis of the regional trends in the 1990's. The combination of issues like petroleum, regional conflicts and cronyism was instrumental in calling Washington's attention to redefining a new strategic environment with its closest allies (Saudi Arabia, Turkey and Israel) in a new regional configuration, and to the opening of new sources of profit, mainly from the pillaging of the petroleum wealth and from selling weapons (HALLIDAY, 2005, p. 193).

In a world in which so many analysts insist of recurring to explanations in terms of ancient history, sacred texts, “clash of civilizations”, or “Oriental despotism”, one must go back to interpretations that place sociological, economic, and political variables in the forefront, as claims based on legitimacy, social inequalities and arbitrariness are in the order of the day.

Mohamed Bouazizi’s act of self immolation may have gone unnoticed, but it was captured by a cell phone camera and, immediately, Tunisia – and the whole world – became aware of his drama. Activists used Twitter and Facebook to mobilize people and spread announcements about concentrations and police actions. Confidential reports from diplomats and political authorities, diffused by WikiLeaks, showing the corruption networks, fed, even more, the population’s feeling of revolt. Reporters from the Al Jazeera Arab TV made live newscasts, making known the demands of demonstrators. Thus, the role played by means of communication in these events is undeniable, but should not be overestimated. The press, the telegraph, radio and television also represented threats to the existing order, but governments were able to repress them, as well as employ them to motivate their partisans. In other words, social networks make popular mobilizations more effective, but, depending on the correlation of forces, can also make them less probable. Therefore, no matter how influential new means of communication have been, they will never be an effective force to promote ruptures in the order without a favorable revolutionary situation (PELLETREAU, 2011).

For a revolution to be successful, a series of factors must converge. The government’s attitudes must seem so unfair that they become a threat to the future of the country; the elites (particularly the military) must no longer be willing to defend the State; the different strata of the population, encompassing ethnic and religious groups and socio economic classes, must promote a broad mobilization; and international powers must either refuse to intervene to defend the government or stop it from using maximum force against the demonstrators. Revolutions are, therefore, a rare occurrence, because these conditions rarely coincide (GOLDSTONE, 2011).

It is understood that the Arab revolts are, at first instance, a product of the historical and social conditions of the *rentier states*, governed by elites dependent upon income from oil exports, which keep the immense majority of the populations in informal and marginal economic activities. The power of the mass movements in the Arab street became the most explicit face of a new political space in which diverse political and social forces, new and old, have called into question the structure of political power and the standing economic model.

The goal of this article is to place the insurrections, as well as the several crises in the Middle East, in their own context, and try to understand how they

are intimately related with the main problems faced by different social groups. One must, above all, understand the most prominent issues, which culminated in these uprisings, as well as the perceptions and attitudes of society, to understand some important changes. Many analysts tend to concentrate exclusively on what they consider as peculiarities in the Arab social formation to explain current events. However, these same regional and national specificities are not immutable and have developed historically in constant interaction with the dominating trends in international economics and politics.

In fact, the so called Arab revolts are part of a social and political process related both to circumstantial – social networks and the economic crisis of 2008 – and structural factors – political-economic regime and the foreign policy of Western powers for the region. For this reason, an analysis of this new activism cannot be dissociated from a discussion of the main sociological concepts that allow one to understand the importance of acquiring resources (economic, political, technological and military) in a society in convulsion. It is fundamental not to restrict oneself to a purely economic perspective, but to analyze them based on the sociology of power, which allows for the identification of the determinant actors in the fight for power, their objectives and how the resources within their reach are used.

2 RENTIER STATES: ECONOMIC REFORM AND ELITES IN THE MIDDLE EAST

Rentier states are states strongly sustained by multilateral payments of foreign aid, development aid and military assistance, now also called *strategic incomes*. The high level of national income and the absence of income distribution are based on an implicit social contract among the elites and a strong positive correlation between the real income and the strength of the state's system. The notion of “buying” popular consent – which, on the other hand, gives popularity to the regime – is the cornerstone of this system. The state directs society and creates a system of inclusion and exclusion, building a patronage relationship between the class of the “non productive”, considered as citizens, and the rest of society, which is not benefited from the income and does not enjoy full citizenship.

The greatly touted peace and stability in these states are founded on a very clear distinction between the members of society. Loyalty towards the local dominating elite is accepted as far as individuals' economic interests are acquired directly from the state. Thus, “leaving” local or national community is translated into huge economic costs. Also, the distribution of oil revenues is used as a tool for policing, through deportation or deprivation of citizenship, against those opposed to the dominating elite.

The concept of rentier state began in the 1970's and was conceived, at first, to aid in the understanding of the Pahlevi Dynasty's Iran. It referred, in general

lines, to the states that appropriated themselves of some type of resource to generate external income, in this case the appropriation of the extraction and sales of petroleum. It was Halem Belawy who applied the concept of rentier state for the first time to Arab countries where there was a pronounced dependence on foreign income, either through petroleum or through aid consignments (WILSON, 1998, p. 239).

It is based on these considerations that Vandewalle (1986 p. 30-35) made an important observation relative to the political implications of a rentier state, based on the Libyan case. Vandewalle considers that the concept of rentier state incorporates two dimensions, one economic (income) and another political (state). In productive economies, the state procures most of its revenues through a bureaucracy that administers the system of rules and procedures that assure collection (taxing citizens, goods and services) as a whole. In this sense, rentier states can avoid interaction and commitment towards social actors, through negotiation around taxation. The apparatus for negotiation between producers and external buyers, such as investors and corporations, requires few professionals and a minimal workforce, which, ultimately, discourages the strengthening of institutions that demand the commitment of the state towards its citizens (VANDEWALLE, 1986, p. 31). Insofar as there is room for negotiation between the state and society in respect to taxation of internal economic activities, an autocratic regime is configured. Based on external revenues, then, the rentier state is able to build a broad security apparatus, relatively autonomous from society.

Another author, Moore (2004, p. 6-308), also dedicated to the theme of rentier states, made a summary relative to a series of political “pathologies” inherent to their formation.

- 1) Autonomy before the citizenry. The state refrains from commitments towards its citizens, since it does not need to tax them to obtain its income.
- 2) External intervention. Petroleum, as it is a commodity considered strategic for security and for supplying energy to productive sectors of other countries, causes such countries to support unpopular or scarcely legitimate governments.
- 3) Coups and counter coups. The practice of political violence among involved actors to take over power.
- 4) Lack of incentives for civic policies. The dependence on revenues from petroleum removes all economic motivations related to civic action. The absence of questioning related to taxation transfers political conflicts to matters of morality and social values.

- 5) Vulnerability to subversion. As there is no effective taxing system, as well as no regular civil bureaucracy, the state becomes vulnerable to other armed organized groups who are able to increase their income and confront the state bureaucracy. Additionally, during a possible conflict, the state, while trying to increase taxation, becomes even more vulnerable to insurgents. Therefore, there is conflict over the control of the export-led productive sector, the petroleum one.
- 6) Lack of transparency in public expenses. Since there are few companies managing economic activity, in this case petroleum, the states' control bodies, when there are any, find out they are incapable of analyzing public expenditures. This happens because, since petroleum is a single sector, the agency that oversees its management is closed upon itself, and ends up becoming a quasi-state within the state itself.
- 7) Ineffective public bureaucracy. Since the state depends almost exclusively on income from petroleum, there are few subjects around which it is possible to create an environment that will propitiate meritocracy in the state bureaucracy, considering the aforementioned problems.

The image conveyed by Moore elaborates on problems presented by a rentier state, based on the assumption of a scenario in which its exportation commodity maintains high profitability in international trade. However, after the clashes over petroleum in the 1970's and the recession in the 1980's, a new experience began, with important sociological and political implications for the maintenance of rentier states. In this sense, it became evident that these countries, if they wanted to maintain a pace of economic growth, should promote other economic activities and not depend only on the income from petroleum.

Throughout the 1980's, the world watched an economic crisis that seriously impacted the development policies in the region. The causes of this crisis were the fall in international prices of petroleum, the lower demand for immigrant labor, the reduction of financial remittance and a more competitive financial environment. This financial crisis was essential for the relative autonomy of these states, in relation to their own societies, to be shaken by the decrease in the appropriation of externally obtained income. Economic regulation discouraged private investment and prevented the development of industrial sectors aimed at exportation, impeding the integration of the regional economy in the global market. In face of the decrease in the appropriation of externally generated income, governments in the region made an effort to tighten the wages of the public bureaucracy, down to the levels of the private sector. However, even then, the deficit continued to increase (YOUSEF, 2004, p. 98).

The persistence of the crisis of the 1980's provoked an attempt of response lead by a few countries, such as Jordan, Morocco, and Tunisia, for the adoption of some type of program for economic stabilization. In the entire region, governments cut subsidies, reduced public expenditure and reformed exchange-rate regimes. In the beginning of the 1990's, these changes began to take effect. The fiscal deficit was reduced and inflation placed under control. Thus, governments programmed a gradual transition of structural adjustment, strongly impelled by Western governments and international financial institutions, including the privatization of state-owned enterprises, liberalization of trade, deregulation and strengthening of institutional foundations in favor of market autonomy (YOUSSEF, 2004, p. 99).

However, despite indicating that the private sector of the economy may demand responses from bureaucracies, in the sense of economic and political liberalization, the private sector, as an assessment indicator, showed fragilities. Since groups belonging to the governments in the region had to survive politically and economically, there was an attempt by bureaucrats to incorporate the activities of the economy's private sectors. Therefore, fell apart the idea that the fiscal sociology of the rentier state can allow negotiation between the social productive sector and the bureaucratic sector, that takes over this production, as both come from the same elite. In this sense, just the measurement of the participation of the private sector in the economy, taken as an independent variable, does not allow for inferences about its capacity to create institutions, even if taking the necessary precaution of identifying the relationship between the interests of public and private sectors. The autocratic character of the rentier state became materialized in collaboration between governmental sectors and private initiative, maintaining the structures of authority and power of political regimes practically intact, without this making it impossible to place these economies in the global market. Hence, the advance of the modernization process, in rentier states, resulted in the formation of a bureaucratic-bourgeois state (EHSTESHAMI e MURPHY, 1996, p. 753-772).

The debt crisis in the 1980s served as an opportunity for international financial institutions to impose a process of economic restructuring in the form of structural adjustment programs (SAPs). The eight years of war between Iran and Iraq, the reduction in oil revenues, the high levels of debt and the crisis of the balance of payments propelled many countries in the region to submit to the recipes prescribed by those institutions. One of the results was the massive reduction of state subsidies, and the progressive transformation of a paternalist state model towards governments with minimalist activities. However, these countries remained far from any political reforms: Arab elites made use of economic liberalization as an opportunity to transfer responsibilities over social actions to the private sector, establishing new standards of patronage politics and privatization by giving it access to big deals and investments. The final result was cronyism capitalism with high levels of corruption and public services in bad conditions.

The International Monetary Fund (IMF) and the World Bank paid many complements to the economic reforms made by Ben Ali, in Tunisia, and by Hosni Mubarak, in Egypt, which, in the last decades, abandoned any element of more egalitarian and well-being focused policies, in favor of economic opening and deregulation. Both countries were well rated in the Global Competitiveness Index in the 2009-2010 period.² Tunisia was in the 32nd, position, above Lithuania, Brazil and Turkey, while Egypt was in the 70th. In the Globalization Index, which assesses the implementation of governmental policies, Egypt and Tunisia were respectively in the 12th and 35th places, among the 35 countries researched (HEYDARIAN, 2011).

However, as noted by Schwartz, rentier effects are not limited only to oil exporting countries, but should be extended to the increase in revenues from other strategic resources, such as the Suez Canal, investments abroad, remittance from migrant workers and foreign aid (humanitarian aid, development aid or even military aid) (SCHWARZ, 2004, p. 14).

In sociological terms, this rentier economy is translated into a governing class organized around actual clans who confuse public and private property. The State, in reality, is constituted, at the top, by their families, and, in the intermediary tiers, by their political retinue, comprised by members of the military, tribal chiefs and technocrats. Access to higher positions is restricted to selected members of the family clan or dynasty and a reduced number of individuals who can accumulate wealth in service to the ruling class. Consequently, there are no national enterprising capitalists or what could be called a middle class. Those who appear to belong to this sector are public employees (teachers, police and military employees), who depend on the submission to the power of the ruling elites, with no possibility of ascending to the upper echelons or creating economic opportunities for their descendants (PETRAS, 2011).

The ruling rentier class, in order to compensate for these huge social inequalities and preserve its position, tries to establish alliances with arms corporations and remain under foreign military protection, especially of the United States. As compensation, they offer territories for the establishment of military bases. Although Libya has been an exception in terms of military approximations with the United States, with the end of its diplomatic isolation in 2004 began a vast coalition of interests of the most powerful petroleum companies and the arms industry, who were able to intensify the trade and political relations between the two countries (BARAM, 2011).

2. The Global Competitiveness Report (GCR), published annually by the World Economic Forum, covered the main 133 economies of the world in the 2009-2010 period.

As a consequence of the economic reforms in the Arab world, food subsidies for the poorest have been suppressed, with the reduction of public employment, which results in blocking one of the few existing perspectives for young university students – considering that 60% of the Arab population is under the age of 30 – who are relegated to the informal economy, with no type of social protection. Also, in the discerning observation of Petras (2011), the economic crisis caused Europe and the United States to be more rigorous with immigration, blocking the mass run of young Arab university graduates in search of work abroad.

Additionally, the liberal reforms induced from abroad, combining modern international exploitation and traditional forms of national domination, eroded the paternalistic bonds and the trust in the loyalties that united the middle, lower and ruling classes, making it difficult to isolate urban social movements that become more effective in delegitimizing the authority of the state. Privatization and the reduction of public subsidies (unemployment, food, cooking oil, gas, health and education) have severed the paternalistic ties with which leaders appeased the discontent of the young and the poor, as well as the clerical elites and tribal chiefs.

With the unbridled deregulation and the opening, the commodity prices in Tunisia and Egypt are increasingly determined by variables beyond national borders. The Arab world has the highest level of unemployment in the globe, with astronomic unemployment rates among the young – an average of more than 23% in the region. The absence of democratic institutions prevented people from constructively airing their basic complaints about the economy. In both countries, Tunisia and Egypt, the minimalist doctrine of regulation imposed by international financial institutions prevented the state from becoming a central agent in the implementation of trade and industrial policies that would foster industrialization and sustained economic growth.

3 THE VOICES OF THE ARAB STREET

One of the explanations found by the most impatient to understand the current revolts is that most Arabs had kept the reasons for their complaints in the private sphere. Fearful of persecution, they did not turn against their rulers in public, expressing themselves only in private conversations with friends. It is therefore essential to resort to the research conducted by James Zogby, president of the Arab-American Institute, published in the book *Arab Voices* (ZOGBY, 2010). The author reveals that the main motivation for his research was to reveal what the Arab street was saying. *Arab Voices* is neither a reexamination or interpretation of history nor a group of personal conversations, but a collection of data from a decade of research conducted in the entire Middle East on the attitudes of Arabs in regard to the United States, their most important political concerns, their attitudes towards women and a series of other perceptions. The data were organized by country, city, gender and class.

This research is greatly relevant for the understanding of the Arab world and its societies, often obscured by stereotypes and myths that mold thinking and policy strategies for the region. One may highlight five myths that were questioned by the results of the research.

- 1) There is an image of Arabs as being all alike and, therefore, reducible to a single “type”. However, research showed an extremely varied reality in the entire Arab world. In addition to the existence of several subcultures that make Egyptians different from Saudis and Lebanese, there are also differences among generations. For example, young Arabs (approximately 60% of the population in the region) express concerns and aspire to goals different from those of their parents.
- 2) Another myth, opposite to the first, is that Arabs are so diverse that they constitute not a world, but something large and amorphous. Once again, research revealed precisely the opposite. In the first place, those interviewed identified themselves as “Arabs”, connected to each other by a common language and history. In the second place, there are common political concerns to all generations and countries. A good example of this is the great concern with the Palestine issue and the military presence of the United States in the region.
- 3) The stereotype around Arabs that feeds the idea of “clash of civilizations” is that they hate Western values and way of life. However, the results of the research indicate that Arabs not only show respect for education, science and technology, but also appreciate the values of “liberty and democracy”. On the other hand, the interviewees expressed themselves against the policies of the West towards the Arab world. That is, it is not Western culture and values that are rejected, but the foreign policy of some Western countries.
- 4) The myth that Arabs are propelled by religious fanaticism was also approached by the research. According to the results, it can be concluded that Arabs’ values, as those of many in the West and in other countries of the world, are molded by their religious traditions. Thus, the indices that measure attendance in mosques, in all the Middle East, are approximately the same as those of the churches in the United States, in the same way as the list of the most popular TV programs in the Middle East is as varied as the one selected by North American watchers. In Egypt, Morocco and Saudi Arabia, the most voted for programs are films and soap operas, while religious ones are among the less popular. Also, the most important concerns for those interviewed did not differ from those of “Western” men: the quality of their work and their

families. Hence, in contrast with the mythic notion that Arabs go to bed at night hating America, wake up hating Israel, and spend their days watching the news or listening to preachers of ire, the reality is that Arabs go to bed at night thinking about their work, wake up every morning thinking about their children, and spend every day thinking about how to improve the quality of their lives.

- 5) Lastly, there is the myth that Arabs reject reforms and will not change unless the West propels them. This has been a fundamental principal of North American neoconservatives, derived mainly from the writings of Bernard Lewis, this being one of the justifications for the Iraq War. The research shows, however, that Arabs want reform, but a reform that is made by them. Their main domestic priorities are: jobs, better health conditions and educational opportunities. Also, the research shows that most Arabs do not want foreign countries to intrude in their internal matters, although they are open to international aid to develop their capacities for provision of services.

4 NATIONALISM AND ISLAMISM

There is a growing fear, fed, to a great extent, by the conservative elites of the West and the East, that future events in Egypt may follow the same paths of the revolution occurred in Iran in 1979, which elected Israel as the great enemy, became involved in anti-American action throughout the world, and deprived women and minorities of their rights. In a region replete with examples of armed actions that frighten Israel, the United States and their allies, arose the idea that the best way of fighting Islamic activists (false or true) is a secular dictatorship, for, according to this theory, the nature of conflicts in the Middle East, as well as the ideology of anti-Americanism, result from the clash of civilizations between Islam and the West.

The new social movements appear precisely as a questioning of these secular and dictatorial states, supported by Western powers. For this reason, to understand the Arab Spring, it is necessary to return to the social and political process, from the fight for independence to current times, which resulted in these states.

Despite the preponderance of the perceptions about the Islamic threat in the debate on security in the Middle East, the nature of the conflicts in the region has always been in permanent transformation, since the end of the Cold War. With the disintegration of the Soviet Union and the end of the Cold War, the influences of the great powers were reduced, which caused a series of questionings about religion and identities to appear in the forefront. This scenario remained after the Cold War, revealing that the character of the structure of political and

economic domination refers more precisely to the link between the ruling classes of the Middle East and the major powers. The impact of globalization on these states places them in a veritable dispute between Arab nationalism, traditional and political Islam, within the limits of a nation-state incapable of satisfying its populations, due to its particular traditional and antidemocratic structure.³

With the struggle for independence, two political and social forces appeared in the Arab world, which would determine the conduction of the historical process: Islamism and Nationalism. There has always been a dispute around which should be the true factor to substitute imperialism and unify the ethnic, tribal and religious diversity in Arab societies. Military factions, bearers of a secular nationalism, would substitute the old oligarchy as a panacea for all evils of colonialism, including underdevelopment. Thus, both lines tried to construct their legitimacy almost exclusively based on an anti-imperialist position, which became articulated with the rejection of the state of Israel, but was entirely deprived of economic reform programs, and mechanisms for political participation and integration that allowed for integrating their respective societies or solidifying the feeling of an Arab community that is transnational in character.

Consequentially, both the Islamic and the Arab nationalist projects failed. Instead of progress and military victories, most Arab states – monarchies and republics – were transformed into corrupted family enterprises, surrounded by opportunistic factions, and protected by security apparatus with the support of major powers. Corruption has not spared any aspect of the social, political and economic life.

In the initial years after independence, the task was to align the new territorial identities with the local identities along the inherited colonial borders to, later on, dissolve them in a pan-Arabic feeling. This development strategy allowed rulers to place Arab nationalism ahead of democracy. Some even called upon the fragile notion of “cultural specificity” to allege that democracy was inadequate for Arabs. Additionally, the ever present prospect of a war against Israel was used to place any hope for political opening and democracy under suspicion as a deviation from the main cause.

Thus, for almost a century, Arabs were divided into artificial nation-states, with a fragile historical, cultural or linguistic basis for the constitution of a national identity, which kept them precariously viable, thanks to the political, economic and military pacts made between their local chiefs and Western powers. These agreements were basically materialized in the exchange of foreign security and legitimacy for concessions for the extraction and distribution of oil, through

3. See Halliday (2007).

contracts ranging in the billions. The Arab nationalist secular movement in the 1950's, which tried to destroy these agreements, was successively defeated in the wars against Israel (1956, 1967, and 1973), allowing the ascension of Islamic movements in the 1970's.

The Islamists' success is also due to the sudden disappearance of the socialist system and the failure of development programs in most Third World countries, which counted on the Soviet influence. This showed the fragility and weakness of the Arab nation-states in waging wars, protecting the national territory and providing education, health and employment to its citizens. Also, regional and world events seized from Arab regimes their ideological legitimacy, preventing both Islamists and nationalists from offering alternatives.

The myth of fundamentalism as the cause of civil wars and the threat to peace and stability in the region was reinforced in the beginning of the 1990's with the civil war in Algeria, which caused the death of, at least, 80 thousand people. One type of interpretation that does not take into consideration socio-economic conditions and their intellectual and religious context contributes to feeding the false belief in the clash of civilizations between Islam and the West. The economy in the Arab world suffered the consequences of the sharp fall in petroleum prices in the 1980's, in addition to a demographic explosion that generated a very young population – 60% of inhabitants are under 30 years of age – and a 75% employment rate among men.

It is therefore necessary to place fundamentalist Islamic thinking and its correspondent movements in their due international, regional and local context. Islamic movements are an important part of Arab political and social life and impregnate all its spheres. Their goals are numerous and their methods quite diversified. Some have metamorphosed into political parties, preferring to participate, in the legal framework, of the State's legitimate institutions. Others have converted into social organizations, filling the void left by the state in the provision social assistance.

Showing no sign of rejecting the Islamic presence, but emphasizing the claims for freedom of expression, human rights and socioeconomic improvements, the new movements are, probably, the best antidotes against the sectarian identifications that lend justification and legitimacy to secular dictatorships. The current revolts have once again placed in the order of the day the possibility of reappearance of a new pan-Arabism that does not claim for a unified Arab nation, as did the former nationalism, but resists all attempts to incorporate it into religious and sectarian divisions of identity. Although activists claim the right to participation separately in their countries, their ideas cross religious and state borders. The domino effect in the region demonstrates that the idea of an Arab

political community is still alive. Although detached from the former nationalist project, the imagery of an Arab identity continues vigorous and can be the potential unifier against possible trends towards disintegration and foreign intervention in the region. These promising prospects of democratized civil society, turning its attention toward the well being of the masses, are strong, although the elites remain in place during the process of transition.

Arab nationalism has lost its deep roots which, for a long time, were an encouragement for political action as a source of legitimacy, but there is still a very fine, yet resistant, thread that ties the religious aspirations of these peoples to the demands for representative democracy and a more equitable distribution of economic resources. Even the Turkish state, which has, for almost a century, served as a model for many secular nationalists, has gone back to discussing the question of religion.

There is, therefore, no denying that religion is an essential principle of identity of the peoples and a crucial component of the dynamic development of societies in general, and particularly the Islamic world. As correctly observed by Mark Levin, the photographs publicized in the great media of the United States, on the occasion of the demonstrations in Cairo, can help understand better the differences from the Iranian revolution, in 1979. On that occasion, the images of youth showed revolutionary impetuosity, allied to a feeling of rage, supposedly fed by religious fervor. They seemed very strange for citizens of Western countries, which held other revolutions as a parameter. The photographs from Tahir Square showed religious women and youth bowing in prayer before the military armored cars, claiming a type of "peaceful Jihad", which has always existed in the history of Islam, but which never received due attention from the Western media.

The new movements of the Arab Spring cannot, therefore, be explained through theories about the Islamic threat, nor by the category of Arab nationalism. This new form of political activism appears as a reaction, both to secular dictatorships, which have not reached their goals, and to terrorist movements, such as Al-Qaeda (MUSALI, 2008).

As very well noted by Professor Hicham Ben Abdallah El Alaoui, two years ago there was already something that might be called, for lack of another term, "third nationalism", being born in the Arab world, fully aware of the successes and failures of Arab and Western political movements. It defends Arab and Islamic identity and is solidary towards movements for independence and justice in the Moslem world, emphasizing the Palestine issue. Although it has no political program, it condemns authoritarianism and corruption, aspires to the construction of democratic governments, and rejects any type of foreign military encroachment (ALAOUI, 2009).

5 EXCEPTIONALISM IN LIBYA?

The revolt in Libya began with the arrest of a human rights activist, Fathi Terbil, days before the beginning of the *day of fury* (February 17, 2011), and evolved into a civil war with international intervention. Even after hundreds were killed, on the fifth day of repression, the repercussion in the international media was still small and there was no sign of more assertive action from the celebrated “international community”, which would have been strange, at the start, since Colonel Gaddafi’s regime had been in power longer than any other dictatorship in the Arab world (42 years), and had been responsible for several acts of terrorism in the 1980’s. Yet, if one observes attentively, it is still quite surprising. In 2008, the then Secretary of State of the United States, Condoleezza Rice, declared, in a visit to Libya, that relations with the United States were in a new era of cooperation. When questioned about the problem of human rights in that country, Rice said she had respectfully discussed the matter with Gaddafi. The Libyan Minister of Foreign Affairs, on the other hand, said that Rice’s presence was the proof that Libya, the United States and the world had changed. One must recognize that he is right, for Libya was rehabilitated from its status as a pariah state in 2003, agreeing to abandon its nuclear program and promote openness to Western investment, especially to large petroleum corporations, with which billion-dollar contracts were signed. By conforming to the UN resolutions, Libya rid itself of the economic embargo and began reestablishing its political and diplomatic ties with European countries and the United States, becoming reintegrated into the international community. In 2006, Gaddafi joined a program to establish a free market and recognized the central role of private initiative in Libya, preparing the way for the implementation of the so-called economic reforms, under the supervision of the IMF and the World Bank. Prime Minister Tony Blair was very active in promoting this understanding, also approving the selling of tear gas, “crowd control” weapons, rifles and machine guns to Bahrain and Libya.

The American Ambassador in Libya, Cretz, in a declaration at the Carnegie Endowment for International Peace, in 2010, informed there had been great progress during those two years of “normalization” of the United States-Libya relations, and that a significant cooperation between the two countries was beginning (CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE, 2010). Cretz also complimented the efforts for privatization, emphasizing that the United States’ trade missions were very well received. In what refers to human rights, the ambassador said there was an open and frank dialog between the two countries, recognizing, however, that the promotion of democracy was a delicate matter and should be approached with care.

Yet the ambassador did not mention that Libya’s economy is still extremely dependent upon the fluctuations of international prices of oil and gas. The billions of dollars accumulated over the years were not used to diversify the econo-

my. There is a huge discrepancy between the several social classes and their respective productive sectors. The agricultural sector, for example, employs 20% of the work force, although it contributes towards only 2% of the gross domestic product (GDP). The industrial sector, including petroleum, gas, and petrochemicals, is responsible for more than 60% of the GDP and employs less than 25% of the work force. The rates of unemployment vary between 20 and 30%.

Gaddafi governed through the mediation of a “social leadership committee”, comprised by approximately 15 representatives of several tribes, present even within the ranks of the armed forces, each one representing a tribal group. If the rebellions in Tunisia and Egypt called attention for their success in forcing their dictators to abdicate, the prolonged resistance of Gaddafi and other dictators seemed something incomprehensible to Western eyes.

Why do not Ivorian strongman Laurent Gbagbo, Libyan leader Muammar al-Qaddafi, and Yemeni President Ali Abdullah Saleh take the offers of comfortable exile apparently extended to them and leave? It would probably be better for their physical safety, and for their bank accounts. Following weeks of fighting and bargaining and demonstrations, what more do they have to prove? (KAPLAN, 2011b)

In his understanding, differently from the leaders of Tunisia and Egypt, these dictators do not govern in the Western style, through institutions and bureaucracies. Their objectives in dominating parts of the territory with the aid of relatives and tribal alliances are totally outside the Western pattern of rational action. Yet he recognizes that Gaddafi kept united a country which, during almost all its history, has been devoid of a feeling of state. According to Kaplan (2011b), Gaddafi, Saleh and Gbagbo have lived with a “complex and ambiguous reality”, a “special type of tribalism”, combining tribal politics and acts of repression of their security services. Kaplan concluded that their occasional departures had left a “total void”.

This is also the conception of the former United States Secretary of Defense, Robert Gates, when he said the revolts highlight the “ethnic, sectarian and tribal differences that have been suppressed for years” in the region (IGNATIUS, 2011). Despite seeing promising prospects in favor of democracy, he asks “whether more democratic governance can hold the countries together in light of these pressures”. He also warns that “there’s a risk that the political map of the modern Middle East may begin to unravel too, with the breakup of Libya” (IGNATIUS, 2011). That is, the Secretary of Defense emphasizes his skepticism as to the building of democracy in situations of supposed state fragilities that could lead to the fragmentation of the national states in the region. Seen in these terms, the search for stability would be, ultimately, preferable to democracy.⁴

4. This argument is advanced by Fukuyama (2005).

This insistence of Western analysts in interpreting the Libyan political regime, based on images of leader worship and Gaddafi's eccentric style, as an historical aberration has been completely mistaken and has generated deeply anti-democratic ideological positions, as can be concluded from the statements above. Actually, it was a regime rooted in family networks and whose discourse was strongly marked by the threat from the West. Colonel Gaddafi transformed Libya's anti-colonialist nationalism into a revolutionary ideology, using a language easily understood by Libyans. The regime began with a coup d'état in 1969, promoted by middle and lower class police officers, representing all three regions of Libya, and with the support of a largely rural population. The new government did not have a clearly designed political agenda and based itself much more on a true ideological mix, with traces of Arab nationalism, anti-colonialism, Islamic cultural identity and tribalism (AHMIDA, 2011).

Yet it must be understood that the often-evoked "tribalism" is not an atemporal characteristic of Libyan society, but a strategy adopted by Gaddafi in the old style of governing: dividing and conquering. Gaddafi artificially promoted the rural world through music, festivities and rituals, and recovered old institutions, such as tribal leadership councils, attacking urban culture. The fact is that, regardless of Gaddafi's intentions, the first years of the 1970's brought many benefits to Libyans: generalized literacy, medical care, free education and improved living conditions. However, from the 1980's on, an excessive centralization began, resulting in greater repression by the security forces and in a decline in the rule of law, putting an end to the populist experience. Institutions such as courts, universities, labor unions and civic associations were eliminated. With the crisis of the 1980's and the international economic sanctions in the 1990's, due to the involvement of the regime in terrorist attacks, health and education services deteriorated, unemployment soared, the economy became increasingly dependent upon revenue from petroleum and the corruption in the regime increased (AHMIDA, 2011). Gaddafi's son, Saif al-Islam, in a speech on February 22, 2011, warned that Libya was different from the other Arab states, because it was comprised of tribes and clans, and any type of scission could lead to chaos and civil war. Tribal feeling adds a relatively uncommon dimension to the usual equation of possible benefits and costs that each Libyan individual should take into consideration in his decision in face of the revolts. Considered in these terms, the Libyan case would be, at first glance, very different from those of Tunisia and Egypt, where tribalism practically has not existed, except in isolated points in the desert.

In a tribal society, individuals live within a network of loyalties with different degrees of intensity – family, profession, class, region, ethnicity, political affiliation, religious denomination, and so on. Tribes are frequently characterized as authentic political units *a priori*, but they must be understood as a principle

of social order, in which loyalties and habitual obligations are “segmented” by a principle of descent from a common ancestor or common ancestors. In general, each one of the tribes in the Middle East is subdivided into clans, which, in turn, are divided into sub clans, and so on, until the level of family units. Traditionally existing outside of the power of the state, tribes in the Middle East maintain order through a complex balance of power among themselves, around alliances and feuds. One result of this system of collective responsibility is that the members of certain tribal groups have a strong interest in policing the behavior of their kin, since any person’s actions directly affect the reputation and safety of the entire group.

In the context of the revolts in Libya, Bamyeh (2011), a specialist on Libya, raised a series of questions about how people would behave when they were called upon to decide whether or not they supported Gaddafi. Would the elders of the Warfala tribe, for example, make this decision in name of all, or even most, members of the tribe? Around one million people, approximately one sixth of the total population of the country, belong to this tribe. The continuous process of urbanization in the last 40 years probably weakened tribal bonds, even if most people can still say which tribe they belong to. However, it is important to note that most Libyans are no longer nomads living in the desert from shepherding activities, a lifestyle that helped preserve tribalism, because the system acted as a deterrent element upon potential aggressors.

What has escaped the analysts’ attention is the demographic transformation that made the revolt possible. Close to 80% of Libyans now live in urban areas, villages and cities. Today Libya has a modern economy and a high literacy rate. The leaders of the upheaval include lawyers, judges, journalists, writers, academics, women’s rights activists, army officers and former diplomats – considerable urban elite that became “infuriated” with the regime. Many of them work in administrative structures inspired by the modern bureaucratic state, which creates other types of authority that negate those of the old tribalism (BAMYEH, 2011).

The fact that the opposition controlled large portions of Eastern Libya suggests the region is also an important factor. Judging by the tribal maps, the East of the country holds a set of tribes that are not currently in conflict, regardless of the position their leaders may have supposedly adopted. If it is true that the presence of a tribal element cannot be completely discarded in Libyan politics, it is also a fact that the excessive emphasis on tribal affiliations is a part of a discourse that is orientalist in character, and that contributes very little towards the understanding of the Arab world. The process of accelerated urbanization in the last years has caused tribes in Libya to become quite heterogeneous, attenuating the importance of ties of kinship in influencing the behavior of their members. These tribes

are increasingly comprised of diverse members with different social and economic backgrounds, reflecting a new reality in the Libyan society, in which intertribal marriages, in all lineages, become common (BAMYEH, 2011).

Also, the apparent exceptionalism of the Libyan revolution should not be understood as something distinguished from the relationship between society and government that prevails in the remainder of the Arab world. As in other parts of the region, society in Libya, in the last decade, has become much more modern and dynamic than the regime. As in Tunisia and in Egypt, a key factor in the revolution in Libya was the “autocratic silence” in hearing complaints from their peoples. As in the other Arab revolutions, this must be seen as a symptom of an established social modernity, strengthened by high rates of education, communication technologies, and a young population, whose economic and political expectations have been frustrated.

Therefore, the extreme violence that accompanies the revolution in Libya is certainly an expression of the huge existing distance between the state and its society. When Gaddafi's son, Saif al-Islam, insisted that Libyan society is “tribal”, he was not describing and empirical reality, but reflecting the awareness that a great portion of Libyan society is very distant from the state and is organized in its own way, although not necessarily along tribal lines.

Tribal loyalty in Libya, in its aspects of command and obedience between the members of a tribe, has never been unconditional. Since the beginning of the uprising, several Libyan tribes made numerous declarations about the situation, which, to a great extent, reflect the patriotism that permeates these groups. Mohammed Bamyeh collected 28 declarations made by the tribes between February 23 and March 9, 2011, revealing that the great majority emphasized national unity instead of localized tribal interests (BAMYEH, 2011). The declarations showed also that the tribes in Libya are heterogeneous entities, comprised by diverse members, with distinct social and economic backgrounds, reflecting the nature of Libyan society itself, in which intertribal marriages in all lines are frequent.

The declarations also show the fluidity of tribal solidarities. Only 25% of the declarations were allegedly issued in name of the tribe as a whole; 43% in name of specific or local sections of a tribe, and 39% included a declaration dissociating from the tribe the members who are in high positions in the regime (BAMYEH, 2011). Bamyeh also turned his attention to the appeals made to the tribes, published by their members during the same period, and was impressed by the fact that none made an appeal to the tribe as a whole, without any specification. Instead, all the individuals who published such appeals directed themselves to specific sections of the tribe, located in the city or region where support to the opposition was most necessary to assure its success in the local community.

The tribal declarations and appeals show how the discourse between their members, during the revolution, became another vehicle for expressing Libyans patriotism and articulating a sense of national duty. They also reveal how this discourse always tries to contextualize and localize a sense of national responsibility, with the goal of producing concrete successes instead of simply registering great symbolic declaration. This combination of a permanent patriotism and a paradigmatic tradition of tribal solidarity moves towards flexibility in the nascent civic and social organization of Libya, which will be fundamental in a possible post-Gaddafi era.

It was against this historic dynamic reality that the Gaddafi regime tried to build a state that consisted on concentrating the Executive Branch, without popular support, in the hands of a few individuals. Far from embracing the Libyan tribalism spirit, Gaddafi subscribed to a mafia style ethics, in which flexible alliances were substituted by a dictatorial and policing style (HALLIDAY, 2011).

The question of how he kept himself in power for so long is perhaps the most interesting in the current environment. The answer can be found partly in the fact that there was practically no modern state in pre-Gaddafi Libya. In general, society was organized around several associations outside the state, including tribal networks, labor unions and political parties. The social cohesion of the Libyan state, largely dependent on foreign aid, until the discovery of petroleum a few years before Gaddafi's coup d'état, rested almost exclusively around the monarchy. The anti-institutional nature of the political regime in Libya, where the state institutions were substituted by an informal police vigilance network, of agitators and informers, may be the main reason why Gaddafi and his family trusted militias and mercenaries more than the regular armed forces in their combat against the revolution. An incident in 2009, involving two of Gaddafi's sons, exemplifies this aspect very well. The two fought among themselves with combat vehicles and military troops, until one was forced to sell his stock to the other during the installation of a Coca Cola factory in the country. Although he held no position in the government, Saif al-Islam represented the regime and spoke in its name. He was the one who made the first official speech to the nation right after the beginning of the revolts.

6 CONCLUSION

One may infer that the self immolation of the young Tunisian university student Mohamed Bouazizi, which triggered the protests in Tunisia, was an act dedicated not only because he could not find a job reflecting his professional ambitions, but also due to a strong feeling of humiliation and injustice in witnessing a police officer confiscating the fruits and vegetables he was selling. Probably, this same feeling of injustice and humiliation was the trigger that led thousands of

people to the streets of Tunis and Damascus. Emigrating abroad ceased to be a viable option for the youth who found themselves facing two alternatives: fighting or submitting. With few opportunities abroad, they found themselves forced to struggle for social mobility in their countries through collective political action, despite their lack of organization and leadership to influence the political game, and, even more so, of a project for a new state.

The revolts in the Arab world are showing they go far beyond the alleged messianic manipulation of the masses, insuflated by the theocracy of the mulahs, the Muslim Brotherhood or the Salafists, which, until recently, were used as an explanatory model for all conflicts in the Middle East, from Palestine to the actions of Al-Qaeda. The protest waves in all Arab countries showed how powerful, in organizational terms, the social media – that connected in real time with international public opinion and showed the fragility of security systems and intelligence services – is. Institutions and security apparatus no longer have the capacity or instruments to suppress social resistance movements in a world interconnected by satellite coverage and social communication media.

These actions opened the doors to a more complex world, with economic, social and political problems that can no longer be understood based on a simplistic division between nationalists, who are relatively secular, on the one side, and radical Islamists on the other. The movements expressed the desire for economic reforms and democratic rights, showing that the economic and political deficiencies of the Arab world are the two sides of the same problem and, therefore, to be fully successful, changes must reach all of these dimensions.

What the apologists of exporting democracy have always ignored is that Arabs and Muslims have never rejected democratic reforms. On the contrary, there have always been movements against despotism, corruption and abuses practiced by those who are in power. Yet the Arab street demanded reforms that could correspond to their values and were implemented in a pace consistent with the social composition and political conditions of their communities.

Those who fear the growth of “radical Islamism” as an instability factor in the region should be more attentive as to the “friendly dictatorships”, which, in fact, are the main ones responsible for the insecurity in the Arab world. Mass unemployment, the high price of food and political repression are an explosive combination, more dangerous than terrorism. However, as powerful and consistent as the clamor of the Arab population may be, the support of international forces will be decisive for the changes to go beyond a mere constitutional reform. Increasingly, the United States evinces its incapacity in ordering the international system and maintaining unquestioned hegemony. Despite the pronounced asymmetries in power, they can no longer prevent the presence of other countries.

What happened in Tunisia, Egypt, Yemen and Libya may still happen in the entire Arab world, revealing the collapse of a post colonial order that lost its legitimacy a long time ago. Probably, if there had been no military invasion, Iraq would also be in this list of countries with social revolts. Inspired by the rebellions occurring in the entire Arab world, thousands of Iraqis have protested peacefully against corruption and the lack of basic services. Eight years after the invasion led by the United States that overthrew the dictator Saddam Hussein, food, water, electricity and jobs lack. The rebellions seem, more and more, to be a reflection of the failure not only of the performance of their leaders, of the form of government adopted (republics or monarchies) or the nationalist project begun in the 1950's, but above all of the essence of these states.

The greatest challenge is the dismantling of the rentier states, in which the functioning of the political system and a substantial part of the revenue comes from income derived from natural resources, especially petroleum. Whatever the dynamic of changes, it is improbable that any of the old Arab regimes will survive in their current forms, in total contradiction to the transformations of their societies. We are in the middle of a revolutionary process which, even if some of its elements are suppressed, will continue influencing minds and actions in an arc of countries, from Morocco to Iran.

Due to the complete disconnect between state and society, the revolt in Libya, so far, has been the first of the current Arab revolutions in which an opposition government was formed before the end of the revolution. Contrary to the cases of Tunisia and Egypt, in Libya, unlimited state violence demanded that government workers abandon their posts and join the revolution. But the revolution was not able, for a while, to obtain the trust of ample sectors of the government to conduct a possible period of transition. At the same time, the success of the opposition in some parts of the Libyan territory created a pragmatic need to build a government structure to execute and manage these areas. So that, paradoxically, the most institutionally developed social movements emerged from a state with a precarious institutional structure. The apparent exception of Libya is not only in regards to violence, but in the example of organization that refutes the Western fears related to the "absence of civil society".

The success of the protests, especially in Tunisia and Egypt, showed also that military alliance with the United States does not necessarily assure the survival of these regimes. These relations may also help garner diplomatic and military support to suffocate movements, as in the case of Bahrain and Yemen, but the United States did not consider, ever, sending troops to squash a revolt that claimed for democracy: the armies of Saudi Arabia and the United Arab States did the "dirty work", although the Fifth Fleet was stationed nearby. The idea of stability based on armed security, which ruled for a long period, is currently, at least, a risky option.

One of the probable effects, in the short term, is that when dictators realize they must reduce their foreign dependence in security, the surviving regimes may begin a new large scale arms race, including the acquisition of nuclear weapons. Gaddafi gave up the mass destruction weapons program in 2003, in hopes of improving relations with the West. He might have been thinking that, if he hadn't done that, the North Atlantic Treaty Organization (NATO) would act with more precaution, reinforcing the belief that the nuclear option is the only assurance of security (SHAHIN, 2011).

Kaplan (2011a), considered a relatively moderate voice in the American mainstream, is right when he states that the manifestations against authoritarian regimes that shook the Arab world are more qualified by what they are not: they are not a clamor for the Palestine state, neither are they "anti-West" or "anti-American". Moreover, he adds that, whatever the outcome of these revolts, it seems evident that Arabs have given more attention to the defects of their own societies than to the injustices committed by the international community. Kaplan makes no distinction between immediate objectives and possible long term changes in foreign policy. The new governments may refuse to unconditionally adopt the methods of the United States and Europe in the war on terror, without this signifying they are partisans of Bin Laden. However, not affronting Israel does not necessarily mean any type of agreement with the policy of occupation of Palestinian territories. Finally, new governments may also question whether to maintain the greatly acclaimed political stability in the region it is necessary to spend billions of dollars on Western military equipment.

The recognized specialists in Middle East economy, Richards and Waterbury (2008) changed their opinions about economic reform over the years, suggesting that the versions for the implementation of free trade, advocated by the Washington Consensus, are not the panacea that them and many economists in the beginning of the 1990's thought it was. The long awaited liberal turn of the economies in the Arab world has been partial and hesitating and, even when there was full adherence, was not translated into a significant decrease in social inequalities (RICHARDS e WATERBURY, 2008, p. 408). As an example, they recall that the economic policies of the United States for Iraq, based exclusively on the Washington Consensus, failed completely. The economy practically went into a state of collapse and unemployment quickly leaped to more than 40%. The thesis that free market economy and democracy are mutually reinforcing processes has not been proved valid in the nations' practices. Instead of showing resolute and unconditional support to changes, democratic governments and international institutions did not show the expected fondness for them. Stock markets fell, commodity prices remained high and financial consultants expressed the dread that social convulsions could disturb the recovery from the economic crisis of 2008.

A lot of the popularity and strength of Islamic fundamentalism is fed by socio economic conditions allied to the intransigence and repression of political regimes, which provoke, in turn, feelings of indignation and impotence. Islamic movements know how to convert into moderating and reformist forces when they have enough political space and into radical and destructive forces when they lack it. It can be said that, far before the United States executed Bin Laden, social movements in the Arab world had already excluded him from history.

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SUBPRIME CRISIS IN THE UNITED STATES: PUBLIC SECTOR'S REACTION AND THE IMPACT ON THE EMPLOYMENT RATE

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ABSTRACT

This paper analyzes the impacts of the subprime crisis on the American economy following two paths: *i)* the first studies critically the measures implemented by the American state to confront the crisis; and *ii)* the second shows its impacts on the labor market. With respect to the first point we attempted to distinguish traditional fiscal expenditure from outlays under credit and asset purchases programs. This analysis showed that the huge amounts of resources allocated to these operations in the end did not have a real impact on Treasury's expenditures. We show also a strong asymmetry between Federal and Local governments fiscal policies. While the Federal government implemented strong countercyclical policies, in most quarters studied in this paper the local governments did the opposite. On the second part of the study we show that the above mentioned asymmetry had also distinct impacts on public employment, particularly a negative one on the local level. In terms of private sector employment the hardest hit activities were industries, construction and to a lesser extent financial services. It is highlighted that in spite of the important countercyclical policies implemented by the Federal Government the unemployment rate remained persistently high, which is a source of future policy concern once the stimulus bills wane by the end of 2011.

Keywords: subprime mortgage crisis; employment; United States; fiscal policy.

RESUMO

Este artigo tem como objetivo analisar os impactos da crise das hipotecas *subprime* na economia americana sob dois aspectos: *i)* fazer uma avaliação crítica das medidas tomadas pelo Estado americano para enfrentar a crise; e *ii)* avaliar o impacto desta sobre o mercado de trabalho. Em relação ao primeiro ponto, procurou-se separar os gastos efetivamente fiscais dos dispêndios com compra de ativos e operações de crédito realizadas principalmente pelo Tesouro e pelo Federal Reserve (FED). Tal procedimento revelou que os vultosos recursos comprometidos com estas operações não representaram de fato uma pressão sobre as contas do Tesouro. Demonstra-se também uma forte assimetria entre o governo federal e os governos subnacionais. Enquanto o governo federal realizou importante política contracíclica, nos trimestres analisados, os governos locais e estaduais, limitados por restrições legais, tiveram um comportamento pró-cíclico. Em relação ao segundo ponto, destaca-se que a aludida assimetria revelou um impacto diferenciado sobre o mercado de trabalho do setor público, afetando prioritariamente o emprego no âmbito local e também, em menor proporção, no âmbito estadual. No que se refere ao setor privado, as atividades mais atingidas foram a indústria e a construção civil, ficando em terceiro lugar o setor financeiro. Observou-se que, a despeito da importância das políticas públicas anticíclicas, o desemprego não teve uma redução expressiva, o que gera preocupação com o futuro do mercado de trabalho, sabendo-se que as políticas de estímulo se encerram em 2011.

Palavras-chave: crise das hipotecas; *subprime*; emprego; Estados Unidos; política fiscal.

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1 INTRODUCTION

The crisis that began in the subprime real estate market in the third quarter of 2008 reached its most critical point and made history as the worst recession since 1948. It exceeded by 0.7 percentage point the fall in gross domestic product (GDP) recorded in the 1982 recession, caused by Paul Volker's policy of high interests. Despite the severity of the recession observed in the last two quarters of 2008 and the first two of 2009, which ensured this unfortunate historic mark for the subprime mortgage crisis, many predicted even more severe consequences, given the severity of their impacts on the American financial market. However, a massive intervention of the U.S. government, including the Federal Reserve (Fed), was able to contain the crisis and greatly reduce its impact in terms of output and employment.

The great irony of the sociopolitical scenario after the crisis in the United States is the ability that the most conservative sectors of the society had in order to create a historical reinterpretation in which the State stops being a virtuous and central power by trying to reverse the effects of the crisis. This fact, however, is not only based in the important role played by the State in overcoming the crisis, but also in the records obtained in recent surveys on U.S. citizens, which shows that the biggest concern of the population is the serious issue of unemployment and not the fiscal balance.

We do not aim at deeply discussing the sociopolitical aspects of this conservative strategy. We will only highlight the extent of the state intervention in the financial system and some of its main aspects that provoked, in some cases, misunderstandings and situations that opened the flank to attack the conservative discourse. As we intend to argue in this paper, despite the fact of saving the economy from a crisis of unimaginable and uncertain proportions, but very likely catastrophic ones, the State interference did not prevent the change in the level of the unemployment rate into historically high numbers.¹ Certainly, the political context after 2010 shows in a clear way the opposite of what would be the scenario of adopting expansionary fiscal policies. This political option, to some extent, is already reflected in the growth perspective for the coming years, which is not comparable to the vigorous resumption of the Reagan era, which included an expansionary fiscal policy with an emphasis on war spending. Thus, the outlook for drop on the unemployment rate is quite modest. In the Fed's latest projections, it was estimated that in 2011 the annual unemployment rate should be

1. Before the official beginning of the recession, as defined by the National Bureau of Economic Research (NBER) in December 2007, the official unemployment rate (U3) of the United States was at 5%. Throughout 2008, it jumped to 7.2% – value reached in December 2008. In 2009, the unemployment rate rose to 9.9% and remained around this level throughout 2010 (even though the official recession had already ended) with evidence on some economic recovery indicators. In the second part of this article, the indicators of the labor market will be discussed in more detail.

between 8.8% and 9%, falling to a range between 7.6% and 8.1% in 2012 and between 6.8% to 7.2% in 2013 – that is, even four years after the recession.² It is foreseen that the unemployment rate will be still be above of those 5% previous to the recession.³

As it will be shown throughout the text, the unemployment rate fell slightly in January 2011, reaching a value of 9%. However, this fall it is still weak, which to a large extent is explained by a significant reduction in the rate of the workforce participation. The trajectories of the unemployment rates measured by broader criteria were less auspicious, indicating the persistence of a wide portion of precarious activities (part time jobs, among other weaknesses) of insertion in the employment universe of the labor market in the United States. Besides that, an increasing portion of the labor force for this market is giving up not because they do not need a job, but for assuming that they will not find any on the short run.

This paper is divided into two parts, other than this introduction. The first part analyses some aspects of the U.S. government response to the crisis (comprising the steps taken by Presidents George W. Bush and Barack Obama). In this evaluation, it will be possible to observe the different reactions in the government spheres, and their impact on aggregated public spending. This raises a debate about the future path of the economy as the emergency programs are extinct. This analysis will embrace various aspects, highlighting the purchase programs of actives/property securities, the family subsidy credit programs, mainly in the housing sector, and other programs relating to taxes, this is to say, public spending and tax breaks. Moreover, given the very different behavior regarding the possibility of spending/taxation of various administrative levels of the American State (i.e., the various levels of the government), we must examine them separately, in order to put into perspective the supposed fiscal crisis of the Federation and local governments – one of the main topics for discussion in early 2011.

The second part of this paper aims to study the effects of the crisis on key indicators of the labor market – trying to go beyond a mere analysis of the standard unemployment rate (U3) behavior. It also assess the recent evolution of unemployment rates that capture circumstances related to precarious forms of insertion in the labor market (as the realization by broad segments of the population of part time work precisely because of the lack of economic dynamism in some sectors) or those factors related to momentary outputs of the work force for the market, because of discouragement that has reached segments of workers in crisis times. The indicators analyzed in the second part aims to stresses on the private and public sector activities, which recorded the worst effects in terms of

2. Officially ended in December 2009.

3. Officially, The National Bureau of Economic Research (NBER) states that the recession began in December 2007.

job losses. In the analysis of changes in employment levels it is implied that there are different logics for determining employment in the private and public sector. In the case of the private sector, we want to expose the sectors that suffered the most direct impacts,⁴ on their level of employment, arising from the crisis that has affected the U.S. economy since the middle of 2007. The data revealed that these sectors were construction and manufacturing activities, given the nature of the recent crisis. Regarding to the public sector, the logic for determining the level of employment is different because it is based on the provision of public services rather than production aimed at profits. What we intend to clarify is that the recent development of public employment, in some ways, reverses the course that had been drawn in the last decades. More importantly, however, it is to stress how the employment levels have evolved since the outbreak of the crisis, according to public governmental spheres (federal, state and local ones). We try to do it by assessing how fiscal constraints and ideological restrictions guide the macroeconomic policy since, at least, the outbreak of the crisis, have affected the behavior of these indicators. In this way, we can also qualify the nature of the crisis and fiscal measures adopted by the last two governments (George W. Bush and Barack Obama), which are described in the first part of this study.

2 OVERVIEW OF THE PUBLIC INTERVENTION POLICY AFTER THE CRISIS

The government's reaction to the U.S. subprime mortgage crisis was proportional to its severity. This reaction was initiated in the Bush administration, despite its conservative fiscal rhetoric, and continued under Obama, whose speech, incidentally, never stated in clear opposition – with regard to this aspect – to that of his predecessor. Although a significant number of specific actions by both the Treasury and the Fed, the public intervention in the period was marked by three major initiatives: Two in the Bush administration, the House Recovery Act (HERA) and the Troubled Asset Relief Program (TARP), and also the American Recovery and Reinvestment Act (ARRA), launched in the first year of the Obama administration in 2009.

There is, globally, a division of three different origins for these anti-crisis actions launched by the federal government. Initially, we can characterize the financial actions, i.e., the purchase by the Treasury/Fed of shareholdings in mostly financial companies, but not exclusively, in order to save them from insolvency via capital injection. As mentioned, this type of intervention was essential to preserve the financial system and therefore to avoid a collapse of the U.S. economy,

4. Clearly, there are also indirect effects, difficult to measure and those should be addressed in a separate study. With indirect factors we mean the effects on other activities – including in the manufacturing sector – the consequences of the fall in demand from the construction activities. These effects are only mentioned superficially, based on recent literature, especially some publications in the journal *Monthly Labor Review*.

which certainly would also have disastrous consequences for the world economy. However, the purchase of assets or the nationalization of goods was also fundamental to the survival of the U.S. auto industry, as we shall see.

Another very important type of intervention directly linked to the financial sector was the loans made directly by the Fed, which in some cases also had shareholding in the Treasury. These operations served to unlock the credit market, and reduce the spread of interest rates. If the credit market had not been reactivated, such a situation would have led to a complete stoppage of the economic activity in the United States.

Regarding the financial markets, it is also important to highlight the specific intervention in the housing market through the “re-nationalization” of the government-sponsored Fannie Mae and Freddie Mac agencies. These agencies played a central role both in the security as the securitization of mortgage bonds (the mortgage-backed security – MSB) and their breakdown would represent a fairly dramatic impact on a crucial market in the development of the subprime crisis. If there had been a total collapse of this market, the rising number of foreclosures⁵ would have kept (or driven) the deflationary trend in the housing market, with negative impacts on assets that include mortgages on such properties, and so on liquidity and profitability conditions of the financial sector as a whole, also with effects on other sectors of economic activity. In addition to preventing a deflationary spiral hit on the already battered financial markets, government intervention in the housing market was important, by stabilizing it, to avoid an even greater impact on job losses in the sector.

Finally, there were also measures of more clearly fiscal nature, i.e., implementation of programs to increase spending/tax waiver, as well as transfers to individuals. These measures were established, mainly, as components of the ARRA and had a very different behavior with respect to the different governmental spheres.

Besides the obvious fact that these types of intervention reach different segments of the economy and, therefore, also have different macroeconomic impacts, the separated (disaggregated) analysis enables the measurement of these interventionist measures more clearly its real fiscal dimension. The scope of public intervention (particularly the one of 2008) and the large amounts involved in it created a false impression of very high public spending. This interpretation is not only unrealistic as eventually generated a misperception in sectors of the American society that the U.S. public sector was entering into a stage of complete fiscal chaos.

5. It is the process of evicting the owners of mortgaged properties that are in default. These residents basically leave mortgaged residential units, which return to holders of mortgages while, in personal terms, this situation results in an immediate limitation in the access to the credit market.

In fact, most of the funds allocated to the TARP had, as effective fiscal cost, a very small portion of the original disbursement. The table 1 summarizes the main accounts of this program, which specifies the involved values, the effectively disbursed, those paid and the resulting income from acquired assets by the Treasury (Data updated on December 31, 2010).

TABLE 1

Main components of the Troubled Asset Relief Program – TARP (2010)
(In US\$ billions)

	Involved	Disbursement	Payment	Income
Capital Purchase Program	204,89	204,89	180,56	25,32
Targeted Investment Program	40,0	40,0	40,0	4,43
Asset Guarantee Program	5	0	-	3,04
Consumer and Business Lending Initiative	5,24	0,67	-	-
Legacy Securities Public-Private Investment Program	22,41	15,56	0,59	0,43
American International Group – AIG ¹	69,84	67,84	12,82	0,32
Automotive Industry Financing Program	81,76	79,69	34,65	4,96
Treasury Housing Program	45,63	1,96	-	-
Total	475,0	410,61	268,62	35,46

Source: TARP Monthly 105(a) Report (United States, 2011a) and Daily TARP Update (United States, 2011b).

Note: ¹ It is an American insurance company.

As expected, the greatest of all the programs listed in Table 1 is precisely the bailout to financial institutions, which already had a re-payment rate above 80%, yielding nearly US\$ 25 billion on assets that were purchased by the Treasury. When added to the income, the total expenditures are nearly all covered, and the US Treasury's expectation is to generate profits together with other support programs to the financial sector⁶ of about US\$ 16 billion⁷ That is, ultimately, the public program that saved the American financial system will bring profit to the Treasury rather than deficit.

In addition to the asset purchase program, the TARP encompassed credit programs that are not traditional tax programs, i.e., the size of the gain or loss for the Treasury is only computed as the loans mature and are (or not) paid as well as when the interest rate charged on such loans and the basic rate for government funding are related.

6. The Targeted Investment Program incurred on such expenses, on which the Citigroup and the Bank of America were specifically addressed, with US\$ 20 billion for each institution, today these expenditures are fully paid and still generating revenues of over US\$ 4 billion. The other program was also designed for the same banks, the Asset Guarantee Program, did not even generate any expenditure: the mere announcement of the Treasury attempting to absorb part of the losses of these banks' assets pledged the support of the values of such assets. To face the fact of not carrying out operations and the non-payment of a fee for closure of the operation and dividends by banks, the American Treasury reported a positive net income.

7. View the Office of Financial Stability report – OFS (United States, 2010) for more detailed data.

The Loan Initiative to Consumers and Companies encompasses three specific programs to support the credit expansion. The first one relates to the Community Development Capital Initiative, which supports institutions and communities in need of financial intermediaries with capital contributions to a lower cost for the other programs, such as the Capital Purchase Programs (CPP). In the case of aid to communities, the interest rate charged was 2% vs. values of the 5% of the CPP.

The second one is the program Term Asset Backed Security Lending Facility, which was intended to provide loans for the purchase of AAA-rated securitized assets, including consumer loans, student loans, loans for small businesses and commercial real estate loans. If the takers of such resources entered in default, the Treasury would create a fund for the purchase of securitized assets. This was a joint program of the Federal Reserve Bank of New York (FDRNY) and the Treasury. The duty of the FDRNY would be to provide the loans and the Treasury's one, the funds for the purchase of side assets for the defaulted loans. Initially, the FDRNY involved US\$ 200 billion for loans, and the Treasury, 10% of this value. When finished, in June 2010, the FDRNY had completed a total of loans of US\$ 4.3 billion worth, with the Treasury keeping its promise of allocating funds corresponding the 10% of the loans. According to the report of the Office of Financial Stability – SFO (UNITED STATES, 2010a), until September 2010, there were no losses on loans and the FDRNY expectation was that the interest earned on the loans would be more than sufficient to cover any cost incurred from losses with the side assets purchased by the Treasury. In a recent report (UNITED STATES, 2010d), the Treasury estimates that, in the long term, as a matter of fact, it will obtain a net gain from these transactions exceeding the amount of US\$ 300 million.

The third one is an assistance program for financing small businesses, the Small Business Administration Guaranteed Loan Program.⁸ Until September 2010, the program had conducted 31 transactions totaling US\$ 357 million, with operations being closed. Property losses related to these assets are not provided.

The Treasury also launched the Legacy Securities Public Private Investment Program – PPIP in order to purchase problematic “legacy securities” (residential insurance assets) originated from asset having as collateral residential and commercial loans. The basic idea, again, was that the inflow of governmental funds in the asset purchase would interrupt the deflation process, helping in the recovery of the financial health of the institutions that hold these assets, thereby helping to unlock the credit market. The program was operated with the creation of eight public-private investment funds, created by institutions of private

8. The program would aim to assist both primary and secondary markets. The assistance to the primary market was beyond the scope of the TARP being part of the Recovery Act.

management, aiming to buy eligible assets of institutions under the Economic Stimulus Act – ESA. The constitution of the funds ended by the end of 2009, and contributed to the recovery in the prices of financial assets covered by the program (UNITED STATES, 2010). The Treasury allocated an amount of resources equal to the private sector (US\$ 7.4 billion), and undertook also to provide US\$ 14.7 in debt. Until September 30th, 2010, the return rates reported by the funds were located in a range between 20% and 50%, and had been paid approximately US\$ 215 million, including interest and dividends to the Treasury. Given the long-term maturity of the funds, there is no precise number of equity gain expected by the Treasury, but in a recent newsletter (UNITED STATES, 2011b), this value was estimated to be somewhere around \$ 200 million.

Also in the specific financial field, one of the great and, undoubtedly, the most complex operations was the one involving the American International Group (AIG) insurer. From the beginning, the rescue of the AIG was not conventional, after all, involved the Fed, which has no institutional responsibility on the insurance sector. However, the threat of the systemic risks involved by the hardships of the world's largest insurer, the Fed used its constitutional prerogative⁹ to provide liquidity to the financial system in times of crisis in order to rescue the AIG. In fact, the emergency operation for rescuing the AIG, of US\$ 85 billion worth, was held in September 2008, so, before the establishment of ESA and the creation of the TARP by FRBNY. This intervention was counteracted with about 80% of the shares with voting rights, which were deposited in a trust fund, the AIG Credit Facility Trust, for the benefit of the Treasury, resulting in a virtual nationalization of AIG. Thereafter, a number of interventions were performed by both FRBNY and the Treasury, until that, by the end of 2010, the AIG entered into a Master Agreement with the Treasury that complements and implements an initial agreement signed on September 30th, 2010. It is expected that by 2011, the loan would be paid to the FRBNY, with no loss for this, and the preferred shares will be converted into common shares, which will be sold to the public. According to the report of the SFO (UNITED STATES, 2010), the current value of the shares to be received by the Treasury is US\$ 64 billion, and the amount to be invested for this is estimated at US\$ 47.5 billion. That is, there is a good prospect that the final result of the operation would be profitable for the Treasury.

Another major operation, but outside of the strict financial scope (which happens to be the epicenter of the 2008 crisis), was the Automotive Industry Financing Program.¹⁰ Thanks to this program, General Motors (GM) and

9. The FDRNY made loans to the AIG in the frame of Section 13, Article 3, of the Federal Reserve Act.

10. There was also an assistant program for the auto part industry, which supplies automobile manufacturers. This program is already and fully paid off and, according to the SFO report (United States, 2010), represented no prejudice for the Treasury.

Chrysler were able to restructure, presenting in early 2011, satisfactory operating results.¹¹

As it can be seen in Table 1, in total, it was injected about US\$ 80 billion in the automotive sector, in the form of loans and purchase of shares that resulted in the creation of “new” companies with strong involvement of the American state and, to a lesser proportion, of the Canadian State. In the case of the New GM, the former has an ownership of 60.8%, and the latter, 11.7%. While in New Chrysler, the numbers drop to 9.9% and 2.5%, respectively. The U.S. Treasury also intervened in the financial arms of GM and Chrysler, GMAC and Chrysler Financial. The latter, in January 2009, took a loan of US\$ 1.5 billion, which was fully paid in June. While GMAC became Ally Financial, in which the Treasury ownership is the 74% of the Common Equities and over US\$ 8.5 billion in other forms of shareholding.

Regarding the loans, while GM paid in full the US\$ 6.7 billion taken from the Treasury, Chrysler honored only about one-half of the loans of US\$ 4 billions. A long-term perspective indicates that as the nationalized company's shares are sold, the Treasury will obtain profits on their investments.

In short, loans and temporary nationalization of companies, despite of the huge sums involved, did not represent any significant tax burden on the Treasury, nor can be identified as responsible for a structural deterioration of the fiscal deficit.

In fiscal terms, a diverse scenario occurred with credit operations, the purchase of assets and subventions to the housing sector. In this case, most of the measures taken will, to some degree, have negative impacts on the Treasury. An operation for which there is still no accurate assessment of potential losses for the Treasury is the purchase of US\$ 1.4 trillion on Mortgage-backed securities (MBS) from the Fannie Mae and Freddie Mac agencies. Assuming that the market can recover in the medium term, it is possible that this purchase of asset can be reversed without losses to the Treasury. And to a greater extend because the proposal by the Treasury Secretary (UNITED STATES, 2011c) is gradually to reduce the role of government-sponsored Federal agencies and sell these securitized securities progressively. In relation to the actions of the agencies, this process is even more complex. In 2009, the Treasury contributed to the two agencies about US\$ 90 billion in exchange for preferred shares either to increase the reserves of these institutions as well as for covering losses that, only in the first quarter of 2009, reached a total of about US\$ 30 billion (UNITED STATES, 2009, p. 3).

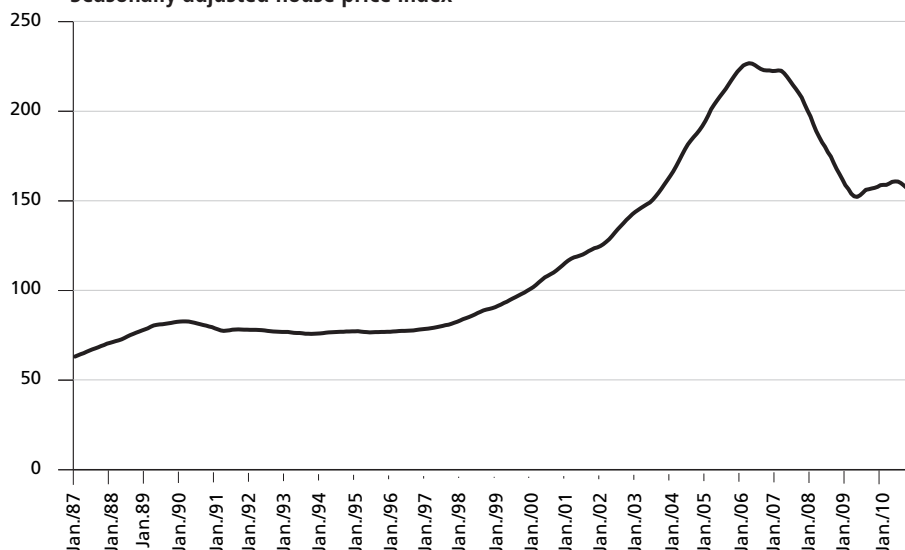
11. One proof of this fact is that after years of frozen wages, GM will in 2011 pay bonuses to their workers from the profits in 2010. Since 2007, GM did not record a single quarter with operating income (see Vlasic and Bunkley, 2011).

Another fiscal expenditure related to the housing market were the credit subsidies to first home buyers imposed by HERA, granted even in 2008 and extended by President Obama's ARRA until the first half of 2010. Also in the category of expenditure in this area are the real estate refinancing programs that began in HERA and were reinforced by the Home Affordable Modification Program – HAMP (UNITED STATES, 2010b). All these plans seek to subsidize the mortgage holders, allowing the restructuring of the mortgages with the central goal of preventing the abandonment of houses, which generates negative effects not only on the value of their own about their own mortgages as well as on the real estate market as a whole.

These government efforts have not had very satisfactory outcome. While it is true that some may present relevant data in terms of renegotiation of contracts and avoid some foreclosures,¹² they have not been able, yet, to achieve its ultimate objective of stabilizing home prices. As shown in chart 1, the price of homes dropped sharply in

2010 and, at most, it can be argued that oscillates around a still extremely devalued level. In any event, the scenario is, not even close, positive for a market of great importance in the recovery of the production in other activities related to it, and especially in the generation of employment in the United States.

CHART 1
Seasonally adjusted house price index



Source: S&P/Case-Shiller Home Price Indices (Standard & Poors, 2011).
Elaborated by the authors.

12. It is understood as foreclosure a situation where the borrower is forced to leave the residence by assessing that he or she cannot honor the contract signed.

Finally, we will briefly list the main usual measures for spending/taxation, which in general were presented during the legal mandate under the ARRA, passed by Congress in February 2009. This program covered a wide range of items on taxation and spending divided into two major blocks. Section A, or appropriation divisions, included 16 spending securities, covering areas such as agriculture, defense, environment, energy, transportation and housing, among others. Section B had their focus on tax and transfers to persons and sub-national units, though not exclusively. The expenditures approved by ARRA were carried out primarily between 2009 and 2010, i.e., whatever have been their effects, which will be briefly discussed next, this period ends in 2011.

Table 2 summarizes the total spending of ARRA in 2009 and 2010, also showing the percentage of total expenditures for selected items by the Bureau of Economic Activity (BEA).

TABLE 2
Impact of the American Recovery and Reinvestment Act (ARRA) on federal public finances

	2009		2010	
	Value (US\$ bi)	Total participation on the item	Value (US\$ bi)	Participação no Total participation on the item
Tax waiver	342,7	3,9	473,6	5,0
Current expense	620,5	4,5	765,4	5,1
Consumer spending	26,3	0,7	70,4	1,7
Transfers to persons	303,7	4,7	283,4	4,1
Transfers to local governments and rest of the world	283,6	13,2	402,7	17,2
Subsidies	7,0	-	8,9	3,9
Gross investment	3,7	-	19	2,8
Need for funding	-1.034,0	-	-1.398,6	23,1

Source: Council of Economic Advisers – CEA (United States, 2010c).

Elaborated by the authors.

As it can be seen, the total impact is about US\$ 1 trillion in 2009, and US\$ 1.25 in 2010, representing about 7% and 8.5% of the GDP, respectively. In terms of the federal budget itself, these increases in spending explain a reasonable percentage of fiscal deficits, although in terms of individual installment, this participation is much less significant. Only one of these items has high value and presents a peculiarity of the U.S. fiscal situation: the severe limitations imposed on governmental spending of such sub-national units. It is noticed that, in relative terms, the most significant expansion of federal spending was precisely in transfers to states and counties, i.e., the federal government was eventually responsible for expenses in sub-national units. If such transfers had not been available for those units, they would have had to cut their spending.

This behavior can be better assessed by examining public spending, or rather the rate of change against the previous period, incorporating the expenditures of local governments.

TABLE 3

Public spending growth rate in the United States (2008-2010 – Quarterly)

	2008 IV	2009 I	2009 II	2009 III	2009 IV	2010 I	2010 II	2010 III	2010 IV
Consumption and investment	1.5	-3.0	6.1	1.6	-1.4	-1.6	3.9	3.9	-1.5
Federal	8.1	-5.0	14.9	5.7	0.0	1.8	9.1	8.8	-0.2
Military	5.2	-8.4	16.8	9.0	-2.5	0.4	7.4	8.5	-2.1
Civil	14.8	2.6	10.9	-0.9	5.6	5.0	12.8	9.5	3.7
States and local governments	-2.4	-1.7	1.0	-1.0	-2.3	-3.8	0.6	0.7	-2.4

Source: Bureau of Economic Activity – BEA (United States, [s.d.]).
Elaborated by the authors.

As Table 3 shows, the spending effort of the U.S. government, despite the adoption of a package as the ARRA, was, in several quarters, very modest. In two quarters of 2009, the total spending was reduced, and in the year, the growth was only 1.6%.

When we look at the disaggregated data, we can realize that state and local governments were the main responsible for the fact that U.S. tax policy had been less countercyclical. Of the nine quarters studied, there was contraction of spending six and even in quarters where spending grew, this fact occurred at very low rates.

Moreover, as previously mentioned, this behavior of the states occurred despite the increase in federal transfers to sub-national units through the ARRA. As the impacts of this law is strongly attenuate since 2011, it is expected that the states, limited in their ability to operate with fiscal deficits by legal restrictions, start to cut even more the spending, representing a counterforce to the moderate recovery observed since 2010.

Even when the American countercyclical fiscal policy has had the limitations mentioned earlier, the macroeconomic impact analyzes point to the key role in overcoming this economic crisis. In a recent publication, the Council of Economic Advisers (UNITED STATES, 2010c) published a summary table showing a comparison between various estimates of the impact on the product, particularly, the ARRA (table 4).

TABLE 4
Estimated effect of the American Recovery and Reinvestment Act (ARRA) at the level
of U.S. GDP
(In %)

	2009:Q2	2009:Q3	2009:Q4	2010:Q1	2010:Q2	2010:Q3
CEA: Model Approach	+0.8	+1.7	+2.1	+2.5	+2.7	+2.7
CEA: Projection Approach	+0.7	+1.1	+2.1	+2.7	+2.7	+2.7
CBO: Low	+0.8	+1.2	+1.4	+1.7	+1.7	+1.5
CBO: High	+1.3	+2.4	+3.3	+4.1	+4.5	+4.2
Goldman Sachs	+0.5	+1.4	+1.9	+2.3	+2.6	+2.4
IHS/Global Insight	+0.5	+1.2	+1.7	+2.0	+2.2	+2.3
James Glassman, J.P. Morgan Case	+1.3	+1.8	+2.6	+3.2	+3.7	+3.5
Macroeconomic Advisers	+0.5	+1.0	+1.4	+1.7	+2.1	+2.1
Mark Zandi; Moody's Economy.com	+0.8	+1.6	+2.2	+2.5	+2.7	+2.7

Source: Council of Economic Advisers – CEA (United States, 2010c, p. 16).

Note: To elaborate the table, CEA's report states that the consulted sources were: CEA itself, the Congressional Budget Office (CBO), Council of Economic Advisers and the private institutions of Goldman Sachs, IHS / Global Insight, JP Morgan, Macroeconomic Advisers and Moody's.

As we can observe in table 4 from very limited values since the beginning of the ARRA implementation, the contribution of fiscal measures supported by this law to encourage the growth of the product level was increasing during this period. In mid-2010, this contribution, according to the institutions listed, exceeded the 2.5 percentage points (p.p.), i.e., many of those institutions estimated that without ARRA, the level of output in 2010 would have been 2.5% lower than what was actually recorded.

In terms of employment, we can observe a similar estimate. The average number of jobs generated directly and indirectly by the ARRA in 2009 was equal to something around 1 million. The strongest impact was observed in the fourth quarter of this year. In 2010, the estimated impact on employment rose to about 2 million new jobs.

Another estimate of impact, calculated by Blinder and Zandi (2010), incorporates, besides the spending, an estimate of the financial impact through the effect of government intervention in emergency aid, mainly in the TARP program described above. In this case, the data is quite significant. If there had been no intervention after the crisis, the unemployment rate in 2010 would be at more than 5 (p.p.) above a simulation observed. That same year, a simulation of Blinder and Zandi confronts two scenarios, one without any intervention and another with it, pointing to a difference of more than 6 (p.p.).

From the previous analysis, it is clearly the severity of the economic crisis that began in 2008 and the central role of the state to, initially, contain and eventually overcome the crisis. In spite of the use of a wide range of intervention tools, many of them highly unusual and heterodox, in the first half of 2011, the unemploy-

ment rate was still at a very high level for historical standards of the United States, justifying a more accurate and disaggregated study about the recent trajectory.

Another factor that denotes that severity relates to the very strong drop in tax revenue that, by generating endogenously quite significant deficits, ended up enforcing a strong fiscal bias from the American political forces. In 2008, total revenues decreased by more than 10%, and this fact occurred in a year when the economy was stagnant. From 2009, the drop in tax collections began to reflect also the tax waver measures contained in the stimulus policies of the federal government, but still, the drop in 2009 is very high – over 20% compared to the previous year and more than 30% compared to 2007. Despite the moderate economic recovery in 2010, tax revenue that year is still less than the amounts for 2008 and 2007, indicating that the reduction in tax revenue was much more severe than the actual decline in aggregate output.

It should finally be emphasized that the most important volume of planned expenditure in countercyclical policies occurred until the year 2010. Even in this period, as shown above, the contribution of the federal government was far more important to the sub-national units. The 2011 prospect is troubling because, despite the high unemployment rate that will be discussed below, no new programs for expanding expenditures are expected as well as, by contrast, there is a strong political pressure to cut public spending.

3 SUBPRIME MORTGAGES' AND FISCAL POLICIES RESTRICTIONS' CRISIS EFFECTS ON THE AMERICAN LABOR MARKET

In this second part, the objective is to report the effects arising from the subprime mortgages and its developments over the American labor market, highlighting how the fiscal restrictions (including the legal and ideological restraints to perform countercyclical policies) affected the unemployment indicators and the employment rates in several activities both from private and public sectors.

Table 5 shows us the official evolution rate (U3) of the unemployment in the U.S. since December 07', when the National Bureau of Economics Research (NBER) indicates as official the beginning of this most recent recession, which ended in the third trimester 2009,¹³ according to the NBER. Data show that, even after the end of the recession, unemployment rate endured on a high level, only declining some months later and, even then, modestly.¹⁴

13. Official data from the U.S. revealed that the GDP variation showed negative values since the first trimester 2008 (0.7% decrease), with a modest growth in the second quarter (0.6%) and, thereafter, lessens in the following four quarters, respectively -4%, -6.8%, -4.9% and 0.7%. From the third quarter 2009, American GDP showed an increase of 1.6%, reaching 5% in the last one. In 2010, GDP grew 3.7% in the first quarter, 1.7% in the second and 2.6% in the last one.

14. Unemployment rate in December 2009 was of 9.9%, one of the highest in the entire series published by the Bureau of Labor Statistics (BLS) since 1948.

TABLE 5
Workforce, total number of unemployed and unemployment rate¹ – United States
(2007-2010)

Labor market indicators	Dec./07	Mar./08	Jun./08	Sep./08	Dec./08	Mar./09	Jun./09	Sep./09	Dec./09	Mar./10	Jun./10	Sep./10	Dec./10	Jan./11
Total of civil workforce	153.80	153.84	154.90	154.32	154.47	154.48	154.59	154.06	153.72	153.95	153.84	154.24	153.90	153.186
Number of unemployed	7.664	7.815	8.499	9.477	11.108	13.161	14.721	15.142	15.212	14.943	14.593	14.746	14.485	13.863
Unemployment Rate	5,0	5,1	5,5	6,1	7,2	8,5	9,5	9,8	9,9	9,7	9,5	9,6	9,4	9,0

Source: Bureau of Labor Statistics – BLS (United States, 2011d).

Elaborated by the authors.

Note: ¹ Data in millions of people and unemployment rates are a percentage of total labor force (U-3 rate from the Bureau of Labor Statistics Classification).

One of the crisis' effects on the labor market was manifested in the participation rate reduction on this market.¹⁵ In 2007, on average annual, according to official data published by the Bureau of Labor Statistics Department of Labor from the BLS, the total members of the work force was of 66% of the population, the same average amount from 2008. However, in 2009, this rate reduced to 65.4%, and in 2010, to 64.7%. The most recent data, from January 2011, also reveals a decline in the participation rate compared with the previous month, December 2010.¹⁶ Therefore, can be inferred that if it were not for the recent participation rate reduction,¹⁷ the official unemployment rate could have decreased more slowly, as can be observed from the official unemployment rate (U3) throughout 2010, as well as from the recent lessen between December 2010 and January 2011.

These labor market input and output streams happened concurrently with movements of different levels of insertion within the American labor market, which is, incidentally, already known for its precarious insertion of an expressive share of its workers in the labor market. In order to measure this phenomenon the Department of Labor calculates six different unemployment rates, looking to describe the labor market's precariousness degree, as well as its members' shares fluctuations within different situations of labor market insertion (whether by a stable and formal employment, whether by an uncertain occupation) and situations of inactivity, involving the labor market withdrawn and the abandonment of the search for employment.

15. Participation rate means the population portion within the active age which is incorporated to the labor market as employed or unemployed. A decrease in the participation rate means a decrease of the employment-population ratio (EMRATIO) compared to the total amount of people within the age to work.

16. Participation rate correspond to 64.2% in January 2011, compared to a rate of 64.3% on December 2010, while the participation rate in January 2010 was of 64.8%.

17. The participation rate occurred concurrent to another important reduction to the relation job/population. Hipple (2010) says that the job/population relation's decrease in 2009 was the biggest one within a single year since the employment and unemployment series from the BLS started to be published in 1948. In the first trimester 2009, the average relation job/population was equal to 54.5%; in the last trimester 2009, relation was, in average, 52.1%. See United States (2011d).

The precarious occupations manifest by jobs with partial workdays oblivious to the worker's will and/or activities ruled by a fixed term contract, or even simply by freelance jobs, characterized by uncertain payment, poor working conditions and, fundamentally, by demotivating professional perspectives. There are also some situations in which the worker give up looking for a job, disregard the need, judging that, on this moment, there will appear more difficulties to find a job (which is conventionally called, in Brazil, unemployment by discouragement).

Official unemployment rate, especially in a labor market flexible like the American, therefore tends to underestimate the dimension of the workforce unemployment phenomenon. The methodology of the official unemployment rate estimates as equally employed both workers with complete workday and stable contractual relationship¹⁸ and those which entered the labor market using survival strategies (freelance or part time jobs). Likewise, the official rate tends to exclude from the unemployed number those who gave up the search for a job demotivated by discouragement, although the necessity.

The rates U1 to U7, calculated by the Department of Labor, measure a progressive work force underutilization. The analysis of other indicators beyond the official unemployment rate represents an important investigative element of the labor market situation and also justifies itself, especially within the current macroeconomic scenario, in which the recover from a deep crisis is still recent and shy, in a country whose labor market is extremely flexible and whose precarious activities within this market have, traditionally, a significant weight. The official rate is denominated by the Annals of the Bureau of Labor Statistics as U3.¹⁹ Adding, successively, different situations of work force underutilization are obtained the U4, U5 and U6 rates. The U4 rate adds to the unemployed of the U3 the so-called discouraged workers.²⁰ U5 includes among its members, besides those already included on U4, all the other workers who marginally entered on the work force, e.g. those who in the 4 weeks preceding the survey did not look

18. American labor Market is extremely flexible (it is easy to dismiss, whether by not restrictive legislation concerning demission, whether because discharges do not imply high costs to the employers; furthermore, the labor rights in the U.S. are little comprehensive regarding contractual relationships, if notoriously compared with European developed countries) and therefore, this statement must be made with care. Strictly speaking, then, the U.S. work relations are not stable, but there are situations of greater precariousness than average, e.g., part time jobs and/or temporary employees. In any case, when speaking of stable contractual relationship, we are referring to the standard employment relationship, not the exceptions. For a comparison between the American institutional labor market and those in other western developed countries, see Mattos (2009).

19. The rate U1 is narrower than the official one, for it considers the unemployed for 15 weeks or more in relation to the total work force; the U2 rate counts only the job losers (ones who lost their jobs) and the ones who ceased their activities in temporary jobs. The U3 one (the official rate) considers not only the job losers but also those who left their jobs and those who are looking for another, as well as the new entrants, who are looking for an occupation, besides those who had left the work force but returned (that is, who returned to search for a job after ceasing looking for a period of time).

20. The discouraged unemployed are those who gave up looking actively for a job in the last 4 weeks preceding the home survey, and did so by realizing that there would be difficulties to find a work position, whether by evaluating that there will not be any available jobs at that moment (due to the economy slowdown, for example) whether because they consider there will not be any jobs for workers with their professional or educational background; or even for fear of any other kind of difficulty or some kind of discrimination.

actively for a job due to familiar or school problems, due to temporary illness, due to transport issues or any other cause which prevented them from taking an effective action to find a job. Finally, the U6 rate adds to the unemployed from U5 those who had involuntarily took a part time job due to economic reasons,²¹ that is to say the work day is partial because of demand issues regarding the employer's goods and services, or because of financial issues which the employer is facing.²²

TABLE 6
U.S. unemployment rates, according to various criteria¹

Period	Seasonally adjusted			
	U3	U4	U5	U6
Dec./07	5.0	5.2	5.8	8.8
Dec./08	7.2	7.6	8.3	13.5
Dec./09	10.0	10.5	11.4	17.3
Dec./10	9.4	10.2	10.9	16.7
Jan./11	9.0	9.6	10.7	16.1
	Rates variation ²			
	U3	U4	U5	U6
Dec./10 to Jan./11	-4.3	-5.9	-1.8	-3.6
Dec./09 to Dec./10	-6.0	-2.9	-4.4	-3.5
Dec./08 to Dec./09	38.9	38.2	37.3	28.1
Dec./07 to Dec./08	44.0	46.2	43.1	53.4

Source: BLS (United States, [n.d.]).

Elaborated by the authors.

Notes:¹ See the text for details.

² Percentage variation in the unemployment rate in each period.

Table 6 shows the evolution, since December 2007, of the different unemployment rate measurement, from the official rate U3 to the U6. Data indicates, for example, that during the most marked period of unemployment ascension, in 2008, the U6 rate grew way more than the official rate; similarly, in the recent unemployment retraction period, in 2010, the U6 rate gave in way less than the U3,²³ revealing the precariousness of the recent created job positions.

The current reduction of the unemployment official rate, therefore, must be carefully interpreted, for the broader unemployment rates reveal a way more modest reduction of the workforce underutilization degree. Thus, we should evaluate how the American labor market employment indicators, private and public, have evolved, highlighting its most important sector aspects.

21. Defined, according to the official compendia from the BLS, as *part time for economic reasons* or *involuntary part time*, which shows, according with the Department of Labor's methodological notes, the same entrance situation (precarious) to the American labor market.

22. In a recent and shy economic situation, after an unprecedented crisis like the one triggered by the American housing finance system mechanisms breakdown, the aforementioned situation of part time jobs due to economic reasons became even more common than usual. It is precisely why we must be careful when analyzing the American labor market growth only by the official measure (the U3 unemployment rate).

23. U6 rate showed a decrease of 3.5% between December 09' and December 10' (therefore a decrease of 0.7, starting from a level equal to 17.3%); within the same period, the U3 rate retraction was of 6%, as a result of a 10% to 9.4% reduction.

TABLE 7
Employment evolution by sector of activity (seasonally adjusted) in thousands of work positions¹

Employment by sector of activity	Mar./08	Jun./08	Sep./08	Dec./08	Mar./09	Jun./09	Sep./09	Dec./09	Mar./10	Jun./10	Sep./10	Dec./10
Total of non-agricultural activities	-240	-172	-934	-1,658	-2,121	-1,218	-617	-1,530	162	720	-159	401
Total of private sector activities	-283	-292	-973	-1,655	-2,130	-1,234	-508	-1,563	147	446	363	390
Mineral and vegetal extraction	11	17	27	-5	-34	-30	-20	-29	23	26	23	20
Construction	-129	-139	-66	-290	-383	-234	-181	-347	-104	-10	38	-17
Manufacturing industry	-130	-106	-214	-420	-601	-432	-129	-206	45	91	6	-6
Commerce, transportation, residential services (water, sanitation, electricity, telephone, etc.)	-98	-124	-179	-414	-372	-208	-173	-437	47	44	62	74
Information	-5	-17	-10	-46	-36	-64	-12	-80	-22	-11	1	-5
Financial activities	-25	-14	-98	-105	-155	-100	-52	-46	-58	-15	-8	9
Professional services to support business activities	-102	-86	-268	-319	-457	-249	-8	-154	74	147	40	105
Education and health	140	167	82	123	68	104	96	2	92	77	102	151
Leisure and housing	42	9	-258	-124	-110	-17	-1	-185	50	73	60	57
Other services	13	1	11	-55	-50	-4	-28	-81	0	24	39	2
Public sector – total	43	87	72	-2	8	16	-109	-30	78	211	-459	11
Federal	-8	17	27	6	29	13	8	15	69	260	-327	8
Federal except postal services	14	27	21	22	26	29	25	23	88	269	-321	13
United States Postal Service	-22	-10	6	-16	3	-17	-17	-26	0	-9	-6	-5
State governments	7	19	13	1	-3	-14	-3	5	-12	-22	20	20
State public education	3	19	19	14	-5	-1	-5	8	5	-11	33	20
State governments except education	4	0	-6	-5	-7	-12	1	-3	-22	-6	-13	1
Local governments	44	51	32	-9	-18	17	-114	31	-60	-27	-152	-17
Local public education	21	16	22	-8	5	13	-97	51	-35	2	-118	10
Local governments except education	24	35	10	-1	-23	4	-17	-20	-25	-65	2	-27

Source: BLS (United States [n.d.]).

Elaborated by the authors.

Notes: ¹ Absolute variation over the last month of the previous quarter.

The peak loss of job positions occurred in the end of the first trimester 2009²⁴ (Table 6), remaining at an elevated level of job termination during the rest of the year. In the previous year, all quarters registered decreases in the number of non-agricultural jobs, but it should be noted that the rhythm of job decline began to accelerate in the last trimester, precisely after the Lehman Brothers crack. During this entire period of job retraction, which began in December 2007, the decline was proportionally bigger in the private sector than in the public.

In the private sector, the job decline concentrated mainly on the activities of construction (as expected, since the crisis was triggered precisely by a problem regarding the housing funding system)²⁵ and of manufacturing, which was also expected as during moments of retracting consumption the demand for industry cools down, as well as the investments draw back during periods of deteriorating expectations. The magnitude of job retraction in both mentioned activities can be measured by the fact that, of about 7.2 million jobs terminated in the private sector between December 2007 and December 2010, approximately 1.86 million were from construction and about 2.10 million from manufacturing,²⁶ that is to say, both sectors together accounted for nearly 54% of the total closed jobs in the private sector during that period (Table A.1, Appendix A), although, in the beginning of it, both activities together accounted for only 15.4% of all non-agricultural jobs and about 18.4% of jobs from private sector²⁷ (Table A.2, Appendix A). Also worth mentioning the job decline among financial activities during the three years listed in table 7, especially 2008 and 2009.

24. The highest official (U3) unemployment rate (10.1%), occurred in October 2009, which, moreover, was one of the highest monthly rates on record since the beginning of the BLS historical data series, in 1948. It was only between October 1982 and April 1983 there were rates higher than 10.1% in a month. Concerning the wider underutilization rate (U6), the October 09' rate (17.4%) was the highest since the beginning of this historical data series publication, in January 1994.

25. Byun (2010) highlights that the construction sector comprehend both the building sector, regarding real estate residential and non-residential, and segments of manufacturing industry related to the first, plus the production of cement, wood, architecture products, decoration and gardening goods and even the machinery involved on construction. Furthermore, also relates to the activities of contractors which hire the personnel and site, people connected to the financial activities (e.g. insurances) of houses and other buildings, not to mention the services concerning real state companies, etc. In general commerce there are also activities related, e.g. furniture stores, gardening equipment, décor objects and so on. The author reminds that during the crisis and the boom the activities related to residential construction are the ones who oscillate more. Nevertheless, marks that many of the activities listed before are also highly affected by the construction business cycle. The author shows that the real estate market retraction has an effect over the labor market in the United States way bigger than the one revealed by mere observation of what the compendia called construction sector and which are often not apprehended by most papers (as is the case with this article, which explore the data from the Bureau of Labor Statistic such as they are disclosed).

26. In December 2009, employment rate within manufacturing activities reached the level of 11.534 million jobs (Table A.1, Appendix A). According to the historical data series of employment within manufacturing activities, disclosed by the BLS, this employment rate was not so low since March 1941. As for the employment in construction, although, it kept downward continually until 2010, until January 2011, when it reached 5.455 million jobs, which, by the historical series from the BLS, is the lowest level since April 1996.

27. The relative participation of the construction sector in the U.S. non-agricultural job set fell from 5.4% in December 2007, to only 4.3% in December 2010, while during the same period the participation of manufacturing activities fell from 10.0% to 8.9%. In both cases there was a relative continuous decrease trajectory during those 3 years.

Table 8 reveals more condensed data from the decline of jobs occurred in 2008 and 2009 and also from the shy employment recover occurred during 2010. The decline was more intense within the first three months of 2009, keeping up during the whole year, but in a decreasing manner. The job decline was more intense in activities of producing goods, but not negligible within the private sector producing activities. Also, the moments in which public services jobs declined can be clearly observed: December 2008, September and December 2009 and September 2010.

TABLE 8
Employment evolution by sector of activity (seasonally adjusted)¹
(In thousands)

Employment by sector of activity	Mar./08	Jun./08	Sep./08	Dec./08	Mar./09	Jun./09	Sep./09	Dec./09	Mar./10	Jun./10	Sep./10	Dec./10
Total of non-agricultural activities	-240	-172	-934	-1.658	-2.121	-1.218	-617	-1.530	162	720	-159	401
Total of private sector activities	-283	-292	-973	-1.655	-2.130	-1.234	-508	-1.563	147	446	363	390
Production of goods	-248	-228	-253	-715	-1.018	-696	-330	-582	-36	107	67	-3
Services	8	23	-648	-942	-1.104	-522	-287	-1.011	261	550	-163	404
Private services	-35	-64	-720	-940	-1.112	-538	-178	-981	183	339	296	393

Source: BLS (United States, [n.d.])a).

Elaborated by the authors.

Notes: ¹ Absolute variation over the last month of the previous quarter.

Table 9 synthesizes the same aforementioned data, now grouping them by year. It becomes clear, firstly that there was a job decline regarding the American labor market, in the years of 2008 and 2009, and a recovery in 2010. However, this recovery was far from replenishes the lost jobs in the previous two years. Data from table 7 have already showed that important sectors as construction and financial activities, precisely two of the most affected by the crisis, were still suffering job losses throughout 2010, surfacing the fragility of the economic recovery in progress.

Data from table 9 also reveal that the effects over the job level were very significant within the 36 months analyzed, both in goods production as in the service production. In the case of goods production, can be inferred that its performance was even worse, not only because it eliminated, in absolute terms, a highest quantity of jobs than service production has (3.9 million versus 3.4 million), but also for weighting less, within the U.S. labor market set, than the service production.²⁸

28. Tables from Appendix A show that the relative participation of employment dedicated to good producing, within this period, fell from 15.9% of the total labor market occupations in December 2007, to only 13.8% of this total in December 2010.

TABLE 9
Employment evolution by sector of activity (seasonally adjusted)
(In thousands)

Employment by sector of activity	Dec./08	Dec./09	Dec./10	Variation Dec./08-Dec./10 ¹
Total of non-agricultural activities	-3.004	-5.486	1.124	-7.366
Total of private sector activities	-3.203	-5.435	1.346	-7.292
Production of goods	-1.444	-2.626	135	-3.935
Services	-1.559	-2.924	1.052	-3.431
Private services	-1.759	-2.809	1.211	-3.357

Source: BLS (United States, [n.d.]).

Elaborated by the authors.

Notes: ¹ Absolute variation over the last month of the previous year.

Table 9's data also calls attention to the fact that between the services activities, the public sector's behavior had an important role, by eliminating about 115.000 jobs during the sharpest crisis boom (2009) and continued to eliminate jobs in 2010, despite the recovery of the labor market group. In 2010, the American public sector eliminated another 159.000 jobs, making it even more difficult a better recovery of the average job level within the U.S. labor market grouping.

Given this, it is important to examine the negative performance of the public sector labor market in the light of causes related to the tax collection, to the current rules for executing the fiscal policy in all governmental spheres and, finally, to the Obama administration attitude, as well as his predecessor's, regarding economic and social policies which affect the public employment within each government sphere – as stated in the first part of this article.

Public employment data separated by government sphere and some activities are described in table 10, in which can be verified that the cuts were more expressive in the local public sector sphere, primarily, and in the state sphere.²⁹ As for the local employment, must be noted that: throughout 3 years, 222.000 jobs were lost, with significant cuts especially in 2010.³⁰

Some considerations, thus, must be done here, both related to the recent crisis' situational and institutional aspects, and to the historical/structural aspects of the public employment evolution, by governmental level and by the activities outlined in this article's tables (postal service and educational).³¹

29. Data from table A.6 in Appendix A show that most significant cuts in the number of employed occurred late in the third quarter of each year, which is when it ends the fiscal year in the U.S.

30. Several studies, including the one by Hatch (2004) remind of a disparity between the economic cycle and the tax collection. This is one of the reasons why the elimination of jobs in the public sector was more dramatic in 2010 than it was in 2009; while in 2008 the public jobs stock had showed no decline yet. The severity of the recession and the rigid rules of fiscal balance in the states and localities ended up promoting the reduction of jobs (and duties) in the local public sector, as shall be seen below. Furthermore, it must be reminded that: i) in 2008, recession only effectively settled by the second semester; and ii) also in 2008, federal government was still doing transfers to states and municipalities cope with the crisis.

31. The Bureau of Labor Statistics (BLS) publishes regularly a disaggregation of data from federal sphere public jobs, in order to bring to light the jobs in postal activities, within state and local levels. Data from education usually come disaggregated, due to its importance in these subnational government levels.

TABLE 10

**Public employment evolution by government level and selected activities
(seasonally adjusted)
(In thousands of work positions)**

Public employment by government level	Dec./08	Dec./09	Dec./10	Variation Dec./08-Dec./10 ¹
Total of public service activities	200	-34	-240	-74
Federal Government	42	65	10	117
Federal except postal service	84	104	49	237
United States Postal Service	-42	-57	-20	-119
State governments	40	-15	6	31
Government public education	56	-4	47	99
State governments except education	-7	-20	-41	-68
Local governments	118	-84	-256	-222
Local public education	52	-28	-140	-116
Local governments except education	67	-57	-115	-104

Source: BLS (United States, [n.d.]).

Elaborated by the authors.

Notes: ¹ Absolute variation over the last month of the previous year.

Publishing, made by BLS, of public employment statistics keep separated data from postal activities because of the importance those have in the United States' public sector activities. The postal activities are, in the U.S., historically linked to the public sector nationally. The sector employs an expressive number of people and has represented, by the end of the 90s, about 30% of all public employees at the federal level.³² In absolute terms, the highest level was reached by 1999, when there were 876.5 thousand workers in the United States Postal Service; since that year, the number of workers in these activities decreased almost every year, continually, until it reached the current level of 664.000 employees, from December 2010 on. Therefore it can be inferred that this decrease, in such recent period, derives from factors unrelated to the recent recession.³³

Data from table 10 reveal that the other occupations in the federal public sector grew during that period, clearly contrasting with the effect on local level, where the job retraction was widespread: occurred both in education related activities³⁴ as in others.

32. Regarding the U.S. entire population, postal workers already represented, by the end of the 60s, a proportion of 3.6 employees for every group of thousand inhabitants and maintaining, until the end of the 80s, in the range of 3 for every thousand people and declining until the actual level of about 2 postal workers for every group of one thousand Americans.

33. Obviously, changes in the population habits, concerning the ever wider and more disseminated access to new technologies of information and communication, now incorporated in everyday life, explain this decline continuous (and significant) of jobs in postal activities in the U.S.. Therefore, even if the recession plays also a role in the reduction of these activities, it cannot be attributed to circumstantial factors to this loss, of about 119.000 jobs between December 2007 and December 2010 (Table 10).

34. Just like the postal service, at federal level, education activities have a special emphasis at state and local level.

The job loss at state level happened only in 2009 and, even then, was much less pronounced than the one observed on the local level (Table 10). Moreover, it is noteworthy that, unlike local level job loss in educational activities was not that decisive for this government level job performance. There were the other state level public activities which felt the decline, in each year analyzed, certainly as a result of the impacts from the fiscal adjustment executed by the states when the crisis began. Institutional factors and also the education workers' union organizations statewide (with significant weight from the U.S. universities, which are almost all linked to states) should explain this development, and leave to other state activities the higher costs, concerning job elimination, of the fiscal "adjustment" promoted by the governors.

The job reduction of educational local activities, throughout the three analyzed years, reverts an unambiguous path of its participation growth within the employment set which was recorded during the period from 1960-2008 (Table 11). It was especially because of the education activities that the relative weight of local level public employment (and, to a lesser extent, also state level) did grow within the U.S. public employment set. By evaluating the number of education activities jobs in relation to the amount of inhabitants,³⁵ it can be noticed the expansion of education activities within the last decades. Peters (2008) recognized this phenomenon, highlighting that public education in the U.S. always had a strong tradition of union association and exerted a great influence at local level. So, these unions historically managed to expand hiring in education sector, promoting an increase in the number of teachers superior than that which would normally happen due to only demographic reasons.³⁶

The final result of all these different changes in public employment level (according to government spheres and singled out activities) manifested by the decrease of the local level jobs' relative participation, from 64.7% compared to the public employment set in December 2007, to 63.9% in December 2010. At the same time, relative participation of state level job remained virtually motionless (Table A.5, Appendix A).

This recent path of public employment distribution by government level clearly contrast with this same profile evolution during the last decades (Table 11) – which reveals the severity of the fiscal adjustment which states and, particularly,

35. This analysis can be done by taking the data evolution of public employment in education (summing local and state level) and of population. Thus, it is recorded a continuous evolution until 2008: 16.2 education employees for each group of thousand Americans in 1960; 24.2 in 1968; 30.2 in 1980; 31.5 in 1992; 34.6 in 2000; 35.7 in 2004 and 36.2 in 2008.

36. Peters (2008) also evaluated that, within local and state levels, civil service historically remains immune to the anti-government discourse and the neoliberal practices of management or budget control, even in the boom of neoliberal ideological hegemony, during the 90s. In fact, not even during the pinnacle of neoliberalism, had the education activities suffered the impact they coped with during the three years analyzed in this article.

localities had to undertake,³⁷ given the magnitude of recent recession and the legal and ideological issues involved in public spending, as described in the first section of this article.³⁸

TABLE 11

Public employment distribution by government level in the U.S.
(In %)

	2008	2004	2000	1996	1992	1988	1984	1980	1976	1972	1968	1964	1960
Total of public employment	22.561	21.693	20.804	19.571	18.878	17.736	16.282	16.373	15.075	13.684	12.145	9.897	8.597
Federal	12,3	12,6	13,2	14,5	16,4	17,8	18,2	18,1	18,9	20,5	23,5	24,9	28,0
Federal ¹	9,1	9,0	9,0	10,1	12,2	13,0	13,8	14,0	14,5	15,6	17,6	19,0	20,5
State	23,0	23,0	23,1	23,4	23,5	23,2	23,2	22,2	22,2	21,3	20,6	19,3	18,3
State – education	10,5	10,3	9,8	9,7	9,6	9,2	9,3	8,6	9,3	8,8	8,2	6,4	5,3
Local	64,7	64,4	63,7	62,1	60,0	59,0	58,6	59,7	58,8	58,2	56,0	55,8	53,8
Local – education		36,0	35,4	34,1	32,5	31,9	31,4	31,3	31,8	31,9	30,7	29,6	27,4

Source: BLS (United States, [n.d.]).

Elaborated by the authors.

Notes: ¹ Federal except U.S. Postal Service.

4 FINAL CONSIDERATIONS

Subprime mortgages' crisis had a devastating effect on American economy. It was breed in the core of a capitalist economy – its financial system – and, if it had been allowed to follow its natural course, could it have had even graver consequences. The resolute and broad acting of the American government was directly responsible for such picture not materializing. As showed in this text, state intervention did not limit to the usual countercyclical fiscal policies, including also more extreme measures as *de facto* nationalizations of important financial institutions (even from the productive sector). It should be noticed also, that the Federal Reserve System (Fed) had a decisive acting as a real commercial bank, directly discounting non-financial private sector bonds.

Two significant elements stand out in this broader framework. The first one concerns the fiscal impact itself which came from those interventions. As most of the measures related to the financial system consisted of emergency assets purchases, the huge amount of initial spending did not turn into direct public spending, once almost all of those were repurchased by the private sector. Therefore, the quantitative dimension of government intervention was smaller than that

37. Notedly in 2009 and 2010, although in 2010 economy was emitting signals of recovery.

38. Only to record a contrast between previous recessions, in 2002, one year after the last one, government activities (except postal service) were the fastest growing ones, representing an important element in the American labor market recovery at that moment, as reminds Hatch (2004).

perceived by public opinion at first. The other important point to highlight was the asymmetry between federal intervention and that from subnational entities, being the former way more effective than the latter.

Data discussed in the second part of this article confirm such asymmetry: the effects on public employment at subnational level were way smaller than the effects on the same variable nationally, producing a significant reduction in the ratio between subnational and federal employment. This result contrasts with the historical evolution of the public employment profile by government level, as demonstrated on the second section of this study. Thus, public employment did not show an ability to avoid the expressive increase of unemployment during the crisis.

Analyzing the labor market in its entirety, data show an increase in the unemployment rate path, both in the official one (U3) and in the broader ones, specially the U6, which includes as unemployed the number of workers in part time jobs due to reasons beyond their will.

The speed with which the rate grew, from mere 5.0% in December 2007 to more than 10% in mid-2009, and yet getting around 9.4% by the end of 2010, reveals the nefarious effects that a flexible labor market can have on the workers' lives.³⁹

This disappointing trajectory of the unemployment rate was due to the huge downfall of jobs in the private sector, especially those activities more affected by the subprime mortgage crisis' characteristics. The total amount of unemployed just has not reached a worst level because, given the depth and extension of the crisis within time, many people gave up looking for a job and stopped pushing the labor market.⁴⁰ The cooling of the pressure on the unemployment rate, however, should not be seen as a good symptom of the labor market behavior, given the motives and conditions which explain the reduction of the workforce participation rate. It is even worse to note, as did the study disclosed by the Economic Policy Institute⁴¹ that, unlike what happened on previous recessions the

39. It is ironic to think that the entire speech of the rumored *euroclerosis*, so present and hegemonic during the 80s and especially the 90s, comparing the alleged excellency of the American labor market institutionalism with the regulated European labor market's *sclerosis*, has served as an alibi (with disappointing results in the Old Continent) for the adoption of several liberalizing reforms in labor markets of many Western European countries. These reforms were based on the grounds that, in those countries, the unemployment rates (equivalent to the American U3) were much higher than in the U.S.. Nowadays, the unemployment rate in the U.S. is at a very similar level to that in the Eurozone, and even higher than the rate in many of those countries. For a more methodological evaluation of the different unemployment rates, as well as of the liberal *euroclerosis* speech and the results of the European labor market easing measures, see Mattos (2009).

40. In one report, Shierholz (2010) highlights that, from December 2007 to December 2010, given the Civilian Employment-Population Ratio growth, the workforce should have grown by approx. 4.1 million people, but instead, grew into only 138.000 people. Therefore, about 4 million workers thickened the lines of discourage unemployment or fell into inactivity (depending on the criteria of unemployment used; the official rate considers them simply inactive, that is, take them out the unemployment account). The report draws attention to the fact that if half of this workers were effectively into the workforce and suddenly became unemployed, the (official) unemployment rate, in November 2010, would be at least in 11.0%, instead of the already significant level of 9.8% of the current workforce.

41. See Shierholz (2010).

unemployment rate, besides reaching a level not seen for about 30 years, in 2009 and 2010, neither giving any signal of recovering with same speed from previous recessive periods; although the economy, in 2010, already emitted signals of expansion from the productive activities in some sectors. As shown in this study's first part, certainly, the effects on the product and the labor market would have been way worse if was not for the massive government intervention in economy.

Crisis also affected the labor market in the public sector, and it prevailed throughout 2010, although the job level in the private sector has partially recovered during the year. The recession severity caused by the housing financial systems failure triggered crisis, along the legal restrictions placed so that the local and state executive's mandatories would execute countercyclical policies, which could, in a further movement, recover the economy and promote an expectation change in the American society economic agents. Such restrictions had at public employment level by local and state spheres, some of its most nefarious and pronounced effects.

Public employment's provision decline in the years of 2009 and 2010 and also the change within its internal composition according to government spheres and certain activities (especially education), represented such significant movements that promoted changes in the trajectory of some American civil service's characteristics that had been showing since, at least, mid-60s. The reversal in the educational activities employment represented the most conspicuous characteristic out of these more recent years' exceptionality.

The limited effects of the measures adopted by the George W. Bush administration (in its agony) and after that by the Obama administration since its beginning, as well as the restrictions imposed by the current legislation of tax matters to the sub federal levels of the government spheres, and not to mention the ideological hindrances self-imposed by the responsible for the fiscal policies' execution themselves, ended by affecting the public employment in those spheres in a much more intense way than, for example, during the 2001 recession. In 2008 civil service grew very little but, in 2009 and 2010, declined, making it not possible to work as a countercyclical factors or an automatic stabilizer, in case it has, at least, stable concerning its provision. As shown in the first section of this study, until 2009 the federal administration still transferred resources to states and localities, but starting from 2010, those resources were drastically reduced, under the aegis of the American Recovery and Reinvestment Act (ARRA). With such decision, public sector started to dismiss employees, especially locally – affecting even the education activities, which historically in the U.S., even during recession and fiscal austerity moments, were frequently immune to cuts in employed numbers. It must be registered that, during the most recent recession, local public funding could not count on a very important budget reinforcement which marked the 2001 recession: during that time, the optimistic real estate

market contributed, a little before the recession, and also right after it – especially – to increase the localities revenues. This time, however, the crisis epicenter was precisely the housing market and the activities moved by it, as construction and construction demanded activities. Therefore, local federative entities could not count on those fonder resources, that is, taxes over real estate properties. Nevertheless, it must be registered that the contractionary effects of state and local policies would have been even more severe if it was not for the significant increase of transfers from the federal government to the subnational unities.

The comparison with the 2001 recession reveals that, in the most recent case, the loss of public jobs, unlike what happened on the latter, ended by further deteriorating the unemployment situation within the American labor market.

It can be inferred that, in the set of U.S. labor market, even considering that the civil service is not that significant (around 15%), it could have had an important role to mitigate the severity of the past two years' unemployment – if its behavior had been similar to that verified in the 2001 recession.⁴²

To illustrate, we remember that the unemployment rate from December 2010 reached 9.4% of workforce, standing on a level only a little bit smaller than the peak, obtained by the end of the previous year. After eliminating about 115.000 jobs in 2009, civil service continued to retract throughout 2010 (eliminating 159.000 other jobs), although the labor market already showed a modest recovery. For the unemployment rate to reach, in December 2010, at least the same value as the end of the first quarter 2009 (that is, 8.7%), when economic activity was at its most depressed level since the crisis deflagration, American public sector, besides not having eliminate 275.000 jobs in the biennium 2009-2010, should have created more 800.000 jobs during the same period,⁴³ a very unlikely situation within the fiscal and ideological scenario experienced by the states and local governments.

Finally, it is very necessary to register that the crisis' effects on the U.S. employment reveals, above all, the detrimental situation presented by the labor market flexibilization (so rumored by neoliberals), which has a pronounced procyclical behavior. Furthermore, it becomes evident how the balanced budget dogma – consolidated by draconian laws to states and localities execute their budgets – combined with the gradual closing of the ARRA effects, will probably affect the job generation and also have a negative impact on the modest economy recovery which begun in 2010.

42. Throughout 2001, for example, there were created about 531.000 jobs in the U.S. public sector, of which 366.000 locally and 179.000 statewide.

43. In order to reach this number, it is assumed that all the dismissed from civil service in the past years would have remained on the labor market (that is, wouldn't have quit from the EMRATIO). Thus, there will come to a notional amount of about 13.411 million unemployed in December 2010, with the same workforce magnitude from that month, i.e. 153.690 million people. Nevertheless, in this simulation it wasn't evaluated, over the economic activity, the *multiplier effect* of the hypothetical public employment expansion.

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APPENDIX A

TABLE A.1
Employment evolution by sector of activity since the subprime crisis¹
(In thousands)

Employment by sector of activity	Dec./07	Mar./08	Jun./08	Sep./08	Dec./08	Mar./09	Jun./09	Sep./09	Dec./09	Mar./10	Jun./10	Sep./10	Dec./10
Non-agricultural total	138,078	137,838	137,666	136,732	135,074	132,953	131,735	131,118	129,588	129,750	130,470	130,311	130,712
Private total	115,745	115,462	115,170	114,197	112,542	110,412	109,178	108,670	107,107	107,254	107,700	108,063	108,453
Mining and logging	739	750	767	794	789	755	725	705	676	699	725	748	768
Construction	7,465	7,336	7,197	7,131	6,841	6,458	6,224	6,043	5,696	5,592	5,582	5,620	5,603
Manufacturing industry	13,772	13,642	13,536	13,322	12,902	12,301	11,869	11,740	11,534	11,579	11,670	11,676	11,670
Commerce, transportations and public services	26,658	26,560	26,436	26,257	25,843	25,471	25,263	25,090	24,653	24,700	24,744	24,806	24,880
Information	3,018	3,013	2,996	2,986	2,940	2,904	2,840	2,828	2,748	2,726	2,715	2,716	2,711
Financial activities	8,252	8,227	8,213	8,115	8,010	7,855	7,755	7,703	7,657	7,599	7,584	7,576	7,585
Professional and business services	18,131	18,029	17,943	17,675	17,356	16,899	16,650	16,642	16,488	16,562	16,709	16,749	16,854
Education and health services	18,568	18,708	18,875	18,957	19,080	19,148	19,252	19,348	19,350	19,442	19,519	19,621	19,772
Leisure and entertainment	13,635	13,677	13,686	13,428	13,304	13,194	13,177	13,176	12,991	13,041	13,114	13,174	13,231
Other services	5,507	5,520	5,521	5,532	5,477	5,427	5,423	5,395	5,314	5,314	5,338	5,377	5,379
Government – Total	22,333	22,376	22,463	22,535	22,533	22,541	22,557	22,448	22,418	22,496	22,707	22,248	22,259
Federal	2,735	2,727	2,744	2,771	2,777	2,806	2,819	2,827	2,842	2,911	3,171	2,844	2,852
Federal except U.S. Postal Service	1,972	1,986	2,013	2,034	2,056	2,083	2,112	2,137	2,160	2,248	2,517	2,196	2,209
U.S. Postal Service	763	741	731	737	721	724	707	690	664	663	654	648	644
State Government	5,153	5,160	5,179	5,192	5,193	5,190	5,176	5,173	5,178	5,166	5,144	5,164	5,184
Government public education	2,332	2,335	2,354	2,373	2,388	2,383	2,381	2,376	2,384	2,389	2,378	2,411	2,431
State government except education	2,821	2,825	2,825	2,819	2,814	2,808	2,796	2,797	2,795	2,772	2,766	2,753	2,753
Local government	14,445	14,489	14,540	14,572	14,563	14,545	14,562	14,448	14,479	14,419	14,392	14,240	14,223
Local public education	8,016	8,037	8,053	8,075	8,068	8,072	8,086	7,989	8,040	8,005	8,007	7,889	7,900
Local government except education	6,428	6,452	6,487	6,496	6,495	6,473	6,476	6,459	6,439	6,414	6,349	6,350	6,324

Source: Bureau of Labor Statistics (BLS).
Elaborated by the authors.
Notes: ¹ Seasonally adjusted.

TABLE A.2
Employment evolution by sector of activity since the subprime crisis¹
(In percentage of total jobs)

Employment by sector of activity	Dec./07	Mar./08	Jun./08	Sep./08	Dec./08	Mar./09	Jun./09	Sep./09	Dec./09	Mar./10	Jun./10	Sep./10	Dec./10
Non-agricultural total	100	100	100	100	100	100	100	100	100	100	100	100	100
Private total	83.8	83.8	83.7	83.5	83.3	83.0	82.9	82.9	82.7	82.7	82.5	82.9	83.0
Mining and logging	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.6	0.6	0.6
Construction	5.4	5.3	5.2	5.2	5.1	4.9	4.7	4.6	4.4	4.3	4.3	4.3	4.3
Manufacturing industry	10.0	9.9	9.8	9.7	9.6	9.3	9.0	9.0	8.9	8.9	8.9	9.0	8.9
Commerce, transportations and public services	19.3	19.3	19.2	19.2	19.1	19.2	19.2	19.1	19.0	19.0	19.0	19.0	19.0
Information	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.1	2.1	2.1	2.1	2.1
Financial activities	6.0	6.0	6.0	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.8	5.8	5.8
Professional and business services	13.1	13.1	13.0	12.9	12.8	12.7	12.6	12.7	12.7	12.8	12.8	12.9	12.9
Education and health services	13.4	13.6	13.7	13.9	14.1	14.4	14.6	14.8	14.9	15.0	15.0	15.1	15.1
Leisure and entertainment	9.9	9.9	9.9	9.8	9.8	9.9	10.0	10.0	10.0	10.1	10.1	10.1	10.1
Other services	4.0	4.0	4.0	4.0	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Government – Total	16.2	16.2	16.3	16.5	16.7	17.0	17.1	17.1	17.3	17.3	17.4	17.1	17.0
Federal	12.2	12.2	12.2	12.3	12.3	12.4	12.5	12.6	12.7	12.9	14.0	12.8	12.8
Federal except U.S. Postal Service	8.8	8.9	9.0	9.0	9.1	9.2	9.4	9.5	9.6	10.0	11.1	9.9	9.9
U.S. Postal Service	3.4	3.3	3.3	3.3	3.2	3.2	3.1	3.1	3.0	2.9	2.9	2.9	2.9
State Government	23.1	23.1	23.1	23.0	23.0	23.0	22.9	23.0	23.1	23.0	22.7	23.2	23.3
Government public education	10.4	10.4	10.5	10.5	10.6	10.6	10.6	10.6	10.6	10.6	10.5	10.8	10.9
State government except education	12.6	12.6	12.6	12.5	12.5	12.5	12.4	12.5	12.5	12.3	12.2	12.4	12.4
Local government	64.7	64.8	64.7	64.7	64.6	64.5	64.6	64.4	64.6	64.1	63.4	64.0	63.9
Local public education	35.9	35.9	35.9	35.8	35.8	35.8	35.8	35.6	35.9	35.6	35.3	35.5	35.5
Local government except education	28.8	28.8	28.9	28.8	28.8	28.7	28.7	28.8	28.7	28.5	28.0	28.5	28.4

Source: Bureau of Labor Statistics (BLS).

Elaborated by the authors.

Notes: ¹ Seasonally adjusted.

TABLE A.3
Employment evolution by sector of activity since the subprime crisis¹
(In thousands)

Employment by sector of activity	Dec./07	Mar./08	Jun./08	Sep./08	Dec./08	Mar./09	Jun./09	Sep./09	Dec./09	Mar./10	Jun./10	Sep./10	Dec./10
Non-agricultural total	138.078	137.838	137.666	136.732	135.074	132.953	131.735	131.118	129.588	129.750	130.470	130.311	130.712
Private total	115.745	115.462	115.170	114.197	112.542	110.412	109.178	108.670	107.107	107.254	107.700	108.063	108.453
Production of goods	21.976	21.728	21.500	21.247	20.532	19.514	18.818	18.488	17.906	17.870	17.977	18.044	18.041
Services	116.102	116.110	116.133	115.485	114.543	113.439	112.917	112.630	111.619	111.880	112.430	112.267	112.671
Private services	93.769	93.734	93.670	92.950	92.010	90.898	90.360	90.182	89.201	89.384	89.723	90.019	90.412

Source: BLS.

Elaborated by the authors.

Notes: ¹ Seasonally adjusted.

TABLE A.4
Public employment evolution by government level and selected activities since the subprime crisis¹
(In thousands of work positions)

Public employment by government levels	Dec./07	Mar./08	Jun./08	Sep./08	Dec./08	Mar./09	Jun./09	Sep./09	Dec./09	Mar./10	Jun./10	Sep./10	Dec./10
Government – Total	22.333	22.376	22.463	22.535	22.533	22.541	22.557	22.448	22.418	22.496	22.707	22.248	22.259
Federal	2.735	2.727	2.744	2.771	2.777	2.806	2.819	2.827	2.842	2.911	3.171	2.844	2.852
Federal except U.S. Postal Service	1.972	1.986	2.013	2.034	2.056	2.083	2.112	2.137	2.160	2.248	2.517	2.196	2.209
U.S. Postal Service	763	741	731	737	721	724	707	690	664	663	654	648	644
State government	5.153	5.160	5.179	5.192	5.193	5.190	5.176	5.173	5.178	5.166	5.144	5.164	5.184
Government public education	2.332	2.335	2.354	2.373	2.388	2.383	2.381	2.376	2.384	2.389	2.378	2.411	2.431
State government except education	2.821	2.825	2.825	2.819	2.814	2.808	2.796	2.797	2.795	2.777	2.766	2.753	2.753
Local government	14.445	14.489	14.540	14.572	14.563	14.545	14.562	14.448	14.479	14.419	14.392	14.240	14.223
Local public education	8.016	8.037	8.053	8.075	8.068	8.072	8.086	7.989	8.040	8.005	8.007	7.889	7.900
Local government except education	6.428	6.452	6.487	6.496	6.495	6.473	6.476	6.459	6.439	6.414	6.349	6.350	6.324

Source: BLS.

Elaborated by the authors.

Notes: ¹ Seasonally adjusted.

TABLE A.5
Public employment percentual distribution by government level and selected activities since the subprime crisis¹

Public employment by government level	Dec./07	Mar./08	Jun./08	Sep./08	Dec./08	Mar./09	Jun./09	Sep./09	Dec./09	Mar./10	Jun./10	Sep./10	Dec./10
Government – Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Federal	12.2	12.2	12.2	12.3	12.3	12.4	12.5	12.6	12.7	12.9	14.0	12.8	12.8
Federal except U.S. Postal Service	8.8	8.9	9.0	9.0	9.1	9.2	9.4	9.5	9.6	10.0	11.1	9.9	9.9
U.S. Postal Service	3.4	3.3	3.3	3.3	3.2	3.2	3.1	3.1	3.0	2.9	2.9	2.9	2.9
State government	23.1	23.1	23.1	23.0	23.0	23.0	22.9	23.0	23.1	23.0	22.7	23.2	23.3
Government public education	10.4	10.4	10.5	10.5	10.6	10.6	10.6	10.6	10.6	10.6	10.5	10.8	10.9
State government except education	12.6	12.6	12.6	12.5	12.5	12.5	12.4	12.5	12.5	12.3	12.2	12.4	12.4
Local government	64.7	64.8	64.7	64.7	64.6	64.5	64.6	64.4	64.6	64.1	63.4	64.0	63.9
Local public education	35.9	35.9	35.9	35.8	35.8	35.8	35.8	35.6	35.9	35.6	35.3	35.5	35.5
Local government except education	28.8	28.8	28.9	28.8	28.8	28.7	28.7	28.8	28.7	28.5	28.0	28.5	28.4

Source: BLS.

Elaborated by the authors.

Notes: ¹ Seasonally adjusted.

TABLE A.6
Public employment evolution¹ by government level and selected activities since the subprime crisis²
(In thousands of work positions)

Public employment by government level	Mar./08	Jun./08	Sep./08	Dec./08	Mar./09	Jun./09	Sep./09	Dec./09	Mar./10	Jun./10	Sep./10	Dec./10
Government – Total	43	87	72	-2	8	16	-109	-30	78	211	-459	11
Federal	-8	17	27	6	29	13	8	15	69	260	-327	8
Federal except U.S. Postal Service	14	27	21	22	26	29	25	23	88	269	-321	13
U.S. Postal Service	-22	-10	6	-16	3	-17	-17	-26	0	-9	-6	-5
State government	7	19	13	1	-3	-14	-3	5	-12	-22	20	20
Government public government	3	19	19	14	-5	-1	-5	8	5	-11	33	20
State government except education	4	0	-6	-5	-7	-12	1	-3	-17	-11	-13	1
Local government	44	51	32	-9	-18	17	-114	31	-60	-27	-152	-17
Local public education	21	16	22	-8	5	13	-97	51	-35	2	-118	10
Local government except education	24	35	10	-1	-23	4	-17	-20	-25	-65	2	-27

Source: BLS.
Elaborated by the authors.
Notes: ¹ Absolute variation over the last month of the previous quarter.
² Seasonally adjusted.

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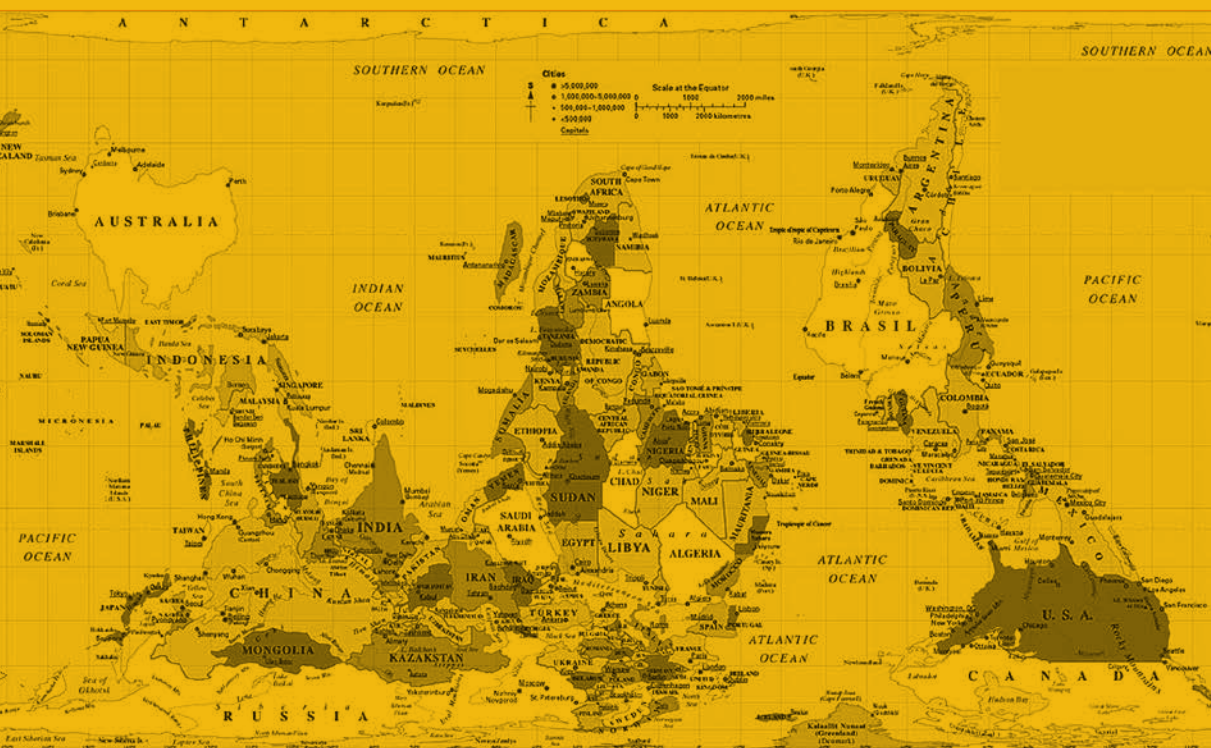
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