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Productivity decline in the Arab world[1]

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Abstract
The International Labour Organisation (ILO) often publishes labour productivity figures for the Arab World (AW) in which the rates of growth are negative. Insofar as it could be mimicked by output per worker, Arab labour productivity growth or the kernel of wealth creation has experienced negative growth rates. Productivity is a subcomponent of the prevailing decline in the investment rate, in particular, investment in plant and equipment. It is also a manifestation of the decline in the share of modern industry. The mainstream literature attributes the decline to the few remaining regulatory constraints on the free market. But the Arab market is pretty much freed, and in countries not experiencing wars, the real poverty and unemployment rates are quite high, save the Gulf States. In this essay, I argue that the reasons for this poor productivity growth cannot be found in reified concepts such as a not-so-free interest or exchange rate, but in the ruling classes' proclivity for openness policies that were devised to expand their wealth. After losing several wars to US-led imperialism and its allies, the Arab class formation underwent a radical disarticulation and the imperialistically sponsored new ruling class acceded to terms of surrender that included the neoliberal policy package. In states lacking sovereignty, neoliberal policies are a form of imperial tribute. The AW's capitulation or subjection to overwhelming US-led military superiority and assaults were not a single time event; the AW is integrated into the global economy via the war and oil channels. The reproduction of war in the AW is a central tributary of global accumulation. The losses to Arab formations, forced it to progressively relinquish autonomy over policy to the World Bank and the International Monetary Fund (WB-IMF). Free market packages have ensured resource transfers abroad. These value transfers further undercut the living security of working classes and their national security simultaneously. The so-called rigidity of the labour market, or what little remained of that in the public sector given that much of the population survives at mere subsistence levels, has had a positive impact on welfare. A gain in productivity caused by labour-shedding measures from public employment could have had a considerable negative impact on unemployment. Public sector employment has functioned as an economic stabiliser and contributed to averting a further decline in the subsistence level.

I. Introduction

In the Arab World (hereinafter AW), the average growth rate of the labour force since 1980 has surpassed the growth rate of decent job creation. Official unemployment rates have entered double digit figures and post Arab-Spring conditions suggest further deterioration in the employment situation. The growth trends indicate that future growth levels are likely to be lower, in view of increasing regional wars, lower and poorer quality investment rates, and continued reliance on neoliberal policies. The likelihood that the poor macroeconomic performance will leave behind an increasing number of job seekers without jobs as happened prior to the Arab Spring is becoming inevitable.[2] To date, the mainstream literature has not questioned why the build-up of imbalances between savings and investment, hollow growth

[1] This essay is an expansion of the lecture given at the AFWAN conference, University of Malaya, Kuala Lumpur, 18 November 2013.
[2] Throughout this essay, I will rely mostly on electronically generated data from the World Development Indicators (*WDI*) of the World Bank
http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=world-development-indicators

and low employment creation, and declining industrial capacity – productivity and wealth have persisted despite nearly thirty years of Arab adherence to the Washington Consensus.

Contrary to the proposition of the mainstream that openness sharpens productivity and increases wages, the opposite has happened. Over the last three decades, labour demand grew at a much lesser rate than labour force growth, whereas in the sixties and seventies (the years of state intervention and dirigisme) job growth nearly tallied with the rate of labour supply. Moreover, as of the early 1980s there have been no significant shifts in the sectoral or firm size composition of the AW, which would have allowed for more elastic labour demand or greater labour/capital substitutability. It was not bigger firms with better technology that were leading growth by replacing labour with more efficient machines; it was free market conditions that only war-defeated societies would have accepted that demobilised labour. During the period 1980-2000, economic growth rates remained torpid, on average between two and three percentage points (WDI, 1980 - 2000). Investment rates (public and private), share of the government sector, exports of manufactured commodities, and many other variables with an impact on labour demand have remained unchanged or have worsened. Oil and non-oil economies disengaged national resources and, in particular, the labour resource had become most underutilised. Policies that have reinforced the free market mechanism in resource allocation were inappropriate for Arab development, especially as political uncertainties, combined with uncertain oil prices, have prevailed.

In retrospect, with the rate of expansion in the private sector incapable of hiring the redundant labour force, the so-called inefficient public sector had proved itself socially efficient because it continued to act as a welfare cushion for the broader population. Efficiency criteria are conventions that reflect the value systems of different classes in society. Had the public sector share shrunk as recommended by the World Bank, the social disaster brewing before the Arab uprising could have been even bigger. As of 2000 or the beginning of the high oil price-jobless growth holiday, the labour market reforms (dubbed flexibilisation) under open capital and trade accounts drained human resources and shifted more labour into informal poverty-wage employment. One ought to note that in poorer developing countries with weak social infrastructures, the concept of unemployment *per se* is meaningless. People unable to find decent jobs and lacking wealth will invariably resort to poverty-wage jobs in the informal sector. Informal sector employment is low productivity employment. Productivity is the source of wealth creation. It leads the growth in physical capital assets, eggs on higher technology, and leads the rise in wages. On average, Arab productivity growth has been negative for two decades prior to the Arab Spring. In this essay, I examine the issue of poor productivity growth, using analytical and empirical techniques in order to identify some of the reasons behind this recurring phenomenon.

A note about the data: I will begin by cautioning that measurements of productivity are illusive and what is being measured allows one to trace development in output per worker over time, but not an assessment of productivity at any one point in time. Productivity assessments cannot be precise because it is impossible to homogenise the quality of capital goods employed in production. More accurate data on productivity would generally require labour-hour data and machine operation rates. These data are unavailable in the AW, and in this chapter I will construct approximations of output per worker as reference points for comparative purposes along a trend only. In general, labour market data about the AW is scanty and of poor quality. For instance, official unemployment in Syria would fall from 15 to 2 percent between 1997 and 2000, then would rise to 12 percent in 2001, and fall to 8 percent in 2005. The reason for the decline in unemployment was attributed to counting seasonal work in olive picking, which was the advice provided to the Syrian government by the World Bank. Absurdly, when the olive picking season came to an end, unemployment rates did not rise and stayed at around 9 percent. In the case of Tunisia, it would fall from around 16 percent in early 2000 to 12 percent in mid-2000. In the case of Algeria, it falls from around 30 percent in early 2000 to 10 percent by late 2000. In the case of Morocco, it would fall from around 20 percent in late 1999 to around 10 percent by 2004. The reason for this decline in unemployment had involved changes in employment measures as the Statistics Bureaus included informal employment in the measurement of employment (ILO, 2012). Had there been such improvements in unemployment in such short periods of time, the AW could have been an unsurpassable model of sound development. In addition to manoeuvring measurements, Arab countries struck by war report little data (Libya, Sudan, Somalia, Lebanon, Syria, Iraq and Yemen). Iraq withdrew its past data from the World Bank database and recently reports very spotty data. Lebanon has practically no statistical office; a private bank actually estimates national data.

Around 50 percent of the Arab population survive on less than US$2 a day and spend more than half their income on basic foods (Taqrir, 2005). Hence, a real unemployment figure counting people engaged in poverty employment as unemployed would necessarily be around 50 percent (Taqrir, 2005). In any case, the one or two dollars are irrelevant benchmarks in an Arab context. The Arab countries are the most food-dependent countries globally (FAO, 2013). The two-dollar threshold in countries highly dependent on food imports misinforms about poverty conditions (Reddy, 2005). In India, where food is mostly home-produced for instance, a dollar buys much more than in Lebanon where much of the food basket is imported. When food prices are freed from international price movement and are determined by production within the national boundaries, they tend to return more value for price. In Iraq, Lebanon, and Libya and much of the AW, more than half of each dollar spent would be paying for imported foods whose prices are determined internationally. Wither the differences in purchasing power parity as national currencies buy at home what the dollar buys abroad.

Yet, rising poverty rates have often been concealed. A cursory look at the figures before the uprisings would imply that absolute poverty rates – those below the one-dollar-per-day mark – were around 5 percent (Taqrir, 2005). These are low by global standards. Following the uprising, these figures were revised upward considerably (Taqrir, 2012).

In spite of higher oil-price driven growth as of early 2000, Arab poverty worsened as income disparities grew. It may be relevant at this juncture to dispel the image of ‘rich Arabs’ and to state things as they are: within the strict terms of economic wealth there are rich individuals in the AW, but the majority of working Arabs are pauperised. Excluding the Gulf, the majority of Arab working people, around 350 million, earn about 0.3 percent of the world income (World Bank, 2012). According to the Texas Income Inequality Database, the AW exhibits one of the highest income inequality rates of all regions (Galbraith, 2014). The figures on income distribution from the World Bank Indicators database (WDI), where they exist, are misleading. Egypt, as per its Gini in the WDI, for instance, is as egalitarian as Austria and holds its rank steady since 1980; in the Texas Income Inequality Database, the income distribution data shows Egypt to be highly unequal and its inequality growing to the highest rank just prior to the Arab Spring (Galbraith, 2014). Despite the formality of change through bourgeois democratic processes, as in different persons elected to executive office after the Arab Spring, ruling classes stayed unchanged. The divide between Arab internationally integrated capital, and the working classes that are supported by national means gaped wide. In the debate on the current development strategy, there is not an insinuation that the mainstream went wrong in the past. It is said that the outcome of neoliberal policy backfired because of poor governance or corruption. Corruption is used as a moral category particular to ‘culturally backward Arabs’ and not as the channelling of resources to waste or private use by the classes that freed capital accounts. Yet, the obvious question would still be, who would have believed that Arab dictators would have governed in a good way? The good governance discourse was the World Bank’s way of promoting regimes that obeyed US-imperialist diktat by flaunting the possibility that they were reformable.

II. Macro and output per worker

During the decade 2000 – 2010, output per worker in the AW exhibited declining growth at -.7 percent. Between 1980 and 2000, output per worker growth was on average negative at -1.2 percent. The fact that output per worker in the years 2000 – 2010 is better than the previous two decades 1980 – 2000, should not represent an anomaly since output per worker is a subset of output per capita, and economic growth in the decade of 2000 – 2010 was higher and was driven by higher oil prices and revenues. Oil revenues may raise output without influencing productivity. For instance, Qatar because of high oil and gas revenues during the 2000-2010 decade exhibits a nonsensically high yearly averages of growth rate in productivity – 15 percent in 2008 (ILO, 2012). One must caveat against the inadequacy of these productivity measures in oil producing countries or attempt to deduct the oil revenue impact on value added income to obtain, still, a rough estimate of productivity over time.

Table 1. Labour productivity growth in selected Arab countries, (percentage).

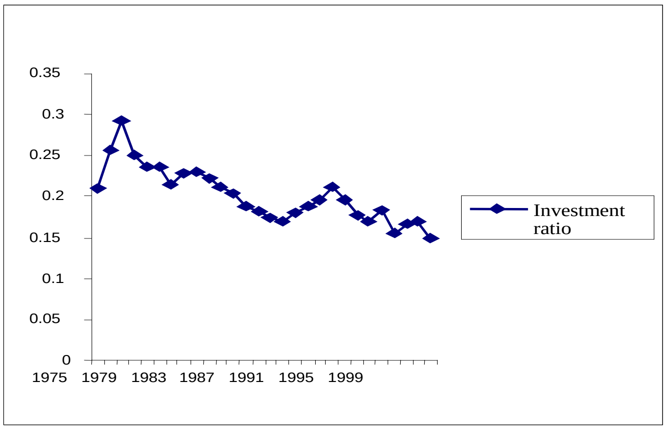
Averages	97-95	95-08	00-08	2007	2008
Bahrain	0.2	2.9	3.7	6.4	4.7
Iraq	-17.5	3.3	2.5	-1.8	6.2
Jordan	-5.5	1.4	2.3	2.3	1.7
Kuwait	-2.5	0.8	1.9	4.4	2.6
Qatar	-1.2	6.9	5.7	13.6	15.1
Syria	1.4	-1.7	-0.7	-0.2	0.7
Yemen	-0.5	0.3	-0.3	-0.9	-0.4

Source: International Labour Organization, *Key Indicators of the Labour Market*, various years.

During the period 1980 – 2000, a period of depressive growth, the region experienced no significant expansion in output due to improvements in technology or total factor productivity (Sala-i-martin, 2005). The rate of retained national savings (those remaining within Arab countries and not saved abroad) has declined and the investment rate has dipped. Low prospects of returns weakened the investment rate at a faster rate than its saving counterpart, with the former rate hitting a plateau of 18 percent in 2000, and then rising to slightly over 20 percent in late 2010 (WDI, various years).

From 1980 to 2007, the contribution of the systemic components to economic growth (growth from just expanding capital and labour, not oil revenues) was insignificant (UN, 2006). The average Arab region growth rate was one percentage point lower than the growth rate in the labour force (WDI, various years). In relation to the natural growth rate (the natural rate is the rate of growth in the labour force plus the rate of growth of productivity), the long term average growth rate (1980 – 2010) hovered at a little more than one percentage point below the natural rate. Although for three decades prior to the uprising total Arab savings (including Gulf States) remained higher than investment, Arab moneyed assets were still not employed to mobilise idle resources. The combination of unemployment and low productivity in the informal sector employment, in addition to weak labour political representation, lowered wages. Foremost, the falling investment rate (See Figure 1), in open trade and capital account regimes, created a downward development spiral that dragged down with it the whole macro environment.

Figure I. Investment rate in the Arab world, 1975-2009



Source: World Bank World Development Indicators, various years.

In contrast to the grim picture from 1980 onwards, for the two decades of the sixties and seventies, economic and employment growth rates were higher (WDI, various years). One may note that since the fifties, the average annual population growth rate was nearly as high as it was at the peak of the demographic transition in the nineties – around 2.5 percent. The whole demographic transition argument, which discovers suddenly there are too many people around of which we were not aware – is put forth to obscure the fact that it is the rate of growth in job creation that fell since 1980 as a result of freer market policies. It is not Arab fecundity or any other cultural attribute that created the social problem; it is the imperialist assault that sapped resources otherwise destined for civilian use, weakened the socialist ideological zeal of the working class and pushed into the forefront a social class committed to the free market agenda. The wars were won by military means, but their implications were the ideological defeat of the working class and the victory of comprador capital. Few social scientists are freed from the payroll of capital to state this blatant fact. The decent-job creation drop as of 1980 had created the backlog of unemployed or poverty employed people around today. The regulated national economies in the immediate post-independence period (sixties and seventies) performed better on all counts and nearly matched the rate of job creation with the rate of labour force growth. Unemployment was minimal and much of the migration to the urban centres was met with decent jobs.

As capital and trade accounts were freed prematurely, the share of the manufacturing sector declined steadily since 1980 (UNIDO, 2014). The AW exports significant quantities of raw material (on average around 40 percent of GDP), however, its competiveness in manufactured exports by late 2010 ranked below the average for Least Developed Countries (World Bank, 2011). Meanwhile, the employment shares of the informal poverty and subsistence sectors rose in tandem with industrial decline. Persistent cyclical unemployment allowed the absolute numbers of the unemployed relative to existing capacity to become huge enough such that, without radical changes to wealth redistribution, land reform, and labour policies, it would be literally impossible to provide the excess labour force with decent jobs. The point here is that Keynesian full employment policies are really un-implementable. If one considers that people always need to work, then the AW is already at full employment, given the high rates of poverty employment. And, to make matters worse, if let us say there is a possibility of boosting labour demand through expansionary macro policies, then one must also consider that this is a war region in which development and *doux-commerce* are anathema to imperialist objectives. It is unlikely that these phenomena can be assumed away, and still arrive at reasonable results.

The downward pressure on wages from unemployment was systemic throughout the past three decades. While real wages declined, the dependency rate – the number of bread winners relative to the population – rose (WDI, various years). Although labour share was falling for nearly everyone across the globe, save China and other smaller cases (KILM, 2013), in an Arab labour market, the labour share had come to form less than 30 percent of total income (it is around 65 percent in advanced economies (Guerriero, 2012; KILM, various years). Low wage employment and a small labour share abrogate the impetus of effective demand as a policy option.

A freer market enslaved much of labour in conditions of poverty, but freed the ruling class to enjoy wealth denominated in dollars. The regimentation of the labour process, union busting, and outright repression pacified labour as its share out of national income dropped. Capital accumulation fell out of synchronisation with the qualities of the skilled labour input. The region educated a class of highly-skilled workers that seldom fitted what was left of the local industrial network. The AW also continued to host a diverse expatriate population of unskilled and semi-skilled workers employed for relatively low remuneration in dreadful conditions. This unemployment trap added to the woes of an already anaemic job creation process because:

a) it exported labour upon which much social value has been expended, and from which the remittances fail to redress the loss in value, and;

b) the pressure of the low wages of imported labour lowers the national wage levels and reduces the nationally recirculated capital by the accelerator computed amount of the leakage.

As industry ebbed, a merchant class replaced industrial entrepreneurs and permitted greater dependency on foreign labour at the expense of the domestic or regional demand component. Merchants-proper need not invest in up-skilling national labour for they do not depend on national production. Where public employment was expanding, the ruling minority maintained support for its rule as numerous public institutions allocated jobs with a view to promoting patronage and political stabilisation. In the less oil-endowed Arab economies, austerity measures constraining the labour market increase the push factor on all sorts of labour resulting in uprooting from the land or emigration – skilled as well as unskilled labour.

The AW is a heterogeneous mix. The rich Gulf economies represent around 5 percent of the total Arab population (citizens only) but earn 1.6 percent of world income (WDI, various years). In less oil-endowed economies, some 350 million people earn 0.9 percent of world income of which the labour share is estimated at 0.3 percent of world income (WDI, various years). The majority of Arab countries (the less oil-rich) incur internal and external deficits while the oil economies acquire a surplus in the external sector. Unbalanced tax structures targeting consumption instead of capital gains and significant resource leakages help settle deficits in private spending, while government accounts tend to remain highly exposed, especially, to oil price variations. Even Saudi Arabia by 2000 (after 20 years of low growth beginning in 1980) became a net internal debtor as a result of falling oil prices. It only acquired a surplus in government accounts when oil prices began to rise in 2002. The retained savings rate stayed unduly low as nearly a quarter of its GDP was caught in capital flight (UN, 2008). Oil economies (mainly Saudi Arabia) remain vulnerable to low oil prices because the profits of the privately owned banking sector would have to rise by fabricating unnecessary state bond issuance as speculative earnings from the private sector dies down. When the banking sector ceases financing speculation of over-valued assets and as the downturn begins, bankers will turn to the state for increasing banking profits. After all, there are no conflict of interest clauses in Saudi Arabia or any Arab state for that matter.

The increasing rate of tensions and wars in and around the Arab region creates the uncertainties that drive away investment. The repeating cycle of poor growth cum poor investment is not redeemed by windfall oil revenues, because wars sap the capacity of Arab economies to underwrite the long term security necessary for developmental growth. After too many attempts to boost growth by diversification in the Gulf, oil is still the principal driver of these economies. The merchant class also makes sure that laws enacted for hiring nationals at higher wages are never binding because their higher costs cuts into profits. In the less-oil endowed economies, hopes to modernise industry by national means are systematically dashed by conditions of smaller markets and political instability; the Arab economies remain centred on primary commodity exports. The objectives of the merchant class and those of imperialism cross paths in maintaining conditions of backwardness and de-industrialisation.

Moreover, deficit-building in an open trade and financial account context builds a drag on fiscal and monetary policies simultaneously, because the government finances imports by restricting investment in the social structures to reduce its deficits. This weakness is not inherent to Arab states. Arab states were auto-financing their expansion prior to the eighties and incurred little foreign debts under regulated trade and capital accounts. The ruling merchant class, seeking greater dollar markets for higher and more secure returns, imposes the financial weakness upon the state: first it finances itself through the dollar-peg blighting monetary policy, national currency and reserves, and; secondly, by severing the link between social investment and monetary gains over the long term. The whole relationship of pegged exchange rates with fiscal austerity annuls the effectiveness of macro policies altogether, dollarizes the national money markets, uses surpluses in primary state budgets to pay for debts, and restrict national demand.

These austerity measures that came to roost in Europe were already at play in much of the developing world. One can easily pinpoint the economic transmission mechanisms that lead to fiscal and monetary flight. Yet, the point could be made differently from a political economic perspective: because national and joint Arab security is exposed as a result of so many losses in wars implicating the livelihood of the working population and restricting the development of resisting working class ideology, Arab sovereignty and, hence, policy autonomy are lost. Since 1980, monetary and fiscal policies targeted the provision of money and tax cuts to the rising merchant class, the staunch and albeit subordinate ally of US-led international capital.

The macroeconomic environment represents an interrelated whole with capital accumulation and productivity being at the heart of the health of the social formation. As productivity failed (the objective condition for higher wages), wages fell (as a result of loss of labour's political force, or the subjective component behind wage formation), the share of labour plummeted and, the only social variable that rose was poverty. There was slowing demand and supply (when falling together they degrade capacity) with inflationary pressures acting as indirect taxes on working people. Waning capacity, to be sure, is a process of reverse development. Although the Islamic cultural value of *takaful* [3], caring for others, may temporarily offset some of the welfare consequences of these poor cycles; *takaful* remains a non-rights based welfare approach that cannot redress the plummeting labour share.

III. A mainstream view of productivity

Productivity in the AW faces similar difficulties to those encountered by other developing regions, principally, the nationalisation of scientific knowledge and its internalisation in technology upgrading the value content of nationally produced commodities. There are very few things remaining national in the AW and the supply chain is quite shallow. R&D investment ranks lowest globally of all regions (UNDP, 2005). The few universities in Iraq and Syria that arabised scientific output were nearly demolished in wars. American private universities catering for the rich spring up as ornaments of wealth rather than knowledge posts. Arabic, which was *lingua franca* of science for nearly eight centuries, became associated with backwardness. As English became the language of the ruling class, the acute divisions in class character acquired yet another symbolic dimension in the prohibition of access to knowledge to the working class by the language barrier.

There are three points characterising Arab productivity:

> 1) There were no internally generated technological improvements that enhanced the scale of economies. A culture for industry and higher share of modern industry exhibiting higher output per unit of input at lower cost did not develop, and most economies remained locked in low-tech type activity.
> 2) Cheaply remunerated foreign labour and a schism between local knowledge production and industry discouraged upgrading the technical capacity of the national capital stock.
> 3) Where the labour input and physical capital rose in stock, they were couched in low capital-output ratio or short-term gestating capital. These are the types of short-term investment that avoid risk.

The mainstream explanation purports that an additional increase in one input is costly as it requires additional increases in other inputs, as well as adjustment costs that are comparatively high and capital skill complementarities may be lacking. Although these reified

[3] *Takaful* is a cultural value synonymous with charity and a practice credited with the alleviation of some extreme forms of poverty. However, more than half of the population in the Arab world lives on less than US$2 per day. When one considers the openness of the Arab economies and the high rates of food dependency, it is worthwhile to note that, even at this level, the majority of Arabs live in conditions of appalling poverty.

(thingified as per the usage of Lukács[4]) reasons apply across the spectrum of all industries by one degree or another; they cannot be found in the AW once the broader context is read. Freer than usual trade policies supplanted national industry. There is an order to building complementarities that was disrupted. Labour and capital are disarticulated not because of lack of complementarities or rising costs, but because of social disarticulation: the ruling class is part of global capital and not part of the national structure.

Another of the mainstream's explanations of why market efficiency is hampered posits that labour market regulations are obstructive, distorting price incentives and inhibiting maximum use of skills. The AW, excluding the Gulf citizenry, exhibits high rates of poverty, huge informal sectors (sometimes estimated as employing half of the labour force), an absence of laws protecting the rights of working classes (Arab labour unions enjoy the least rights globally [ITUC, 2007]), and patronage employment in the public sector buttressing the security apparatus of the ruling class. The fall in real wages was spearheaded by the compression of public sector wages. Where war is not ravaging the population, laws propped up by convenience make flexible any labour market rigidities. The reason why the World Bank asks for flexibility in a poverty-stricken labour market is to discipline labour and reduce any prospects of sovereignty based on working class participation. Productivity growth in the AW is not held back by labour market rigidities, the regulatory constraints on the private sector, or the low level of development in financial markets. It is held back because for US-imperialism the AW is a source of oil, cheap labour and wars. The policy of incapacitating the AW encompasses military as well as aspects of social development that may unite and empower working people. The ideological bombardment of working people with religious obscurantism splintering the working class is paid for by the supposedly sovereign oil funds that instead of breeding prosperity, breed reverse development. The rise of many religious and ethnic identities above class politics, this receding of the ideas that working people need to channel more resources/value to themselves against ideas based on sectional gains for an identity group that bring down labour's political power and share together, is the real victory of capital. The US-led imperialist assault on the AW, its hegemony over oil as the commodity support of the dollar, aims to confiscate not only the AW, but also much of the world wealth by laying control to this strategic part of the globe

IV. Declining productivity

The trends of components of output per capita decomposed into GDP over employment, employment over labour force, and labour force over population reveals that the labour shedding measures arising from enforced labour market flexibilisation as of 2000, have risen slightly. As of 2000, more working people were forced into unemployment or poverty employment in the informal sector. Tables 2 and 3 provide the results of the application of this decomposition for two periods 1980 – 2000 and 2000 – 2010.

[4] See Section I "Reification and the Consciousness of the Proletariat" in Georg Lukács' History & Class Consciousness, Merlin Press, 1967.

Table 2. Output decomposition of growth rates, (percentage), 1980-2000

Output components	Result
GDP over employment	-1.50
Employment over labour force	-1.80
Labour force over population	1.10
GDP over population	-1.10

Source; WDI, various years.

Table 3: Output decomposition of growth rates, (percentage), 2000-2010

Output components	Result
GDP over employment	-.70
Employment over labour force	.50
Labour force over population	1.1
GDP over population	.37

Source: WDI, various years.

In both periods, the decomposition unfolds on the usual trends, namely, declining productivity. The ratios are more or less typical of all Arab countries, save the small oil states whose output per worker appears inflated as a result of oil revenues, although they share a shallow supply chain with little endogenous technology. The decline in the employment-to-labour force ratio between 1980 and 2000 implies rising unemployment and represents the most pressing concern. Much hubris has been made about progress in higher rates of participation of women in the labour force prior to the uprising, but as the real declining share of employment to labour force indicates (again here I am counting poverty employment as unemployment), altogether unemployment rose. This Arab phenomenon differs from the high demand for labour in the West that required the engagement of women in employment after the Second Great War. In the AW, investments and output fell and so did demand for labour altogether (men and women). When the World Bank trumpeted the advancement in the rate of participation of women to embellish the image of reactionary Arab regimes, it did not mention that its openness policies brought down labour demand and forced people into poverty employment, both men and women. More educated women joined the ranks of their male counterparts as politically emasculated subjects of the reigning regimes. Patronage employment is more about co-opting people's conscience and generating consent rather than engaging their productive talents.

The trend in the ratio of employment to labour force turns positive as of 2000. The International Labour Organisation (ILO) condoned the Arab ruling classes' way of counting people employed in poverty informal sectors as employed (ILO, 2012). This counting method of inflating fallaciously the ranks of the employed counters the ILO edict of decent employment (employment with a reasonable income allowing minimum subsistence) and contradicts basic human rights tenets to meaningful human existence that the UN human rights bill enshrines as international law. In view of the fact that gradually after openness the population became heavily skewed towards the younger group of new entrants into the labour force, the significantly positive labour force over population ratio comes as little surprise. Arab countries that regarded the economy as part of national security in the sixties and seventies erected protective measures to recirculate resources nationally, calibrating the rate of savings with investment and of job creation to that of population growth. State sponsored full employment policies and nationally underwritten expansion of the money supply mobilised resources under regulated capital accounts. The shift to neoliberalism in the eighties arose not as a result of failing import substitution policies, but as an immediate response to Arab war losses and the desire of the comprador ruling classes to expand its wealth in Western financial circles. The material pull of class is always stronger than second-hand sentimental nationalist affinity.

By the year 2000, a greater share of the employed was lodged in low productivity service or informal sector jobs. Most Arab countries are oil exporters and as oil prices octupled between 2002 and 2014, the windfall component lifted output per worker artificially. When oil revenues are subtracted from output beginning 2000, the results show output per capita and output per worker to be significantly negative and far worse than the previous period of 1980-2000. Although it is difficult to dissociate oil from the economy, one could still posit that in relation to rising oil revenues, privatisation policies and the complacency attendant upon easy foreign exchange, lower the share of the productive economy. On the surface of things, together outcomes act as the mirror image of the aid syndrome where flows raise consumption and lower savings; however, it is not these thingified relations that generate the faulty process but the real human relation or the merchant class. The damage sustained by eliminating emphasis on modernising industry is a calculated policy that lowers national defences. This is after all a politically over-determined region. As neoliberalism metastasised under privately controlled institutions, increasing oil revenues seeped up towards the merchant classes and to their partners in the international financial circles.

The mainstream emphasis on rising productivity in certain micro success stories as in Kinda (2008),[5] obscures the macro failures of deregulation under the iron grip of an imperialistically co-opted ruling class. Productivity could have risen by making the public sector leaner, but in view of falling investment rates and jobs, more people would be driven to poverty employment. It remains a welfare enhancing measure that the decline in productivity was not offset by shedding labour. Extracting greater output per worker by raising labour market flexibility would have probably accelerated the social time leading to the uprisings; although (as per the Leninist approach) the uprising would have been triggered first by the loosening grip of the ruling class on the repressive apparatuses of the state, including its ideology, rather than worsening social conditions.

Save the leakage due to high imports and capital flight, public sector employment expansion has contributed to welfare from its distributional or demand component side by creating public sector jobs that act as a proxy for automatic stabilisers in the absence of the usual stabilisers. However, from a macro perspective, two points still attenuate the stabilising effect of low wage employment or public sector employment. First, too many people employed at low wages lift demand only slightly and, as evidenced by the declining labour share, demand was compressed, and; secondly, the rising size of imports in staple items implies more of the money earned by workers will pay for commodities produced abroad. Unruly openness

[5] See Economic Research Forum (ERF) research output emphasizing neoliberal policies: http://www.erf.org.eg/cms.php?id=research_completed

policies de-industrialised the AW and open capital accounts drew the financial wealth abroad in dollarised form. Here, one must note that given that the ruling class enjoys such a high share of national income (more than 70 percent), pegging the exchange rate does not subsidise the price of bread or the staple consumption basket, but the steady conversion of national assets at fixed exchange prices into dollarised assets abroad.

With investment rates dipping and the number of people coming of working age rising, the stock of capital per worker declines (the opposite of capital deepening in the neoclassical sense and a lower rate in the technical composition of capital leading to lower relative surplus value in the narrow Eurocentric-Marxian sense).[6] The initial physical stock estimate in Figure II is estimated via regression (again this estimate is just indicative of stock across time and not an accurate yearly measure). The negative impact on growth from the falling stock of capital per worker is doubly potent because Arab economies are de-industrialising and losing high output to capital stock. Between 1970 and 2010, the shares of industry in Syria, Egypt, Algeria, and Iraq, went down respectively from 19 to 5, 21 to 15,[7] 10 to 2, and 12 to 4 percent (UNIDO, various years).

Moreover, the fall in industry – in share and quality – the sector that requires the most knowledge to be infused in production, brings down with it scientific and cultural developments. It is not anomalous for Arab economies to exhibit low knowledge-based economies and to move into low-productivity areas as the culture of de-industrialisation proceeds. The combined losses in productivity growth and the organised power of labour have relegated the broad working class to misery as rising inflation cuts into already declining real wages. Real wages are determined by the product market (not the labour market), but so is the general price level (Kalecki, 1972). In the absence of unions demanding a rise in wages to offset inflation, the increase in the price level will decimate real wages as happened across the AW. By liberalising its markets, the AW dismantled its own deep supply and value chain that it has acquired in its post-independence era industrialisation. It later failed to absorb new and better technology during the openness phase. FDI destined to the AW was resource seeking and did not spill over in positive linkages to the national economies (Krogstrup, 2005). The truly absurd side of the openness paradigm advocates freeing trade and capital markets while the AW is subjected to incessant US-led imperialist assault. The economy is a principal part of the security structure and so is the level of subsistence of the working class. Rations are common in wars. In a region so strategic for its resources and imperialist power positioning, the neoliberal openness was in actuality a surrender policy meant for tribute extraction directly through petro-dollar flows, or indirectly, the dollarization of global transactions backed by imperialist hegemony over oil.

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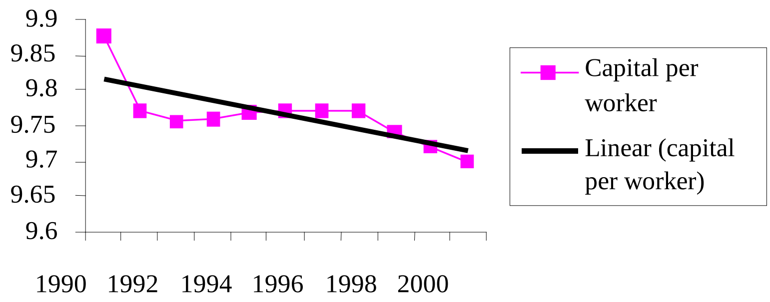
[6] I mention 'narrow sense' because relative surplus value cannot be equated with declining productivity, but it is sometimes used as such for reasons of elucidation. Value creation knows no borders and it begins with exploitation in the colonies. Hence, the one-country social product and its surplus value are formed in relation to capital accumulation on a global scale, or to use Emmanuel's point: commercial exploitation (Emmanuel, Arghiri. Unequal Exchange, Monthly Review Press, 1972).

[7] The data from Egypt may be too corrupt. National sources cite a manufacturing rate of 9 percent around 2009.

Figure II. Trend in capital per worker (*thousands of United States dollars*)



Source: based on data from the UN statistics database.

V. The macro conditions

The Arab Spring brought conflicts to Libya, Syria and Yemen. In addition to a long list of existing ones and the prospect of a major war in the Gulf, conflicts or their threats dampen the enthusiasm for long-term investment. Private investment, the key driver of the free market agenda, is especially sensitive to political uncertainty. With the market agenda constraining public sector expansion, the crowding-in effect of public investment in less than full employment conditions also vanishes. State autonomy is itself the guarantor of long-term investment. As oil prices receded as of late, beginning in October 2014, lower oil revenues will most likely impact the less oil endowed economies whose debt overhang requires foreign exchange for servicing. Their national currencies will come under pressure, their growth rates might tumble and income inequality will gape further away (inflation without autonomous unions lessens wages). Yet, with open capital account policies staying put, the ruling classes in the AW in general and the Gulf countries in particular will continue to export capital (UN, 2008).

Longer-term private investment depends on the capacity of the public sector to provide an implicit insurance scheme for local or foreign investors. After years of de-industrialisation, the region lacks the capacity to absorb technological spill-over from the outside through imports of capital goods (Krogstrup, 2005). Under protected market safeguards, financing industrialisation may be generated *causa sui* as the future guarantees the present or as social gains retranslate into economic ones (Kalecki, 1972). Under openness, the Arab population grew faster than the national growth in basic foods and life necessities. The working population withstood inflationary difficulties partly because of the increase of demand over the supply of necessities (agricultural production in particular). By neglecting agriculture and allowing importers of necessities to create artificial scarcity by limiting supply and hiking prices, the working class ends up paying twice for the openness policies - rising world prices and monopolistic price mark-up from local chartered importers.

The reflex-like action would suggest that reversing the trend requires a substantial increase in industrial production that should be accompanied by a simultaneous expansion in the agricultural sector. This is a tall order from social formations whose class structure did not budge after the Arab Spring. The ideological defeat of socialist ideology implies that nationalisation of assets does not protrude anywhere in development agenda. Redressing industrial and agricultural shortfalls, in whichever way (nationalised or privatised), would buttress the national and joint security of Arab states; missing security, especially working class security, is the crux of the Arab development problematic because it would run counter to imperialist objectives banking on positioning in the region as a result of the joint weakening of Arab working classes and their states.

Ideally, boosting national agriculture would reduce the hikes in prices of foods and other necessities. However, in the past three decades, most Arab countries joined the WTO and acquiesced to the free agriculture clause. Greater openness in agricultural markets rendered their economies susceptible to international price fluctuations and import surges. An FAO commentary on the impact of this liberal economic climate on the developing agricultural markets maintains that '[as] countries reduce tariffs and bind them at low levels, they become increasingly vulnerable to external agricultural market instability and to import surges that could destroy viable, well established or nascent production activity' (FAO, 2001).

There is a very low elasticity of job growth in relation to economic growth in the AW. The official unemployment rate for Arab countries went down cumulatively by around three percentage points for some fifty-percentage point of growth between 2002 and 2011 (WDI, various years). No rates of economic growth can ensure employment expansion (in decent jobs) under the mainstream policy framework. The neoclassical criterion for job creation (wage equal the marginal product of labour) is based on the values of the alliance of Arab ruling classes and their international partners and not working class concerns. By the marginal product approach, Arab workers get zero wages. The values of the Arab ruling classes, in turn, have become the values of international financial capital whose objectives are to demolish sovereign states and devalorise the region. These are not hypothetical objectives. This a close reading of development gone from bad to worse, the heightened degree of conflicts and deconstructed states. I am not going to use the term failed states, because states are not students in the exam as the platitude of capital disseminates; states as potential forms for working class struggles are dismantled by neoliberalism and or effective bombardments.

US-led imperialism has a vested interest in prolonging regional wars because war for the sake of war is a principal tributary to global accumulation. In its minor facet, war is a great factory employing millions of people as soldiers with modern technologies destroying and creating values – commodities and services. However, war strengthens the belligerent facet of the capital relationship, that is imperialism as a sociological relationship, and by which the snatch of Third World resources resumes. War devalorises sources of labour and raw material for capital, or cheapens costs of production globally while maintaining imperialist power. The connection between oil and the United States dollar a la Patnaik defines the key reason why the AW is under continuous assault.

The missing link had one had the choice of a better development policy, it would be a nationalist framework that would redeploy savings into Arab industrial projects. Credit to expand economic activity could be generated by nationalist sources, as autonomous states issue debt against the future (debt monetisation). However, few Arab states are now autonomous and the financial resources of the region have been caught within a neoliberal game structure that has resulted in their divestiture. Moreover, given the degree to which capital is internationalised through finance and labour is sectionalised by identity and nationalist reifications, getting anything done without international solidarity is a dream.

Moreover, declining rates of investment in plant and equipment demand a lower level of capitalised human resources (social investment in labour) to complement them. But the AW followed a two-path approach in respect to building skilled labour capacities. First, there is the low capitalisation of human resources that can be attributed to the low degree of industrial investment, which has also contributed to delaying the introduction of new technology and prevented efficiency gains, and; secondly, the AW produced a class of highly educated workers for whom the level of industrial culture in the AW has become non-matching and, as such, the group is part of large brain-drained diaspora. These are examples of the damaging kinds of fiscal leakages or value transfers to empire.

However, any attempt to retain resources nationally must take into consideration the lacking sovereignty of Arab countries. None are secure, in terms of working class security, which is the substance of sovereignty. The Arab working classes continue to be disarmed ideologically in terms of resistance to imperialism, first by the universal collapse of the socialist model, and; secondly, by financial manipulation. With ideas of solidarity ebbing, identity or ethnic wars to grab a bigger slice of national income pits people against each other in a race to the bottom. Sovereignty is synonymous with security; the least sovereign are the Gulf States, whose security is provided by US imperial cover. The Gulf sovereign funds cannot be sovereign as they emanate from non-sovereign states. In any case, the many trillion dollars in Arab assets abroad (no reliable estimate exists) cannot fall under the control of Arab Emirs. This huge cash amount must remain an unrequited transfer or an un-cashed cheque for it is too substantial for the US economy to be held by peripheral vassals. But given the primacy of control to imperialism over intermittent running costs, some of these funds are channelled to force through divisiveness in the region on the basis of sectarian identities fuelling wars.

Grabbing people's wealth via repressive measures, wars and neoliberal policies are aspects of the real corruption process. Corruption is not the meagre bribe that a civil servant receives. Real corruption is that which channels national resources into anti-social and anti-developmental ends. This corruption is not illegal. It is ordained in the open capital accounts policies of neoliberalism, which converts national assets into dollars backed by the national reserves of the working class, and either integrates them or ships them abroad into the global financial markets. Presently, it would be anti-constitutional to arrest human and financial resource outflows. In the current institutional context, the reallocation of resources to private use or to waste under the marked capital bias of the state, which mediates the divide between capital and labour not to satisfy national ends but imperialist goals, constitutes gelled obstacle to development. Corruption is not a moral category specific to Arabs. Arabs do not exist, whereas Arab social classes do. Corruption is intrinsic to the imperialist-bowing state. Any serious reform effort must confront the political apparatus that accords primacy to private accumulation by a merchant class, which is subordinately partnered with US-led capital. How did conditions evolve as such?

VI. Closing comment

As the AW de-industrialised and the class of merchants speculating, snatching, importing, and exporting allocated resources, a mercantilist mode of accumulation replaced its nascent industrial capitalism. A principal characteristic of merchant capital bereft of industry is absence of positive intermediation between private and social wealth – simply, merchants leave behind the progressive side of capitalism, of which in any case little exist in the Third World. The merchant mode of accumulation revolves around quick private gains and does not require productive reinvestment in society; the usurpation of value by financial means is a subsidiary outcome of the power allotted to this class by imperialist overseeing. The practice of merchant capital mimics that of financial capital, in the sense that money is transmuted into money without direct involvement in production processes. Rentier or rent-grab maybe too general a categorisation; it is also something of a misnomer, meant to support an *ad hominem* against working class Arabs argument which conceals the fact that value transfers away from the working classes in the AW are conducted by an alliance of national as well as by US-led international financial capital. The resurrected merchant mode of accumulation is a reincarnation of medieval mercantilism in a modern guise. The degeneration in social and political rights, including the status of women, is a vivid manifestation of the social retrogression driven by the ebbing of industrial culture in much of the AW.

Apart from losing major wars that restructured society in more advanced Arab countries (Syria, Egypt, and Iraq) there was a prevalence of geopolitical flows from the Gulf States that contributed to de-industrialising more industrialised economies (remittances acting like the Dutch disease). The AW thus became an economy that could not for structural reasons produce decent jobs, and where profits without effort had gripped the mind-set. In this context, cheapening life and reducing people to commodities became part of the shift to the merchant mode and the value usurpation process. For the Arab working class, this is a process that religious alienation – imaginary projection of the causation of worldly misery onto a supernatural power – can only momentarily redeem. As working people endure harsher conditions, it appears that the Islamisation of political life offers a short-lived reprieve to the merchant ruling class.

The core issue is about channelling wealth to the working class as a right – not as charity. Under the unregulated market framework, unemployment in the AW became systemic (cyclical). This has nothing to do new technology becoming old or asymmetric information. Wars sapped development and the commitment of the ruling cliques to development evaporated as their classes joined their natural allies in the safer international financial space. Job creation fell because of shifts in the class structure towards merchant activity and the rise to power of ruling classes committed to the imperialist agenda, whose reproduction as a social class is materially underpinned by its allegiance to imperialism. The danger of these un-nationalistic classes is that they are the historical allies of US-led financial capital, which has a vested interest in dismantling Arab states. That said, in the absence of socialising options (land reform, protectionism and egalitarian distribution) toward which popular movements can strive, political uprisings such as the Arab Spring need not imply progress. The ruling class changes face, but does not change its substance.

Alongside imperialist bellicosity, the merchant mode of accumulation obstructs integrative transformation, both nationally and regionally. Mal-distribution and the near-absence of positive intermediation between private and public wealth remove the welfare base for working class autonomy and, hence, national integration as well. Here, especially targeted is agriculture, which sustained the biggest losses in investment. Under the merchant mode, the private sphere develops a necrotrophic relationship with the social sphere. Merchants grab social wealth without putting back value into society causing the social-national side of the economy - which is not integrated with global financial capital – to die slowly.

The Arab merchant mode is principally about taking raw or semi-raw products out of the nation states and selling them abroad and or importing manufactured goods for sale at home. Alongside chattel slavery, nationalisms laced with racism, and colonial genocide, it was European mercantilists who engaged wage labour in industry and introduced technology and a complex division of labour. In this way they initiated the wealth-making process of capitalism circa 1500 AD. Mercantilists, under the global pressure of rising trade volumes, engaged wage labour in industry to meet the demands of the world market. They grew into capitalists. In the AW, however, the reverse happened. De-industrialisation, regime stabilisation spending derived from oil or geopolitical revenues, and the rise of informal or low-productivity service activity laid the foundation for the new material basis of merchant-class relationship. The subjugation of national capital to norms of financial capital, whose activity is centred on money exchange, also accelerates and shortens the duration of the turnover of profits in the national economy.

Imperialist hegemony and the merchant mode are interrelated; they reinforce each other. However, imperialist assault is the key historical moment around which all other moments coalesce. The merchant mode of accumulation sets in motion anti-integrationist dynamics. It splinters. If a scale of reference serves to illustrate the point, it divides according to the magnitude of merchant capital subordination to US-led imperialism whose activates centre on financial capital. The latter has an interest in promoting encroachment wars in the region because it releases regional resources at cheap prices and positions itself against other competing capitals. The power it draws from this regional positioning underwrites the transactions in dollar form and the issuance of the dollar globally. Furthermore, the merchant mode requires little expansion in productive capacity or synchronisation of human skills with expanding technology. Merchant capital would foment a civil war in the nation state or over-extend to capacities of the state leading it into fragmentation to further the interests of its dominant international partner. In the end, the materialist underpinnings that reproduce the merchant class are found in the international financial dollar space.

The conventional wisdom posits that oil and geopolitical revenues in the AW are unearned incomes. That is a fallacious and misleading claim. These incomes are earned at tremendous social and environmental costs to the working classes; Seen from a holistic perspective, militarisation engages labour on both sides of the fence in an act of self-destruction and creation of value. Capital accumulation begins with the bombardment of the ex-colonies and human losses in war, and the demobilisation of resources are incurred by society as a whole. The reified nation state confounds oppressors with the oppressed. The joint loot of the Arab ruling classes and their international financial patrons *is* unearned income; however, the rest of the Arabs – the street vendors, the unemployed, and the poverty-and-war–stricken populations – have more than earned their share.

As the merchant mode governs social activity, oil and geopolitical revenues are mainly spent on increasing imports, domestic pacification, and foreign assets. These measures address US-led imperialist goals that thrive on the pauperisation and disempowerment of Arab working classes. A disempowered working class imparts its insecurity at the national level and, by implication, boosts imperialist hegemony. In the integrated web of global production, national boundaries can no longer disguise the fact that capital draws on a huge pool of global resources. The idleness of Arab resources is closely tied to the central crisis of overproduction. Deductively, wealth is humanity's wealth and, conversely, working class de-integration in the AW is the heavy price paid for the unearned income of their ruling-class alliance with international financial capital. More important, the re-empowerment of Arab working classes could dent the hegemony of the US alliance over a region in which they enjoy 'the freedom of action – notably military action – that is almost unparalleled globally' (Levy, 2103).

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