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Development under Uncertainty in the Arab World

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Of the countries that are off-track on the road to sound development, many are situated in the Arab World. The worst hit are either in conflict, near conflict or post conflict zones. Even when not undergoing the war disaster, the fragility of their development is further compounded by the prospects of war. In addition to the actual or potential woes of conflicts, their slow rate of progress is characteristic of small risky markets or capital scarce structures that have adopted unconditional liberalisation measures (real capital scarcity and not financial capital). For the most part, these countries still depend for their economic growth on the export earnings from a primary product: namely oil. When oil prices fall, economic growth stumbles, and an already poor development showing suffers yet another setback.

Yesterday's accomplishments are frequently written off by a combination of war dislocation or anti-developmental macroeconomic policies. The latter are policies whose interface with reality does not sufficiently mobilise idle resources, as in putting the unemployed to decent work.[1] For the group of risk laden and underachieving Arab countries, which comprises the overwhelming majority, the crunch on their course of development happens to be fourfold.

First, the determining moment in their development lies in the fact that the decision-small country developing its productive capabilities in a world that is already consumed by a crisis of overproduction is unwanted.[2] Furthermore, US-led imperialism, for which militarisation is not only a domain of accumulation, but the gyroscope that steadies its course of development, stands to benefit from the war and its social, political and financial impact.

Secondly, in addition to the calamity of war, the prospects of spreading conflict dampen investment and impose a drag on economic, social and institutional development. In many cases, war acts as a massive primitive accumulation measure expropriating labour and de-nationalising resources, after which the newly socialised working people (people thrown into the job market in search of wage jobs) and denationalised resources are only selectively re-engaged back into production. In the Arab World, once uprooted as a result of war or development-supressing macro policy (as in the simultaneous retreat of supply and demand), more of the dislocated people remain jobless or per the necessity of survival engage in informal poverty employment.

Thirdly,

security. It also implies that such departure of security from development concerns is a product of an internal social class disarticulation and, hence, a serious crisis not only of governance but also of the state. The consistent instantiation of a schismatic social contract, including the higher degree of non-autonomous legislative and judicial functions, blocks the realisation of the interests of various working strata in and through the state.

Another characteristic of Arab economies is the slow dynamic rise in labour productivity or, the often observed, negative productivity growth rate. Labour productivity growth is the nucleus of wealth creation and, when missing, it demonstrates the slow progress of indigenous economic capabilities - growth from within derived from national competencies - or growth that is based on the infusion of national R&D and knowhow in production. One is aware and employment, institutional transformation and technological progress, Arab countries have been experiencing development.

In times of high oil prices, output per worker growth (a proxy of labour productivity) appears positive and somewhat astronomically high, but when oil revenues are deducted from total income, output per worker growth is more often negative than positive. The productive capital stock per worker, or equipment of the modern technology type that grows from the nationally-induced need to capitalise both capital and labour in order to meet demand, is not rising (Kadri 2014).

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The putative case may be that some Arab countries may have needed to liberalise trade, but not willy-nilly as they have done. Trade liberalisation could have been selective and conditional and within their own respective regions first, such that their negotiating position and accession into the global economy does not come at the expense of national industry and food security, for instance. But, it was not. Arab countries import more than half their food consumption and some food dependent and cash-strapped countries have to borrow to buy their basic foods (Bush 2015). Food is not only an essential commodity; it is also a constituent of the national security structure as evidenced by the impact of the embargo on Iraq (1990-2003). More so than in the run of the mill circumstance, in a war-tense atmosphere, even the United Nations measures could at times buttress the real conditions for war-making or compare with the baleful effects of war.

That development required diversification away from primary products, particularly in the case of Gulf countries, was the refrain that one often heard in every Arab summit since was smug with Arab defeats and used defeatism to drive the unconditional neoliberally imposed policy agenda. On the flip side, the wages and the living security of the majority took a nosedive.

The symptoms of the neoliberal malaise assume odder forms here. Consider why when revenues from the export of primary commodities rise, the rate of retained savings dwindles afterwards, as in the foreign aid paradox. The policy set up is such that as consumption, namely of the conspicuous type, rises steadily drawing on the higher of national income accrued to capital, national savings and reserves, less and less savings would be left for investment in productive activity, especially when oil revenues fall. It is not only that economic growth exhibits wide variances that mimic oil price variations, but underneath the volatile growth lurks a degradation of the national economy as a result of low capital output ratio investment and a low demand-labour share that hinders autonomous recovery.[4] One can dwell on the point, but what is important to realise is that an economic contraction/expansion could be triggered by an external shock, however, its magnitude and duration is determined by the adequacy of economic stabilisers, the sturdiness of the industrial constituents of growth and the efficiency of institutions. The prolonged economic contraction in these countries, (a 1 percent real GDP per capita growth on average between 1980 and 2010 [WDI various years]) along with the dipping share of labour from total income, therefore raises more questions regarding the decision making process behind the macroeconomic constellation, including why governing structures had foreknowledge that they had to diversify (the Gulf case) or support national industry, and yet failed persistently to implement such projects. One thence must look into the motives of decision makers. The leading social forces, USmarkets, presided over by a mercantilist-like class, channelled investment into short gestating capital, speculative or non-productive activity, which in turn, required low productivity service sector ƨƻōăφ ¢ƻ ōƻƻűΣ ǋŜŘdzŎʎƴ∃ űKŜ LJdzōƒʎŎ ăŜŎűƻǋΩă ƨƻō ŎǋŜǀ·űʎƻƴǋǀ·űŜ and investment did not better employment conditions. Alongside public sector cuts, deindustrialisation reduced the rate of decent job creation far below the rate of new entrants into the labour force (UNIDO 2014). One has to keep in mind, that population growth rates tapered down steadily as of 1960, and unemployment cannot be countries an outcome of a policy-mix of increasing short term interest rates along with national currency devaluations? To what extent has the adverse impact of a chronically high rate of unemployment aggravated the contraction triggered by an external shock (falling oil price) and thus created a debilitating path dependence?

To parody this situation without the trappings of postmodern hallucinations, the mechanisms behind these questions are like various irrigation valves channelling resources between several nationally based working strata and internationally based financial interests. To demystify, they are about who (which class) has enough power to get a higher share of income and how much. As labour share from total income fell to the lowest global ranks as a result of and absence of politically organised labour, inflation and wage compression, the steadying of the national currency against the dollar (pegged rate) channelled wealth not only up within the same society, but also abroad. Countries with balance of payment constraints are short leashed by institutional lenders who can wreak havoc on nation states by simply delaying disbursements that support the national currency (if national currency devalues, inflation rises, etc.). In a sense, this policy, as do many other neoliberal measures, makes corruption legal. That is to say, if corruption is defined as the diversion of public wealth to private use: the past and still ongoing exchange rate and monetary policy under open capital account regimes, which was not only legal but also supported by major international financial institutions, is corruption at large.

But to go back to our questions, the answer to all three problems may be drawn from any standard second-year macroeconomic textbook: a country cannot peg to the dollar under an open capital account, and still hold on to an effective monetary policy. However, it is not the effectiveness of monetary policy that comes first; it is the ownership of policy or policy autonomy emanating from the margin of state sovereignty. The sovereignty security of Arab states has become less substantiated by developmental capabilities, knowledge assets, and ultimately by the wellbeing of working people. More so, in times of war or war-like conditions, in the Arab World, the ultimate sovereign may be allegorically deduced from the inscription on the side of Lƻdzʎă ·I±ŵă ǑI·ÿƻÿ (the final argument of kings). The military balance of forces, in which imperialist intervention holds sway, has become the broker of sovereignty and, together with the ideological avalanche of neoliberalism, these explain much of the lost policy autonomy since 1980.

Regaining development means regaining policy autonomy under conditions of popular sovereignty. The positive relationship between policy space and positive developmental outcome is such a straightforward question that, in spite of its sensitivity, was addressed by the UN: ΨűKŜ ʎŘŜI· ƻŦ ǇƻĨʎŎè ăǇI·ŎŜ ǊŜŦŜǊă űƻ űKŜ ŦǊŜŜŘƻY I·ÿŘ ability of governments to identify and pursue the most appropriate mix of economic and ăƻŎʎI·ĺ ǇƻĨʎŎʎŜă űƻ I·ŎKʎŜØŜ ŜIJdzʎűI·ōĺŜ I·ÿŘ ădzăűI·ʎÿI·ōĺŜ ŘŜØŜĺƻǇYŜÿűŵ ó¦N 2014). Yet, in the typical half-truth type positioning resulting from űKŜ ¦Nŵă subordination to the dominant imperialist power, it attributes loss of autonomy, in one instance, to ΨØI·ǊʎƻdzăI legal obligations emerging from multilateral, regional and bilateral agreements” (UN 2014). It appears as the UN Security Council deals with the possibility of regional wars escalating into global ones, state sovereignty has become a by-product of a universally democratic international law, in which honouring agreements is part of the gentlemanly behaviour of advanced nations. In significant swathes of the third world, violent forms of class power when exercised determine much of autonomy. Class power is not the ahistorical person or group in executive office with megalomaniac individual agency; it is the full weight of history, its dominant ideology, and monolithic institutions into which Arabs and Africans are born.

The higher rate of value and resource dislocation resulting from the violence of war has been contravening the covenants of i

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