Tormented births: passages to modernity in Europe and the Middle East
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Chapter 10

In Lieu of Conclusion
From Modernization to Rentierism

Similar historical processes which the Mashreq and different parts of Europe had undergone at various historical points of their development led to the formation of similar socio-economic and political structures, as well as similar cultural representations of identity. Similar crises and conflicts produced similar social, cultural, and economic manifestations and produced similar powerful forces that drove the respective societies on the road to bourgeoisification.

Establishing this conclusion should throw into serious doubts the dominant theoretical edifice which claims that colonial Europe radically altered the course(s) of development of the third world thus rendering Europe’s passage to capitalism a unique one and the rise of capitalism in the third world either a foredoomed project or a process that can only be induced by 'external' factors, namely the deliberate policy options of the western powers.

The Mashreq’s socio-economic systems responded to the changing technological and commercial trends from the late eighteenth century in ways that were quite similar to Eastern Europe’s- as well as some Western European-responses to the commercial revolution of the sixteenth-seventeenth centuries. The rise, consolidation and subsequent crises of the precapitalist structures that took place between the first third of the nineteenth century and the mid-twentieth century followed a pattern that was quite similar to the other precapitalist structures elsewhere. The buds of bourgeois transformations were the products of these developments and their manifestations were very similar to the ones that western Europe witnessed in the late seventeenth and eighteenth centuries.

An obvious -and perhaps most complex- question that should be raised as a conclusion to our study is: given these striking formative similarities with the ‘west’, what went wrong with the Mashreq’s decades of modernization attempts? Why weren’t the social forces that triggered the national revolutions and were further unleashed by them able to establish the necessary mechanisms for a superior form of social structuring and development, capitalist or otherwise?

The question is not novel, of course, and we have briefly touched upon it when discussing the nineteenth-century formation of precapitalist landed structures, which are misinterpreted by many scholars as embryos of capitalism in the region1. Several schools of thought have addressed this issue whether explicitly or by way of attempting to explain the origins and causes of underdevelopment. Not surprisingly, various combinations of nationalist-Islamist-Marxist versions of the dependency/world systems narrative on development/underdevelopment still dominate the public perceptions as well as scholarly literature on and in the Mashreq countries.

One is normally confronted with a host of easy statements that pretend to provide the answers. For almost four decades the dominant arguments revolved around the intentional or unintentional role of colonial and imperialist powers in perpetuating underdevelopment and weakness of their subjects. While foreign dominant powers would probably have a stake in hindering the progress of their subjects, such answers fail to explain the mechanisms through which these powers

1 See chapters 1 and 2.
could achieve their goals. At practically any juncture in world history, there were contending, even warring, powers. But even the defeated and devastated Germany and Japan could resume their march after crushing wars and countless constraints imposed on them by the victors.

In this study I have tried to warn against confusing two seemingly interrelated processes that the ‘third world’ has undergone since the opening of the European colonial era: exploitation/plunder which the colonial and imperialist powers have certainly inflicted upon their victims on the one hand, and what we have come to call ‘underdevelopment’ on the other. In a sense, underdevelopment is the way that precapitalist social structures, or social structures that are not yet ripe for the rise of capitalist mechanisms endogenize the effects of exploitation/plunder. For if by exploitation we mean the phenomenon of unequal exchange between developed and underdeveloped regions, then to say that exploitation has caused underdevelopment begs the question of what made unequal exchange possible in the first place (Emmanuel 1972)

Plunder and exploitation by themselves do not, and cannot, explain neither the rise and further enhancement of capitalism in the advanced capitalist countries nor the underdevelopment of the “third world”. Long-term and systematic unequal exchange to the advantage of the advanced countries was only made possible by the fact that capitalism is the first – and hitherto only – socio-economic system whose expansion is mainly – but not exclusively – dependent on the systematic and consistent rise in labor productivity. This dynamic has been made technically possible by the continuous change in production techniques. But the revolutionizing force is not technology itself; rather it is technology that is predicated on specific socioeconomic conditions – namely, the competition among capitalists on the one hand, and attempts by capitalists to minimize the costs of organized and living labor on the other. These socioeconomic conditions render the introduction and application of technical innovation and organizational changes that aim at raising efficiency – measured in terms of raising capital returns to be sure – an imperative and not only an option for survival under capitalist conditions. Exploitation through unequal exchange thus occurs because a capitalist formation raises productivity in a systematic way, while raising productivity under the precapitalist formation with which exchange takes place is either not possible or not necessary, or both1 (Brenner 1977)

If one is to look at imperialism and colonialism as processes or relations and not as willful subjects, as much of the romantic literature on the third world does, then we have to explain the outcome of the processes of colonial and imperialist exploitation not by imperialist "attempts" but by the way the other side of the relationship, i.e. the exploited side, endogenizes this relationship and not vice versa. For on the exploiter’s side there is one constant; namely the attempt at maximizing

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2 This statement does not exclude capitalism’s reliance on ‘non-economic’ factors, such as brutal force whether inside the capitalist countries themselves (the fencing of farms in England, for example) or in the colonies and semi-colonies. It does not exclude the reliance of capitalists on extending work-hours as a means for increasing their profits. While these, and other similar means, constitute the main tools of precapitalist expansion and survival, they are not the defining or main characteristics of capitalism.

3 See chapter one. It must be stressed here that sporadic improvements in productivity can, and do, occur but they are not necessary conditions for the survival and reproduction of a precapitalist formation. This means that in the short term, terms of trade between exports of ‘underdeveloped’ countries and developed ones can be in favor of the former. This was generally the case during the initial stages of integrating the ‘third world’ into the world trade. More recently, oil-producing countries experienced a similar situation during the 1970s. But in both cases capitalizing on these gains was not possible for the reason mentioned above.
gains ensuing from the colonial or imperialist enterprise. Furthermore, this attempt at maximizing gains is multifaceted since only a reified concept of colonialism or imperialism can reduce the various individual and collective interests here into a unified strategy.

Whereas colonial powers perceived their objectives in a particular way- and even here different colonial powers at different stages had different ways of achieving their goals, individual capitalist concerns had their own interests and calculations to maximize their gains from the colonies or semi-colonies. Hence we feel that much of the debate on "what colonialism or imperialism wanted for the third world" and whether "it intended to build or impede capitalism" in the subjected areas is baseless. Forcing colonial concessions on nineteenth-century Japan, or exploiting cotton plantations in eighteenth-century Virginia, for example, led to radically different outcomes from forcing similar concessions on the Ottoman empire and exploiting agricultural plantations in Africa although the European interests at stake were the same.

The particular forms of social configuration in the exploited areas define and determine the types of property relations and forms of social organization that can evolve under the impact of an intensified incorporation within the world market. In fact, these configurations define in the first place whether directing the production of a certain country or region towards export- even if this production is mainly raw or agricultural material- would turn out to the benefit of the exporting region or to the importing one. One cannot assume the formation of underdevelopment from the mere fact that the third world was mainly an exporter of non-manufactured products. Sandra Halperin clearly demonstrated that:

"[C]ountries in the core were also incorporated into the system as raw materials producers (e.g. Denmark, Sweden, the United States, Canada, Australia). Moreover, core development and peripheral development before the world wars were generally more similar than dissimilar”

Halperin 1997: 196

She concludes her powerful analysis by the following statement:

"In fact, all the structures we associate with dependency were as common to Europe before the world wars as they are to the Third World today-including dualism, dependence on a narrow range of export goods, on a few trading partners, and on foreign capital and technology, and specialization in the production of raw materials and primary crops.”

Halperin 1997: 189

The productivity of labor, which is a function of the existing social system or predominant relations of production, determines the ways that the incomes accruing from exporting primary products would be reinvested. This is why we concluded that it is the existing systems of social reproduction in the third world that define the extent to which the development of the productive forces can proceed and the potential for doing away with exploitation and unequal exchange or, in other words, for launching a process of capitalist development.

According to the above, what the conventional literature calls ‘developing’, ‘underdeveloped’, ‘third world’, ‘peripheral’, or simply ‘dependent’ societies are those societies where the domination of capitalist relations of production and reproduction have not taken firm roots. This systemic definition of the relatively modern twin notions of development/underdevelopment radically differs from the various ways that much of the development literature has hitherto characterized the
nature of ‘underdevelopment’. But before we proceed to specify what we mean by the
domination of capitalist relations of social reproduction we need to briefly show how
much of the mainstream definitions stop short of adequately accounting for the
process of capitalist domination as an indicator of the ‘take-off’ to a developed status.

10.1 Extensive Growth, Intensive Growth and Capitalism:

Several schools and authors have captured essential aspects of the
characteristics of ‘underdeveloped’ formations and thus enriched our understanding of
the mechanisms that have set two worlds apart: a ‘developed’ vs. an ‘underdeveloped’
world. Yet in our view, neither characterizing the third world formations as peripheral
or deformed, nor relying on quantitative differences to set the two worlds apart, or
singing out the absence of particular institutions/policies can provide the key
explanation to the persistence of the of qualitative gap in the case of many ‘third
world’ countries, including the Mashreq, and the periodic rise of a few countries to a
‘developed’ status. In order to show this point more clearly, let us take the important
contribution of Lloyd Reynolds as an example.

Reynolds attempted to define growth by studying a sample of forty-one third
world countries whose population exceeds ten millions each (1983: 941-980). The
survey included seven countries in the Middle East and North Africa. These are
Algeria, Egypt, Iran, Iraq, Morocco, Sudan and Turkey.

His methodology differs significantly from other scholars like Simon Kuznets,
W. Arthur Lewis, and the Marxists and structuralists in general. Kuznets, for example,
considers a situation in which population and output are increasing at the same time,
and thus leading to no rise in per capita income, a situation of genuine growth
(Kuznets 1966, 1971). This is because such growth, according to him, indicates an
increase in capacity that is absorbed in population growth, or it designates a society’s
ability to reproduce itself. Reynolds qualifies the designation by defining “a situation
in which increased capacity is fully absorbed by population, with no uptrend in per
capita income” as extensive growth. This is contrasted to intensive growth, which is “a
situation in which capacity to produce is rising appreciably faster than population, so
there is a sustained rise in per capita income” (Reynolds 1983: 943). Because
Reynolds views these two situations as historical phases (but not inevitably traversed
by all societies) where intensive growth follows a prolonged period of extensive
growth, he defines a turning point, the time at which extensive growth turns into
intensive growth.

Reynolds’ methodology raises two sets of questions:

1. How accurately can such notions as ‘extensive growth’ and
   ‘intensive growth’ describe the actual performance of an economy and the
   changes in the levels of productivity and efficiency within a given society?

2. How useful are these terms in forecasting or anticipating
   qualitative changes in the working of an economy or society?

The second set of questions is immediately addressed by the author. Since the
uptrend should be sustained over relatively long periods, within which there are
bound to be short-term fluctuations, “the turning point cannot safely be dated until a
generation or so after it has actually occurred” (Ibid. 943). Yet, if the validity of
Reynolds’ concepts is established, then this lack of forecasting power should not be a
serious deficiency, because they can be used as a tool for historical analysis. So one
should look more closely at the first set of questions, i.e. the accuracy of concepts.
Validating the sustained rise in per capita income or output is based upon the assumption that this is an indicator of an expanding domestic market for manufactures:

"In my schema, the turning point is typically characterized by an acceleration of agricultural (or occasionally mineral) output and a rising trade ratio. Rising income from exports does broaden the domestic market for manufactures, but the initial supply response comes mainly from handicraft workshops and rural small-scale industries. There is usually a lag of several decades before factory industry becomes prominent."

Reynolds 1983: 943

As is clear, an adherent to a dependency/world system approach would strongly object to such an analysis. For a rise in the ratio of agricultural/mineral exports to total output would mean deepening dependency and peripheralization of the economy because the broadened market would simply be an absorbent of high value-added imports from the center/core countries. Yet, even if one rejects the d/ws conceptualization and approach, it would be hard to uphold Reynolds' characterization of the process of growth. A major reason is that although Reynolds emphasizes the fact that there is no inevitability that the turning point would be reached by a society that is undergoing extensive growth (seven of the countries in Reynolds' sample had not reached that point), the precise mechanism or mechanisms that lead from one phase to the other are not defined at all. In fact, the author himself admits that: "There seems no reason why per capita income must begin to rise, or why extensive growth could not continue indefinitely" (ibid. 955).

But then, what is the explanatory value of this schema? In his account for Europe's turn from extensive to intensive growth, Reynolds is content with enumerating some well known facts, such as the consolidation of national states, and the autonomy of the market, without trying to show why and how did these processes effect the transition to an intensive growth path. But without situating such crucial processes as the 'autonomy of the market' within a wider historical/societal context, i.e. the consolidation of capitalism, which entails for the first time in human history the separation of the realms of economics, politics and law, the relationship between 'intensive growth' and markets cannot be established. The same applies to the formation and consolidation of national states, which are only meaningful in so much as they serve as predicators for the subsequent bourgeoisification of their respective societies.

What about those countries that crossed the turning point since the mid-nineteenth century? Reynolds is inconclusive here, but his analysis suggests that the factors accounting for a shift to intensive paths are mainly exogenous in nature: that is they are not necessarily linked to any internal mechanisms or structures, and therefore they may or may not appear during the phase of extensive growth. In other words, the process of extensive growth is not related by any way to the intensive growth process.

One group of factors, according to Reynolds, is the availability of resources and the external demand for them. Hence, it is easy to predict that moving to the intensive path is linked to opening up the domestic economy and the existence of a worldwide economic expansion.

The second set of factors is political: "the turning point is almost always associated with some significant political event. In only four of the forty-one countries does this not to have been true" (Ibid 963) These 'significant events' include the transfer of power from a less progressive to a more progressive regime,
the establishment of a stable government, or a change of colonial power. The arbitrariness with which Reynolds designates governments as progressive or stable can be seen from treating the rise of the Pahlavi dynasty in Iran or the counterrevolutionary coup of General Suharto in Indonesia as progressive. Or worse, when he explains Iraq’s move to intensive growth in 1950 (according to his schema) by the country’s emancipation from the Ottomans, an event that had occurred more than three decades before that transition.

These two sets of factors are supposed to account for an initial surge in industrialization, which, according to Reynolds, indicates a country’s turning point to intensive growth. And this is supposed to follow the opening up of a given economy to foreign trade. True, a measure of industrialization does indeed take place following a rise in the ratio of trade to total output. But the level of industrialization, the sustainability of industrialization, and an increasing share of manufacturing to total output do not necessarily follow from that initial surge in industrialization. Actually, one can show empirically that an increase in the per capita income over long periods of time can perfectly go hand in hand with a stagnating share of manufacturing in the total output, as the stark failure of industrialization in the Middle East shows. Moreover, acceleration of agrarian and/or mineral production is not tantamount to rising per capita productivity as the numerous cases of post WWII third world show. More often than not, the rise in agricultural/mineral production in the third world was associated with a deteriorating per capita productivity as landowners and corporations engaged in mineral extraction found it cheaper to engage more labor than invest in machinery and improved production techniques. And it is the former, i.e. the sustained rise in productivity that really accounts for a process of intensive growth.

One way to rescue Reynolds’ schema would possibly be by substituting the ratio of manufactured exports to total output for the simple ratio of exports to total output. Because if the ultimate indicator of development is the level and efficiency of industrialization, then the ratio of total exports cannot be taken as a proxy indicator by simply stating that increased exports would ultimately bring modernization. A rising ratio of manufactured exports over time does not only indicate the level of industrial activity in a given country, but also the competitiveness of the industrial sector, thus its efficiency.

However, substituting industrial exports for exports in general as the indicator of efficiency would require a radical reassessment of Reynolds’ conception of development. This is because the potential for export is not seen as an indicator of productivity, but as a source of foreign exchange, the shortage of which Reynolds and many development writers consider as the major obstacle to industrialization in the third world. What Reynolds overlooks in the case of today’s ‘third world’ is exactly what constitutes the problematic of underdevelopment; namely that the availability of foreign currency due to rising exports of raw or agricultural products does not offset the choking effects of narrow markets. That is why he states that the rise in agricultural productivity is no longer an imperative for industrialization.

“Closed-economy growth models typically suggest that, unless food output rises at the minimum required rate, the internal terms of trade will turn in favor of agriculture. Rising food prices will put upward pressure on money wage rates, and this will choke off industrial growth in Ricardian fashion. In actual open economies, however, the situation is different. A country with flourishing exports of oil, minerals, timber, rubber, cotton, or whatever can trade these products for food, thus relaxing the domestic food supply constraint.”

Reynolds 1983: 966
We will note below that it was exactly this factor, i.e. the availability of abundant foreign exchange that is not associated with a rising productivity that puts serious brakes in the face of a capitalist ‘take-off’ in the Middle East. The relaxation of the foreign exchange constraint was a prime reason for the perpetuation of underdevelopment, because, among other things, the ease with which minerals could be exchanged for food imports impeded the rise in agricultural productivity. This in turn led to importing the developed world’s price structure into the domestic economies, thus aggravating the deficits in the balances of payment, dumping the incentives for industrialization, and forcing governments to subsidize food products to the detriment of long-term efficiency. In short, the symptoms of the “Dutch disease” have not become a legacy of the past just because international trade has become more efficient and flexible. The opposite may be true.

But perhaps the most serious flaw in Reynolds’ schema is that practically every country in today’s world, bar very specifically exceptional cases, is in a process of intensive growth according to his definition. Thus intensive growth is a relic of history and there is no need for a typology of contemporary societies based on his notions of extensive vs. intensive growth criteria. And this is not an exaggeration. For in his sample of forty-one countries (sampled in the early 1980s, let’s remember), the seven countries that had not reached his turning point were Mozambique and Bangladesh, two countries who had just gained independence in a decade or less, Afghanistan, Sudan and Ethiopia, were in the midst of civil wars, Zaire was just recovering from one, and only Nepal had a semblance of ‘normal’ political life. In other words, only countries undergoing some exceptional situations were still undergoing a process of extensive growth. And even this is not guaranteed, for it is very possible that they had been experiencing a decline in their per capita incomes. This is easy to verify naturally, since it is a well-known fact that, unless one is describing a catastrophic political and/or ecological situation, even the poorest countries today are ‘achieving’ some rise in their per capita incomes. But this is not where the problematic of development lies. For by ridiculing the problem of underdevelopment, Reynolds is simply sidestepping the whole issue of why is there a qualitative gap between two worlds despite the fact that most third world countries are undergoing what he labeled as ‘intensive growth’.

My argument is that the two notions of ‘extensive’ and ‘intensive’ growth are indeed very important in defining the socio-economic process which a country or region is undergoing at a particular point in time, provided that they are formulated differently. In fact, the early works on economic development in the 1950s used such concepts (or ones close to them) in a more nuanced and meaningful way. Reynolds’ ‘turning point’ is akin to the ‘takeoff’ point in Walt Rostow’s theory (1956). But the takeoff is associated with a substantial development of factory industry according to Rostow, which makes his definition much more meaningful than Reynolds. That is

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4 It may be very tempting to compare the flow of petrodollars to the Middle East, especially since the early 1970s, with the flow of silver to the Iberian Peninsula in the sixteenth century. Despite being the richest West European region in that age, Spain and Portugal were among the last countries to move to capitalism. The famous French historian Cantillon noted that the flow of precious metals had pushed costs of living upwards and encouraged dependence on imports while discouraging the development of indigenous industries. Cited in Villar 1975: 105.

5 Although discussing development strategies goes beyond the scope of this study, one might cite the case of the NICs here. Perhaps the single factor that no serious observer of these countries has failed to mention as playing a crucial role in the industrialization of South Korea and Taiwan is the spectacular rise in their agricultural productivity. See among others, Amsden 1990, Hamilton 1987.
why his periodization for the takeoff points of various countries was much closer to
the period when these countries entered the path of industrialization and vigorous
development than Reynolds' turning point. Whereas Korea's takeoff is dated 1961-
1968, it is 1910 for Reynolds. These dates are respectively 1953-1958 for Taiwan
(Rostow) against 1895 (Reynolds), 1933-1950 for Argentina (Rostow) against 1860
(Reynolds) (Rostow 1978, Reynolds 1983)

The classical study of W. Arthur Lewis (Lewis 1954) presented yet a superior
definition for the 'turning point', which may be taken as an indicator of reaching the
level of mature capitalism. According to Lewis, a sustained process of intensive
economic growth over a long period of time would eventually exhaust any initial
labor surplus in the economy. The supply curve of labor coming from agriculture to
the 'modern' sectors of the economy, mainly manufacturing, is no longer horizontal
and real wages must rise, thus forcing a rise in productivity in both agriculture and the
'modern' sector.

Yet, in order to apply Lewis' model, one has to redefine the concepts of
'extensive' and 'intensive' growth. For in this case a rise in per capita income would
not be sufficient to label a growth process as 'intensive', and this is why Lewis'
conceptualization of the development process is superior to Reynolds'. As is clear,
bringing into economic use previously non-utilized natural resources, land, or human
labor would ordinarily raise the per capita income, but this would still be a process of
extensive growth if the marginal increase in output is constant over time, i.e. if
investing a given value of inputs yields a fixed value of output without a rise in the
productivity of the additional labor. Intensive growth properly speaking only begins
when the major source of growth is accounted for by the rise in productivity

Lewis' model, however, departed from certain basic assumptions, some of
which were either too abstract or too oversimplified. 'Traditional' and 'modern'
sectors are equated with agriculture and manufacturing respectively, an assumption
that is highly controversial given the fact that urban sectors under precapitalism need
not be equated with modernity, as we have seen in the case of pre-industrial Europe,
or in the contemporary cases in the third world, where 'informal' activities apply non-
capitalist survival strategies and calculations. On the other hand, a major weakness in
Lewis' model is the assumption of perfect mobility of labor force between
'traditional' and 'modern' sectors in response to market incentives. This is a major
weak point because the entire problem of development, according to Lewis, lies in the
means that make the 'modern' sector (which is assumed to be capitalist) predominant
in a given economy. Yet perfect mobility of labor and resources, including capital, in
response to market incentives, is only possible and meaningful when capitalist
structures, rationality, and mechanisms are already in place. Thus the problem of
societal transformation is reduced to a technical ahistorical problem, whose solving
resides in the hands of good decision-makers

We should emphasize once again that the technical formulation of the passage
from extensive to intensive growth is not a trivial issue, or something that has no
theoretical or practical implications. But to develop this formulation without taking
into account its social and historical conditions is to ridicule the problem itself. W.
Arthur Lewis was the closest scholar among development economists whose

Yet one has to keep in mind that despite the correctness of this statement, capitalism, the only socio-
economic system in history whose dynamics are embedded in the perpetual increase in productivity,
has always made use of extensive growth methods even when it was not necessary for its survival and
reproduction.
assumptions were almost explicitly based on the wider context of an economy undergoing a transition to capitalism. Yet just like many modern scholars, he assumed that pre-capitalist and capitalist structures have no qualitative differences in the way they function and respond to motives, and thus the whole problem was reduced to an exogenous set of motives (foreign trade, the state, etc.) that could have the potential to unleash the process of 'modernization'.

The most rigorous attempt to posit the problem of development within a historical materialist concept was made by Robert Brenner. In a powerful critique of the dependency/world-system approach to the problems of development/underdevelopment, Brenner posits the problematic of the transition to self-sustained growth by firmly showing that what looks like a technical problem is nothing but the capability of a given social system to effect a transition to capitalism. This statement is not constitutive of an ideological discourse, because Brenner goes at length to show why capitalism is historically the first (and up till now the only) socio-economic system which must expand via the systematic and continuous rise in productivity in order to survive, whereas in all the preceding systems enlarged reproduction was either impossible or unnecessary or both:

"What therefore accounts for capitalist economic development is that the class (property/surplus extraction) structure of the economy as a whole determines that the reproduction carried out by its component 'units' is dependent upon their ability to increase their production, in order to increase the productivity of labour and so cheapen their commodities. In contrast, pre-capitalist economies, even those in which trade is widespread, can develop only within definite limits, because the class structure of the economy as a whole determines that their component units- specifically those producing the means of subsistence and means of production, i.e. means of survival and reproduction, rather than luxuries, neither can nor must systematically increase the forces of production, the productivity of labour, in order to reproduce themselves."

Brenner 1977: 32-3 (italics added)

This is not to deny the possibility of spurts in productivity under pre-capitalism, a point that has a direct bearing on our understanding of the dynamics of the incorporation of the Middle East in the world trade.

"... [E]ven where major improvements in the forces of production are introduced in pre-capitalist modes of production- and their historical significance has of course, been very great- they nonetheless tend to constitute 'once for all' processes. In other words, the market exerts no pressure toward the continual revolution of the means of production. It is the essence of pre-capitalist social relations of production that both exploiters and direct producers are, in one way or another, directly connected with their means of subsistence and means of production. As a result, their survival and reproduction is not

7 This line of reasoning was shared by a group of prominent scholars who left their imprints on the discipline of development. Ragnar Nurske (1954) described a 'vicious circle of underdevelopment' that required some agency to break it at some point. Harvey Leibenstein (1957) suggested a 'big push' by the state to break the low-level equilibrium at which underdeveloped countries perform. Later on, Albert O. Hirschman (1958) and Francois Perroux (1971) suggested that the state should embark on the creation of 'growth poles'. Perhaps the period when these early theories were developed played an unfortunate role in hampering their further development. For this was a time when the most influential policy-makers and scholars in the third world considered capitalism anything but dead especially as regards its prospects in these parts of the world.
dependent on the sale of their products on the market, consequently they do not
have to compete in terms of their productive powers."

It is possible now to go back to Reynolds’ definition and typology of growth
types in order to see that development is not an abstract notion. Under
precapitalism, one can talk about societies differing in their levels of wealth and
prosperity because of the availability of some natural resources and ecological
conditions in some countries and their relative absence in others, and/or the varying
degrees of exploitation exerted on the direct producers in different societies.
However, given the fact that human beings do not show radically different physical
capabilities, and that the tools and instruments of production used by humans are
essentially similar in nature, there is no reason to assume that differences in
productivity account for big differences in the levels of development among non-
capitalist societies.

Yet even varying levels of exploitation should not be taken as indicators of
differences in ‘human nature’. If we link this observation with our conclusions on the
genealogy of authority, then we will see that what producers in a given society
acquiesce to is, at least partly, a function of the services that the ruling class is viewed
to perform on their behalf. This latter, in turn is not a function of the skills of a
particular ruling class (although the ability to maneuver is not to be underestimated),
but mainly of the perceived risks facing a given society and the role of macro units in
defending it.

Thus ‘extensive’ growth, as defined by Reynolds, is nothing but the
mechanism of survival of a precapitalist economy, whereby the additions to wealth
are proportional to the increase in population, since no significant increases in
productivity are to be taken into account. This is why underdevelopment is a
contemporary phenomenon. Because it is only with the rise and development of
capitalism that differences in productivity play a crucial role in defining differences
among societies. Thus we have two types of spatial inequalities in today’s world, over
and above inequalities within one and the same society. The first type consists of the
inequalities between the capitalist societies, due to the unequal levels of productivity.
This type is qualitatively different from the second, which consists of inequalities
between capitalist societies on the one hand, and societies where capitalism has not
dominated yet and rising productivity is not a characteristic of their economies, on
the other. Abstractly speaking, the second type of inequality arises between economies
whose growth is intensive on the one hand, and those who still experience an
extensive type of growth on the other.

Because of the crucial importance of natural factors in the relative prosperity of certain societies
under precapitalism, the founder of modern sociology, Ibn Khaldoun, thought that certain regions that
enjoyed favorable climate were more predisposed to the rise of civilization. Ironically, he concluded
that these regions were ‘naturally’ the warm ones in the south Mediterranean, not the wildly cold
Europe. Some five centuries later, Europeans would borrow the same observation to deduce the
‘natural’ inclination of cold regions to develop. And this was not an opinion shared only by racist
and/or nineteenth century scholars. Marx called the temperate zone ‘the natural fatherland of capital’.
One of the most brilliant development theorists of the 1950s and 1960s, Jan Tinbergen remarked that
“almost all the newly developing countries are tropical countries”, which, according to him, produces
psychological effects that “do not encourage hard work and make a primitive way of life bearable in
many respects” (Tinbergen 1963: 85) On the origins of spatial inequality, see Schwartz 1994, chapter 4.

This statement is only correct on an abstract level. Empirically, this is not an accurate
formulation since no society today experiences only extensive growth. The point is that in
10.2 The Paradox of the Non-Capitalist Mashreq:

Overcoming underdevelopment is nothing but the ability of a society to effect a transition to the dominance of capitalist relations of social reproduction. As is well known, the dominance of capitalism requires first and foremost the generalized commodification of labor power. This condition is the economic formulation of the bourgeoisification process that we described in chapter seven and was made possible by the ousting/exodus of the rural population and the breakdown of urban forms of precapitalist organization and solidarity, especially the guild systems.

We noted that the Mashreq’s nationalist revolutions came to consecrate and give further impetus to these processes through land reforms, the rise of a radically new stratum of political leaders, the extension and redefinition of military conscription, the imposition of unified and state-supervised curricula etc. All these processes triggered a bourgeois transformative process that had the potential to turn the atomized individuals into equal citizens. However, we equally stressed the fact that bourgeois transformations cannot be concluded successfully without the success of a capitalist transformation of societies, which has the capacity to reorganize the atomized citizens into modern classes.

Thus if the generalized commodification of labor power is a necessary condition for the dominance of capital, it certainly is not a sufficient one. The other condition is that capital must be forthcoming to buy this commodity. And this condition is clearly absent in the Mashreq. Egypt’s case is very revealing in this respect as it is the most populous Arab country and was the first to lead a nationalist revolution in the entire region. In 1993, i.e. more than four decades after its revolution, 31.5 percent of its workforce was still employed in agriculture, 49.9 percent in the tertiary sector and only 18.6 percent in industry (Egypt HDR 1995: 110). The salaried and wage workers in that year composed 49.7 percent. However breaking down this last figure would show that actually only 15.2 percent worked for the private sector while more than twice that (34.5 percent) worked for the government and in the public sector. According to an International Labor Organization study relating to the mid-1970s, 80.4 percent of the total workforce in the Egyptian private sector were employed in tiny establishments employing no more than nine persons each (ILO 1983: 106).

In agriculture the enactment of land reform laws produced none of the patterns that a unilinear vision of development would predict, whereby the demise of sharecropping systems automatically gives rise to capitalist farming. In a study of Egypt’s agriculture some thirty years after the land reforms, Glavani and Glavani found that the number of small peasant holdings, which are less than 5 feddans each, has considerably increased since 1952. By 1975, these holdings (numbering 3,589,000) comprised 92.5% of the total number of holdings, and 67.1% of the total cultivated area. They noticed that this transformation of the distribution of holdings has led to a movement away from dependence on wage labor and more reliance on underdeveloped economies continuously rising productivity does not play a cardinal role. That is why growth models, which are based on assumptions borrowed from the functioning of a mature capitalist economy, such as a rising rate of return to investment and a given capital/output ratio end up in blockage when applied to third world economies.

11 1 feddan = 1.038 acre. In 1987, 48.2 percent of the holders had plots of less than one feddan each, 37.6 percent had plots ranging between one and three feddans, and 8.8 percent owned plots ranging between three and five feddans (Kari m 1991: 34).
family labor. Moreover, peasant families made their production plans according to their subsistence needs leaving only a marginal portion of their plots to be cultivated for marketing (Glavas and Glavanis 1983: 5-12).

Similar patterns of labor recruitment can be found in almost every other country in the Mashreq region. A 1996 study estimates the contribution of the informal sector in non-agricultural activities in some Middle Eastern and North African countries as follows: Egypt (1986) 65.3 percent, Iran (1986) 43.5 percent, and Turkey (1990) 17.4 percent.

The inevitable conclusion is that the Mashreq—with the partial exception of Turkey perhaps—could not effect the difficult transition from the phase of capital’s formal subjugation of labor to a phase of real subjugation of labor (Marx 1867: 749 passim). This means that while the majority of the active population has been expropriated from its means of production, atomized and individualized, most of them turned into state employees, casual workers (especially in the building sector), shopkeepers, small-scale service workers (coffee shop workers, taxi drivers, etc.), and mostly workers and self or family-employed in the so-called informal sector. In 1986, the self-employed represented 39.9 percent of the total workforce in Iran (Ghaftari 1995: 104). The comparable percentage for Syria in 1995 was 21 percent (al Khaimi et al. 2001: 71).

This is far from a situation whereby capital controls the socio-economic mechanisms and thereby relies on a large mass of long-term employees and workers for the formation of its profits, a situation that only occurs when and if the general rate of profit within a society is determined by the rate of industrial profit.

And it is here that we must address the issue of non-dominance of capitalism in the Mashreq four to five decades after the destruction of the ancient regimes. Why wasn’t the bulk of the financial wealth in private or state hands channelled into productive investment?

The classical—and now outdated—view that the lack of financial resources impedes industrializing the third world (Nurkse’s ‘vicious circle of poverty’) clearly does not apply to our case. We have shown that tremendous wealth has flown into the hands of the Mashreq merchants, building contractors, brokers, bankers and real estate speculators throughout the past decades. Between 1973 and 1980, Saudi Arabia’s total revenues from oil exports reached a fabulous $358 billions. Comparable figures for Iraq and Iran are $96 billions and $147 billions respectively (OPEC 1993). Hence the question of industrialization in the Mashreq, as well as in seventeenth-century Europe, is not a question of finding sources for an imagined original accumulation that is supposed to be necessary to effect a transition to industrial capitalism.

Another set of explanations for the resistance to capitalist domination in the Mashreq region is normally associated with, but not exclusively confined to, the neoliberal/World Bank approach. According to this approach the establishment of

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The characteristics of the informal sector have been defined by the adoption, in January 1993, of the Resolution Concerning Statistics of Employment in the Informal Sector by the Fifteenth International Conference of Labor Statisticians (ICLS) held under the auspices of the ILO. These are: ease of entrance; the small scale of activities; self-employment with a high proportion of family workers and apprentices; little capital and equipment; labor-intensive technologies; low skills; low levels of organization with no access to organized markets, formal credit, education, training, services and amenities; cheap provisions of goods and services to low-income groups; low productivity and low incomes earned in this sector.
statist regimes stifled private initiative, produced widespread corruption and inefficiency, and harassed individual capitalists. While much of this criticism is valid in our view, such explanations actually beg the question of what made statist regimes possible and desirable (at least from the point of view of a sizeable section of the population).13

The preceding chapters have shown that state interventionism and/or the politicization of major aspects of life, is perfectly compatible with the rise of capitalist relations of social reproduction. Thus it is not a specific feature of one particular system, namely socialism. Moreover, intensified state intervention has become a necessary condition for latecomers to capitalist development (Gerschenkron 1962).

Recent successful attempts at capitalist industrialization and modernization have not departed from this norm. Several studies have demonstrated that in South Korea and Taiwan the most successful post-WWI industrialization cases- states have practiced ultra-nationalistic policies in protecting their home markets, ‘distorted’ the price mechanism in order to cheapen labor costs and raise the costs of imported consumers, and most important, they have imposed state property on entire sectors, notably banking. The political systems that carried these measures and policies were brutal and ruled by unique parties, and nepotism was rampant (Amsden 1990, Hamilton 1987).

Therefore state interventionism is not, by itself, an explanation to the non-rise of industrial capitalism in the Mashreq (or elsewhere for that matter). State interventionism, and the particular forms that it took or takes in different temporal and spatial contexts needs to be explained, as well as the success or failure of each particular form of state intervention.

10.3 Trajectories of the Rentier State:

Our concluding remark is that the existence of universal features regarding the rise and collapse of precapitalist systems and the existence of universal features characterizing passages to modernity do not by themselves warrant the teleological conclusion that the prospects for all social formations are guaranteed in advance or that the gap between various regions will necessary be bridged with time. The reason for this conclusion is that universality is not a product of willful copying or imitation of policies, but it emanates from the fact that social structures and groups that face similar challenges, contradictions and crises tend to respond and react in similar ways. And it is here that we may find a clue for the Mashreq’s contemporary dilemma: that the challenges and conflicts that its passage to modernity faced were different from the ones that Europe or successful industrializers faced.

What made the passage to industrial capitalism possible and desirable in western Europe was a particular constellation of social structures: a desperate need for hard currency/gold on the part of states, swelling numbers of destitute unemployed urbanls, and heightened tensions between monopolistic mercantile elites and a newly

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13 In presenting the case for the attractiveness of statist models of modernization until the end of the 1960s, we should remember that even liberal development studies did not challenge the almost universal conviction that the ‘Soviet state-led path to industrialization’ could produce superior rates of growth and guarantee a much faster pace of ‘catching up’ with the industrialized world. The liberal critique mainly emphasized the political price of sacrificing basic freedoms, and the price that contemporary generations had to pay in terms of sacrificing consumption needs in order to mobilize higher rates of savings and investments whose benefits would be reaped by future generations.
emerging bourgeoisie whose further rise was shunned away by that elite. Industrial capitalism reversed the relations of power to the advantage of the new industrial groups, brought considerable benefits to state leaders and found jobs for the unemployed - albeit under appalling conditions.

During the revolutionary era of the 1950s and 1960s, the major Middle Eastern countries found themselves in conditions similar to the ones that the European societies faced on the eve of the industrial revolution(s): widespread urban misery and unemployment, destitute peasants, and newly emerging middle sections of the population whose further rise was checked politically and economically by a dominant landed and merchant aristocracy. The difference, however, lied in the fact that Middle Eastern states had less acute shortages of financial resources. Two sets of factors account for this peculiar situation.

One is the general international economic and political atmosphere that prevailed after WWII. A period of relative prosperity in the 1950s guaranteed relatively handsome amounts of revenues from a booming demand on raw material exports from the region. The political atmosphere of the cold war and the particularly strategic position which the Middle East occupied in the East-West division ensured constant flows of aid and easy credits from the two superpowers (as well as France, the UK and others) to their major allies in the region.

The second and more crucial set of factors, however, is related to the dependence of the Middle East economies on the rents extracted from oil exports. And it is this peculiar source of wealth production and distribution that has left its deep imprints on the reproductive processes and social structures of the region and prompted the application of the concept 'rentier states' to designate the specific aspects of the social, political and economic performance of these countries.

The concept in its broadest terms was first applied in this context to any country which receives substantial amounts of external economic rents on a regular basis (Mahdavy 1970: 428). According to Mahdavy, the stage at which a country can be called a rentier state is determined arbitrarily but he is primarily interested in cases in which 'the effects of the oil sector are significant and yet the rest of the economy is not of secondary importance' (ibid. 431).

More than a decade after the publication of Mahdavy’s article, the concept of the rentier state assumed new importance with the publication of a collective book on the same topic. In their introduction to this work, the editors suggested that the concept should go beyond addressing the nature of the state alone. To focus exclusively on the state, independently of the economy, and to define a rentier state as any one that derives a substantial part of its revenue from foreign sources and in the form of economic rent ‘is a rather restrictive definition that says little about the economy’ (Beblawi and Luciani 1987: 11). Both authors prefer instead to define the concept of a rentier economy in which rent plays a major role, and in which that rent is external to the economy. For Beblawi and Luciani the rentier state is a subset of a rentier economy, and the nature of the state is examined primarily through its relative size to economy and the sources and structures of its income.

Beblawi delineates four characteristics which must be present in order for a state to be classified as rentier (Beblawi 1987: 51-2). First, the rentier economy -of which the state is a subset – must be one whose revenue derives predominantly (more than 40 percent) from oil and other foreign sources and whose expenditure constitutes a substantial share of the GDP. Second, the origin of the rent must be external to the economy. Third, in the rentier state – as a special case of a rentier economy- only a few are engaged in the generation of rent (wealth), while the majority are involved in
its distribution and consumption. A rentier economy is thus an economy where the creation of wealth is centered around a small fraction of the population. Finally, the government must be the principal recipient of the external rent in the economy. This last characteristic is closely related to the concentration of rent in the hands of a few.

The key feature of a rentier state is that external rent liberates the state from the need to extract income from the domestic economy. The primary goal of economic policy in an allocation state is spending. Luciani takes this state autonomy as his point of departure and proposes a new categorization which defines states by their allocative and productive functions. The policy of a ‘production state’ is therefore designed to increase economic growth while the ‘allocation state’ fails to formulate anything deserving the appellation of economic policy (Luciani 1987: 73).

Thus the international atmosphere of post-WWII prosperity and cold war allowed third world states in general, and those that occupied strategic positions within the superpower rivalry in particular to reap ‘strategic rents’ and therefore acquire a certain degree of autonomy vis-à-vis their societies. Oil rents positioned the Middle East states in a qualitatively different category. The point that should be emphasized in this context is that it is not the amount of financial resources that flowed in the hands of Mashreq governments that has driven them into this path but the nature of the resource formation. And for this reason rentierism should not be confused with other cases of state monopoly of the major sources of foreign exchange earnings, such as the ex-socialist countries. Despite the apparently similar statist structures in the Middle East rentier states and these countries, I have tried to show that the processes of capital formation in each set of countries were diametrically opposed. The distinguishing characteristic of rentier economies and states is that the major source of foreign currency is dissociated from the productive activities of the vast majority of the working population.

Rent ‘production’ in this sense does not only cover oil production but also such revenues as the Suez-Canal fees accruing to Egypt. In addition one must add the substantial amounts of ‘strategic’ rent that flowed to non-major oil producers like Syria and Egypt from the major oil exporters: Saudi Arabia, the Gulf Emirates, Iraq and Libya in the form of grants in exchange for political services. Between 1973 and 1979, official Arab assistance to Syria rose from 8.9 percent to 16.1 percent of its GNP. Egypt’s comparative ratios between 1973 and 1978 were 7.4 and 9.9 percent respectively (Handousa 1991: 42)14 Stemming out popular protest against non-support of ‘Arab brethren’ facing Israeli aggression, mediating between the two conflicting parties in the Iran-Iraq war, inciting and then defusing attempts at attacking oil-producing interests during the Lebanese civil war (1975-1990) are just some examples of the ways that non-major oil producers like Syria and Egypt managed to divert some of the financial wealth of the oil boom to their coffers15.

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14 In 1979 official Arab aid to Egypt stopped because of its unilateral decision to sign a peace treaty with Israel. However, the US stepped in to compensate for the lost Arab aid. Egypt thus became the second largest recipient of American aid after Israel.

15 A major source of enrichment for Arab (and other) citizens of non-major oil exporting countries during the 1970s-1990s oil boom was to find jobs in the major oil-exporting countries. Egyptians, Yemenis, Palestinians, Syrians, Lebanese, as well as many others found their El Dorado in the region. From the perspective of this study, however, the incomes that were made by immigrants cannot be treated as rentier. Farghaly’s excellent study on “Migrating to Oil” (1984), for example, rightly emphasizes how Egyptian migrants to the oil-rich countries spent most of their incomes in non-productive assets: buying a house, a taxi, or a village shop. This pattern of spending, however, is conditioned by the prevailing economic situation in the host country and cannot be labeled as rentier.
From the beginning of the 1950s, when the international oil consortium conceded to paying host governments around fifty percent of oil revenues in the form of income taxes, the patterns of economic decision making in these countries diverged to a large extent from that of other third world countries. Typically, the most daunting problem that faced third world countries consisted of saving and earning as much foreign currency as possible given the chronic shortage in capital. This was translated in import substitution industrial policies that aimed at developing local products to lessen imports and/or export oriented strategies that would provide sufficient foreign currency to cover the import bills. In major oil producing countries this was not the case. States found themselves with a relatively plenty supply of foreign currency from the oil revenues, which took a further sharp turn upwards since the early 1970s. Alleviating the misery of the populations seemed an easy task for states. Secure state jobs were guaranteed to all applicants. This was facilitated by the fact that, unlike manufacturing or agriculture, creating jobs in the civil service required no additional inputs (Penrose 1971: 285). And as we noted in the two preceding chapters, states handed lavish subsidies to brokers, contractors, and mediators who supplied the requirements of their grandiose spending schemes.

But how could such inefficient systems prevail for relatively long periods of time? Under statism significant short-term achievements were made in the standards of living of the Mashreq population. One way of appreciating these achievements is to compare them with those made by other third world countries. However, people tend to measure the socio-economic performance of their regimes by comparing their present situation with the previous periods. And in this respect, there were palpable successes.

From the beginning of the twentieth century until the mid-1950s, Egypt’s per capita income did not rise beyond the meager annual rate of 0.1 percent. Under the Nasserite regime, this rose to 2 percent between 1956/1957 and 1970/1971. The climax of the rise occurred during the implementation of Egypt’s first five-year plan in the period 1960-1965, when the annual GDP growth rate (in constant prices) was an impressive 6.9 percent (Hussein 1985: 162). Thanks to this rise in the per capita incomes, Egypt could for the first time in the twentieth century deal with its chronic unemployment problem by creating more jobs than the rate of population rise and thus lowering the levels of unemployment. Thus, while the population increased by an annual rate of 2.2 percent between 1960 and 1976, the workforce increased by 2.81 while the annual rise in the gainfully employed population was 3.34 percent (ILO 1983: 69).

The decade preceding Syria’s adoption of an étatist path witnessed a deterioration in the real per capita income, which was in 1956 1.8 percent below the level of 1956 (Zakanyya 1990: 84). The deterioration continued until 1970, seven years after the rise of the statist regime in 1963. Throughout the 1970s however, real per capita GDP witnessed steady increases from 4131 Syrian Liras in 1970, to 6871 in 1975 and 8548 in 1980 (AAS 1996: 526).

Like Syria, the standard of living of the Iraqi population gathered momentum only during the 1970s’, after a decade of semi-stagnation. The last five years under the monarchy (1953-1958) witnessed an annual per capita income growth of 3.7 percent. This was followed by a higher rise during the first three years of the republican period (the transitional and non-radical period) of 5.7 percent between

\[ \text{GDP at factor costs. Unlike Egypt, one can argue that statism was not responsible for the growth of real Syrian incomes during the 1970s. The opposite, i.e. that it hampered even the short-term growth of the Syrian economy, may be true.} \]
1958 and 1961. A slump followed when the rise was only 1.5 percent in 1961-1964 and 0.02 percent in 1965-1969 (Mahdi 1977: 16). However, the real per capita GDP of $1745 in 1970, jumped to $2703 in 1975, then reached its peak of $4219 in 1979 before slumping down again after the outbreak of the Iran-Iraq war in 1980 (UN 1985: 136).

But it was not the mere availability of foreign resources that turned the Mashreq into a textbook case of rentierism, but the nature of rent formation. Since oil fields are very close to the earth’s surface and labor is cheap, extracting Middle East oil is the cheapest in the world. This means that whereas additional production requires high operating and investment costs in say, Europe or the US, no such substantial additional costs are required in the Middle East. And the nature of revenues in this case is more similar to preferential rent extracted from land than to capitalist profits. Being the major (and sometimes the only) source of finance for many of the Mashreq countries, oil revenues extracted in this form left their deep effects on the performance of all other sectors in the economy and practically on all social strata.

For despite all the nationalist rhetoric of the revolutionary regimes and the strategies that were laid to encourage the protection of home markets, the oil producing countries had to perform as open, export economies. With the states competing for the scarce domestic entrepreneurial capacities and skilled and qualified workers, private initiative turned to cater for state needs. States offered higher profits for contractors, supplied their clients with cheap (and more often than not free) credits from state banks, and sometimes even offered employees salaries for non-existent tasks. The general rate of profit within these economies was determined by the rates of profits made by these types of middlemen and contractors. Under such circumstances, very few industrial or productive activities seemed worth establishing. And it is not by coincidence that in the rentier states only the production of non-tradables could flourish: bulky construction inputs whose transport costs are very high, military equipment whose exports are vulnerable to political constraints, or agricultural products destined to satisfy the needs of the newly rising strata.

Hence, while other third world countries were driven to maximize their hard currency earnings, the Mashreq regimes found it easy to pursue populist strategies that ended up with diminishing the productive capacity of their societies. In the meantime the ‘destructive’ task of the nationalist revolutions could not be complemented with a constructive one as the atomization of population was aggravated by linking individuals vertically to the state without allowing for the rise of any meaningful modern horizontal ties. The state was liberated from the need to tax the population and thus looked like a patron handing out largesse to its subjects rather than conceding their rights to them.

Whether we are approaching the twilight of rentierism as populations are increasing in numbers, their expectations are growing and the oil revenues are dwindling due to mismanagement, devastation and wars remains to be seen.

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