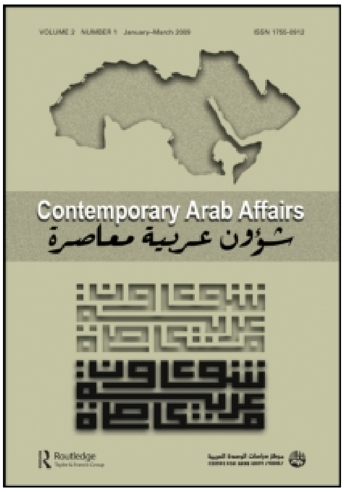

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The culture of rent, factionalism, and corruption: a political economy of rent in the Arab World

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The culture of rent, factionalism, and corruption: a political economy of rent in the Arab World

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This paper is an attempt at showing the relationship between a rent-based economy, factionalism and corruption. The premise is that without an understanding of the culture of rent, factionalism and corruption, attempts at political and economic reform will not succeed.

Keywords: rent; rent-based economy; rentier state; factionalism; sectarianism; corruption

The paper is based on a keynote study submitted to a workshop sponsored by the Arab Anticorruption Organization (AACO) and held in Beirut, Lebanon, on 24 October 2008. Economists, former cabinet ministers, and political scientists participated in a spirited discussion about a new reading of political and economic reform in the Arab World. The original study suggested a direct link between financial and economic rent, the political system, and corruption in Arab countries.

The basic postulate behind the study is that political and economic reforms undertaken in the Arab World are deemed to fail. Such failure is evident by the slow growth rates of economic, political, and social components of Arab society. Though the writer acknowledges the direct impact of external factors on the slow pace of development and growth, nonetheless there is a firm belief that domestic systemic and structural factors have stunted development efforts politically, economically, and socially.

Indeed, the first Arab Human Development Report (AHDR), published in 2003 by the United Nations Development Program (UNDP), created quite uproar in the Arab World as well as in the West (UNDP 2003). The report was a severe indictment of Arab regimes' performances whether at the economic, political, social, or cultural level. In particular, the poor economic performance in most Arab countries whose collective gross domestic product (GDP) did not match that of a second-tier European country such as Spain (UNDP 2003). The astonishing finding went against the perceived notion that Arab oil-rich countries would have taken giant strides in their economic development to achieve unparalleled growth rates. In fact, despite their oil resources, Arab countries have failed to generate and produce wealth.

It must be pointed out, however, that not every Arab country is oil producing. Yet, one way or another most of them have benefited from the oil boom. Most Arab countries have not undertaken the course of establishing a production-based economy that generates wealth. It is the purpose of this paper to investigate the reasons behind such

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a fact. This is particularly distressing to many Arab elites who would have hoped and expected to be quite ahead along the growth curve of nations. Some Asian countries whose GDP in the early 1950s were less than of many Arab countries are now leaders in growth rates and have achieved significant development and generated wealth. On the other hand, toward the end of the first decade of the 21st century, Arab countries are way behind such Asian countries.

The basic theme of this paper is that Arab countries have not been able to generate wealth from their production endeavours, but have collectively and individually relied on the generation of rent as a source of wealth. Indeed, this proposition is in line with the Arab Human Development Report finding yet the AHDR did not address the causes of rent generation nor its consequences. One thesis for this fact is that the Arab World over the past fifteen centuries was hardly concerned with the production of wealth as much as it was focused on its distribution. There is a basic cultural dimension in the lack of attention about wealth generation. To a large extent it was equated with the largesse that the ruler, whether the caliph or sultan or provincial governor or even the local chieftain, was the main provider of wealth. Economic activities consisted largely of commerce and agriculture. Industry never rose beyond the level of craftsmanship and was never the source of wealth, except in few cases and were rather short-lived. Trade and agriculture dominated the political, economic, and cultural landscape. Accordingly, rent was the primary source of wealth. This was true at the dawn of Islam. It is true today.

The Arab Renaissance project, sponsored by the Center for Arab Unity Studies and the Arab National Conference, with its six components of democracy, social justice, balance and independent development, Arab unity, and cultural renewal, is incompatible with the culture of rent, factionalism, and corruption prevailing in the Arab World. The purpose of this paper is to outline the sources of such culture, its articulation around a factionalist political system, and the use of corruption to maintain the status quo and prevent change and renewal. Without an understanding of such relationships attempts at political and economic reforms are doomed to fail.

Hence, the first part of this study will establish the landmarks that substantiate the central theme submitted in this paper of how rent is generated. The second part will provide a brief survey of the structure of Arab economies emphasizing the role of rent in the generation of wealth. The third part of the study will establish the link between the political systems at work and the perpetuation of rent as a source of wealth as well as a main factor in underdevelopment and the deep-rooted culture of corruption.

Part 1: Landmarks of a rent-based economy

Origins of rent in the Arab World

The prevailing economic system in the Arab World generates an economic and financial rent. The latter is not per se a source of structural disequilibrium or blocking growth and development, yet the culture with which it is associated is in the opinion of this writer the most important impediment to growth, to economic integration, to independent development, and to Arab unity.

Established economic theory since Adam Smith (1723–1790), David Ricardo (1772–1823), and Robert Malthus (1766–1834) teaches us that rent is remuneration to a factor of production whose supply is limited. Originally, that factor was land. Landlords earn an income (rent) without providing any particular effort commensurate with the income earned. Classical economists have in fact started a denigration campaign, so to speak, against landlords casting doubts about the moral legitimacy of such income. A contemporary American economist pointed out rightly that criticisms levelled by classical economists against rent were politically motivated. He would even go further and say that economists from Smith and Ricardo to John Stuart Mill and Henry George have built up their economic reasoning to justify political measures (Hudson 2008). Such measures were the levying of taxes on landlords earning rent without providing an effort.

It must be noted that such perception of economic rent is not new to Arabs. Indeed, by looking at the etymology of the word 'rent' in Arabic (*rayʿ*) as defined by Ibn Mandhour (1232–1311), the definition is the 'accrual or augmentation'. Usually, it is associated with flour and bread. The etymology of the word is derived from the accrual produced by land and cattle (Ibn Manẓūr 1968, pp. 137–140). The great Arab historian and sociologist Ibn Khaldūn (2005) in his 'Prolegomena' identifies rent and its impact and justifies it as a source of revenue for those who are not able to earn their living (p. 319). It is revenue that accrues to the owner of landed property without him producing any particular effort. Nowadays, rent has been extended to all sorts of inputs into the production process without their owners contributing any effort on their part. That income would be justified by what has been defined as the opportunity cost of using that particular input as the next best alternative to the use of that input.

The origin of rent in the Arab World is rooted in the capture of booty. As indicated above, the prevailing culture is not about generating wealth through one's efforts, but about its distribution. Without any further elaboration on that matter, suffice it to say that wealth in the Arab World is generated through the capture of the effort made by the Other (Henni 2008, p. 42). In practice, this led to the tribal raids or *ghazzu* over other tribes' properties. Ibn Khaldūn (2005) had shown some seven centuries ago that Arabs considered effort as quite humiliating, especially in agriculture and industry (p. 340). Effort or labour is the source of income, but is not accompanied by the social empowerment of the human being (p. 339). Ibn Khaldūn observes that in Arab tradition effort and earning are not associated to the prestige related to wealth.

On the other hand, commerce is a source of wealth since products are bought at low prices and sold at higher ones. This applies to flour, agricultural products, or even textiles (Ibn Khaldūn 2005, p. 340). But even there commerce is not well looked upon by ruling elites for it does not really extol primal values such as *murūʾah* (p. 344), a mixture of virility and courage. Ibn Khaldūn is among the first in the Arab tradition to recognize the values of a production-based economy whereas a rent-based economy does not lead to progress. He was quite forceful in indicating that industry was superior to commerce since it leads to urbanization and civilization (p. 345). It is quite ironic to note that Ibn Khaldūn castigated Arabs who are 'far away from industries', whereas Christian nations overseas are more 'adept' at them (p. 347). The same applies to Berber populations in North Africa who 'are like Arabs not capable of mastering industries' (p. 347).

Essential activities necessary for any society according to Ibn Khaldūn are: agriculture (he even uses ploughing to identify that sector), construction, commerce, sartorial activities, weaving, and those activities whose object is 'honorable' (Ibn Khaldūn 2005, p. 348), such as the profession of midwife. Also included in the list of acceptable economic activities are: writing, paper production, singing, and medicine. One cannot but note Ibn Khaldūn's insistence at attaching moral values to industrial activities that enrich reason, spirit, and mostly writing and computing (p. 367).

In his analysis, Ibn Khaldūn is careful to state that activities essential to the survival of society are performed by social classes who do not become rich by the efforts they make. However, affluent classes do not hide their loathing and despising of such activities and will use their power to capture the efforts of less favoured classes. Hence, wealth is concentrated in the hands of the few, a minority, leading to the emergence of a factional social system and where rent/booty becomes the source of wealth.

Rent and wealth formation in the services sector

Traditionally, wealth is the result of capital accumulation through production and the exploitation of natural resources. But there are other sources of wealth formation, essentially through the capture of the Other's efforts. In Arab tradition, well before Islam, that capture takes place through raids for booty. Though this 'capture' is usually an act of aggression, nonetheless it may take place with the 'consent' of the Other. Commerce is an activity whose purpose is to generate wealth by the capture the Other's effort through exchange. The merchant or any commercial intermediary will achieve that either as a buyer or as a seller. The difference between purchasing cost and sales price is the 'surplus' obtained by the merchant. To illustrate that point taken from actual case studies of financing the garment industry in Madagascar,[1] in the late 1990s a pair of trousers was sold ex-plant at US$1.20, including the manufacturer's profit. However, consumers in shopping malls in the United States or Europe paid US$50–75 for the same pair of trousers. Even if one added transport and distribution costs the difference or 'margin' was still quite significant. This explains seasonal 'sales' and 'price slashing' that still covers original purchasing, distribution, marketing, and promotion costs by the intermediary. The manufacturer's take is only a fraction of the final sales price. Hence, the real profit margins are 'captured' by the intermediary.

But how is rent generated in the services sector? Originally, economic theory teaches that the services sector is also known as the tertiary sector, i.e. the sector that comes after the first sector (agriculture) and the second sector (industry and manufacturing). The services sector is supposed to 'serve' the other sectors. For instance, commerce or trade is used for the distribution of the primary and secondary outputs. The financial sector will first provide financing to such sectors. With time and the development of modern economies with their complexities the financial sector developed its own dynamics outside the scope of its original function. Agricultural and industrial companies would outsource many of their commercial, transportation, distribution, marketing activities, etc. Hence, intermediation between the producer and the final consumer came to dominate the flow of transactions and activities.

The dominance of intermediation in the services sector is extended to all types of activities including the financial sector. In the beginning, capital markets were designed to provide capital from the savings of economic agents who would want to invest into activities that needed it. The creation of financial instruments is also based on the same logic. They are supposed to help the financial needs of companies in need or have excess cash flows and investors seeking returns for their cash. Yet, when such instruments are traded in markets they become the target of speculators who seek an artificial value added or surplus to the original instrument's value. Such artificial values lose soon enough any connection to the real performance of companies that issued them in the first place. They get a life of their own. The financial market is disconnected from the real economy. A virtual economy has developed on paper and has become the dominant form of financial capitalism replacing the traditional one of the 19th and 20th centuries.

This 'surplus' or artificial value of financial instruments is the modern expression of financial rent. It is the outcome of the control exercised by middlemen or intermediaries. This control is a form of sovereignty over the relationship between production and ultimate user.

Modern practices of the raid are exemplified in hostile takeovers of companies by 'corporate raiders' who covet something owned by the subject of the takeover. It could be a market share, a patent, a strategic position, a cash flow, or undervalued assets. In the past, empires would take over other countries and dispossess them of their wealth. During the colonial period, colonial powers would not only take the wealth in the colonies, but also subject their populations to abject exploitation and 'capture' the fruits of their efforts. Nowadays, the services sector has become a generator of rent and source of wealth with the least effort. It uses positions of power it has reached to exact the fruits of the Other's effort. In modern societies few really care about the origin of the product purchased. Few are concerned with the sufferings endured behind the production of a high-price sneaker manufactured in an 'emerging' economy. What really matters is not the source of wealth but its accumulation.

The services sector has become over time the backbone of many advanced economies and also emerging ones. Lebanon is an example of an economy where services are the dominant contributors to GDP and major sources of employment. The United States has also become a country of services, of financial services in particular generating rent. The mutations of capitalism, which evolved from industrial capitalism to financial capitalism, are at the root of the crisis that has swept the United States as well as Europe, China, Korea, Japan, Singapore, Malaysia, and states of the Arabian Peninsula. The operating business model in such countries is based upon intermediation aiming at generating wealth with very little capital to start. This justifies the debt policy chosen by countries and companies aiming at leveraging their investments in order to magnify returns on capital invested. The culture of production has hence been replaced by that of financial deals and the generation of fees and commissions for such transactions.

Chief executive officers in the United States get their compensations not only through inflated salaries but through stock options at advantageous prices. Hence, their obsession to maximize the short-term value of shares of their companies leading to various forms of 'creative' accounting methods that will help achieve such goals in a lax or deregulated environment. Companies are no longer concerned by long- or medium-term development strategies or financial discipline and prudential methods, but only with the maximization of shares values in the short-term (usually the quarter). This leads to questionable practices where unfortunately the company, its auditors, its bankers, regulatory agencies, local and state government agencies have been more than complacent in the laxness in the implementation of prudential methods. It should be no surprise that the Enron fiasco, once the leading energy company in the world, would not serve as a wake-up call, hence the current debacle in the financial world.

The culture of rent has negative effects in Arab countries. It is a culture that denigrates effort and prefers intermediation rather than the direct production of real wealth.[2] Intermediation must be accompanied by power or 'sovereignty' in order to control the flow of transactions between the producer of goods and services and their final consumer. The exercise of 'sovereignty' is the source of rent. In Arab tradition, such exercise of 'sovereignty' allowed the tribe of Quraysh to establish a system of alliances among tribes and chieftains along the uncertain caravan roads. That system of alliances provided for the security of caravans. Participation in such caravans allowed Quraysh to exact royalties from participants, hence generating a rent that perpetuated its dominance before and after Islam.[3] This rent must be viewed as the capture of the effort through the imposition of a premium to participate in the caravan. One may rightly argue that had it not been for the security assured by Quraysh the 'Other's' effort may have come to naught if he could not sell his shipment. The justification of the premium is not tenable. The scarcity of 'security' created the need to ensure it and that is a collective responsibility not the privilege of the powerful. The security achieved by Quraysh had already been rewarded for the safe passage of its own caravans. The imposition of a premium amounts to a tax on 'external economies' for the users and a subsidy for the providers of security. The moral implications of such an argument are beyond the scope of this paper but do lie at the root of the excesses of economic liberalism.

There are many examples illustrating the transformations that took place within the services sector leading to the establishment of intermediaries taking over. One may mention the Health Maintenance Operations (HMO) that control the healthcare industry in the United States. Originally, they were designed to provide more choices for patients for healthcare, but eventually got to dominate the upstream and downstream segments of the sector. Neither patients nor doctors are free any longer and must bend to the dictates of HMOs who earn a rent through the premiums they exact from patients. The doctors do not receive their fair share of services rendered and the patients must be subjected to the choices given to them by the HMO. In fact, each time intermediation creates monopolistic structures where 'sovereignty' or control is exercised by only one party, the intermediary, and the latter captures the surplus value generated by the Other and hence earns a rent since it is being paid an income for an effort made by someone else.

Sources of rent in the Arab World

It may be useful at this stage to distinguish between the rentier state and the rent-based economy. The two concepts are unfortunately used indiscriminately to mean the same thing. Though it is quite difficult to speak of a rent-based economy without mentioning the rentier state, yet the difference lies in the fact that the rent-based economy includes among other things state institutions and is therefore more comprehensive. However, the rentier state only focuses on state institutions and the revenues or income it receives from the various sources of rent it controls. The size of government in the economy is a major determinant of rentier states (Yates 1996, p. 13). The rentier state theorists tend to ignore the role of rent generated in the private sector with or without the participation of the state. Several Arab economists and researchers emphasize the rentier state rather than the rent-based economy. To such economists, the source of government revenues is external rent (Suhayl 1996, p. 92).

This is the influence of the works of Hazem Beblawi who wrote extensively in the 1980s about the rentier state (Beblawi and Luciani 1987). Though such economists do acknowledge the existence of domestic sources of rent, yet these internal factors do not affect what they call the character of the rentier state (Suhayl 1996, p. 86), namely the impact of the external factor on generating rent (Suhayl 1996, Beblawi 1989, p. 279). This writer begs to differ from the contention made by Beblawi, Suhayl and others to the extent that they ignore two important factors: the rentier's mentality that does not extol the pursuit of effort; and the role of 'sovereignty' discussed above in the control of relationships and distribution networks between producer and consumer. Hence, the domestic factor is as important as the external factor in defining the rentier state.

As to the sources of rent in Arab economies, one may distinguish between the external sources and the internal sources. In the first category, it is quite obvious that energy resources (oil and gas) are sources of rent. As will be shown in the second part of this study, they do constitute a major source of revenues to the state and are the largest determinant of GDP. Oil revenues are considered rent because governments are not creating any special value through efforts. External demand and control of supply generates a surplus known as rent. There are some Arab economists who do not consider it as rent but as revenue accruing from the sale of a depreciating asset (Farjānī 1984, p. 36). Therefore, it cannot be considered rent since the original asset has diminished in quantity contrary to land that is still there after its use (Suhayl 1996, p. 106).

However, such a view has limited support and audience among Arab economists (Suhayl 1996). In this writer's opinion, such a view is probably based on accounting principles rather than on economic ones. Depreciation is part of that revenue that is set aside to reconstitute the depleting asset. In the oil situation, depletion of oil reserves has been assimilated to depreciation, which is incorrect as no reconstitution of oil reserves is being undertaken. Another possibility is to consider the sale of depleting assets over time as 'revenue', which is also incorrect. For all intents and purposes, the revenue that accrues from the sale of an asset without any particular effort on behalf of the asset's owner is also considered rent. By extension, the sale of a share traded on the stock market based on speculation would yield a surplus value that is also considered as rent as long as there is no particular effort undertaken by the share's owner to increase the real economic value of the share. Speculation is inherent to the culture of rent and to the culture of minimum effort.

A second source of rent generation is revenues from the export sales of minerals and metals. The same reasoning applies to them as for oil and gas. Jordan and Morocco export phosphates. Again, one may refer to Ibn Khaldūn who noted that extraction of minerals and precious metals generates a revenue and wealth to the mines' owners but not to the miners, the workers who do the extracting. In the Arab World, revenues from minerals and metals are significantly less than those accruing from oil and gas.

A third source of rent generation is the strategic routes or passages or pipelines. For instance, the Suez Canal and the pipeline linking the Gulf of Suez to the Mediterranean SUMED are sources of rent. It is a modern application of the caravan routes controlled earlier by the Quraysh tribe, where the use of sovereignty over a distribution component (route) yields rent.

A fourth source of rent in the Arab World is tourist expenditures. A study has shown that revenues from tourism accruing to government are the result of the latter's exercise of its domestic and external 'sovereignty' over the cultural heritage, thus creating a monopoly to government (Richter and Steiner 2007, p. 9). But tourism is more than visiting ruins or the cultural heritage of a country. It also includes 'rest and recreation' (R&R). Several Arab countries including those that have a vast cultural heritage have a major source of revenues coming from R&R activities (Lebanon, Egypt, Morocco, and Tunisia). Though investments in hotel infrastructure are significantly less than in heavy industry or other productive sectors, yet revenues accrued are above the 'effort' provided and do constitute a form of rent.

A fifth source of rent is remittances from Arab expatriates to the mother homeland. They do constitute a form of rent to recipient countries and are a significant part of the GDP, as will be shown below. A corollary would be foreign aid that more often than not comes with strings attached and does limit the sovereignty of the recipient country (Knowles 2008, p. 14). Without discussing the merits or disadvantages of foreign aid one still must note that it constitutes a major component of government budgets in many countries like Jordan (Knowles 2008) or Egypt. Such aid is likely to contribute to further sectoral distortions and dependency towards external factors and also leads to consumerism (Knowles 2008, p. 15).

As to the domestic sources of rent one must bear in mind that the state is the largest entrepreneur in the economy and the engine of its growth. Its policy of expenditures and redistribution of the rent it may have accrued is what fuels the economy. The political system in place owes its survival to the redistribution policy of such rent and through the services it extends to its client base. Government services as such have become a source of rent to their recipients. On the other hand, the private sector generates its own form of rent through the exercise of control over relationships between producer and final consumer. This has been discussed in earlier sections.

However, one may point out to influence trafficking as a source of domestic rent, a very well established pattern of behaviour in the Arab World and a source of wealth for dispensers of influence as well as for their recipients. Most government contracts, exclusive commercial representations, monopoly or quasi-monopoly licenses for a wide range of activities, silent partnerships of government officials in private activities are various forms of trafficking and influence peddling. Beneficiaries are members of the various factions that constitute the political foundation of the country. Factionalism is intrinsic to the success of influence trafficking and takes various forms, as will be discussed below. The relationship between factional leaders and government is deep, organic, and frankly quite incestuous. There is no distinction between the public interest and the private interest. This results in an alliance between the merchant class and the ruling elite and the control of the economy and the exaction of rent.

Another source of domestic rent is speculation, whether in real estate or in financial instruments. Many governments have allowed speculation to take place as a means of redistributing rent accrued to government to their client base of ‘loyal’ followers. In the Arabian Peninsula, various governments have allowed the development of speculation in real estate as a means of buying loyalties. Land would be granted to loyal followers either freely or at real low nominal prices and the latter would resell the land at above market prices either to governments who would need the land for various infrastructural projects or to other members of the private sector for their own developmental purposes (Al-Shatti 2005, pp. 634–635, Hafez *et al.* 2005). The same would apply to manipulations in Arab stock markets leading more often than not to major financial disasters.[4] The laxity of government controls over financial transactions and the lack of prudential guidelines have allowed speculators, usually close to centres of power, to amass vast fortunes without effort. Rent or ‘booty’ is pretty much ingrained in the local culture.

The culture of rent

Rent per se has no ‘negative’ implications. Economists, however, over the last 200 years have tried to give it a negative dimension. As one paper indicates, the economic theory of rent as we know it was designed for political motives ever since Adam Smith through John Stuart Mill until Henry George in order to justify taxation on landlords (Hudson 2008). From our perspective, it is not rent that should be condemned or taxed but the culture it generates. Rent seems to be an antithesis to income accrued through effort and risk-taking. Ibn Khaldūn has pointed out that Arab tradition does not look upon effort favourably, even if it contradicts Qurʾānic teachings. Rent as a source of wealth without effort and risk-taking becomes synonymous to wealth itself and the prestige it brings with it. The culture that despises effort is closely if not directly associated to rent. Without effort and risk-taking, the need for accountability and responsibility withers away. Arab economies based on rent do not see the need to move to a production-based economy that entails long and persistent effort. This is one reason why economic integration is difficult to undertake because how do you integrate rent-based economies?

Consequently, the culture of rent generates the culture of easy life, consumerism, and therefore self-centredness. As will be shown below, Arab economies produce very little of what they need and consume and resort to imports, which is undoubtedly easier and requires little or no particular effort. Most of the trade sector in Arab economies is based upon the representation of foreign companies. Hence, there is little appetite for forging an agricultural and/or industrial base in many economies. Vested local interests and foreign ones never did favour the emergence of an Arab agricultural and industrial base. The few attempts at building a production-based economy were short-lived though promising. Their downfall was directly associated with the political tribulations of such countries. In Egypt during Nasser's rule, in Iraq during Saddam Hussein's, and in Algeria during Boumedienne's, attempts were made at establishing a solid industrial and agricultural base. Wars and domestic strife cut short these experiences and their successors in Egypt and Algeria were more than eager to shift to a consumers'-based and a rent-based economy. The lack of effort in developing the agricultural sector has led to a deficiency in food production. Arabs have to import most of their food needs despite having large tracts of arable land and plenty of water. Countries like Sudan, Morocco, Algeria, Syria, Iraq, Lebanon, and Egypt could be food baskets for the region and export the surplus to countries where food deficiency prevails. The justification for food imports is that it is 'cheaper'. However, dependency on imports is a major national security breach and the 'economic' argument is by no means evident. But this is beyond the scope of the paper.

More significant is that the culture of rent does not encourage innovation and risk-taking. Hence, scientific education and research in Arab countries is among the lowest in the world. The Second Arab Human Development Report (AHDR) sponsored by the UNDP and the Arab Fund for Social and Economic Development has clearly shown the low level of higher scientific education in the Arab World. Arab universities are subjected to the political will of ruling elites who see little benefit in associating larger segments of the population to access to knowledge and developing critical thinking (UNDP 2004, p. 56). Universities are the laboratories where the youth first experiment in political and social interaction (UNDP 2004). Libraries are poorly endowed, classes small, and laboratories falling apart, and universities cannot absorb the growing number of student population. This leads to a widening gap between teachers and students (UNDP 2004). Ruling elites are more interested in showing larger statistics of student enrolment for political propaganda rather than the quality of education given.

The report also states unequivocally that sciences are essential for an Arab Renaissance (UNDP 2004, p. 69). This writer would even go further and postulate that if the sources of wealth in the world in the last two centuries were land and capital, the source of wealth in the 21st century is in science-based knowledge. The culture of rent prevailing in the Arab World is a major impediment because it denigrates effort, critical thinking, and accountability. This is further evidenced by the low number of research centres that do not exceed 280 (as of the time of publication of the AHDR) with Egypt having the lion's share with 73 centres, followed by Algeria (30), Tunisia (24), and Iraq (22) (UNDP 2004, p. 74). As for spending on scientific research centres it does not exceed 0.2% of Arab GDP, whereas it is around 3% in advanced countries (UNDP 2004, p. 73). Moreover, government share in such spending does not exceed 3% in the Arab World, whereas in the United States it can be as high as 30% with industry completing the rest (UNDP 2004). A further indication is the number of patents registered in the Arab World. Between 1980 and 2000 only 380 patents were registered in the Arab World, whereas Israel registered over 7650 and South Korea over 16 000! (UNDP 2004, p. 71).

Hence, 'knowledge' produced in the Arab World does not contribute to production and rightly so since wealth accrued is the result of 'divine will'! One may even think that there is a deliberate policy of promoting 'educated ignorance' with such poor education curricula and programmes. It is therefore no surprise that we witness a perpetuation of the culture of rent that suits perfectly the purposes of Arab ruling elites who shun critical thinking, effort producing and innovation, and accountability for their actions.

Wealth therefore is to be generated through exchange where the capture of the Other's effort is the name of the game. Westerners who have to experience 'bargaining' in the bazaar must understand that the 'effort' here is the process of getting the better of the Other. Oil as a generator of rent does not entail any particular effort. It is Nature that is doing the effort and the extraction process is nothing compared with the years Nature had invested in the formation of oil. In this respect, production contradicts Nature since it takes away its effort. Also, the Arab city is not really concerned with the modification of the natural order (or production) that is perfect in itself but with the organization of human relationships according the Law (Henni 2008, p. 42). The priority is the establishment of the right to use a product and not necessarily the knowledge about the product or the natural order that must not be touched unless it is profitable to Man and his organization (Henni 2008).

Hence, the basic principle upon which a city is established is the organization of the capture of the Other's effort internally through exchange or externally through raid. It is no longer important to look for the legitimacy of wealth creation, but to establish the contribution of wealth in the consolidation of civil order. Hence, 'activities' become legitimate and there is no contradiction between wealth creation and belonging to the city (Henni 2008). This would be one explanation of rural migration to the city in Arab countries. By extension, the use of public funds becomes fair game to anyone who can get hold of it without having to 'earn' it. This is one reason why outrage is rarely expressed about the misuse of public funds. Government was always run by foreign entities and hence had little legitimacy. Hence, its funds were there for the taking like any other booty. These destructive attitudes do go a long way in explaining corruption in the Arab World without raising public outrage.

Another consequence of the culture of rent is the dependency towards the rest of the world. Whether caused by the need to import goods and services that the local economy does not produce or the need to receive financial aid to finance the budget the country's resistance to foreign hegemonic tendencies is severely enhanced. That is why the culture of resistance is alien to the culture of rent. Rentier states do not fight, and rent-based economies accept dictates from outside. The ruling elites have too much to lose by 'resisting' and that is one reason why foreign military occupation is seen as 'permissible'.

The culture of rent makes it also easier to go into debt. Indebtedness, once frowned upon, has become 'legitimate'. Whether at the government's level or the individual level, indebtedness allows for levels of consumption not commensurate with incomes. This is true in the Arab World as well as in the West where industrial capitalism has turned into financial capitalism that generates rent.

Consumerism is a direct consequence of rent and indebtedness. If wealth is generated without effort and capital and through indebtedness, then consumption is one way of flouting wealth. Arab countries, especially oil-producing countries and countries whose income is closer to rent than earnings accruing from effort (Lebanon, Egypt), have become oases of profligate consumerism. The devastating effects of consumerism on the economy as well as on the social fabric are too well known to be repeated.

Part 2: Features of Arab economies

Economic indicators show that Arab economies exhibit the features of rentier states.

Economic structure of Arab economies

Statistical indicators for 2005 show that the combined GDP for Arab countries is over US$1 trillion equivalent (Arab Monetary Fund 2008). The productive sector made up of agriculture and extractive industries (oil, gas, and minerals) constituted (in 2005) 61.6% of the total Arab GDP. Other sectors such as transportation, tourism, and financial services make about 20% of GDP. Government services contribute about 17% of the total GDP. However, extractive industries alone constitute close to 40% of total Arab GDP or over 50% of the productive sector's contribution. So if we add up government services and part of private sector services to the extractive industries, it becomes clear that the source of the aggregate Arab GDP is rent based, according to the sources of rent defined above.

The picture does not really change if we classify Arab countries into two categories: oil-producing and non-oil-producing countries. In the first category, including the countries of the Arabian Peninsula, plus Iraq, Algeria, and to some extent Egypt and Sudan, the oil and gas sector contributes up to approximately 75% of total GDP. On the other hand, the production sector of non-oil-producing countries does not contribute more than approximately 25% of GDP. Government and private sector services make up for the rest and, hence, because of the definition given above, the role of rent is still quite significant in such economies.

Sources of government revenues

A feature of the rent-based economies, and especially in rentier states, is the source of government revenues. In 2005, the combined government revenues of Arab oil-producing countries amounted to US$323 billion equivalent, or about 40.3% of their combined GDP. On the other hand, government revenues for non-oil-producing countries amounted to US$72.5 billion equivalent, or about 26% of their combined GDP.

Looking deeper into that matter we find that the source for such revenues in oil-producing countries is oil revenues. They vary between 61.4% in 2000 to 71% in 2005 because of higher oil prices. On the other hand, tax revenues varied between 25.6% in 2000 and 19% in 2005. Income tax revenues did not exceed 7.3% in 2005, whereas it amounted to a little bit over 5% in 2000. This means that the rentier state does not rely on taxes for its revenues source but on rent accrued to the exploitation of its natural resources, in this case oil and gas.

Government expenditures play an important role in the economy. It confirms the idea that government is the main 'entrepreneur' and its spending defines the scope of economic activity. The private sector is dependent upon government spending to exist and prosper. This is equally true for oil-producing as well for non-oil-producing countries. Government spending for all Arab countries hovers around 30% of their GDP for the period 2000–2005 (Arab Monetary Fund 2008, p. 321). Jordan has a high of 39.7% followed by Djibouti with 39.2%, whereas Sudan has the lowest with 20.2%.

Arab expatriate remittances

The growth of Arab expatriate remittances and importance in the GDP of many countries has led to special attention by the Unified Arab Economic Report in 2005 and ever since (Arab Monetary Fund 2008, p. 174). The report also indicates that reported figures are quite below real figures, which underlies the importance of such remittances in the GDP of many Arab countries and confirms the role of rent as a source of wealth (Arab Monetary Fund 2008).

Arab recipient countries have received about US$24.1 billion equivalent in 2004 compared with US$15.7 billion in 2001. In Lebanon, it amounted to over US$5 billion equivalent, or approximately 25% of its GDP, whereas for the total of Arab countries it amounted to 6% of the combined GDP. Morocco received US$4.1 billion followed by Egypt with US$3.1 billion, Algeria with US$2.5 billion, and Jordan US$2.1 billion (Arab Monetary Fund 2008).

Dependency toward the outside world

A feature of countries that do not produce by choice what they need is a heavy reliance on imports. Though this writer does not advocate by any means autarchy, yet economic self-reliance must be sought to ensure national and regional security. Arab countries import most of their needs and their trade balances have high deficits, if one excludes oil and gas exports. With the exception of Kuwait, not a single Arab country experienced a trade surplus (excluding oil) in 2005. Oil and gas exports constitute over 60% of GDP of oil-producing countries and over 51% for the combined Arab GDP. On the other hand, imports constitute over 29% of Arab GDP. For oil-producing countries it amounts to a minimum of 19.7% and 19.2% of GDP for countries such as Algeria and Libya, respectively, and a maximum of 93.5% and 61.5%, respectively, for Jordan and Bahrain. For non-oil-producing countries their imports amount to 38% of their GDP.

Another indicator of dependency toward the rest of the world is the level of foreign debt as compared with the GDP. The Unified Arab Economic Report has classified Arab countries into three categories. The first category is for those countries whose foreign debt exposure is deemed 'moderate', i.e. less than 50% of GDP and does not exceed the total amount of exports of goods and services (Arab Monetary Fund 2008, p. 164). The second category is high indebtedness for countries such as Lebanon, Jordan, and Tunisia whose foreign debt exposure varies between 50% and 90% (Arab

Monetary Fund 2008, p. 165). The third category is very high and galloping indebtedness for such countries as Sudan and Mauritania whose foreign debt exposure is over 90% and more than twice its exports of goods and services (Arab Monetary Fund 2008, p. 166). This has been a persistent situation for most of such countries.

Increased indebtedness

In addition to foreign indebtedness, Arab countries also experience high levels of public and private indebtedness. This is consistent with a rent-based economy that produces very little and resorts to indebtedness to finance its consumption. There are very few statistics about private indebtedness in the Arab World, and this fact is most unfortunate. However, public debt is well recorded and amounted in 2005 to US$270 billion equivalents for all Arab countries (Arab Monetary Fund 2008, p. 118). This amounts to close to 41% of combined GDP. Public debt levels in 2005 varied between a low of 19% of GDP for Yemen to a high of 82% of GDP for Algeria (Arab Monetary Fund 2008).

In this section, some Arab countries exhibit the features of the rentier state. Other countries show that rent is a significant component of wealth formation even if it does not originate in oil and gas. The question that needs exploring is whether there is a relationship between the political system in place in Arab countries and their rent-based economies. This is the purpose of the last section of this paper.

Part 3: Factionalism and corruption in the Arab World

The basic premise in this paper is that the political system in place in Arab countries is organically related to the rent-based economy. Though history may explain how the political system in Arab countries got to be there, a fact beyond the scope of this study, it remains nonetheless that there is a common feature in this polity to all Arab countries. Political systems in place, whether they are labelled monarchies, republics, or ‘hereditary’ republics, are all based on factionalism. The latter may take various aspects: tribal, clannish, religious, sectarian, geographical, or even sectoral (army, beneficiaries of an ‘open economy’), whether separate or united, and they are the foundations of power structures prevailing in Arab countries. Factionalism controls almost all facets of Arab society, whether at the political, economic, social, or even cultural level.

In the Arabian Peninsula, regionalism (Najd, Hijaz), tribalism, and sectarianism prevail. The same would apply to the Euphrates region or *Bilād al-Rāfidayn wa Bilād al-Shām* (Iraq and Syria). In the Nile Valley, sectoralism, regionalism, sectarianism, and tribalism dominate the structure of the political landscape. In Arab North Africa, tribalism (Libya, Mauritania), regionalism, and sectoralism (Tunisia, Algeria) dominate the political landscape. In Morocco, factionalism is defined by the Makhzen. In the Gulf States power is dominated by tribal affiliations to the dominating tribe (Al-ʿAfīfī 2008, p. 49). This is consistent with Ibn Khaldūn’s (2005) theory that ‘agreement’ to the chosen ruler is the result of coercion (pp. 125, 191). Countries in the Gulf and the Peninsula are ruled by family clans and have allied themselves with the merchant classes that emerged because of the favours granted by such clans. Such alliances dominated the political, economic, and cultural landscape (Al-ʿAfīfī 2008, p. 48) until the concept of modern state and bureaucracy came into play. The latter requires that appointments and promotions be established according to competences and abilities, whereas tribalism commands appointments to express loyalties and allegiances irrespective of competences or the lack of them and, therefore, neutralizes the administration's efficiency (Al-ʿAfīfī 2008, p. 49). Hence, there emerged the need to examine the impact of factionalism in general on political, economic, social, and cultural performances.

The culture of factionalism

Factionalism is one of the deadlier diseases in Arab polity, if not the deadliest. In many instances, it is the direct and primary cause for destruction and killing within Arab societies. The deadliest form of factionalism is sectarianism that has plagued countries like Lebanon and now Iraq, and threatening Sudan, Egypt, and Syria. So what are the characteristics of factionalism?

Arab states, whether they are labelled monarchies, emirates, or republics, cannot function without some form of 'understanding' among competing factions as long as there is not a predominant faction that can oust the others. The structure of Arab society is such that many competing factions constitute the political landscape with the pre-eminence of one over the others though without absolute power to dispose of the others. The balance that is stricken amounts to a share of spoils without necessarily leading the building of institutions. The issue is more about power sharing or distribution of spoils rather than state building and development.

Indeed, the state and its institutions are deliberately deemed to be weak to allow for factionalism to function in the power-sharing scheme. This results in lack of transparency, accountability, and responsibility. Parallel to the weak state institutions a powerful security apparatus makes sure that 'order' is in place or restored when necessary, especially if the regime is threatened and in particular its head.

A clear example is Lebanon. The only serious attempt at building state institutions along modern patterns was during the mandate of the late President Fuad Shihab during the early 1960s. Political factions, family and sectarian based, formed coalitions to counter Shihab's efforts and succeeded in defeating in 1968 during general elections candidates attached to his reform programme and in 1970 the presidential candidate considered to be his political heir. From 1968 until the outbreak of Lebanon's civil war (1975–1990) state institutions were marginalized or voided from their political and administrative contents. The power-sharing system based on sectarian and tribal affiliation prevailed from 1943 until then. In Lebanon, as in most Arab countries, society is more powerful than the state except for security (though in Lebanon non-state security apparatuses are functioning and more powerful than the state's). The end of the civil war came through regional and international intervention crystallized in the Taef Accord that redrafted the power-sharing pattern among Lebanese sects without fundamentally altering the principle. Maronites who used to have the upper hand in Lebanese politics lost ground to Sunnis and Shiites, but other than that Lebanon remains pretty much a sectarian state with weak state institutions and a floundering rule of law.

The second feature of a factionalist state is the development of parochial allegiances, close mindedness if not outright bigotry, and fanaticism (Saadeh 1993, p. 65). Factionalist leaders embody in themselves the interest of their faction. Their personal rights and privileges are those of the faction, which is not true, but so goes the river! Such leaders suppress dissent and the call for accountability and responsibility, a task made easier as they are the purveyors of various benefits to their constituencies.

Hence, one can see how the 'rent' in such economies is distributed according to the requirements of the political system. Consequently, vertical and horizontal mobility is limited and the emergence of a middle class that is united in opposing an autocratic regime is suppressed (Yamani 2009).

The third feature of a factional system is its intrinsic instability. Ibn Khaldūn (2005) had pointed out that countries ruled by many factions were unstable (p. 153). A culture of divisiveness emerges making it impossible to define common interests. In this respect, Lebanon's consensual political system is mostly unstable and is bound to explode periodically when conflicts cannot be resolved by mutual understanding and concession making. It is a 'zero-sum' game that is being played where some faction's gains are seen and perceived to be others' loss. Hence, hard-line positions aiming at 'protecting' the privileges of the faction are a sure recipe for periodic and destructive conflicts as Lebanon's history so perfectly illustrates.

Consequently, and this is a fourth feature of factionalism, the factionalist country or society becomes dependent on foreign protection. The agenda of local factional chieftains compels them to seek regional and international alliances at the expense of the national interest (Yamani 2009) (undefined) to thwart rivals or to overcome them or to enhance one's positions in the eyes of constituencies and rivals alike. Hence, we witness the emergence of what may be called the 'consular syndrome', where local chieftains compete for the favours of ambassadors and international envoys. It is therefore no surprise to see the country becoming a 'buffer state', a state subjected to various regional and international influences leading to more unrest as the region is also drawn into international conflicts. Lebanon is a case study of what is called the 'buffer state'.

In a factionalist/sectarian state such as Lebanon internal stability occurs only when regional stability is prevailing. This has happened during Nasser's rule in the 1960s. The defeat of Arab armies in 1967 at the hands of Israel created a regional imbalance and instability exacerbated by Egypt's withdrawal from the Arab Israeli conflict persisting until today. The Gulf conflicts and invasion and occupation of Iraq also added to the precarious situation. Accordingly, Lebanon had to endure a civil war and Israel's invasion of significant parts of its territory, notwithstanding the continuous violations of Lebanon's sovereignty. Syria's military presence, resulting from Taef Accords, led with time to a deterioration of the consensus achieved in 1989 Accords. Syria's withdrawal from Lebanon without a political agreement contributed to the revival of factional tensions within the country.

A fifth feature of factionalism is that discussion within and outside the faction is stifled. The factionalist leader embodies the 'interests' of his faction and he decides on war and peace with other factions with little discussion or participation of his constituency.

A sixth feature is that factionalism is not compatible with democracy. It enforces the 'virtue' of loyalty and does not tolerate dissent, accountability, and responsibility. It draws its 'legitimacy' by spreading the fear of the Other and resorts to violence to enforce the will of the leader. It also has no compunction of asking for the assistance of foreign powers against rivals and therefore significantly weakens the cohesiveness of a national purpose.

Seventh, the legitimacy of a factional system is at best fragile and likely to be severely tested. The fragility is due to the absence of a democracy that strengthens citizenship. The latter emphasizes common interests among society's members whereas factionalism is based upon discrimination. Most factional systems are prone to violence among its leadership to obtain power and cannot sustain itself without coercion and repression. Arab history, past and recent, is full of examples that need not be repeated here.

Intellectual roots of factionalism

Factionalism as a foundation of current political systems in the Arab World has developed an intellectual narrative to serve its purposes. It is based upon religion. Discrimination is justified and based upon religion. It is one legacy of Ottoman rule over more than four centuries and the community system it established, the *millah.*

Second, religion is the starting point of the issue of identity, the murderous identities a Lebanese novelist spoke about in one of his books (Maalouf 1998). Some Arab elites believe that the search for a cultural and religious identity is a consequence of the modernization drive that took by storm the Arab World during its renaissance period or *Nahḍah* in the 19th century and Ottomans' efforts at reform with the *tanzimat* or reform decrees in 1836 and 1856 (Makdissi 2000). The fires of religious identity were fanned by political, economic, and cultural colonial invasions by Western powers in the 19th and 20th centuries (Corm 1992, p. 86).

Yet, the most striking feature of factionalism is the mechanism of the factionalist narrative. First, it instrumentalizes religion if it does not corrupt it. It is used for mobilization of people's sentiments and to legitimize the illegitimate. In the name of religion unspeakable acts are committed. It is also used against foreign incursion and direct colonialism. Religion is also a potent force used by foreign powers to sustain their agendas in the region. Islam has been used by the United States and its allies in the region to mobilize against Communism and liberation movements deemed atheistic or against the interests of the West (Corm 1992, 2006).

Second, factionalists use fear as an instrument for mobilizing their constituencies against rival factions or communities. Inspired fear could become existential, both physical and cultural, and would lead to bigotry, fanaticism, and close-mindedness (Saadeh 1993).

Third, because of such fear, a hopeless spiral of action and reaction ending in violence, destruction, and death develops. Various syndromes dominate the ethos and behaviour of communities, the fear syndrome, the dispossession syndrome, and the frustration syndrome in an endless spiral of suspicion and violence and hopelessness.

Accordingly, it becomes natural for factions in fear to seek foreign protection against rivals. This further weakens the social fabric where factions see their rivals as betraying the homeland and furthers the culture of divisiveness. Lebanon and Iraq are the most vivid examples of the destructive power of the culture of factionalism at its worst.

Corruption

This section draws upon the various papers submitted to a symposium held in 2004 by the Center for Arab Unity Studies in Beirut and in cooperation with the Swedish Institute at Alexandria about corruption in the Arab World (Centre for Arab Unity Studies (CAUS) 2004). Due to lack of space, only selected countries will be briefly discussed.

Former Prime Minister of Lebanon, Dr Salīm al-Ḥoṣṣ, stated in his opening statement at that symposium that corruption had become so pervasive in the Arab World that a culture of corruption, so to speak, had emerged and plagued Arab society (al-Ḥoṣṣ 2004, p. 60). Yet, no single definition of corruption is agreed upon. In particular, there is a tendency to adopt The World Bank's definition of corruption, namely that 'the misuse of public office for private gain' ('Abdel Faḍīl 2004, p. 34). Several scholars seem to have adopted such a definition, whereas they do recognize that there is no consensus on it reaching all aspects of corruption (Khairallah 2004, p. 415). Indeed, definitions do mirror the field of expertise of the scholar who tends to include in it his own perceptions (Khairallah 2004). On the other hand, the Arab Anticorruption Organization (AACO) provides a broader definition to include corruption in government resulting from wealth and illicit gains (Khayyāṭ 2005, p. 26). The use of money and power for acquiring wealth is the source of corruption (Khayyāṭ 2005). However, even if such definitions are based upon values and moral norms, yet they do not provide an insight into the social implications of corruption, which is clearly a social phenomenon (Bārūt 2004, p. 253). Indeed, corruption is not just a reflection of what facts on the ground support, but a pattern of social conduct and its consequences on society (Qabānjī 2004).

That particular symposium focused on corruption within the state's institutions. However, there is a need to include all segments of society when dealing with corruption. The private sector is likely to be a source of corruption at least as much as the public sector, if not more. The definition that will be more appropriate is based upon the etymology in Arabic of the word corruption, *fasād*, which means deviations from what is good. It is defined by being the opposite of what is deemed good or appropriate. Hence, the definition used is broader than currently used and would mean the deviation in the conduct of humans and society from what established norms and their purposes for regulating that behaviour in order to obtain personal gain at the expense of the public good or the safety of that particular institution for which the latter was created. In Arab and Islamic tradition, corruption is man-made as the Holy Qurʾān states:

> Corruption has appeared in the land and the sea on account of what the hands of men have wrought that He may make them taste a part of that which they have done, so that they may return. (Qurʾān, *surat al-Rūm*, 30:41)

When the above definition of corruption is integrated into the analysis of the culture of rent and the culture of factionalism, a pattern clearly emerges. First, there is a direct link between rent-based economies and factional political systems. Second, corruption is closely associated with distorted norms of polity and economy. Third, corruption in the Arab World is a manifestation (both cause and result) of the culture of rent and the culture of factionalism.

Indeed, a rent-based economy generates corruption. It foregoes the culture of effort and risk-taking and does not compare rewards with effort as long as wealth is flowing without any effort or risk. It also foregoes the principle of accountability and responsibility in decision-making and conduct. Governments relying on the flow of rent-based revenues are more concerned with their distribution than with generating wealth based upon real effort. Uncontrolled distribution leads to wasteful spending and depredation of assets. The consequence is a distorted economic structure and the concentration of wealth in the hands of the few. The imbalance is among sectors, among regions, among social strata, and a greater inequality between the few and the vast majority. Such economic imbalances create an environment favouring further imbalances and policies leading to the pauperization of society (De Mesquita and Root 2002, p. 28). In their interesting study, De Mesquita and Root explain how dictators have no incentive in spreading wealth, how they deliberately prefer a policy leading to the pauperization of their society, all of that in order to maintain their grips on power.

Corruption is an efficient tool to consolidate the current political system in place in Arab countries. On one hand, it distributes rent-based revenues to its client base, 'it' being the factionalist system in power, whereas, on the other hand, such distribution exempts the factionalist system to be subjected to accountability and responsibility. This is one reason why taxes in general and income taxes in particular are marginalized as a source of government revenues, because with taxation the system must have representation and accountability on the use of public funds. Recently, a two-day seminar was held in Beirut about improving the control of public finance.[5] Five country studies were undertaken as a first segment of a larger project encompassing the rest of Arab countries. One major finding of such studies is that the political system in place interferes significantly with legislation and control systems in place in order to advance its own political agenda.[6] No improvement in control systems of public funds is to be expected if no political reform is undertaken. This goes to the root of current of problems plaguing Arab society, namely, its factionalism and the rent-based economy with which it is associated.

Accordingly, with the marginalization of taxation, accountability and responsibility wither away as the distribution of rent is considered as 'gifts' or unearned benefits to recipients who cannot therefore question their providers. Public expenditures policy undertaken in Arab countries to provide basic infrastructure and services to their countrymen is to assuage whatever claims the latter may have, so ruling elites would continue to pursue without accountability and responsibility their path of self-enrichment and gratification with public funds.

The following paragraphs will include selected country profiles illustrating the link between rent generation, factionalism, and corruption.

The United Arab Emirates

According to a Gulf scholar, the 'incomplete citizenship' among Arab Gulf countrymen is the prime cause of all forms of corruption (al-Yūsif 2004, p. 580). He emphasizes the 'incomplete citizenship' as that state of subservience rather than equality that characterizes the relationship between the government and the people. He further states that such government, as well as other Gulf governments, has abandoned the principles of consultation or '*shūrā*' prevailing among tribes to practices of despotism in order to keep their grip on power. This has led them to a blatant misuse of government resources and revenues at the expense of society's and present and future generations' interests (al-Yūsif 2004). This illustrates the contention of the present paper that factionalism, in this case tribalism, is at the basis of the current political system and has evolved into a narrower form of factionalism. Older forms of tribalism seemed to be fairer according to that author and the imbalance in the use of power leading to a narrower scope of tribalism (clans) is historically the result of foreign interferences (al-Yūsif 2004), again illustrating the contention made earlier that factionalism leads to dependency on foreign support. Hence, lack of participation has led to abandonment of accountability and responsibility deepening further the culture of corruption and its consequences.

In his country profile, the author exhibits several cases of corruption (twelve cases) of which few will be briefly indicated. First, there is the corruption in the judiciary caused by the swarming of incompetent magistrates owing their appointments to clan relationships and vows of fealty to the ruling family (al-Yūsif 2004, p. 581). The judiciary system has been voided of its original content because it had become a tool of the ruling family and has obliterated the separation of powers between the executive and the judiciary. Another example is the open budgets for clan-controlled media aiming at distorting facts in favour of the ruling clan. A third example is the degraded state of the education system where excellence is sacrificed to the altar of numbers of students enrolled. A fourth example is the unjustified spending on military hardware, mostly justified by commissions accrued to members of the ruling elites (al-Yūsif 2004, p. 584). A final example is the grabbing of public land and its distribution among family members and cronies (al-Yūsif 2004, p. 587), a well-established practice in many places in the Gulf and other Arab countries. Unfortunately, al-Yūsif's paper focused only on government and did not deal with the behaviour of various economic and social agents in the Arab Emirates. It would have been quite interesting to see if members of the civil society would behave differently than their rulers or were only a mirror of blatant forms of corruption.

Kuwait

The situation there is no different from that of United Arab Emirates. Two scholars have pointed out that Kuwait is a country, like many other Arab countries, where corruption is rampant because its economy is rent based and its political system is founded on tribal and sectarian considerations (CAUS 2004, p. 614).

However, Kuwait may be the rare exception among Arab countries where some form of accountability is being exercised through parliamentary committees and through the media (CAUS 2004, pp. 619–630).[7] The latter did expose several scandals leading to the resignations of public officials.

Saudi Arabia

Saudi society suffers from a cultural flaw that encourages corruption (al-Ḥasan 2004, p. 648). This appears clearly when one examines how tribal and traditional perceptions of public property are viewed as 'booty' to be gained by the victor. Factions and members of the circle of power benefit from such a perception that allows them to claim their 'rights' on public property (al-Ḥasan 2004). Factions belonging to the Wahhābī sect and from the central region of the Arabian Peninsula, Najd, believe they have established the state and that they have rights to it (*al-dawlah ḥagna* in colloquial Arabic).

This confirms our thesis of the centrality of factionalism, in this case, tribalism, sectarianism, and regionalism, in establishing a political system that uses public funds as 'booty' to be gained. Claiming public funds as their right is perceived as a sign of 'cleverness' or *shaṭārah* (al-Ḥasan 2004, p. 649). Moreover, such factions do not believe in the need to distribute 'fairly' the booty among regions and various social segments, nor do they accept the need for modernizing Saudi society (al-Ḥasan 2004). Added to that, the bureaucracy has proved to be incapable of addressing the needs of Saudis. So tribalism and bureaucracy have failed in providing the needed services to a diverse society coming from the desert, from valleys, from the city, leading to an increasing feeling of frustration and resentment (al-Ḥasan 2004). The consequence is that everyone must strive to get his fair share of the public booty. Public funds are not deemed as something to be preserved and cared for. It is there for the taking (al-Ḥasan 2004).

In this context, one may conclude that corruption has its own political, cultural, and economic origins rooted in the political and economic system in place. It confirms again the central tenet of this paper that wealth (rent and booty) is linked to a political structure (factionalism) and both are closely related to corruption. The conclusion coming from a Saudi author is nothing but astonishing. The editor of *Saudi Affairs* has been quite bold in analysing Saudi society and its political system. The prevailing popular cultural perception that corruption is a sign of 'cleverness', 'initiative', and even 'brilliance' or *almaʿīyah* would lead to what he calls the establishment of a kleptocracy eventually sanctioned religiously (al-Ḥasan 2004, p. 651) by clerics at the service of the powers that be.

Lebanon

This country is another good illustration of the relationship between factionalism, rent, and corruption. The services sector is the largest contributor to gross domestic product and is by nature a rent generator. Its main function is the recycling of oil revenues surpluses accrued in Arab oil-producing countries, mostly from the Arabian Peninsula. The Lebanese financial sector has been a major instrument in such an endeavour. Other sources of rent are domestic, mainly influence trafficking in order to divide the spoils of power among factions. In this case, factionalism is essentially sectarian with a zest of tribalism and regionalism.

Historically, regional sectarian chieftains (or warlords) have succeeded in establishing alliances with regional and international powers. Each sect in Lebanon would have a *de facto* international or regional 'protector'. There is an excellent analysis of the relationship between sectarian warlords and the merchant class (Dib 2006).[8] Another author has perfectly dissected the historical sectarian composition of Lebanese society and the role played by foreign powers (Corm 2005).

The following is derived from both books. The basic unit of ruling elites in Lebanon is the family. They establish alliances and personal leaderships in their regions and enjoy a kind of autonomy during peaceful times and total independence during turmoil and war. The merchant class, on the other hand, is more interested in making deals and earning commissions at the expense of the state's interests. The mercantilist streak goes back to antiquity, to the times when Phoenicians roamed the Mediterranean. This mercantilism prevented local capitalism to evolve and establish a production-based economy. It instead developed a rent-based economy wearing the apparel of 'services'. As with warlords, the merchant class is based on the family and established alliances with other families through marriages to dominate the economic sector.

The current political system is based on the Taef Accords of 1989 where political spoils (main political positions in government) are divided along sectarian lines and consecrates the alliance between warlords and the merchant class. The Presidency would go to the Maronites, an oriental Christian sect with ties to Rome, the Speaker of Parliament would be a Shiite, a Muslim sect on the verge of becoming the leading Muslim sect in Lebanon, and the Prime Ministry would belong to a Sunni Muslim. Before the Taef Accords that sealed the civil war in Lebanon (1975–1990), political power was concentrated in the hands of the President who traditionally was a Maronite Christian. With the Taef Accords, most of his powers were devolved to the Council of Ministers, and *de facto* to the Sunni Prime Minister. This 'arrangement' does not suit other sects who feel marginalized because their numbers do not carry the same weight as the three leading sects. Before Lebanon's independence in 1943, the Maronite Christians were believed to be the majority and were favoured by the French High Commissioner who had all powers. The latter were transferred to the President at independence, raising the ire of the coalition of Muslim sects. Lebanon's civil war was among other things caused by the increasing vocal calls for political reform and a better redistribution of political powers with the Maronites adamantly objecting to such reforms. Political heads would be most of the time warlords (Parliament, Presidency) or merchants (Prime Ministry[9]). Other political positions would be given to an assortment of warlords and merchants. Former Prime Minister al-Ḥoṣṣ has described such arrangement as the epitome of corruption.[10]

The political system in Lebanon benefited from the support of regional powers, namely Syria in the first place and Saudi Arabia, as well as the support of the international community, namely France and the United States. This clearly supports the thesis of this paper that factionalism leads to dependency toward foreign powers and thus significantly limits sovereignty and independence.

The system as indicated above is deemed to be the epitome of corruption. Moreover, there was a systematic diversion of public wealth to a restricted circle of cronies and key political figures through a policy of unbridled indebtedness. Former Minister of Finance Georges Corm did expose the mechanism and the amounts diverted to private interests by the issuing of short-term notes at very large interest rates.[11] The banking sector was more than happy to 'invest' in sovereign debt and earn unjustified interest. Today, Lebanon is plagued with a debt nearing US$50 billion equivalent, of which only US$4 billion constitute the principal and the rest would be the borrowing incurred to service the debt. It is pure and simple highway robbery and the banking sector is currently holding the largest segment of such debt. It does also illustrate how public funds are perceived as booty for the taking. Wealth in Lebanon is generated by such transactions, deals and commissions, at the expense of the productive economy. There are many other examples of corruption prevailing in the present political system that will not be detailed for lack of space. Suffice to mention the various funds established to promote either development or respond to certain needs such the Fund for Displaced Persons, controlled by one warlord, the Fund for the South controlled by another warlord, the High Council for Relief controlled by members of the merchant class, and finally the Council for Reconstruction and Development also controlled by the latter (AACO 2009).

Conclusion

There are several conclusions to be drawn from this broad review of the political economy of rent in Arab countries. First, rent is the main source of wealth in Arab countries. Despite having large resources, Arab countries have not been able or willing to use such resources to establish a production-based economy. The cultural dimension of rent generation and its impact on personal and social behaviour does not lead to a culture promoting effort and risk-taking. Hence, the issue of accountability and responsibility is not in the minds of decision-makers or the public. Rent and/or booty have deep roots going back far into history. The attitude toward public funds or the Other's efforts is that it is there to be taken without really producing any real effort that will lead to the creation of wealth.

Second, the political structure of Arab countries is based upon various forms of factionalism. Factionalism and rent-generated wealth seem to go hand in hand and reinforce each other. Again, accountability and responsibility seem to be absent from the collective ethos.

Third, the organic relations between the rent-based economy and the factionalist political system seem to foster the development of corruption as a tool for perpetuating the system.

No political and economic reform will succeed if there is no will to transform the factionalist-based political system into a participative system involving all segments of society and the rent-based economy into a production-based one where accountability and responsibility would sanction performance.

Notes

1. From the private files of the writer who during the 1990s was an investment officer at the International Financial Corporation.
2. There is a fascinating piece in *Harper's* magazine about oil 'fixers', a breed of middlemen who get things 'done' through the web of their contacts. The story of Ely Calil and his conclusion that intermediation beats the hell out of crushing peanuts illustrates the point all along in this study that 'rent' as a return to an input without the use of particular effort except knowledge of contacts (see http://harpers.org/archive/2009/03/0082414).
3. The House of Sufian, a leading clan of the Quraysh tribe, managed to have one of the 'Guided Caliphs' accede to power and later establish a dynasty, the Umayyads, who ruled the Arab Islamic world for a century, and Spain for almost seven centuries.
4. The al-Manakh financial collapse in Kuwait in 1982–1983 and more recently in Saudi Arabia and Gulf States in 2006–2007.
5. Symposium sponsored by the Arab Anticorruption Organization and the Westminster Fund for Democracy held in Beirut, 24–25 April 2009. Papers submitted will be soon published with an English executive summary.
6. In particular, papers related to Lebanon, Jordan, Egypt, Morocco, and Yemen.
7. The authors enumerate the various cases exposed leading to the resignations of government and public officials.
8. References are taken from the Arabic version of this book titled *Warlords and Merchants of the Temple* (Dār al-Nahār, 2007).
9. One exception to the rule is the short tenure (1998–2000) of Dr Salīm al-Ḥoṣṣ a former economics professor and central banker.
10. Private discussion with Prime Minister al-Ḥoṣṣ.
11. Lecture delivered at the American University of Beirut, May 2007.

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