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Rentier State Theory 50 years on: new developments

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As Rentier State Theory (RST) has recently passed the half-century mark, it is clear that rentier states have changed dramatically during that time. The article discusses three recent developments in RST scholarship in recent years. First, the theory has evolved a great deal in order to survive. Second, scholars have incorporated a greater degree of dynamism into state behavior. Finally, there have been attempts to explain how and when RST may cease to exist in its current form.

KEYWORDS

Rentier State Theory, Gulf states, modernization, Saudi Arabia, Qatar, United Arab Emirates

Introduction

Theories must evolve in order to maintain their power to explain contemporary phenomena. Rentier State Theory (RST) was created just over a half-century ago, mainly to explain why certain developing states remained authoritarian rather than turning to democratic forms of government. Since that time, however, the political and economic features of certain states that it was developed to explain have changed dramatically. RST has undergone a significant degree of modification during the past half-century in order to account for the changing behavior of resource-rich countries. It is still very much alive and is frequently used in academic discourse to discuss the current state of a number of resource-rich countries. But is RST still necessary, and if so, for what purpose? At this point, it may be essential to rethink the current state of this now-venerable theory in order to offer insights into its explanatory or predictive utility.

The "rentier state" argument developed as an explanation for why democratization did not occur in certain polities. During the 1960s and 1970s, modernization theories of democratization came under fire because certain resource-rich states were not "evolving" in the manner this theory dictated that they should. In particular, the political systems in such states appeared to be stagnant, as there were no movements toward democracy as in other modernizing states around the world (Ozyavuz and Schmid, 2015, p. 4). RST originated in the early 1970s, first to explain the case of Iran (Mahdavy, 1970) and later the oil-producing monarchies of the Arabian Peninsula (Beblawi, 1987). A "rentier state" has the following characteristics, according to Puranen and Widenfalk (2007):

> First, only a small fraction of the population is directly involved in the creation of wealth. As a result, modern social organizations associated with productive activities have been developed only to a limited extent. Second, the work-reward nexus is no longer the central feature of economic transaction, where wealth is the end result of the individual's involvement in a long, risky, and organized production process. Wealth is rather accidental, a windfall gain, or situational, where citizenship becomes a source of economic benefit (161).

Because of this unconventional disconnect between wealth creation and those who work to create it, under RST, the state used "external rents" to create artificial employment opportunities and handouts to citizens to gain support or legitimacy, resulting in political stability. This exchange of rents for legitimacy arguably represented a social contract between the state and its citizens in which citizens exchange their loyalty for economic benefits (Toledo, 2013, p. 44).

However, this arrangement was not without its problems, as the provision of rents by the state ostensibly discouraged citizens from taking an active role in economic and political life (Beblawi, 1987). In short, rentier states were characterized by economic and political inertia. Ross (2011) argues that there were three explanations for this inertia: the "rentier effect," where low or no taxation bought off the population and gained the public's political acquiescence or toleration; the "repression effect," where the wealth from rents helped the state to purchase repressive state apparatuses and institutions and to keep democratization pressures at bay; and the "modernization effect," where rents caused or enhanced socio-political stagnation or underdevelopment and, again, prevented democratic impulses from taking root (332).

While the primary *raison d'etre* for how and why rentier states operate may not have changed over the past half-century, there have been several theoretical developments that illustrate that this theory has been far from stagnant.

In this manuscript, I examine three directions RST has taken in recent years and discuss their significance. I conclude with a brief discussion of what RST's future may be.

Development 1: RST theory has evolved in order to survive

RST has not just survived for more than half a century. It has thrived, even as its intellectual parent, modernization theory, has fallen into disrepair. Gray (2011) divides the theory's evolution into three broad eras, beginning with the "classical" rentier state and evolving through a series of permutations. "Classical" rentier states, starting in the 1970s and 1980s, were purported to focus on the "allocation" of rents derived from external sources into the domestic economy (50). Through the allocation of rents, demands by the public for political change are essentially "bought off." Likewise, these states had little economic dynamism because there was no need for "non-rent development" (ibid, 51).

Gray (2011) characterizes what he terms the arrival of the "Second Phase" as an era (circa the 1990s) during which RST branched out into a/"several distinct sub-bodies," each of which applies to specific types of rentier states or certain states with specific economic or political characteristics. These "specialized" or "conditional" varieties of RST added a degree of nuance to what Gray argues was previously an "unsophisticated and unsatisfactory" body of literature (9). In particular, Gray argues, the Second Phase of RST was developed to provide nuance that might help more open, more diverse cities in the Gulf, such as Dubai. Moreover, the Second Phase approaches brought in domestic political factors that were ignored by the original RST work, such as interest groups, class interests, and "other political pressures" (ibid, 9).

Currently, much of the literature is centered on the concept of "late rentierism." It is most commonly applied to energy-rich Gulf states such as Qatar, Saudi Arabia, and the United Arab Emirates (Gray, 2011, p. 9). In sharp contrast to the classical rentier state model, "late rentier states" operate under the premise that their economies must be focused on being friendly to external capital. This means they must be seen as relatively non-bureaucratic, business-friendly, transparent, etc., to attract foreign direct investment, trade, and tourism.

In short, late rentierism recognizes that certain rentier states can respond to market imperatives such as efficiency to a much greater degree than traditional rentier states do. At the same time, late rentier states remain "responsive but undemocratic" (ibid, 11). This has led to such developments as governments becoming more responsive to basic societal needs and creating a number of pluralistic measures such as weak legislatures and municipal bodies, along with efforts to appear more consultative—despite the failure to allow for any openings for challenges to the political elites. As Hertog (2019) states, "We may be witnessing the top-down imposition of a new social contract featuring increased regime flexibility in social policy, implemented under a heightened level of repression" (24). Ross (2011) argues that while Gulf rentier states are responsive to the global economy and the demands of their citizens, this should not be interpreted as suggesting that such states should be expected to become more democratic (19). Abouzzouhour (2020) posits that while broader reforms might be likely elsewhere in the Arab World, the "super monarchies" of the Gulf will continue to have "more restrictive" political systems for two reasons. First, they can continue to provide citizens with "material perks in a way that poorer monarchies cannot." While the author does not discuss what these perks would be, they would include a range of benefits such as new jobs, cash handouts, and subsidies. In addition, they have weaker civil society groups than countries elsewhere in the region, which means that harsh repressive measures are more likely.

RST has also evolved in terms of the questions it asks. While its primary focus was on how rentier states manage to avoid democratizing pressures while maintaining stability, other researchers have focused on outcomes beyond democracy. For instance, Jang and Smith (2021) empirically assess the role oil plays in the propensity of petro-states to go to war, concluding that societies dependent on this resource are not more likely to go to war than other types of states.

And Abulof (2015) attempts to tease out the differences between those rentier states that have remained stable and those that have experienced instability. One of the author's principal observations is that the aforementioned social contracts between these states and their citizens are "materially contingent and morally frail." Therefore, we must focus not only on material sources of legitimacy (source, variability, and size of rent), but we should work to understand the role of moral forms of legitimacy if we wish to better understand why many rentier states are unstable.

Development 2: RST has incorporated a greater degree of dynamism into rentier state behavior

A second significant development in recent RST research is that theorists have incorporated a considerable degree of dynamism into what was initially a static view of regime behavior. In the earlier conceptualization of RST, states had little to do except to curate the clientelistic relationship with their citizens to ensure compliance or to use their wealth to punish domestic opposition or dissent, if necessary. Over time, however, RST has incorporated adaptive, strategic behavior by RST governments.

As has always been the case, rentier states can use rents from hydrocarbons to buy complacency from their citizens through jobs, subsidies, and transfers. However, in recent years other ways to use the wealth to boost their legitimacy and political interests. In recent years, Gulf states are increasingly attempting to raise their status through "nation-branding" efforts (Samuel-Azran, 2020). In the past few years, we have seen an explosion of cultural, sports, and entertainment events in the Gulf, including such big-ticket affairs as Expo 2020 (the UAE), The 2022 World Cup (Qatar), and the LIV Golf Series (Saudi Arabia). These efforts are designed to improve each country's reputation at home and abroad and build a brand that can encourage investment and enhance the country's reputation as a destination for tourism and business. The benefits are not merely economic, however. States are leveraging their business and cultural standing into greater soft power. As someone who has lived in a Gulf state for the last 6 years, I am confident that the citizenry in the Gulf is very aware of this push for soft power and that they are enthusiastic about these efforts to be seen more favorably by the outside world. In a sense, external legitimacy can contribute to internal legitimacy.

However, while RST has expanded to include new forms of state behavior in the Gulf states, this does not mean that all states behave uniformly. Kuwait, for instance, cleaves much more closely to a traditional rentier state than Saudi Arabia, Qatar, or the UAE, which have added numerous wrinkles to the early rentier state model. But none of the Gulf states has static interactions between the state and its people in the manner traditional RST would suggest.

Development 3: predicting what is at "the end of the tunnel"

How RST theory will ultimately play out appears to be inextricably tied to how (or perhaps *whether*) rentier state polities will cease to exist in their current forms. They can develop new ways to enhance their stability beyond the original method of buying off citizen compliance through rents. However, social systems inevitably change. Whether rentier states will end or keep evolving is subject to debate.

While there has been little explicit theorization about how RST may end, two possible outcomes appear in the literature. The first is a "happy ending" scenario, where the state manages to work its way out of its resource dependence through some combination of modernization and diversification. Yamada (2020) suggests that oil-rich states may find it necessary to replace their "clientelistic" institutions with "meritocratic" ones, thus removing vested interests from "major fiscal and organizational spaces" (35). In short, institutional arrangements may change if and when those with "vested interests" in the system agree to undergo painful structural changes in return for improvements in production (33). What will happen when this economic transformation occurs is unknown. If it does, current rentier states would presumably begin to resemble the modern industrial states of the West more closely.

In the end, rentier states may wind down due to "modernizing" their economic means of production, thereby losing their dependence on the resource as a means for keeping their citizens happy. However, there are no signs of this scenario occurring anywhere.

A significant problem with the "happy ending" scenario is that there is no clear picture of what would happen politically. As the social contract between citizens and the state changes from a clientelistic one to one where the state's role is to manage the economy and be more of a neutral arbiter rather than a patron of economic actors, would that result in political changes? As western states liberalized economically, their political systems liberalized as well. But would that same scenario replicate itself in the case of resource-rich rentier states? That question is hard to answer. As for the Gulf states, while they have endorsed becoming more economically diversified and adopted some quite limited forms of participation, in the end, they have doubled down on rentierism since the Arab Spring rather than making genuine attempts to ratchet it down.

The second possibility, on the other hand, is the "unhappy ending." Under this scenario, rentier states may ultimately experience failure as they find themselves unable to sustain the burden of "rampant rent-seeking." there is no shortage of those pronouncing its ultimate doom. I have not read any theoretical argument that foresees this ignominious ending to energy-rich rentier states. However, two real-world examples of rentier states have gone wrong in the academic literature.

Schwarz (2008) outlines how Iraq has moved from a rentier state to a failed state. First, it fought a costly, sustained war with Iran that overstretched state capacity. Second, it suffered through an "ensuing fiscal crisis [that] led to a further weakening of the state" and pushed the state to aggressively expand its oil reserves. This ultimately resulted in the attempted annexation of Kuwait. Finally, the resulting U.S.-led military intervention in 1991 and subsequent sanctions against Iraq crippled Iraq's economy, forcing the Hussein government to "re-create new forms of legitimacy by resorting to Iraqi nationalism based on tribal affinities and Islamic religion." The "bellicose" that resulted from this discourse led, in part, to violent regime change and economic collapse in 2003.

Lander (2017) offers a second example of a "failed" petro-state, Venezuela. As oil prices nose-dived during the 2013–2016 period, the country, the state expanded its scope over the country's economy, leading to a bigger, less efficient economy. The problem was exacerbated by the fact that during the "years of plenty," the country not only spent its revenue but also racked up massive debt. The result was high inflation, malnourishment, and shortages of medicine and other necessities. Overall, the country has failed to adjust to declining oil revenues, and the high degree of corruption means that the distribution system for delivering goods and services has deteriorated significantly. In short, the rentier state model is broken.

In both cases, the countries became increasingly dependent on oil income over time, not less. The result was, as Schwarz (2008) argues, that "oil rents [served] as an obstacle to the formation of strong and legitimate states, since stability rests on an implicit social contract through which consent is bought via welfare provisioning." It may be unclear what "failure" might mean exactly. But it would likely involve some combination of dependency on donor nations, economic shortages, high levels of inefficiency and corruption, and, to some degree, the collapse of the state.

While each of the two scenarios appears to be relatively straightforward from an economic perspective, there is little explicit theorization of how rentier states may end in political terms. Ideally, the political result of the "happy ending" scenario would lead the country on a path toward participatory democracy. But what would the actual political changes look like, and what sort of new social contract might emerge? The answers to these questions are not clear.

Discussion

While there is not a clear picture of precisely what the future holds for rentier states or RST, a careful review of much literature over the past decade appears to have reached a consensus of sorts:

> The growing sophistication of economic strategies and mechanisms of political and social interaction between governments and citizens in the Arab states of the Gulf today paints an infinitely more nuanced picture than the previous caricature...the pursuit of a sustainable rentier growth model has become a general goal for the region within the context of advanced globalization (Ozyavuz and Schmid, 2015, p. 27).

There appears to be a relatively strong consensus among scholars that rentier states must make structural economic adjustments to survive. For their part, leaders of oil-rich rentier states echo these calls for change by announcing a seemingly endless string of economic reforms. However, as Faudot (2019) points out, it is impossible for these countries to move from rentier states toward more productive economies without taking some intermediate steps, such as "increasing the role of the private sector in the economy and [creating] high value-added industries," as well as cutting subsidies and reducing consumption patterns (14). The problem is that wealthy Gulf states are not making sufficient progress in this area. One of the primary reasons is that these governments have not yet figured out a way to "create the economic conditions for diversification without endangering the political context" (ibid). Thus, they are, for the most part, stuck in the same clientelistic relationships with their citizens that they have been in for decades. While nearly every expert claims adjustments must occur, we have not yet observed a serious effort from Gulf states to take potentially painful and destabilizing steps in this direction.

The possibility of democratic change appears to be even more remote than it had previously. The region's rulers appear to have made an all-in bet that they will be insulated from pressures for more popular participation that autocratic governments face elsewhere in the world. Hasan (2022) argues:

> The "rentier" economic system created outcome-focused "democracies" and sovereign wealth funds with positive spill-over effects in the region (now and in future) are likely to shield the [GCC Countries] from facing any demand (from within or outside the borders) for the introduction of "democracy as a process", any time soon. The rentier state sees democracy as outcome (of the people, by the people, for the people) rather than as process-based democratization. This will retard what has happened elsewhere. But not forever (13).

In short, the long-term picture of what forms of economic and political change are likely to occur in the region is extremely murky. There will likely be more alterations to Rentier State Theory before it has outlived its usefulness.

Author contributions

The author confirms being the sole contributor of this work and has approved it for publication.

Conflict of interest

The author declares that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

Publisher's note

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