Rentier state rents

What do you understand by the term ‘ the rentier state’? How useful is this concept in explaining the politics of the oil-producing states of the Arabian Peninsula? Discuss with reference to TWO or more states.

Rents have been defined as “ the income derived from the gift of nature” and are thus usually understood to be income accrued from the export of natural resources, especially oil and gas. Moreover, foreign development and military assistance which are termed as ‘ strategic rents’ are considered external rents and may be conceived of as a form of foreign-aid payments. In addition, a natural resource in a state tends to generate what is called a ‘ rentier state.’ In other words, a state that receives substantial rents from foreign individuals, concerns or governments. It is believed that the governments which obtain adequate income through oil do not have a need to tax either heavily or at all causing the public to have little demand for representation from the government; this is known as ‘ the rentier effect.’

The rentier effect in the Arab world concerns both oil-exporting states and non-oil exporting states. A significant extent of the rents of the oil states has been recycled to all Arab states through migrant workers’ remittances, transit fees and aid. Beblawi highlighted the region-wide effect of rentierism by saying, “ Arab oil states have played a major role in propagating a new pattern of behaviour, i. e. Rentier behaviour.” The aim of this essay is to discuss the term ‘ rentier state’ and elaborate on how useful the concept is in explaining the politics of oil producing Arab states.

The rentier state theory originally developed in relation to Iran’s mid-20 th century economy. The west became involved with Iran’s oil in the following way. Germany invaded its former ally, the Soviet Union in 1941, which quickly re-allied with Great Britain. The British and the Soviets then occupied Iran, fearful that its leader, Reza Shah, would align its oil-rich country with Germany. The Shah's son, Mohammed Reza, came to the throne and Iran became the major conduit for British and later American aid to the USSR in what came to be known as the " Persian Corridor."

In 1953, the Shah was forced to flee Iran by Mohammed Mossadegh, the nation's prime minister and " godfather of populist petroleum politics." After negotiations for higher oil royalties failed in 1951, the Iranian parliament, led by Mossadegh, voted to nationalize Iran's oil industry and replace the British-owned and -operated Anglo-Iranian Oil Company with the National Iranian Oil Company.

Hussein Mahdavy, the first economist who popularized rentier state theory, believed that the period between 1951-1956 represented a significant milestone in the economic history of the Middle East. As a result of petroleum development, substantial amount of foreign currency flooded into the state treasuries, Mahdavy argues that this has turned some oil-producing countries into rentier states. For example, Kuwait, Qatar, and Saudi Arabia are extreme examples of the trend. In addition, the case of Iran, given its size and potential, was very important to Mahdavy.

The author of The Rentier State in the Arab World, Hazem Beblawi, has suggested four characteristics that would determine whether a state is identified as " rentier." First, rent situation must prevail to the point that it concludes that there really is no such thing as a pure rentier economy.

Second, the rent must approach from outside the country. Third, in a rentier state, only few members are engaged in the generation of rent, while others are concerned with its consumption and distribution. Finally, the government is the sole recipient of the external rent.

Beblawi argues that a ‘ rentier mentality’ has developed while political scientist Fareed Zakaria has pointed out that such states fail to develop politically because of the absence in taxes. Mahdavy argues that because in these states there is very little production, there is relatively little to tax. Subsequently, citizens have less incentive to place pressure on the government to become responsive to their needs. Alternatively, the government ‘ bribes’ the citizens with widespread social welfare programmes. In addition, because the control of rent-producing resources is concentrated in the hands of the authorities, Beblawi concludes that this provides an explanation for the presence of authoritarian regimes in these resource rich countries.

According to Yates, author of The Rentier State in Africa, in theory there is no reason for a rentier class to promote democratic reform. Such countries are only interested in the *status quo* and are independent financially from such democratic demands. Yates concludes that this explains their reluctance to engage in fiscal policy, for example, tax policy. In the words of Noah Feldman, there is, “ No fiscal connection between the government and the people. The government has only to keep its people in line so that they do not overthrow it and start collecting the oil rents themselves.” Rentier states that would engage in fiscal policy will not only be unpopular, but would threaten the security of their status within the structure that’s dependant on external rents. It is solely for these reasons Beblawi concludes that direct redistribution of oil rents will not necessarily contribute to democracy, but in fact will " stultify it."

The fundamental nature of oil has led to non-oil states to behave like rentier states. This applies to the region as a whole. For example, some states like Qatar and Bahrain, take advantage of their strategic location for military bases. Moreover, because oil states try to ensure stability for their rent by buying allegiance from neighbouring countries, therefore sharing the rent, relations in the region has been affected. Beblawi strongly mentions the case of Egypt, where receipt of financial aid from oil rich countries has declined due to Camp David, and instead Syria, Iraq, and the PLO have started to benefit.

The question is, can the situation change? Mahdavy suggests that the solution to the problem of a rentier state is less than government expidenture. In addition, he believes that meaningful change will not come from above, but from below. In other words, a revolution. Yates concludes that, " elites previously preoccupied with consuming the national wealth must now find ways of consuming it, and if the ideas of the whole society, whence and whither this new nations income."

In conclusion, rentier states are states whose main income depends on rents, revenue that a government receives devoid of doing much work. It is believed that a state that depends on rent is harder to become democratic. Due to the governments large income it can easily buy off the citizens and use its money to stop the formation of social groups. Many of the Middle East states depend heavily on oil exports, which enhance the control of the state bureaucracy. It is believed that the formation of social capital, civic institutions that lie above the family and below the state, tend to promote more democratic governance. Scholars have suggested that the oil wealth has impeded the formation of social capital and hence blocked a transition to democracy.

Politically, governments that fund themselves through oil revenues and have larger budgets are more likely to be authoritarian, this is known as the repression effect; governments that fund themselves through taxes and are relatively small are more likely to become democratic. Mineral wealth if located in a region populated by an ethnic or religious minority may promote or aggravate ethnic tension, as federal, regional, and local actors compete for mineral rights.

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