# Rentier State

The concept of rentier state was developed in connection with states whose revenue is derived primarily from the rest of the world rather than from domestic sources. The foremost case is states in countries that are significant exporters of minerals, where the mineral rent is captured directly by the state. Other potential sources of rent are control of strategic waterways (e.g., the Suez or Panama canals); state control of activities that are restricted or prohibited elsewhere (gambling, cultivation of drug crops); or geostrategic position, whereby other states feel compelled to support the state in question with regular unrequited payments (including development aid).

A state having access to revenue accruing from abroad may not need to tax the domestic economy at all, or less so than would otherwise be the case. The key function of such a state becomes distribution of the rent through direct expenditure: employment, monetary transfers, or provision of free or subsidized goods and services.

The balance of relations between the state and society then depends on the productivity of the domestic economy. In countries where the economy is large and diversified even before the flow of rent starts accruing from abroad, the impact on state–society relations will be limited: The state is unlikely to dismantle the existing fiscal system, and institutions will be impacted minimally. In contrast, in small and poor states, where the rent accruing from abroad becomes by far the most important source of revenue not just for the state but also for a majority of citizens—either directly, through state employment, or indirectly, through economic activities catering to the needs of the state and its employees—society is economically dependent on support from the state, rather than the state being economically dependent on support from society.

Such a situation reinforces the position of the state vis-à-vis society. The state will be more autonomous, although never completely so, because no state can be totally indifferent to prevailing opinions in society. Demands for accountability and participation in decision making or even democratic rule will be substantially weakened (in history, the need to tax has frequently been at the origin of demand for democracy: no taxation without representation). And political power will tend to coincide with economic power (proximity to political power becomes the main or sole avenue to enrichment).

The inflow of rent from abroad does not determine the institutional form of the state but reinforces preexisting forms. Thus, if a state is a democracy before rent becomes important, it will remain a democracy (e.g., Norway); but if the state is authoritarian, it will be consolidated as such, and chances for democratization will diminish. That said, we have examples of rentier states that have oscillated between authoritarianism and democracy, such as Nigeria.

Different forms of authoritarianism may lead to different developmental outcomes in rentier states: An authoritarian republic is generally characterized by a shorter term outlook than a patrimonial monarchy and may deliver worse results in terms of economic development and sustainability. The personality of the ruler or the ability of ruling families to select their more competent members to become rulers are in any case of fundamental importance in shaping the outcome.

A rentier state enjoys greater freedom in deciding how to allocate resources than a state that must depend on taxation. The degree of freedom depends on the size of the rent relative to the size of the national population and requirements of the same. Thus we may have extreme rentiers, such as Brunei, Qatar, and others; or marginal rentiers, such as Indonesia or Egypt. With extreme rentiers, the process of circulating the rent through government expenditure is likely to attract large numbers of expatriate workers, leading to a specific stratification of society, in which nationals are found only in certain jobs, while expatriates monopolize all blue-collar or otherwise inferior jobs.

In such contexts, nationality becomes an economic asset and access to it is jealously guarded. Expatriates, who account for upward of 80% of the total resident population in countries like the UAE or Qatar, have limited rights—although some belong to the economic or professional elite and will have access to the power holders. The vast majority are confined to inferior living conditions, although it remains true that they accept the bargain on offer mostly of their own will, and, notwithstanding the very low wages, can still achieve some savings to the benefits of families and relatives in their country of origin.

Political dynamics in rentier states are profoundly influenced by this state of affairs. Political or labor formations based on economic or class conditions are either banned or in any case weak because of the difficulty of mobilizing expatriates from different national backgrounds, while nationals have little interest in pursuing an agenda that may turn against them. For nationals, individual or family positioning to maximize access to the rent circuits is much more promising than political action to modify those circuits. Hence the expectation that in rentier states society will be largely depoliticized.

Rent circulation is not expected to be egalitarian, but extreme instances of inequality will be viewed as morally unacceptable. Hence, the language of opposition is likely to be articulated on grounds of justice or religion, all the more so where the boundaries between religion and politics are blurred or non-existent. Ruling elites are expected to be generous and just, thus accepting the subordinate position of society to the state. Rulers who are widely perceived as unjust or greedy may face revolts, but opposition is unlikely to articulate alternative economic policies.

If the rent circuits are not sufficiently inclusive and well-defined segments of the national population are excluded or marginalized, sectarian, tribal, or regional identities may support opposition or even revolt, which is however normally not capable of turning into a national political movement. Thus separatism is a possibility (from Biafra to South Sudan, Cyrenaica, or the Kurdish region of Iraq), although the rent also affords the central government the tools to reintegrate the marginalized segments of society, if a will to do so prevails.

Access to rent accruing from abroad is likely to be a temporary phenomenon if based on depletable resources. Rentier states, therefore, face the dilemma of their eventual transformation, beginning from diversification of their economies and progressive introduction of taxation. This process may disrupt existing equilibria and hurt the interests of influential actors in society. Arguably one reason for the demise of the Iranian monarchy was its bold push toward economic transformation and disregard for society's traditional elites. Arab Gulf rulers have been much more cautious in taking on traditional social formations, resulting in sometimes schizophrenic policies and increased polarization in society. Finally, some rentier states may also attempt to transform their mineral into financial wealth through accumulation of sovereign wealth funds, thus acquiring perennial access to rents accruing from abroad.

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***See also*** Political Participation; Rent-Seeking Behavior; State Development; Totalitarianism

## Further Readings

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