Rents, Reform, and Authoritarianism in the Middle East*

OLIVER SCHLUMBERGER

Introduction

That »oil hinders democracy« (Ross 2001) has become almost proverbial, and the Middle East and North Africa (MENA) seems to support this assumption and argument perfectly: It represents, first, the world’s most abundant reservoir of exportable mineral resources (oil and natural gas), and it is, second, the only world region that has not, over the past three decades, experienced systemic political transitions to democracy. However, real world relations between international rent income as generated by oil and gas exports on the one hand and the type of political regime on the other are more complex than this; even a very casual international comparison demonstrates the validity of two empirical observations:

a) high levels of rent income do not usually destroy existing democracies – that is, high levels of rent income are not sufficient to explain authoritarianism (Venezuela, Norway);

b) high levels of rent income do not per se exclude the emergence of political transitions to democracy (Mexico).

Given the topic, the key questions dealt with here with regard to the Arab region are therefore:

1. How does the social and political context in Arab countries influence the impact of rent income? Or, from another perspective: How does the existence of rents and rent-seeking influence the mode of governance?

2. Has rent-seeking been a determinant of economic and political development? How does the existence of significant rent income impact on economic reform and performance?

While it seems impossible to answer both questions in a short contribution, it should be possible at least to address, albeit cautiously, the inter-
relationship between rents, rent seeking, and the prospects for economic and political transformation to a market economy and democratic governance. Addressing such a broad topic with regard to a region that comprises more than 20 countries necessarily results in broad and sweeping claims that emphasize commonalities among the countries of the MENA region rather than their differences. Country specialists will argue for the uniqueness of individual cases and protest against such broad statements. However, I believe that as regards structures of governance and the results of economic reform, the similarities within the region are not only obvious, but also more relevant in the present context than the differences, and that they justify such generalizations. Also, it makes sense for purposes of comparison to contrast the region as a whole to other cases where rent income has led to qualitatively different outcomes.

With a view to outlining possible answers to the above questions, we present a short overview of the recent history of Middle Eastern political economy that should help us to understand the processes of economic reform, as well as the key challenges for political transformation. In the final section, we draw some broad conclusions about the prospects of the market economy and democracy in the Middle East and North Africa.

**Political Petrolism, its Erosion, and Structural Adjustment: The Road to Economic Transformation**

Usually, economists have intra-societal patterns of behavior in mind when they speak about »rent seeking,« analogous to Anne Krueger’s famous »rent-seeking society« (Krueger 1974), as well as the economic phenomena (Dutch disease) that may accompany the inflow of large amounts of external rent into an economy. All these are captured by the term »resource curse« and the relevant literature.

Political regimes, however, sometimes display in their foreign policy similar patterns of behavior at international level to societal rent seekers within national economies (see Pawelka 1994). In the Middle East, political regimes have often survived in recent decades due to two factors which can both be considered international rents, at least as regards their effects on the domestic polity and economy: the influx of revenues from the export of oil and gas (differential rents); the influx of aid money and other forms of financial support (rent equivalents).
For Arab countries, the literature talks about a regional system of »petrolism« from around 1973/1974 onwards (see Korany 1986). Petrolism is characterized not only by high levels of rent income for the major oil-producing countries, but also by an intra-regional transfer of oil revenues to economies with little or no mineral resources to exploit, and, in the opposite direction, by an export of labor to the less densely populated oil-rich countries, mainly in the Gulf, where wages are considerably higher. This has not only eased the situation on the labor markets of the relatively resource-poor Arab countries, but has also enabled them, like the ideal-type oil rentiers in the Gulf, to provide free health and education schemes, extend job guarantees to high-school and university graduates in ever-expanding public administrations and public enterprises, and to heavily subsidize a broad range of consumer goods.

Today, this regional sub-system has largely been eroded. Since oil prices peaked in real terms between 1981 and the late 1990s, they have never again reached the levels attained during the early 1970s. Instead, they fell steadily until the end of the 1990s. Consequently, income from oil and gas exports dwindled and, as a result, so did the transfers from oil-rich to oil-poor countries within the region. Second, the end of the Cold War marked a critical development, particularly for the resource-poor countries of the region. They had benefited from global constellations in the international system, exploiting the bi-polar world order to obtain massive military and development aid from their respective super-power allies. The end of the Cold War, however, dried up this important source of rent equivalents for the oil-poor countries of the MENA region and thus aggravated the already imminent fiscal crises of the non-oil states, which soon widened into financial crises of the state.

Of course, the oil-rich economies of the Persian Gulf were directly hit by the continuous decline in world oil prices. Yet, for most of them, a few years of austerity and tighter fiscal policies than during the 1970s and 1980s were sufficient to ensure economic survival; their resources were still abundant enough to avoid serious economic threat. Cutting transfers to resource-poor Arab sister countries helped them to stabilize economically. Oil rentiers instigated several measures to diversify their economies in order to shift away from the near total dependence on oil revenues, albeit with only limited success in many cases. (I shall briefly return to the Arab oil economies in the concluding section.)

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The more interesting cases in the present context, however, are the resource-poor states which represent the majority of Arab countries. Faced with the erosion of the petrolist system, their initial search was for alternative sources of international revenues in order to avoid extracting more resources from domestic society. Large parts of the latter had become accustomed to low tax levels and to the aforementioned high welfare benefits provided to society at large during the 1970s and 1980s. These features of what could be called the »oriental welfare state« are important from an economic perspective, but above all politically.

Given the absence of meaningful participation and democratic legitimacy, these welfare services to the local population can be seen as the single most important source of political legitimacy. In order to retain political power, incumbent regimes resorted to external borrowing on international capital markets when the regional system of political petrolism was eroded due to falling world oil prices. However, they soon accumulated unsustainable levels of external debt so that, for many of them, even debt servicing became impossible. The loss of international creditworthiness finally pushed the Arab governments of the semi-rentier states towards the Bretton Woods institutions as a last resort.

The Economic Transformation of Semi-Rentier States and the Political Logic of Economic Reform

Macroeconomic stabilization of this precarious situation during the late 1980s was, in all cases, achieved within a few years. However, the same cannot be said for the more ambitious goal of establishing market economies through structural adjustment programs (SAPs) which aimed at a more thorough transformation of these semi-rentier economies. Structural adjustment in Arab countries was implemented in accordance with much the same recipe as anywhere else in the world, namely the so-called »Washington Consensus« (Williamson 1990; 2000). Trade liberalization (involving reductions in customs and tariffs), the floating of exchange rates and interest rates, cuts in government spending, the privatization of state-owned enterprises in order to enhance efficiency and reduce the drain on national budgets due to the wages of an overstaffed public sec-

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2. Together, perhaps, with collectivist ideologies during the heyday of what was called »Arab Nationalism« and »Arab Socialism.«
tor, the introduction of new taxes (notably VAT), and more liberal investment laws in order to create a better business climate were among the key components of reform.

All these elements of structural adjustment pose – theoretically – an enormous threat to incumbent regimes, and on at least two levels. First, they reduce the revenues accruing directly to the political regimes (and this in addition to already diminished international rent inflows). Second, if implemented thoroughly, they are also likely to reduce the regime’s capacity for direct control of the economic process overall and economic outcomes in terms of the winners and losers of the reform process. In sum, these regimes’ autonomy from domestic society, one of the key features of rentier economies, seemed seriously threatened by the very nature of structural economic reforms. The design of SAPs thus also posed a considerable threat to incumbent regimes’.

Bearing this situation in mind, it is not surprising that the ruling elites embraced the prescribed reforms only very hesitantly. More importantly, reforms were, as a rule, actually implemented only as long as they did not threaten incumbent elites’ monopoly of political power. For example, Egypt agreed in 1993 negotiations with the IMF and the World Bank to privatize within one year at least one of the »Big Four« public banks which dominate the financial system. At the time of writing (2005), this had still not happened because the market-dominating public banks are a key element of the regime’s control over private entrepreneurs through the allocation (or withholding) of loans. Overall, the implementation of SAPs remained highly selective and partial. On the part of the regimes, it did not follow an economic logic of enhancing efficiency and productivity, but a political logic of regime maintenance that was enshrined as the top priority in economic policy. When faced with the choice between

3. Political power, of course, has been a category utterly absent from the thought of those neoliberal Western economists who advocate structural adjustment with the aim of establishing market economies.

4. For a long time, non-performing loans were extended not only (and not even primarily) to loss-making public entities, but also – and this weighs at least as heavy – to private businesses with close personal ties to the regime leadership. The total amount of such non-performing loans is not exactly known, but from individual cases of USD 700 million or more, it can be assumed with reasonable certainty that it is in the region of billions of American dollars (cf. Schlumberger 2004b: 117–22).

5. Compare, among others, Heydemann (1992) who stated more than a decade ago in relation to Syria what today is widely acknowledged.
suboptimal economic performance and power maintenance on the one hand, and sound (in the sense of market oriented) economic policies which would threaten the regime’s ability to control political and economic outcomes on the other, Arab leaders have repeatedly opted for the former. This is not a matter of debate, but an empirical reality.

What has been brought about through structural adjustment in the former Arab semi-rentier states is structurally altered economic orders. Seeking rents from a re-arranged set of state institutions, at least for the majority of individuals, has become a far less promising strategy than it used to be. However, the state – or rather the top regime elites – was the main allocator of rents for well over two decades. Societal expectations had been cultivated that governments were primarily responsible for the economic well-being of the individual, and it is only relatively recently that this has begun to change. Given the demographic structure of Arab countries, in which, on average, roughly two-thirds of the population are under thirty, most citizens have been brought up and socialized into this way of thinking. The dilemma is that after structural adjustment the state is far less able to live up to such societal expectations than it used to be, and therefore alternative visions (for example, Islamism) have become increasingly attractive to a largely disenchanted citizenry.

Due to these altered structures, the resource-poor Arab economies are today no longer adequately grasped as rentier economies at the economic level. However, they have not been transformed into market economies either. By contrast, they are characterized by their essential lack of key defining elements that guarantee the welfare benefits associated with market orders, such as openness of markets (including openness to the entry of new competitors), institutions that guarantee competition and prevent the emergence of monopolies and cartels, secure contract rights and property rights, equal access to information, or equitable application of the law. It is therefore not surprising that structural adjustment in the Arab world has not triggered the kind of economic performance that was hoped for by international actors, and which might have been achieved had market economies actually been established. It is precisely the »political logic of economic rationality« (Heydemann 1992) which accounts for the still wobbling performance of Arab economies. Externally induced economic reforms as implemented in semi-rentier Arab countries do not seem to have achieved any structurally and sustainably enhanced performance prospects, let alone a developmental take-off (see, for example, Henry and Springborg 2001; Schlumberger 2004b; 2005).
Nevertheless, from the regimes’ perspective, economic reform was a success because they were able to achieve their prime goal, namely the «consolidation of authoritarianism» (Camau 2005), the non-democratic consolidation of political power in the hands of the ruling elites in times of crisis and economic transformation.

So far, economic and social reforms have not been able to significantly alter rent-seeking structures at societal level; these structures still exist. Most notably, they exist within a largely dependent business stratum that is closely connected to regime elites who continue to maintain their own »networks of privilege« (Heydemann 2004). Thus, while the formal structures of the resource-poor Arab economies have indeed been transformed by structural adjustment, three important phenomena should be noted:

a) Although, in terms of the state’s revenue structure, the resource-poor Arab economies can no longer be described as rentier economies, societal patterns of rent-seeking have not essentially changed, except perhaps that they tend to lead to frustration when the state is no longer able to provide welfare for all.

b) The mode of governance, let alone types of political regime, has not been structurally altered. The regimes’ clientele has shifted toward big private business interests, but the underlying patronage-based patterns of socio-political relations remain.

c) Although rent income is not the most important source of revenues for the non-oil Middle Eastern states, it (together with income from rent equivalents) is still significant enough to maintain a certain room for maneuver for the regimes which other countries with similar per capita income levels do not enjoy. This is all the more true since oil prices have recently jumped in comparison to the 1990s, creating welcome windfall gains for incumbent regimes.

With this background in mind, we can examine some of the challenges facing the MENA region with regard to the interplay of economics and politics.

The Resilience of Arab Authoritarianism and the Challenges of Political Reform

If, in terms of external incentives for reform, the period from the mid-1980s to the mid-1990s was the decade of economic reforms, the late
1990s and the 2000s have focused more on political reform. Many have recognized that economic reforms implemented on the basis of the neoliberal »Washington Consensus,« with a somewhat »truncated« intellectual basis, were not in themselves able to bring about the establishment of market economies, let alone – as Western policymakers tended to believe against all empirical evidence – political transition.

However, today’s efforts towards political reform, as emphasized mainly by the current US administration, also face a wide range of challenges. In fact, over the past 15 years the average degree of fundamental political and civic liberties in the Arab region has not increased, indeed, it has even slightly decreased (cf. Schlumberger 2004: chapter 2). Five important factors explaining this remarkable resilience of authoritarianism and challenges to political reform shall be outlined here:

First, the specific type of non-democratic polity that prevails in the Arab world is the neopatrimonial regime. It is characterized mainly by four features which render it especially resistant to transformation and give it a long »life expectancy«: The political regime is largely closed off from societal forces which are strictly controlled and whose room for autonomous action is narrow and limited. At the same time, this type of regime is dynamic because, due to prevailing elite constellations, it can incorporate innovations and can flexibly adapt to changing circumstances and external incentives (Pawelka 1985: 22ff). Furthermore, it is characterized by integrated strategies of political legitimation among strategically important segments of society. Finally, it displays strongly paternalistic traits and, by being based on patronage and clientism, it delivers welfare benefits. As a result – and as Bratton and Vandewalle (1997) demonstrate on the example of African regimes – this regime type is more difficult to transform than other types of non-democratic regime. Basically, as these authors conclude, it seems transformable only through economic collapse.

Second, the prospect of economic collapse in the Middle East is not acute because rent income in the region is the highest in the world. Even the non-oil Arab economies still enjoy significant amounts of international revenues that can be characterized as rents or rent equivalents. Rent income cannot be reduced to oil or gas revenues, but its meaning has to be extended to include other international revenues which have similar political corollaries. The continuing existence of significant income of this kind enables incumbent regimes to maintain patronage-based neopatrimonial political systems. Recent developments in world oil prices
create new windfall gains that further strengthen current regimes’ ability to survive.

Third, the social fabric as a whole in all Arab countries is strongly patriarchal. Social interactions are organized in terms of asymmetric, vertical patron–client relations rather than a horizontal, class-based organization of societal interests. They are shaped by informal and personalized relations rather than by formal rules, and are determined by traditional loyalties. All this strongly resembles patterns of authority which simultaneously characterize the political sphere proper. It is worth remembering a long forgotten theory established by Harry Eckstein in the late 1960s. Eckstein’s theory of congruence, in a nutshell, argues that »a government will be stable if its authority pattern is congruent with the other authority patterns of the society of which it is part« (Eckstein 1992: 188; see also Eckstein and Gurr 1975). For this reason, we might assume that the simultaneous presence of patriarchal societies and neopatrimonial political regimes results in the increased durability of the regimes. The simultaneous presence of the three points outlined here are key to explaining the exceptional durability of Arab authoritarianism.

Fourth, regarding the realistic prospect of political transition in the Middle East, points one and two result in two conclusions: (a) An impetus for democratization from within Arab societies is unlikely to arise, let alone to succeed, because of the lack of opportunities for social forces to articulate and aggregate their interests autonomously of the regime, to organize them in the public sphere, and, finally, to challenge incumbents politically. (b) For an external impetus for democratization to be successful, external players would have to be absolutely determined to achieve systemic political change. Unless this happens, there seems little chance of achieving what is commonly called »good« governance in the Arab world. However, international donors are not absolutely determined. Rather,

6. Ted R. Gurr, in a subsequent study that provided the basis for the now famous pol-

ity database, was able to provide empirical support for Eckstein’s hypothesis, albeit indirectly (cf. Gurr 1974: 1502). The almost exclusive focus of development practitioners on the role and importance of actors in political change (for example, the permanent search for »change agents«) might make sense, but has led many to neglect the role of structural variables in explaining political stability and change. Actor-centered theories of political change as promoted by recent currents of transi-
tology must be said to have largely failed to provide convincing explanations for the durability of Arab authoritarianism – which is not surprising: after all, they aim at explaining political change, not stability or durability.
their agenda towards the region is characterized by competing policy objectives. For geo-strategic reasons, stability is an important goal precisely because of the region’s importance as a reservoir of oil and gas, and because of its geo-political importance for global security. This objective is fundamentally incompatible with democratization since systemic political change, by definition, includes the demise of a prior authoritarian regime and the re-negotiation of the basic rules of the political game, which would then be in flux. Such phases are always times of uncertainty and instability. Hence, political stability and democratization are mutually exclusive.

In the Algerian case, where the free and fair elections of 1990–1991 resulted in a victory for the Islamic Salvation Front (FIS), Western nations clearly demonstrated which one of these alternatives they preferred when they accepted the regime’s use of the army against political competitors, a step that resulted in a violent civil war that has afflicted the country for much of the last decade. As for the EU, Article 2 of the association agreements concluded with 15 Arab Mediterranean partner countries has never been applied. The US, for its part, currently articulates the opposition of stability versus democratization. However, the Bush administration, like its predecessors, continues to pamper Arab regimes, most notably Saudi Arabia and Egypt, with massive military and economic support (see, for example, Aarts 2006). The available evidence suggests a view that can easily be confirmed by talking off-the-record with Western decision-makers, namely that democratization is not at the top of Western policy priorities towards the MENA region (see also Brouwer 2000). In sum, it can thus be argued that international geo-strategic interests have effectively contributed to forestalling the emergence of more transparent, accountable, and participatory forms of governance in the Arab world.

Fifth, even if we assume for a moment that democratization is the top political priority for external actors, current strategies of democracy promotion suffer from serious conceptual flaws (for details, see Schlumberger 2006). For instance, no answer has been given, to the best of my knowledge, to the question of why, in inter-governmental negotiations for political reforms, autocratic partners should develop an interest in international cooperation to achieve an outcome (democracy) which, as I have explained, regimes wish to avoid, even at the cost of economic development, and which ranks lowest on their order of preferences.

7. This article contains a clause enabling the EU to sanction human rights violations by partner governments.
Equally important, the elements of what is currently being pursued under the umbrella of «good governance» projects and programs comprise a rather random collection of features identified as crucial in existing Western liberal democracies: Civil society should be supported, multi-party elections held, corruption combated, the independence of the judiciary strengthened, and so forth. This collection of elements is clearly based on a popular understanding of what makes up democracy. Thus, strategies of democracy promotion take the point of arrival as point of departure in that they are based on democratic theory rather than on democratization theory. Few have grasped this point more thoroughly than Thomas Carothers (2000: 224): »The core issue in trying to promote democracy in semi-authoritarian contexts is power, or more particularly, the strong concentration and entrenchment of power characteristic of semi-authoritarian regimes. The basic democracy transition model on which conventional democracy aid programmes have been built over the past ten years assumes that authoritarian power structures have already been broken up … But in semi-authoritarian countries power remains highly concentrated … Conventional forms of democracy aid are therefore problematic in semi-authoritarian contexts. Their basic purpose of helping redistribute power is thwarted by the fact that power is still locked in place.«

Regardless of the questionable term «semi-authoritarianism,» the point is that the political context of intervention is, again as a rule, little reflected in current democracy promotion strategies. The simple truth is that international cooperation has developed strategies to assist in ongoing processes of consolidating young and fragile democracies (institutional design, training and capacity building for democratic forces, and the like), but there is little knowledge about the elements (and their sequencing) of a possible strategy that might lead to the breakdown of authoritarian regimes.

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8. I would not only argue that Arab regimes are of a decidedly authoritarian nature, but also that »semi-authoritarian« is a barely developed and poorly defined ad hoc terminological invention that lacks analytical depth and should be avoided in the future (cf. Ottaway’s [2003] use of the term which suffers from similar weaknesses).
A final word is due on the core question raised in the introduction: Has rent seeking been the determining variable for economic and political development? My tentative answer is: Yes and no. Societal rent seeking in Middle Eastern countries is mainly a consequence of rent income acquired by the state. Not only is it compatible with other existing social structures and prevailing patterns of interaction – namely the prevalence of informal hierarchical, patron–client networks – but it reinforces them. The latter, in turn, play an important role in explaining the remarkable resilience of authoritarian rule in this region, especially since they are congruent with the patterns of authority that characterize the system of political rule itself. Rent seeking thus plays an indirect, but important role in sustaining the durability of authoritarian rule in Arab countries.

The question of how »context« – that is, mode of governance or regime type – influences the impact of rent income seems easier to answer. While rent income can be used in transparent, accountable, and democratic ways, as the Norwegian and other examples demonstrate, oil-rich and oil-poor countries alike in the Middle East show that large amounts of rent income in the hands of autocrats render them less accountable to their populace, greatly stabilize their non-democratic rule, and give them autonomy from societal forces that is hardly paralleled in other parts of the developing world. Significant rent income, albeit reduced in comparison to other sources of state income after structural economic reform, enables neopatrimonial authoritarian regimes to avoid the threat of economic collapse. Since this specific type of non-democracy is especially resilient except in cases of financial breakdown, rents play a crucial role and can be considered a key factor in guaranteeing the survival of Arab authoritarian rulers, as the World Bank (2003: 68) acknowledges. Rent, in this sense, cannot be reduced to income generated through the export of mineral resources, but has to include so-called political rents or rent equivalents such as military aid, unconditional aid, and other politically motivated official transfers, from no matter what source. All of these things enhance the distributive capacity of neopatrimonial leaders to create and maintain patronage networks and domestically to build up a loyal clientele of strategic allies who benefit from the non-democratic status quo.

It is noteworthy that economic and political reform have so far been conducted in separation from one another. However, the »success« of
both crucially depends on the prevalent social fabric, patterns of social interaction, and, more importantly yet, the nature of existing political regimes. As we have explained, it was the dominance of a political logic of power maintenance that forestalled the emergence of market economies during structural economic reform in the MENA region. Furthermore, it is the specific type of authoritarianism prevailing in the Arab world, in combination with social structures that are congruent with the organization of the polity, which plays a crucial role in the durability of authoritarianism in Arab countries.

The logical conclusion is that the genuinely political questions of governance must play a key role and be an integral part of any reform strategy with any prospect of success, be it economic or political. From this perspective, the term »context« should be used for economic variables rather than for political ones. What is more, such strategies should explicitly take into account the specific nature of prevailing political regimes – which is currently not the case in Western strategies for supporting political reform. Economic rationalities alone will fail to address the fundamental problems blighting the developmental prospects of the Arab world because these problems are fundamentally political in nature. For this reason, the IMF-induced economic reforms could not bring about market orders even in resource-poor Arab economies, and it is for the same reason that democracy promotion strategies as currently being pursued are unlikely to lead to democratization. Rather, some concessions as regards the outer appearance of the political system, such as regular multi-party elections, permission for the establishment of new political parties, and the like, will continue as a regime strategy to satisfy Western democracy promoters. As for the oil-rich rentier economies of the Arab Gulf, our findings suggest that prospects for political transformation are close to zero, given the closed political systems and their abundant mineral resources. Here, policy dialogue is the only instrument external players possess to influence the rulers of the rentier kingdoms. As UNDP’s third Arab Human Development Report confirms, political power is concentrated at the tip of the executive pyramid in all Arab regimes: in other words, in the hands of the neopatrimonial leader. Western interventions in the region should cautiously reflect the findings of this document which concludes that »partial reforms, no matter how varied, are no longer effective or even possible; perhaps they never were« (UNDP 2005: 5), and asserts, in consequence, that the goal should be to »secure the … conditions for systemic change« (UNDP 2005: 22) in order to achieve sus-
tainable human and, one might add, economic development. For the resource-poor Arab countries, economic and political reform can therefore only be assumed likely to significantly alter currently prevailing power structures if they go hand in hand, and if they are based on a sound assessment and knowledge of the specific traits of Middle Eastern political regimes, societies, and economies. Due to the absence of essential freedoms that would enable markets to perform their welfare function, it has clearly and primarily been political factors that have shaped economic outcomes in Arab countries, and not vice versa.

References


