

to a larger productive base and the second is the rentier mechanism, a process of expansion or illusory growth funded solely by growing expenditures of unrequited funds. It is critically important to distinguish between these two in order to measure real growth and thus to assess the economic prospects of these states.

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Beblawi, Luciani, and Vandewalle
The Rentier State

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The Rentier State in the Arab World

Hazem Beblawi

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INTRODUCTION

The concept of a rentier state has gained renewed interest with the advent of the oil era and the emergence of the new Arab oil-producing states.

In a celebrated passage, Adam Smith distinguished between rent and other sources of income: wages and profit. 'Rent', says Smith, 'enters into the composition of the price of commodities in a different way from wages and profit. High or low wages and profit are the causes of high or low price; high or low rent is the effect of it' (Smith, 1960: 412). A ~~rent~~ it is to be remembered, is not merely an income for landlords, but generally a reward for ownership of all natural resources. 'Mines, as well as land', affirms Ricardo, 'generally pay rent to their owners and this rent, as well as the rent of the land, is the effect and never the cause of the high value of their produce' (Ricardo, 1962: 590). The same applies to all natural and differential endowments: location, climate, etc. In its general usage, the term ~~rent~~ is reserved for 'the income derived from the gift of nature' (Marshall, 1920). Rent in this broad sense exists in all economies, albeit in different degrees.

It is not the purpose of the chapter to discuss the economic concept of rent and its various forms: rent/quasi-rent, scarcity/differential rent etc. In modern economic analysis an efficient management of resources would call upon rent as much as on other factor prices. No value judgement is implied, rent is an economic price or factor income like any other price.

It remains true, however, that social scientists — including

economists — suspect a difference between 'earned' income and effortless 'accrued' rent. Religious ethics, and then the capitalist instinct for work salvation, helped create a long tradition of hostility against non-earned income.¹ This was reflected in a deep-rooted mistrust of the economic profession against rent and rentiers. Classical economists — Malthus apart — and later Marx have few kind words to say about rent and rentiers. Rentiers as a social group were thus assaulted by both liberal and radical economists as unproductive, almost anti-social, sharing effortlessly in the produce without, so to speak, contributing to it.

A rentier is thus more of a social function than an economic category, and is perceived as a member of a special group who, though he does not participate actively in the economic production, receives nevertheless a share in the produce and at times a handsome share. The distinguishing feature of the rentier thus resides in the lack or absence of a productive outlook in his behaviour.

It is important to emphasise here that it is the social function of the rentier rather than his legal status of private ownership, that is usually evoked with undertones of discontent. The contrast between the rentier and Schumpeter's entrepreneur is striking as well as instructive. Dynamic, innovative, risk-bearing, Schumpeter's entrepreneur is the antithesis of the rentier.

Such stereotype rentier is, of course, a caricature. In fact 'pure rent in the strict sense of the term is scarcely ever met with; nearly all income . . . contains more or less important elements, which are derived from effort invested' (Marshall, 1920: 350).

The emergence of the new oil states in the 1970s and their promotion to the forefront of world trade and finance resuscitated the concept of rentier economies. A windfall wealth of unprecedented magnitude in such short time revived the idea of unearned income, hence the epithet of rentier economies. The impact of the oil phenomenon on the role of the state and on economic behaviour in general has been so profound in the Arab world during the seventies as to justify special treatment. The concept of a rentier state is chosen for lack of better concepts to characterise the prominence of the oil economies in the Arab region.

A RENTIER STATE: ELEMENTS FOR DEFINITION

The purpose of an attempt to define a rentier state is not to reach an abstract notion of such a state but to help elucidate the impact of recent economic developments, in particular the oil phenomenon, on the nature of the state in the Arab region.

Certain characteristics should be kept in mind in view of the definition of a rentier state in our context. First, there is no such thing as a pure rentier economy. Each and every economy has some elements of rent. A rentier economy should be defined as one where rent situations predominate. This, of course, is a matter for judgement.

Second, and this is very important, a rentier economy is an economy which relies on substantial external rent (Mahdavi, 1970: 428). The externality of the rent origin is crucial to the concept of a rentier economy. The existence of an internal rent, even substantial, is not sufficient to characterise a rentier economy, though it could indicate the existence of a strong rentier class or group. A pure internal rent cannot be sustained without the existence of a vigorous domestic productive sector. In such a case, a rentier class is only one face of the coin, the other face would be a productive class. Internal rent is no more than a situation of domestic payment transfer in a productive economy. An external rent, on the other hand, can, if substantial, sustain the economy without a strong productive domestic sector, hence the epithet of a rentier economy.

Third, in a rentier state — as a special case of a rentier economy — only few are engaged in the generation of this rent (wealth), the majority being only involved in the distribution or utilisation of it. The distinction between generating wealth and its utilisation is not always clear. It can, however, be accepted that the creation of wealth is the cause of all other activities and the utilisation is only the effect. It is true that interactions always exist between various activities, blurring the cause-effect relation. In the case of the oil-producing countries, the role of oil revenues is so overwhelmingly obvious that it can be approximated to be the cause of other activities.

A rentier economy is thus an economy where the creation of wealth is centred around a small fraction of the society, the rest of the society is only engaged in the distribution and utilisation of this wealth. The respective roles of the few and the many can hardly be overstated for the concept of a rentier economy.

Accordingly, an open economy with high foreign trade is not a rentier state, simply because it relies on the outside world, even if it generates its income from natural endowment (e.g. tourism) in as far as the majority of the society is engaged in the process of wealth generation.

Fourth, a corollary of the role of the few, in a rentier state the government is the principal recipient of the external rent in the economy. This is a fact of paramount importance, cutting across the whole of the social fabric of the economy affecting the role of the state in the society. The role of the government as the principal recipient of the external rent is closely related to the fact that only few control the external rent. In fact, the 'economic power' thus bestowed upon the few would allow them to seize 'political power' as well, or else induce the political elite to take over the external rent from them without major political disruption. A predominantly rentier state will accordingly play a central role in distributing this wealth to the population. This brings us close to a distinction proposed by Giacomo Luciani, that is, between productive and allocative states (see Chapter 3).

Having characterised the main features of a rentier state, it is important to emphasise that the choice of such a concept is based on the assumption that such an economy creates a specific mentality: a rentier mentality. The basic assumption about the rentier mentality and that which distinguishes it from conventional economic behaviour is that it embodies a break in the work-reward causation. Reward — income or wealth — is not related to work and risk bearing, rather to chance or situation. For a rentier, reward becomes a windfall gain, an isolated fact, situational or accidental as against the conventional outlook where reward is integrated in a process as the end result of a long, systematic and organised production circuit. The contradiction between production and rentier ethics is, thus, glaring.

It is also assumed that the pre-eminence of the oil countries has not only brought to the fore a contradiction between production and rentier ethics, but more seriously, has meant the prevalence of the rentier economy. A decade of the oil era shows that the whole of the Arab world, oil rich as well as oil poor, is becoming a sort of oil economy with various undertones of rentier mentalities. This development has affected the role of the state in the whole Arab world.

THE OIL STATES: MULTILAYERS OF RENTIERS

The Arab oil states represent, it has been said, the example *par excellence* of rentier states. With oil exports' revenues, the Arab oil states depend on external rent. Oil revenues represent more than 90 per cent of budget revenues, 95 per cent or more of exports. Also, only a small fraction of the population is involved in the generation of oil revenues, the rest being engaged in the use of the oil wealth. No more than 2 to 3 per cent of the labour force is engaged in the production and distribution of the oil wealth, which adds 60 to 80 per cent to the GDP, as conventionally measured. Nevertheless, this fact does not preclude genuine productive activities outside the oil sector. Finally, oil revenues (rent) accrue directly to the state or the government. The Arab oil states thus correspond to our definition of rentier states. The role and the nature of the state has been greatly affected by this fact.

The state or the government, being the principal rentier in the economy, plays the crucial role of the prime mover of the economic activity. Rent that is held in the hands of the government has to be redistributed among the population. Special social and economic interests are organised in such a manner as to capture a good slice of government rent. Citizenship becomes a source of economic benefit. Different layers of beneficiaries of government rent are thus created, giving rise, in their turn, to new layers of beneficiaries. The whole economy is arranged as a hierarchy of layers of rentiers with the state or the government at the top of the pyramid, acting as the ultimate support of all other rentiers in the economy. It is important to add here that the rentier nature of the new state is magnified by the tribal origins of these states. A long tribal tradition of buying loyalty and allegiance is now confirmed by an *état providence*, distributing favours and benefits to its population.

The conventional role of the state as provider of public goods through coercion — mainly taxation — is now blurred in the Arab oil states by its role as a provider of private favours through the ruler's benevolence. Public goods and private favours have thus gone together in defining the role of the state. With virtually no taxes, citizens are far less demanding in terms of political participation. The history of democracy owes its beginnings, it is well known, to some fiscal association (no taxation without representation). The government's budget in

the oil states remains a one-sided document, an expenditure programme, a promise to spend money and distribute benefits to the population with virtually no levy on them in terms of taxes or similar impositions.

Kuwait was probably the one to introduce into the Gulf area the concept of distributing part of the oil wealth to the population which eventually evolved into that of the welfare state. The shrewd Sheikh Abdullah al-Salim of Kuwait made the fundamental decision that he (the state) should share part of the oil rent with the population. The role of the government was thus defined as being primarily a partial distributor of oil wealth among the population. In his quest to create vested interests among notable Kuwaiti families round the new states in the early 1950s, Sheikh Abdullah al-Salim introduced the system of government land purchase, at prices hardly related to market value. No more than a decade or two later, the same system was adopted by other Gulf states: Qatar and UAE. In Saudi Arabia, the practice of land gifts was already in force since the 1920s and 1930s. With the annexation of Hijaz in the pre-oil era, the pilgrimage royalties (another source of rent) gave Ibn Saud the means to distribute favours (land). The government continued to grant land to relatives, ministers and anyone else it wished to favour. The recipients sometimes sold their land to private developers, but the biggest and most generous buyer was always the government itself (Field, 1984: 99). The early relationship between oil revenues and land speculation — the proper domain for rent and rentier — can be seen here. Later developments, as we shall see, made land as well as shares a prosperous source of rentier speculation.

Of course, governments in the oil states outgrew their role as distributors of favours and benefits and embarked on the modern function of providing public goods and services to their population. Governments are providing their populations with a wide range of genuine public goods and services: defence, national security, education, health, social security, employment, an impressive network of infrastructure, etc. The level and quality of these public goods and services are usually adequate, sometimes excellent. They are also provided free or at very low cost to the beneficiary. However, the original sin remains, sometimes open but mostly latent, thus vitiating the provision of these public goods. It is reported that 'if a prince heads a ministry or some other government department, it is

accepted that he is entitled to draw on the budget of that department or take a share of its spending in major projects' (Field, 1984: 101–2). To a certain degree, all government contracts are seen as royal favours. Their origin as part of the ruler's benevolence does not fail, thus, to exhibit their peculiarities.

The distinction between public service and private interest is very often blurred. There seems to be no clear conflict of interests between holding public office and running private business at the same time, and it is not infrequent to use the one to foster the other. Sometimes high-ranking public officers (ministers) take the trouble to form their private businesses under the names of their sons, brothers or similar *prête-noms*. In fact, huge development projects, joint ventures, agents, tenders and awards of hundred million — sometimes billion — dollar contracts have provided opportunities for those in public office to use their positions for private gain (Beblawi, 1982: 216). The practice varies from one oil state to another; it is most conspicuous in Saudi Arabia and least apparent in Kuwait. In Saudi Arabia, contracts are given as expression of royal gratitude. Contract brokers, commission fees for the ruling elite, lobbying the royal family, etc., are not unusual practices in the Gulf areas. Some names earned notorious reputations in this respect; Adnan Khashoggi, Mahdi Tajir, Princes Muhammad Bin Abdel-Aziz, Muhammad Fahd, Sultan Bin Abdel-Aziz are only the most visible (Field, 1984).

The government not only distributes benefits and favours to its population, but it is also the major and ultimate employer in the economy. Every citizen — if not self-employed in business and/or not working for a private venture — has a legitimate aspiration to be a government employee; in most cases this aspiration is fulfilled. Though ~~utterly free enterprise oriented~~, the number of government employees in the oil states is only matched by socialist-oriented states. Civil servant productivity is, understandably, not very high and they usually see their principal duty as being available in their offices during working hours (*Al Dawam*).

If governments are the principal rentiers in the Arab oil states, they are by no means the only ones. Trade and business professions in many cases consist in no more than taking advantage of special situations entrusted to them by law or fact. Merchants are favoured by existing laws. It is the law in oil states that foreign companies may sell their products only through local

agents. Most states insist that foreign companies should also take local merchant partners if they want to operate on their soil. In any case, foreign companies find it difficult to deal with local bureaucracy without local partners or sponsors (Field, 1984). The big trading houses, the family conglomerates that are involved in all business matters owe their wealth, in one way or another, to some rent situation. Being a sales agent is the classical road to business and hence to wealth. Big family names in the oil states are intimately related with one or more brand names; e.g. in the car distribution business we have Alghanim with GM in Kuwait; Juffali with Mercedes in the truck business in Saudi Arabia, and Bisher and Al-Kazmy with the same company in Kuwait; Futtaim with Toyota in Dubai and Al-Sayer with it in Kuwait; Galadari with Mazda in Dubai . . . The list is long indeed ('Arabian Trading', *Financial Times*, 23 January 1985).

Not only should distribution agents be exclusively nationals but also the practice of most professions and trades be restricted to nationals. This legal restriction has been established to counter the well-known shortage of professional and skilled labour. The result is the appearance of a peculiar function, that of the sponsor, *al-kafil*. This is someone, a national of course, who offers his name to expatriates to exercise various trades and professions under his name, in return for a share of proceeds (rent). The *kafil mentality*, where citizenship is becoming a sort of financial asset and hence a source of income, transcends national/expatriate relations, to become, even among nationals, a normal feature of everyday life. For example, in Kuwait, during the euphoria of the stock market, it was the habit of the government to allocate a certain number of shares for each Kuwaiti citizen in new public shareholding companies. A very active trade in 'citizenship' (*ganaci*) took place, where those not interested in buying their shares would sell their rights — as attested by the citizenship certificates — to others. Citizenship is not only an affective relation between man and his homeland, it is also, or primarily, a pecuniary relation.

Oil rent thus gave rise, in turn, to a secondary wave of rent generations: ~~second order rents~~. Two areas seem to distinguish themselves as rent centres: real estate and stock market speculation.

Land, it was said, has played a major role in the process of trickling down oil money from governments to private individuals. The readiness of governments to purchase land at higher

prices sustained ever-growing prices for real estate. A very profitable business was created round land speculation with some very active brokers. Government was always prepared to act as the ultimate buyer.

The ingenuity of some land brokers soon introduced a very powerful instrument to keep real estate prices high even in face of credit squeezes, liquidity shortages and/or government's momentary reluctance to inject money into land purchase. This was the so-called ~~forward market or post-dated cheque system~~. Kuwaiti brokers masterminded these new techniques and extended them imaginatively — and dangerously — to stock market transactions. Growing prices for real estate and stocks cannot be sustained indefinitely unless they are matched by a growing injection of liquidity to back up demand for these assets. Sooner or later there comes a time when liquidity is not forthcoming and the market comes to a halt if not a collapse. This is where the role of the forward transaction which provides the market with a new instrument for credit creation at the disposal of the speculators, bypassing the banking system, comes in. Each speculator becomes something of his own bank, capable of adding to liquidity by issuing his own IOUs which are more or less accepted in the market (real estates, stock market). In final analysis, liquidity is created through bank intermediation in the exchange of obligations. With forward transactions and the issuing of post-dated cheques, speculators assume the role of informal banks and pay for their deals by increasing their own liabilities.

A forward deal is a spot deal with credit, where the buyer gets the commodity (shares, land, etc.) at the time of the transaction and pays forward with a post-dated cheque with a premium (an interest rate or rather a usury rate) which can vary between 50–200 per cent per annum. At maturity, he can either roll over the cheque with another more attractive premium (an offer which the other party usually cannot refuse), or if his creditor refuses the offer, he can just borrow from the market by buying another commodity (shares) on a forward basis (another post-dated cheque to a third party) and selling it on the spot market to get the cash to pay his first creditor. The game can continue indefinitely in as far as dealers are prepared to accept each other's post-dated cheques. In fact, there was a general tacit agreement to continue the game, with everyone issuing and receiving post-dated cheques at the same time. Cheques were

rolled over and every second new cheques were added to the market thus giving the illusion of ever-growing fortunes. These were the rules of the mirage wealth creation or the big casino later known as Soukh el-Manakh. A money machine — the dream of all speculators — was invented and nothing could stop the attractiveness of Soukh el-Manakh. Young graduates left their jobs for the new gold mine, early retirements took place, 'creative' companies invested heavily in the stock market, thus scoring huge profits and offsetting their losses in their normal lines of business. Even off-shore bankers and more sober institutions and professionals were tempted by the new phenomenon. New companies were created every day, giving rise to new share-offerings on the market and accordingly fresh opportunities for new wealth. Social life was also transformed: politics was no more a subject for discussion, and even gossiping, a favourite pastime, was fading away. The new and almost only talk of the town was centred on share prices and the new shares coming on to the market.

The end of this fancy world is well-known to all. The Soukh el-Manakh dream turned into a nightmare. In July 1982 some dealers, sensing the imminent difficulties of the market, began to cash their cheques ahead of time. A minor crisis was thus turned into a full-scale crash. The age-old adage that what goes up — artificially — must come down, was finally vindicated in Kuwait (Beblawi and Fahmi, 1984: 173).

The government role in the development of this speculative activity can hardly be overestimated. Not only did governments indirectly help speculations, but in many instances were directly involved in supporting speculative markets. When the Kuwaiti stock market faced its first setback in 1976/7, the Kuwaiti government was prompted to bail it out. Even in 1982, when the Kuwaiti government refused to repeat the role it played in 1976/7, it compensated the so-called small investor — defined as one owed no more than KD 2 million (\$6.75 million): no small reward for speculators. In both cases, a number of key members of government and parliament were deeply involved in the stock speculations.

(The juxtaposition within Arab oil states of a rentier economy and a productive economy is paralleled by the coexistence of two social communities: nationals and expatriates.) Expatriates are called upon to help fill the gap in available manpower in oil states. More often than not, these expatriates assume productive

activities to satisfy the growing needs of the society. They earn their living by the work they do. The relationship work-reward is actually maintained in their case. Rent economy, on the other hand, is normally confined to nationals; the privileges it conveys hardly extend to expatriates.

The contrast between the two communities is striking as well as revealing. Nationals live more in a rentier economy and associate with its financial manna all the political rights of citizenship. On the other hand, although earning their living in a more productive manner, the impact of the rentier economy on expatriates is far from negligible, giving rise to serious corruption of the productive system and work ethics. Even if they form the core of the productive manpower, expatriates nevertheless remain alien to the body politic. Though they serve the country, live — and also die — on its soil, they are not part of it. Expatriates are thus part of the labour force but not of the society. The material life of expatriates is usually comfortable and by no means comparable to the living conditions in their homeland. Their emotional life is, none the less, unstable, terribly wanting in security and lacking a sense of belonging.

The political cleavage between the two communities widens as the economic rent to citizens increases. Restrictions on expatriates' professional mobility as well as their political integration increases with the increase in the oil wealth. The contrast between the less abundant years of the 1960s and the more affluent 1970s is very significant. Regardless of the vocal rhetoric of Arab nationalism, in the 1970s the political elite in the oil states, no matter whether right- or left-wing, advocated a narrow local nationalism and restrictive benefits to expatriates.

THE NON-OIL STATES: SEMI-RENTIERS WITHOUT OIL

The Arab non-oil states are by no means rentier states in the sense previously outlined. The predominance of the oil phenomenon on the whole region is, however, such that many non-oil Arab states are showing increasing signs not dissimilar to those witnessed in oil states.

Let us first draw attention to the fact that because of oil wealth, the whole Arab area — oil rich as well as oil poor — has assumed strategic value in the world chessboard. The area as a

whole, particularly neighbouring countries, have gained location rent.

Military and political aid to preserve and/or introduce super-powers' — as well as mini-powers' — influence in the area, is a major source of external rents to many states. Otherwise remote and poor states (e.g. Somalia) would hardly receive alternately Russian and American aid. In the 1960s Egypt received the highest Soviet aid to a foreign country, to become, together with Israel, the highest American aid recipient in the 1970s and 1980s. Syria, Jordan and South Yemen are other examples.

Rhetoric aside, inter-Arab aid was related, to some extent, to its effect on the stability and tranquillity of oil rent in oil states. Very often Arab aid to fellow Arab states was used in much the same way as domestic redistribution of oil revenues: to buy allegiance or rather avoid trouble. Pan-Arabism and Arab money were, to a great extent, and in different hands, the stick and the carrot, used to bring about a very subtle equilibrium in sharing oil rent. [By conferring and/or withholding super-legitimacy over individual states, the advocates of pan-Arabism used their political clout as a source of financial aid. By distributing and/or promising aid, the carrot in the hands of the oil states helped them buy peace and stability. Arab finance was thus more a counterpart than a complement to pan-Arabism.] It is no wonder, then, that Arab financial flow to Arab brothers coincided with the retreat of the pan-Arab system after the 1967 war, which 'marked the Waterloo of pan-Arabism' (Ajami, 1978/9). In the wake of the October 1973 war, it was Sadat and Assad — 'revisionists' or 'correctionists' of the pan-Arab doctrine — who obtained Arab finance. With the decline of Egypt's role in mobilising Arab public opinion, particularly after Camp David, the Baghdad Summit relieved the Arab oil states of their financial commitments to Egypt, shifting them to more assertive Iraq, Syria and the PLO. The subsequent Iraq-Iran war proved to be quite a drain on their treasury. The Baath party, which is in power in both Iraq and Syria, though two competing factions, is notorious for its unscrupulous and ruthless practices *vis-à-vis* its opponents. Some oil states — Kuwait and UAE for example — had the privilege of actually experiencing firsthand such practices when a number of attacks and/or bombings took place on their territory. They had, of course, the tact and discretion to turn a blind eye to these 'accidents'. But the message is clear.

External location rent is also evident in so-called transit countries (Mahdavi, 1970). Suez Canal revenue and oil pipeline royalties are major revenue sources to some countries, e.g. Egypt and Syria.

Workers' remittances are becoming one of the major foreign exchange sources in some non-oil states. Yemen is a well-known example where remittances represent more than ~~10 per cent~~ of GDP. Workers' remittances are becoming the biggest single source of foreign exchange in Egypt as well. In Syria, Lebanon, Tunisia, Algeria and Morocco, workers' remittances play a very important role in their balance of payment adjustments. It is not easy to equate workers' remittances to external rent. From the worker's point of view, he is earning his income at the cost of effort and work. From the recipient country's point of view, remittances are, nevertheless, more akin to aid or non-required money transfers.

[All told, various elements of external rent play an increasing role in non-oil Arab states.] In Egypt, for example, it is estimated that about 45 per cent of its GDP is represented by exogenous — read rent — elements in the form of oil revenues, workers' remittances, foreign aid, Suez Canal revenue and tourist expenditure. It is also to be noticed that most of these revenues accrue directly to the state or the government. The epithet of semi-rentier state is, thus, not far-fetched.

The semi-rentier nature of non-oil states is not without its effects on the role of the state and on citizens' behaviour. Government favours are now embodied in a welfare doctrine. Subsidies of all kinds pervert the economic system. A huge bureaucracy, sort of a new rentier class, is getting a substantial slice of the government's accrued rent. Though individually very low-paid, civil servants as a social group are a very expensive element in view of their contribution to the country's productivity (it is often thought that they contribute negatively to the growth of the economy).

It is also interesting to see how each source of external rent has bred its own chain of second-order rentiers. In Egypt, for example, a prosperous trade has been developed around workers' movement to the Gulf. Also, money dealers have grown immensely to process workers' remittances. American aid helped create a flourishing consultancy — legal, technical, economic, etc. — business to prepare proposals for aid consideration. A new social class — lawyers, consultants, financial

analysts, lobbyists, brokers, etc. — is on the rise everywhere.

Finally, when not direct recipient of the rent, the state, because of its external origin, quite often tactfully courts the rent earners. Suffice it to observe tax exemptions and other incentives given to workers' remittances, foreign banks, tourism, etc. Governments do their utmost to sweeten their normal coercive practices. They are willing to appeal and not to impose. Economic liberalisation, *infitah* or whatever, is everywhere.

CONCLUSION: AN OIL ARAB ECONOMY

It seems from the foregoing that the oil phenomenon has cut across the whole of the Arab world, oil rich and oil poor. Arab oil states have played a major role in propagating a new pattern of behaviour, i.e. the rentier pattern. Oil as the primary source of rent in the Arab region has generated various secondary rent sources to other non-oil Arab states. To the first-order rentier oil states is thus added a second-order non-oil rentier strata. The impact of oil has been so pre-eminent that it is not unrealistic to refer to the present era of Arab history as the oil era, where the oil disease has contaminated all of the Arab world. Be it oil revenue, or workers' remittances, or strategic location, or *el-kafil*, or Soukh el-Manakh, they are all consequences of the oil phenomenon, and have been accompanied by a serious blow to the ethics of work. Income is no longer a reward of serious and hard work, it is very often related to special circumstances, chance, location, etc. In a word, we are living in a rentier universe which has affected both the state and the citizen.

NOTE

1. 'The religious valuation of restless, continuous, systematic work in a worldly calling, as the highest means to asceticism, and at the same time, the surest and most evident proof of rebirth and genuine faith, must have been the most powerful conceivable level for the expansion of that attitude toward life which we have here called the spirit of capitalism.' Weber (1959: 127).

Allocation vs. Production States: A Theoretical Framework

Giacomo Luciani

Possibly nowhere more than in the Arab world is the crucial importance of the economic foundations of the state as clearly borne out by historical developments in contemporary times. The contrast between the six thousand year old record of centralised state structure in Egypt and the total lack of any stable authority structure in the Arabian Peninsula until well into the present century could not be more marked. Ecological and economic factors have conditioned the existence of state structures and the geographic reach of their authority throughout Arab history.

Thus one does not need to accept any schematic and deterministic model to point to the importance of the economic foundations of state structures in shaping the basic parameters of Arab politics. Economic realities condition the total resources that any single state structure can muster — and until only a few decades ago these resources were in some cases simply insufficient to permit the consolidation of states that, as a consequence, disappeared as fast as they arose. Second, the nature of the predominant productive processes conditions certain basic parameters of existing state structures, such as the degree of centralisation and the tendency to authoritarian rule. Finally, the nature of the sources of income of the state influences the basic rules of political life in each individual country. While this chapter will be devoted primarily to a discussion of the latter aspect, the first two aspects must also be kept in mind, as they are equally important.

In the preceding lines we have already implicitly made use of a distinction that must be defined for the rest of this chapter. In

English usage the term state is almost always meant to indicate an independent country as well as the structure of power and authority that exercises the attributes of sovereignty within it. In this chapter we address the question of the nature of the state only in the latter of the above mentioned meanings.

ECONOMIC REALITIES AND THE 'SIZE' OF THE STATE

A state structure will tend to be stable in history if it commands sufficient resources to guarantee its own survival. This implies primarily the ability to resist outside aggression, but it implies as well the ability effectively to exercise its authority over the territories that fall — or are generally believed to fall — under its sovereignty. The resources that are needed to enforce state authority are greatly variable as a function of structural (geographic, demographic) and political realities, and the ability to resist outside aggression is also a function of the intensity of such aggression. Thus it is difficult to say whether a given economic system does or does not offer the potential to sustain a stable state structure. Yet it is evident from Arab history that in many cases, states could be wiped out when exposed even to small-scale aggression, and in other instances states were in fact not able to exercise their authority over territories that they nominally controlled and that no other state claimed for itself.

It is only with the colonial era and the valorisation of oil resources — two interconnected developments — that state structures appear to have consolidated and extended their authority over their entire territory. In many cases, the colonial state structures were the first to effectively rule their claimed territories and almost all the state structures that existed in Arabia until World War II could only survive thanks to British subsidies. Even after World War II, a fortuitously independent Libya could not really sustain a state structure until oil exports began in the late 50s. Still in 1960, British aid and American payments for the leasing of the Wheelus base accounted for 35 per cent of Libyan GNP and substantially all the state's revenue (Luciani, 1976: 121–3).

Oil has drastically changed the picture. In most cases, it has provided the weaker state structures with abundant financial resources. In other cases, states in poor and weak countries, while not blessed with oil revenues, still manage substantially to

increase their income, by encouraging migration or otherwise tapping foreign resources, both regionally and internationally. Thus today it is very rarely the case that the very existence of a state structure is endangered by the lack of resources; still, the relative importance of the resources supporting each state is greatly variable.

One is tempted to believe that differences in state income per subject (i.e. *per capita*) reflect differences in *per capita* GDP, on the basis of the assumption that the ability of individual states to appropriate a certain share of GDP is a constant in the short term. Yet this is certainly not the case for the oil-producing countries, where the causational chain is inverted, and state income determines GDP rather than the other way round. In these countries, differences in *per capita* GDP simply reflect the variable income opportunities and spending preferences of each state structure — indeed state income cannot in any meaningful sense be considered as being part of GDP until it is actually spent, and then only in so far as it is spent domestically.

CAN ONE SPEAK OF 'HYDROCARBON SOCIETIES'?

The stability of state formations is increased if, beyond being able to appropriate resources for their own ends, they also play an economic role which objectively increases the sum total of resources available to the country that they run. While this is, in itself, neither a necessary nor sufficient condition for stability of state formations, it is reasonable to expect that states that perform a useful economic function will be more easily accepted in the specific form and configuration that they take. Thus the character and behaviour of state formations is influenced by the prevailing features of economic life in the countries that they rule.

With reference specifically to the Middle East, the importance of water as long as the prevailing economic activity is agriculture has repeatedly been noted. There is, of course, Wittfogel's stress on hydraulic societies (1957: 48–9). His argument appears to us today greatly overextended, and it has been criticised from a historical point of view. Yet, it is difficult to deny, as we look at the history of what is today the Arab world, that the extraordinary resilience of state formations based in the Nile and the Mesopotamian valleys, respectively, as contrasted to the extreme

variability of state definitions elsewhere, has a great deal to do with water and irrigation.

Yet the importance of water and its availability or lack of it in shaping political institutions and political life, and ultimately dictating the essential characters of state formations, does not necessarily point in the direction of Wittfogel's argument. More recently numerous authors, and especially anthropologists, have pointed to the importance of water management in shaping the social and political life of specific communities (Eickelman, 1981: 48-72).

The political impact of oil may be said to be in many ways similar to that of water, and at the same time different in a few crucial respects.

Oil, of course, is a liquid. This is more than a superficial coincidence because it means that the production and transportation of oil is best effected through the creation of an integrated network of hydraulic installations. There is an intrinsic need for centralised coordination: the latter was often provided by non-state entities in the industrial countries and internationally (e.g. Standard Oil before 1911, the informal 'understanding' between the major international oil companies thereafter, or regulatory agencies such as the Texas Railroad Commission). But in the Middle East no such entities were available indigenously and the task was viewed naturally as pertaining to the state.

Furthermore oil, just as complex irrigation, requires a 'specific type of division of labour' (Wittfogel, 1957: 22): one which clearly defines a technocratic layer that has the geological, chemical and financial knowledge necessary successfully to manage oil operations.

Another similarity is that oil, like water, is found in 'basins' and 'provinces'. While the need for integrated management is felt *strictu sensu* only at the level of the individual field, much can be gained through coordination at a higher level as well. This has had consequences over the territorial definition of Arab states: not only did certain demarcations become very contentious, but others almost ceased to be. Regions with no oil shelved the secessionist tendencies that they might have cherished in past times (Hijaz) or accepted federal arrangements with oil-rich neighbours (the United Arab Emirates); or the central location of the oil basins compensated for strongly rooted centrifugal forces. In the case of Libya, the three regions of Tripolitania, Cyrenaica and the Fezzan were effectively glued

together by the fact that most oil lies squarely between them.

But there are important differences as well. A first crucial difference between oil and water is that the former does not require the mobilisation of large numbers of the population. Quite to the contrary, oil production is a highly automated business, in which few are employed, and a relatively high percentage of those few are specialised full-time labour. The vast majority of the population is not involved at all in oil operations.

A second capital point is that oil, differently from water, is of no immediate interest to the survival and well-being of the vast majority of the domestic population. To be sure, oil products are consumed, but direct access to oil is not important *per se*, as direct access to water was and still is. What is important is access to oil *revenue*, that enables the consumer to buy a wide array of goods, including oil-derived products. Thus the vast majority of the domestic population is not involved with oil either as far as production or as far as utilisation is concerned. Their interest is in oil revenue, i.e. it is mediated, and mediated by the state.

A very important corollary of the second difference is that oil is mostly utilised abroad. Be it in crude or refined form, oil has value only to the extent that it is exported. Oil is not traded domestically in the oil-producing countries. Because oil valorisation implies a relationship with the rest of the world, it tends naturally to fall within the responsibility of the state and creates solidarity among its subjects.

Thus the specific characteristics of oil production and trade may well be said to have an impact on the stability and configuration of state formations. Yet it would be a mistake to follow Wittfogel's lead and propose a theory of the 'hydrocarbon society'. There is a distinct danger of exaggerating the argument and overlooking the fact that oil, just as water, is not the only significant dimension.

The point is that in the latter decades many aspects of economic life have tended to increase the economic role and impact of the state. Independently of the ideological orientations of each government, international realities have forced individual states into taking some fundamental steps such as issuing a fiduciary monetary instrument to be used within their boundaries or adopting complex economic legislation. While in most cases foreign trade has always been regulated, the significance of such regulations has increased because of the growing importance of international trade on commonly expected

standards of living. Furthermore, in most instances the state vested in itself the responsibility for the upkeep and improvement of basic infrastructures: roads, transportation, mail, telephone, power, water, etc., to the point that today hardly any economic activity is conceivable which is not in some way related to and conditioned by the active presence of the state.

The tendency towards a direct state role is, of course, very significant from the political point of view. State formations that appeared to be entirely artificial and haphazard at the time of their creation 50 years ago or less are nowadays a deeply-rooted reality which would be quite difficult to modify. Thus any attempt to portray oil-producing countries as hydrocarbon societies would be an unacceptable simplification.

OIL AND THE NATURE OF THE STATE

While we should not speak of hydrocarbon societies and states, it is a fact that oil production appears to have a strong and decisive influence on the nature of the state. It does so through its effects on the structure of state revenues and the ratio between revenues that are obtained domestically and revenues that are obtained from abroad.

The key factor in this discussion is a precise understanding of what it is that makes the difference. Sometimes, a decisive importance is attributed to the fact that oil is the source of state income and that oil revenue includes a predominant rent element (Stauffer, see Chapter 1 in this volume). Hence the concept of 'rentier state' which is sometimes adopted to characterise the state in oil-exporting countries. While this concept captures the essence of the problem, a certain number of clarifications are needed:

- (a) there are other rent-like sources of revenue which accrue directly to the state besides oil: thus rentier states are not necessarily oil exporting states;
- (b) some important flows of income containing a rent component do *not* accrue directly to the state, in which case we should not speak of a rentier state, although we may well characterise the economy at large as being rentier, in the sense adopted by Beblawi (Chapter 2) and Abdel-Fadil (Chapter 4);
- (c) it is essential that the income of the state not only be in the

nature of a rent, but also be earned abroad; if it were earned domestically the nature of the state would not be substantially affected.

It is for these reasons that I prefer to propose a new categorisation that, instead of looking at the nature of the income of the state, looks at its origin, domestic or foreign. The essential impact of oil production and exports is that they free the state from the need of raising income domestically. It is oil exports that play an essential role in this respect even more than oil production *per se*: the state in a country in which a lot of oil is produced but none exported may or may not be called rentier, but does not appear to be essentially different from any other state whose income depends on domestic sources. In both cases it is the overall strength and productive capacity of the domestic economy that conditions the income of the state. On the contrary, if oil is mostly exported, and the income of the state is mostly linked to the exportation of oil, then that state is freed from its domestic economic base and sustained by the economic base of the countries which are importing its oil.

Thus if we look at the origin of state revenue, we should speak rather of '~~exoteric states~~' — being states predominantly based on revenue accruing directly from abroad — and 'esoteric states' — predominantly based on domestic revenue and taxation. Yet a different way of looking at the same distinction may be more enlightening, and this relates to the predominant function of the state. From the latter point of view the relevant distinction appears to be one between 'allocation' and 'production' states, depending on which of these two functions — mere allocation or production and reallocation — is the necessary task of the state.

A rentier or exoteric state will inevitably end up performing the role of allocating the income that it receives from the rest of the world. It is free to do so in a variety of ways: among the various purposes for which money is spent, the strengthening of the domestic economic base may be included, but not necessarily so. Even if this happens to be one of the goals of the state, as long as the domestic economy is not tapped to raise further income through domestic taxation, the strengthening of the domestic economy is not reflected in the income of the state, and is therefore not a precondition for the existence and expansion of the state.

On the contrary, whenever the income of the state is based on

tapping the domestic economy through whatever assortment of fiscal instruments, the state can grow and perform an allocative function only to the extent that the domestic economy provides the income which is needed to do so. Growth in the domestic economy is one of the various 'luxuries' that the state can buy with its oil income in one case, it is an essential precondition for its existence and growth in the other. Clearly, all states aim at performing an allocative function, because in a sense this is what politics is about; and all states perform some allocative function. However for those that depend on income from abroad, allocation is the only relationship that they need to have with their domestic economy; all others ride their domestic economies.

Besides oil, other sources of income from abroad accruing directly to the state are transportation infrastructures of an international relevance and aid, be it economic, military or political — although the fact that it is sometimes in kind or tied limits the freedom to allocate it among different alternative purposes.

On the other hand, taxation on international trade is not a source of income from the rest of the world because the burden of such taxes falls on the domestic consumer or producer, not on the foreign importer or exporter. Neither are migrants' remittances a source of income from the rest of the world because they belong to the migrant, not to the state. The state may attempt to tax the income of migrants, but is in no position to do so before it is repatriated. It is only after remittances have entered the domestic economy (and generally not immediately after because of the need to encourage migrants to repatriate their income) that they can be taxed and become a source of income for the state. By then, the state is taxing the domestic economy. In fact, the importance of migrants' remittances is what imposes the distinction between a rentier economy and an allocation (or rentier) state: whenever remittances are important, this tends to give a rentier character to the economy as a whole, but the economic base of the state is not changed.

We may define allocation states as all those states whose revenue derives predominantly (more than 40 per cent) from oil or other foreign sources and whose expenditure is a substantial share of GDP.

The primary examples of allocation states are found in the Arab Gulf countries. In Kuwait, oil income alone accounted for 62 per cent of total revenue in 1982, down from 84 per cent in 1980; however, if investment income from abroad (31.8 per cent

of total revenue in 1982) is added, the share of total revenue accruing from foreign sources reaches as high as 94 per cent. According to conventional standards of national accounting, government revenue reached a peak of 94.2 per cent of GDP in 1981, but fell thereafter as oil revenue declined more rapidly than GDP. Before 1982, government revenue was considerably larger than expenditure, but the difference was reduced thereafter, as expenditure increased while revenue shrank. Government expenditure reached a peak of 53 per cent of GDP in 1982, and declined thereafter. Finally, if GDP figures were to be revised in accordance with the accounting standards suggested by Stauffer, government expenditure would account for a considerably larger share of GDP (or, in Stauffer's terminology, ND-GDP). Yet, if we adopt Stauffer's approach, we should also revise government income, and define a 'permanently sustainable' income level by deducting oil rent — which would wipe out government income almost entirely. These accounting exercises are useful in understanding the nature of the relationship between government income and GDP in a country like Kuwait.

Most Arab Gulf countries are in the same position. In Oman, government expenditure was 55.5 per cent of GDP in 1978. It declined to a minimum of 40.6 per cent in 1980, and grew thereafter to reach 47.3 per cent in 1982. The Omani budget has shown a tendency to close with a deficit. Revenue from oil and grants from abroad account for 90 per cent (1982) of total revenue.

In Saudi Arabia, in a year (1984) of weak petroleum prices, oil revenue accounted for 64 per cent of total revenue and income from investment abroad generated approximately another 18 per cent. Thus the government solidly depends on income from abroad, but at the same time it accounts for a smaller share of GDP. In 1977 — when the budget closed with a solid surplus — government revenue accounted for 66.3 per cent of GDP; this ratio fell to 50.1 per cent in 1981. As expenditure overtook income in the following years, the composition of GDP also changed and starting in 1983/4 the private (non-oil) sector generated more than half of GDP.

Outside of the Gulf, Libya is likely to fall into this category, but Libya's budget is drawn very unconventionally, making comparative analysis impossible.

Finally, both Jordan and Syria fell into the allocation state paradigm, at least temporarily. In Jordan, government expenditure fluctuated around 50 per cent of GDP according to IMF

statistics (1981: 52.4 per cent; 1982: 45.1 per cent); but inclusion of public independent entities would bring the ratio to an impressive 85 per cent (*MEED*, 4 January 1985: 12). In the case of Jordan, grants from abroad started in a significant way in 1979, when they reached a peak value of 54.4 per cent of total revenue. Thereafter they declined, and in 1984 they were budgeted at 24.1 per cent of total revenue. In Syria, grants accounted for 40.9 per cent of total revenue in 1979, and 30 per cent in 1981; it is however, not clear whether all grants are included in the budget. Syrian government expenditure was 38.8 per cent of GDP in 1979 and 38.1 in 1981.

In the case of Algeria, hydrocarbon revenue (including gas) accounts for a diminishing share of total revenue (67 per cent in 1981, 53 per cent in 1984) (*MTM*, 24 February 1984: 429). Government spending accounts for 84.8 per cent of GDP. Algeria is, thus, a borderline case.

So are, for different reasons, Bahrain and Iraq. In both cases oil and grants are the major source of revenue (Bahrain: 78.5 per cent of GDP in 1982; for Iraq no recent data are available), but government expenditure accounts for a relatively smaller share of GDP: in Bahrain, it was 40 per cent in 1977 and declined to 34.6 per cent in 1981, while in Iraq government revenue was 26.8 per cent of GDP in 1978 and 25.3 per cent in 1980.

Minor oil exporters with relatively large populations, such as Egypt and Tunisia, cannot be called allocation states. In Egypt, non-tax revenue, which includes oil revenue as well as revenue from the Canal, but also includes some typically domestic revenue, accounts for 23.8 per cent of total revenue, while government expenditure is 47 per cent of GDP. The latter fact is far from extraordinary: the qualitatively important fact is that this level of expenditure significantly exceeds revenue, and revenue, in turn, is largely derived from the domestic economy. In Tunisia, oil revenue in 1981 was 18.6 per cent of total revenue and pipeline fees and grants added only 0.7 per cent. Again, government expenditure was significantly larger than revenue, and accounted for 37.3 per cent of GDP (1981). In other Arab countries such as Morocco, the relative importance of foreign sources of income is even less.

Thus it is seen that the Arab world is fairly clearly divided between allocation and production states, and the former comprise countries that are not oil producers, but receive substantial income from abroad on different grounds.

POLITICAL RULES OF THE GAME IN AN ALLOCATION STATE

In what respect should we expect that the rules of the political game will be different in an allocation state?

In countries where the state is of the production type the largest part of the population derives its income from sources different from the state itself. In socialist regimes, a majority may be employed in publicly-owned industry, rather than in the more narrowly defined state machinery. Because of its need to rely on taxation (or in the case of socialist regimes, on income from publicly-owned industry), the state has an interest in expanding the income base on which taxes can be levied. Economic growth is the primary goal of the economic policy that all production states adopt: but no economic policy is neutral from a distributional point of view, and the polarisation of society into a variety of interest groups struggling to influence economic policy is a necessary corollary. Although the precise political implications of tax levying may vary according to the nature of the tax itself, in most cases the operation requires a large degree of acceptance on the part of the population. Tax evasion can be repressed if it is a marginal phenomenon, but when it becomes the rule the cost of tax collecting becomes much too high. This establishes a link between the ability to raise taxes and legitimacy, which is captured in the saying 'no taxation without representation'. Although the immediate link between taxation and representative democracy may well not exist, as countless examples demonstrate, it is a fact that whenever the state essentially relies on taxation the question of democracy becomes an unavoidable issue, and a strong current in favour of democracy inevitably arises. This is the result of the fact that people will naturally be induced to coalesce according to their economic interest, and those groups that find no way to influence the decision-making process in their favour claim appropriate institutional change. The state for its part must give credibility to the notion that it represents the common good: it therefore tends to propose a national myth whose purpose is that of overcoming the conflict of interest that the very existence of the state creates or exacerbates. National myths may have a variety of specifications: their least rhetorical expression is the notion of GNP or GDP, and the stress on the goal of economic growth as seen in isolation from distributive preoccupations.

None of the above is to be found in an allocation state. The

state, being independent of the strength of the domestic economy, does not need to formulate anything deserving the appellation of economic policy: all it needs is an expenditure policy. Because state revenue itself is the largest part of GDP, the simple act of spending domestically will maximise GDP growth. The only relevant problem to an allocation state is extracting the maximum potential revenue from the rest of the world: this, however, has little to do with the domestic economy. Because an allocation state only spends and does not tax, its expenditure policy can only indirectly damage some of its people; it will, on the other hand, usually be seen as benefiting everybody.

That benefits are unequally distributed is not relevant for political life, because it is not a sufficient incentive to coalesce and attempt to change the political institutions. (To the individual who feels his benefits are not enough, the solution of manoeuvring for personal advantage within the existing setup is always superior to seeking an alliance with others in similar conditions. In the end, there is always little or no objective ground to claim that one should get more of the benefits, since his contribution is generally dispensable anyhow.) Were this not the case, the individual would usually find himself in a position whereby he could increase his income if he left the country and sought employment elsewhere; but normally allocation states pay well. Because Exit (Hirschman, 1970) normally involves a considerable loss of income, Voice becomes a dangerous proposition and Loyalty will be popular with a vast majority of the population.

Loyalty is to the system, not to individuals in power. A lot of scheming may be expected to go on in allocation states along the time-honoured pattern of court politics, but this will seldom, if ever, develop into a truly political debate. (Democracy is not a problem for allocation states. Although they may find it expedient to set up some kind of representative body to vent and control some of the resentment that even court politics generates, these bodies inevitably have a very tenuous link to their apparent constituency: their debates are followed with indifference by the public and the ruler can disband them and meet practically no resistance whatsoever.) More commonly, representative bodies do not exist at all and to the need of establishing them little more than lip service is paid. Even such lip service is intended more to serve the wishes of public opinion

abroad than to satisfy any substantial pressure domestically. The fact is that there is 'no representation without taxation' and there are no exceptions to this version of the rule.

(It is only in the case that an allocation state fails, or is widely believed to fail, to take full advantage of the possibility of receiving income from the rest of the world that substantial political opposition may develop.) While in fact opposition groups may be numerically limited, they sometimes find themselves in a position to overthrow the existing political order. The result is generally a different institutional setup, although in no way a more democratic one. The history of Libya and possibly Iraq is exemplary in this respect: in both cases the ruling family was seen as being subservient to foreign interests not just from a political point of view, but from a revenue point of view as well: they were forfeiting revenue. It is in this respect that corruption becomes important: inequality of distribution is not an issue, but if the search for personal advantage leads to a failure in cashing in fully the potential rent it develops into a very important one. The reason is that while inequality of distribution can only be corrected by benefiting some and damaging others and each individual generally is not entirely clear on which side he is going to be, mismanagement of the revenue potential of the state can be corrected by benefiting practically everybody in the country.

An allocation state does not need to refer to a national myth and, as a matter of fact, will usually avoid doing so. A national myth, when it coincides with the boundaries of the country itself, may be interpreted as a basis to claim a say in the allocation process. The patrimonial non-national state is, on the other hand, best adapted to being an allocation state, because its origin naturally restricts the number of people who have a say.

Because they do not refer to an appropriately sized national myth, allocation states may avoid having a clearly defined constituency. While this behaviour will clearly tend to perpetuate and possibly reinforce the importance of traditional segmentary politics and kin groups, the fact that most of the GNP is made of government expenditure practically ensures that few or no alternative groupings will develop. The small number of hands employed in the oil business makes it possible essentially to buy off the possibility of unions developing in that sector. Elsewhere, the lack of industrial establishments, and more generally of productive activities, will prevent a union structure

and culture from developing. Unions are born in factories because the latter enclose a large number of workers that share common interests. From factories, unions can spread to other sectors and smaller establishments: but it is very difficult to start unionisation from the service sector or from a petrochemical plant. Very mild repression is all that is needed should someone fancy imitating foreign experiences.

The same is largely true for parties. As the politics of allocation states leave little ground for economic interests of citizens not belonging to the elite to be represented, parties will develop only to represent cultural or ideological orientation. In practice, Islamic fundamentalism appears to be the only rallying point around which something approaching a party can form in the Arab allocation states; plus of course the government-inspired parties, wherever they exist.

In actual practice, the distinction between allocation and production states becomes blurred at the margins. Algeria is becoming less and less of an allocation state, while Egypt and Tunisia do enjoy some income from abroad and thus are not purely production states. Apparently, the only difference is in the degree of budget tightness: if money is available, there is less concern for return on unit spending; as money grows scarcer, results are expected of projects that are undertaken. It is impossible to differentiate sharply between states that undertake industrialisation as a tool for political control and states that do so because they expect positive economic returns and increased revenue.

Yet the fact remains that even limited revenue from abroad dramatically improves the state's ability to buy legitimacy through allocation and increases regime stability. Iraq since the early seventies and Algeria almost since independence have had remarkably stable power structures. The major example to the contrary seems to be Iran: but there the Shah was more pre-occupied with promoting aggressive industrialisation, even at the cost of exacerbating class conflict, than with buying political support. His successors have done little in the direction of democratisation, but their concoction of populism, Islamic revival and appropriate use of oil money to buy consensus at the retail level (taking care of the poor, improving life conditions in the rural villages) seems to be working quite a bit better than most observers expected. Plus, of course, there is the gruesome rhetoric of war.

ACTUAL POLICIES AND THE NATURE OF THE STATE

The case of Iran clearly demonstrates that the nature of the state is not a rigid determinant of government policies. The latter may well diverge from what we would expect on the basis of the analysis of the nature of the state. If policies do so, they may be expected to be unstable, as they will lead to economic and/or political contradictions which will eventually force their change. Thus the proposed distinction between allocation and production states is far from being an easy tool that allows us to predict which policies are used, but may improve our understanding as to whether policies currently being enforced are likely to be stable or not.

It is specifically important to recognise the existence of allocation states and the fact that they constitute logically coherent political systems which can display considerable stability if the appropriate policies are adopted. The latter are not the same as those that we would deem appropriate for production states.

Much of the literature on the Arab political system suffers from the assumption that there is but one 'modern' model of state, and stability can be gained, in general, only through 'modernising' policies. This approach does not explain genuinely 'reactionary' mass movements, such as in Iran, and leads to endless paradoxes. Witness Michael Hudson's concept of 'modernising monarchies': a monarch ruling a patrimonial state is not exactly what most people would call 'modern' — in fact, they often call it 'traditional' or 'feudal'. Something must be wrong there: a modernising monarch should be expected to promote democratisation and gradually evolve into a ceremonial head of state in the northern European tradition. Yet these monarchs and ruling families, although they love modern technology and use computers and jets, have apparently no intention of sharing their power or changing their role.

The concept of allocation state makes it possible to overcome the paradox. The ruling patrimonial monarchies are neither traditional nor feudal. Feudal they never were; traditional they may be in the sense that they have a tradition, not in the sense that they are the same thing as 20 or 30 years ago. Appearances may not change much (in fact, they have changed quite a lot) but the substance is entirely different: those 'traditional' rulers today head complex and sophisticated allocation states. It so happens that the patrimonial form of government is very well

adapted to the specific character of allocation states and vice versa; it is, on the other hand, particularly ill suited to the characters of production states. But democracy, which has advantages in the case of production states, has strong disadvantages in the running of allocation states.

Allocation states are neither better nor worse than production states from a moral point of view, and they are neither more nor less modern. Each has its own rules of the game and evolves along a different path. There is no reason to expect that eventually they will converge towards some kind of standard modernity.

ON RELATIONS BETWEEN ALLOCATION AND PRODUCTION STATES

Relations between allocation and production states are not easy. Each group projects a different model of international relations, according to its specific interests and security preoccupations.

To neighbouring production states, the resources that are available to allocation states are a source of frustration and envy. To them, the best solution would be to wipe out the allocation state altogether, and appropriate its sources of income. This is, however, impossible and nobody quite expects things to go this way: but somehow this fundamental tension remains latent and permeates all relations between the two types of political formations. Allocation states, on the other hand, naturally tend to project internationally their characteristic pattern of buying consensus at home: thus they propose themselves as sources of income to the neighbouring production states, and in doing so, initiate a process that may turn the latter into allocation states. But while production states are interested in appropriating income and allocation states are ready to share theirs, this will not lead to harmonious coexistence, because the question of who is in control is inevitably left open.

The balance of the game depends on the relative importance of the financial resources that the allocation states have available relative to the military potential and economic needs of the production states. If the latter feel stronger, as in the fifties and early sixties, they will propose a model of inter-Arab relations based on a pan-Arab ideology that has clear revolutionary undertones and proposes the dissolution of existing

separate state structures. On the other hand, when allocation states feel stronger they will propose again a pan-Arab ideology, but one in which the Islamic component dominates and the revolutionary one does not exist and inter-Arab affairs are primarily seen as cooperation among independent Arab heads of state.

In the phase of production-state hegemony, the Arab world was dominated by Egypt, which is by far the most important political formation in this respect. Whenever production and economic growth are seriously the main problem of Arab politics, Egypt moves in to the fore. But military defeat and economic disaster coupled with growing oil prices seemed to change the definition of power in the Middle East: there was, as Kerr writes, 'the new belief that power grows, not out of the barrel of a gun nor out of the appeal of a revolutionary leader or movement, but out of an ample state Treasury' (Kerr and Yassin, 1982). Thus Egypt lost the lead and Saudi Arabia took it over again using arguments that were extremely appealing, including to the Egyptian leadership. After an attempt at acquiring its share of the oil income in the least expensive way by exploiting Qadhafi's Nasserite enthusiasm through the union in 1972-3, the Egyptian state was confronted squarely with the prospect of turning into an induced allocation state, subservient to the wishes of Saudi Arabia. But, apart from pride, this solution was barred because the money that was being offered was simply not enough to guarantee the ability to buy domestic political consensus in a complex and populous country such as Egypt. In order to establish a stable induced allocation state in Egypt one needs considerably more money than the Saudis were willing to offer, and Sadat turned to the USA, which he expected to be both willing to provide abundant aid in the short term and capable of opening new development prospects in the longer term. With Mubarak, the importance of domestic production, industrial growth and exports are being stressed anew. The country still relies heavily on income from the outside world, but the state perceives itself as being a production state.

Syria and Jordan provide the best examples of induced allocation states. These countries are crucial to the security concerns of the Gulf allocation states, because they are in the front line facing Israel, because they — singly and together — hold the keys to keeping the PLO under control, and finally, because they may be useful, in quite opposite ways, in containing Iran. This allows the two countries to extract very considerable income relative to

their size, while at the same time being almost totally free of interference in their domestic policies. Yet an induced allocation state is not a stable formation: its very existence may be seriously undermined by international developments or by the weakening of their purveyors of funds.

Allocation and production states project two conflicting models of regional integration. In this sense, while they both are inevitably attracted by a pan-Arab national myth, the real content and meaning that each attaches to this myth is different. After the demise of the Nasserist approach proposing political unity with no intermediate steps — in essence, an attempt to wipe the traditional Arab monarchies off the political map — today Arab unity is sought through gradual processes of regional integration. To the production states, the main objective of this integration is the acquisition of a wider economic space that would allow their industrial sectors to benefit from economies of scale. The production states are aiming at a kind of regional cooperation that will regulate migration, liberalise trade and financial flows within the region and establish protection *vis-à-vis* the rest of the world. They are interested in mechanisms that will generate a preference for financial placements within the region, rather than in the global markets. Although the specific situation of the Arab region is in many ways different, they are attracted by the European model, whereby political unity is sought by creating an economic framework within which private contacts and initiatives are allowed to multiply, up to a point when the region would be effectively unified and political unity would cease to be controversial.

The allocation states have a completely different set of interests and goals. Because they are structurally dependent on imports for almost all consumption and investment goods, they are extremely reluctant to give preferences to any other country and attach priority to being able to shop freely. For the same reason, they wish to be able to invest their surplus funds anywhere in the world. *De facto* they need immigrant labour, but do not wish to formally acknowledge this by signing treaties with the countries of origin. In their present investment plans, access to the markets of industrial countries is much more important than protected access to a regional market. To them, regional cooperation and integration is more of a political and security affair. Regional integration is a framework for cooperation among sovereign governments and the individual citizen or

corporation is not expected to play much of a role. The purpose of this intergovernmental cooperation is to defuse and solve local conflicts and improve security conditions. The final goal is not at all some form of political Arab unity, but rather the survival of the allocation states. The pan-Arab national myth then becomes the ideological cover that legitimises a certain degree of interference in the domestic affairs of other countries in exchange for grants and subsidies. Ideally, integration as pursued by the allocation states includes only primary or induced allocation states.

THE LONG-TERM EVOLUTION OF ALLOCATION STATES

The concept of allocation state does not seem to offer a clear evolutionary pattern. It is possible that, being influenced by the opinion and counsel that emanates from the rest of the world, some of the allocation states will seriously pursue a process of diversification of their domestic economic base and gradually turn into production states. Their political orders may also gradually evolve and today's patrimonial rulers may slowly develop ways that are typical of Scandinavian monarchs.

On the other extreme, we may imagine a situation in which the allocation state continues unchanged until the last drop of oil is exported. At that point, the state may simply fold up and the country be deserted, most citizens having accumulated enough of a fortune to allow them to live elsewhere. Today's oil capitals may be turned into ghost towns whose role would be restricted to issuing passports and providing diplomatic protection to a largely expatriate body of citizens. Such states would not face a security threat because they would interest nobody: just as Liechtenstein or San Marino, they would not need to worry about their defence. Once the likely duration of oil reserves is considered, plus the possibility of accumulating financial assets that would allow the state a theoretically permanent source of income, this scenario is not to be ruled out for some of the less populated countries in the Gulf, possibly even for Libya.

In an intermediate case, the allocation state is confronted with greater demands than it can accommodate and gradually turns into a production state. We may expect this to be the case for both Algeria and Iraq. These are not patrimonial states anyhow,

thus a transition in the nature of the state may occur with less political trauma.

The point is, that since oil, which is the main economic foundation of the allocation state, is a depletable asset, allocation states are necessarily a passing phenomenon. But how fast in passing? As things stand today, they can all count on another five or six decades of good life. And that is a long time.

CONCLUSION

This chapter discussed the question of the economic foundations of the state in the Arab world and underlined the importance of factors that are traditionally recognised in literature — such as conditions for water supply — as well as other factors, such as conditions of oil production and more generally the increasing role of the state in economic life. Attention was focused on the sources of revenue of the state and a distinction was proposed between allocation and production states. Of course, economic conditions do not explain all aspects of the behaviour of a state and economic factors cannot be reduced to the simple dichotomy of allocation versus production state. This is one analytical tool that may be added to others in order to achieve a better understanding of Arab realities.

The proposed distinction might be relevant outside of the Arab world as well. Oil then ceases to be the primary factor: still, in many countries the state primarily depends on income from abroad rather than from its own citizens. While aid-giving is an important dimension of today's international relations and a necessary instrument to spread development, the fact that it may generate induced allocation states is possibly not sufficiently recognised. The growing importance of international realities is allowing an increasing number of power structures to become essentially independent of their natural domestic constituencies: whoever has power has access to foreign resources that effectively elevate him above most challenges from within. Most frequently, commentators underline the instability of the developing countries, but in many cases it is the stability of some obviously rotten and unpopular regimes that should surprise us. Stability may, in fact, mean political immobilism, which is seldom for the better: what is frozen is not necessarily peace, but conflict; not freedom, but oppression.

The Macro-behaviour of Oil-rentier States in the Arab Region

Mahmoud Abdel-Fadil

BASIC FEATURES CHARACTERISING THE ECONOMIES OF OIL-RENTIER STATES

There exist a number of socio-economic features that characterise the economies and societies of oil-rentier states (Mahdavi, 1970: 428–67). The most important feature is that the vast oil revenues received by the governments of these countries have very little to do with the productive effort of the community as a whole. Oil export prices are, in fact, totally divorced from costs of local production, as 'the input requirements of the oil industry from the local economies — at least for the inputs that have an opportunity cost — are so insignificant that for all practical purposes one can consider oil revenues almost as a free gift of nature (Mahdavi, 1970: 429).

Thus oil revenues are primarily in the nature of external collective rent. External in the sense that oil revenues depend on a variety of international factors and the collective bargaining power of oil exporting countries and accrue theoretically to the whole community.

In such oil-rentier economies, *the state becomes the main intermediary between the oil sector and the rest of the economy*. It receives revenues which are channelled to the economy through public expenditure, and since public expenditure generally represents a large proportion of national income, the allocation of these public funds among alternative uses has great significance for the future development pattern of the economy.

The 'oil boom' of the 1970s generated a 'spending boom' unparalleled in the history of the oil-rentier states in the Arab

might think that the support given to products should outweigh the support given farming with prices therefore playing a more determinant role' (Three Year Plan 1978-80).

8. 'It is mercantile agriculture and, in particular capitalist agriculture which will have to not only continue specialising in export crops but develop food production more, too. It is, therefore, mercantile agriculture which will have to assure the food security of the country' (*Revue Marocaine de droit et d'économie du développement*, 1982).

9. At Oubari, for example, 'each farm covers 10 ha. With the farm comes a herd of goats, a tractor, a harvester, an orchard with citrus fruits, figs, a lucerne plantation, a kitchen garden. The holdings are grouped in small autonomous townships each having an electric power station, a mosque, a school, administrative buildings, tarred roads streaking the fields' (Rossi, 1979).

10. The average agricultural price index does, however, conceal very big distortions in favour of producers of fruits, vegetables and meats, to the prejudice of producers of basic produce, cereals, vegetable oils and milk — products for the most part imported and whose prices are fixed by the state.

Political Aspects of State Building in Rentier Economies: Algeria and Libya Compared

Dirk Vandewalle

International political economists have lately renewed their interest in the possibility of autonomous development in the less developed countries (LCDs), focusing on the impact of the international economy on state/society configurations within the periphery, and on countervailing strategies available to countries in the periphery.¹ Although some of their general findings are applicable to rentier states as well, the latter exhibit some particular difficulties which this chapter will dwell upon. In Algeria and Libya, the two countries which are used for case study in this chapter, the effort to achieve autonomous development has been particularly strong and has resulted respectively in an attempt to either follow a dissociative development strategy, or in a rhetorically virulent isolationist attitude.

The relative absence of capital scarcity is but one of the unique aspects of rentier states. Revenues are accumulated through the taxation of third parties. The country's own citizens are relatively unproductive, and little demand is put upon them to become productive. In most non-rentier economies the state derives revenues from taxing citizens, goods and services. In the process, rules and procedures are established to ensure the collection of taxes, and a bureaucracy arises to administer the system. A minimum degree of consensus concerning the amount of taxation is arrived at. In return the state compromises with its subjects: no taxation without representation. As Karl Polanyi (1944) has demonstrated, these 'historic compromises' between state and society were hammered out in the nineteenth and twentieth centuries.

In rentier economies such interaction and compromise need

not take place, at least not initially. In the Middle East, the convergence between state and society did not take place altogether, or was defined in certain ways by the imposition of colonial rule — French in Algeria, Ottoman and Italian in Libya. State and society remained distinct.

The rentier state can govern by using the rents that it receives. It needs, at best, a few professionals to negotiate the size of the rents with the purchasers-producers. There is little use for an elaborate bureaucracy; the international companies producing the rents also effectively act as tax-collecting agencies for the local governments. There is at the same time little concern for production-oriented behaviour, while attention focuses on income allocation.

The rentier nature of state revenue thus militates against the creation of a strong state or the involvement of its corresponding society. In this light, the massive revenues accruing to the government in a rentier state are a double-edged sword, allowing the local governments to dole out revenues with minimum attention for representation, on the basis of the reverse principle of no representation without taxation.

In Libya and Algeria, at the beginning of the development process, and for essentially historical reasons, the state was weak. The long tutelage under France and Algeria's bloody war of independence had further widened the gap in the ideas of the various participants on what statehood would entail. In Libya, the history of political and economic separation between Tripolitania and Cyrenaica, the creation of the kingdom by the United Nations, and the acceptance of King Idris al-Sanusi as a compromise by far overshadowed whatever cooperation and agreement had existed during the temporary union against Italian colonialism. For most Libyans, the notion of a Libyan state remained an alien concept in a country where a federal state was only proclaimed in 1963. In Algeria, at least until 1965, and in Libya until the 1969 Qadhafi *coup*, policies cannot be said to have reflected collective interests. 'Goals pursued were often those of particular groups closely associated with the leadership, and no agreed upon structure existed to impose policies over the objection of particularistic interests' (Gourevitch, 1978: 901–2).

THE CASE OF ALGERIA

How well have Algeria and Libya performed when faced with these powerful structural limits, i.e. international economic constraints and weak state structures?

In Algeria the *dirigisme* implied in the 1970–3 and 1974–7 Four Year Plans manifested the inclination on the part of the former president Houari Boumedienne in favour of an industrialisation effort led by a relatively small group of decision-makers. This group would not only initiate but also implement economic directives, both locally and regionally. Algerian elite membership consisted of three major groups: the military, the small but growing cadre of bureaucrats and technocrats and, finally, the elites of the single political party, the Front de Liberation Nationale. The party's task of mobilising the population and stimulating political participation was steadily downgraded.

As early as 1965 the emphasis on the formation of technocratic/bureaucratic cadres met with concerted opposition from groups within Algeria unwilling to allow the formation of what they considered to be a privileged class at their expense. But, as in several Middle Eastern rentier states, the Algerian leadership found it relatively easy to circumvent the demands of unions.

The 1965–70 period had already been particularly instructive in this regard. The proposed centralisation of agricultural production and the extension of government control to certain sectors of industry under the 1966 Code des Investissements had led to considerable opposition from the syndicalist movement, particularly the Union Générale des Travailleurs Algériens (UGTA). Boumedienne's response had been to emasculate all national-level institutions that could challenge the Algerian state. The Political Bureau of the FLN, as well as the National Assembly, were suspended. Real power rested in the Council of the Revolution and the Council of Ministers.

By the third UGTA Congress in 1969 most militant syndicalism had been suppressed. By 1970, the most vocal and powerful opposition had gradually been eliminated or transferred into sinecure positions. Boumedienne had assumed the leadership of the army, presided over the Council of the Revolution and the Council of Ministers, and of the FLN, and held the Ministry of Defence — positions he held until his death in 1978. A number of apolitical technocrats with no constituencies of their own

assumed junior leadership positions. The result was a type of leadership in which economic policies had become essentially elitist in concept and method. Depoliticisation, particularly among the youth, had started to take root.

By the end of 1971 the polarisation between those demanding political and economic liberalisation, and those insisting on the development of public property, had hardened. Boumedienne's dilemma was to enlarge popular support for his regime and his economic policies while containing the opposition of the urbanised middle class. The introduction of workers' participation in the industrial sector (the *Gestion Socialiste des Entreprises* of 16 November 1971) was an example of trying to please the people. Workers' assemblies were created throughout the national companies and their units, to be extended eventually into the private sector.

Clearly aware of the resentment of the urban middle class, the remaining large landowners, the private merchants, and certain technocrats, Boumedienne relied on 'institutionalisation from the bottom up'. Local and regional committee elections (*Assemblée Populaire Communale* and *Asemblée Populaire Regionale*) were held in 1967, 1971, 1975, 1979 and 1969, 1974, 1979, respectively. Both assumed administrative duties and management responsibilities, but remained without significant political authority.

Algeria by 1974 had become what William Zartman called a 'co-optive technocratic system' where no group *qua* group had yet institutionalised its efforts at gaining power, despite the emergence of inter- and intra-elite rivalry. The power of the state was strongly centralised in the military and represented on all national decision-making bodies that directed all political activities at the expense of the FLN.

The powerful concentration of power that followed the *redressement révolutionnaire* of 1965 gave way to a *redressement constitutionnel* in 1975, largely based on Boumedienne's efforts to further de-emphasise the informal, personalised nature of the political system and on his desire to provide an antidote to the increasingly technocratic nature of Algeria's economy. The Algerian president seemingly tried to steer a course in between the demands made by adherents of the two opposing tendencies. Despite a continued commitment to a technically-oriented development strategy, his new *redressement* included a new role for the FLN, following a period of inactivity

of the latter between 1965 and 1975. The National Charter of 1976 was to be Algeria's own 'historic compromise', reminiscent of those concluded in Europe decades earlier. The FLN regained its role as the ideological vanguard of the socialist revolution and FLN membership became a *sine qua non* for any type of political participation. But although the Charter had been the focus of intense public debate, only minor alterations had been allowed to its political content.

The two years following Boumedienne's death in 1978 were the acid test for this attempted institutionalisation, and for the future of the public sector. Under Benjedid, a series of sweeping promulgations in 1981 and early 1982 culminated in a new *Code des Investissements* in which the role of the private sector was reassessed.

Much discussion has focused on whether the economic liberalisation in Algeria (as well as in other Middle Eastern economies) was a sign of state strength or of state weakness. The break-up of the public sector was only in part based on economic considerations. The Algerian state had become sufficiently strong to weather the economic difficulties in themselves, and had put in place an impressive array of instruments to monitor and guide its economy. Political contradictions inside Algeria provided an important motivation. The Charter's historic compromise had proven unequal to the task. Wage scale increases, price subsidy allocations, and social transfers (in the form of family allowances, etc.) were the price paid to incorporate certain crucial groups.

Although the orderly change of power after Boumedienne's death attested to the strength of political institutionalisation, the proposed *infitah* showed the power of those the rentier economy needed most for its economic future. Opposed to these technocrats and administrative elites stood the party elite, the unions, and the students. The conflict was resolved in favour of the bureaucratic/technocratic class. The loss of state power to this relatively small segment, however, had not prevented Algeria from moving in the direction of a bureaucratic polity during the 1970s, 'a political system in which power and national decision-making are shaped almost exclusively by the employees of the state, and especially by the top-most levels of the officer corps, the single party organisation, and civilian bureaucracy, including technicians' (Entelis, 1982: 129).

The single-man concentration of power was tempered by the

gradual development of a technocratic system that relied heavily on regularised procedures. This is the modern, bureaucratic form of clientelism that is now overwhelmingly found in Algeria. The traditional sources of power — personal, class, or religious — have been replaced by organisational ones, a process started in the late 1960s.

Although Algeria as a rentier state found itself by most of the indicators specified in this chapter at the high end of the 'political order' continuum (a bureaucratic-authoritarian state with little room for effective pressure group action, a large and effective array of economic policy instruments, and effective use of the national myth in the pursuit of its development goals), it was ultimately the expanding power base of the bureaucratic/technocratic elite (which had been instrumental for the implementation of state capitalism in the first place) and the gradual enlargement of a more productive (but parasitic) private sector to which this elite partially defected, that forced a reconsideration for basically internal political reasons. This elite, substantially nurtured under the rules of a meritocracy, had not found its roots within a dominant Algerian class. Nor was it a comprador class in alliance with outside interests.

It was ultimately, as John Waterbury (1983: 39) has described, for Egypt 'the inability of such elites to muster the political will to undertake far-reaching distribution of domestic assets' that led to the 'political expediency' of *infitah* with its attendant implications of 'financial orthodoxy, economic austerity, and the revivification of private sector interests that then infiltrate the state'.

THE CASE OF LIBYA

In Libya the political turmoil throughout the 1970s created a political climate which was highly unfavourable to the pursuance of an industrialisation strategy, which postulates centralised and coherent decision-making. In the political transition following the revolution of 1969, the Free Officers needed to consolidate their regime in the face of an existing bureaucratic class with close contacts to the West and firmly entrenched in certain sectors of the economy, a mass public overwhelmingly apolitical, and a rural elite which, despite having lost a substantial amount of power, still held considerable sway over the rural population.

Before its first economic plan was announced in 1973, Libya witnessed the creation of the Arab Socialist Union, then the creation of national, provisional and local committees, and finally the demise of the Arab Socialist Union. The launching of the Popular Revolution in April 1973 was described by some as Qadhafi's attempt to rally popular support to his side by attacking the structures of state that were still weak and intensifying his populist policies to redistribute resources to both the lower-middle and lower classes, which had so far least profited from the burgeoning economy.

The rapid removal of part of this old bureaucratic class during the early 1970s created enormous economic (and political) confusion. By the end of 1974 increasing acrimony, pitting a group of middle-class bureaucrats and high officials — technocratic and regionalist in outlook — against a lower-middle class and lower class with traditional and pan-Arab leanings, centred precisely on the future of the Libyan economy. Underlying the disagreement also was Qadhafi's deep mistrust of bureaucratic procedures and of the growing technocrat group within Libya — not as technocrats *per se*, but simply as the embodiment of a modernising group that could potentially gain and consolidate political power.

The August 1975 attempted *coup* in Libya spelled the end of effective policy initiatives by the technocratic group within the country's top political decision-making body, the Revolutionary Command Council. It also marked the beginning of a decade of new political and economic measures that would expand the rentier characteristics of the Libyan economy. Many of these measures were delineated in the Green Book, the political and economic philosophy of which is far from reflecting the needs of a modern state and economy. The official establishment of Basic Peoples' Committees, the appointment of 'secretaries' (formerly ministers) directly by the people, and the 'continuous revolution' inaugurated in 1978/9, culminated in the establishment of workers in public enterprises and the gradual abolition of private property in excess of personal need. Only the banking and, significantly, oil-related enterprises were temporarily saved from take-over.

The 'spontaneous' take-overs of the private economic sector by the militants had a chilling effect not only on relations with foreign companies but also on the ability of the Libyan leadership to guide the economy in the path of rapid reforms. What

Qadhafi referred to as the 'socialisation' of Libya's economy had several perverse effects. The take-overs and the interference by the Popular Committees brought an initial wave of confusion and further inefficiencies. National planning became even more uncoordinated and whatever inter-sectoral planning had been envisioned was lost in the confusion. Indicative of the damage was the decision to demonetise the Libyan dinar in March 1980, perhaps potentially the most radical of Qadhafi's socialist measures. Although in line with other efforts at redistribution, J. A. Allan viewed it as a 'blunt instrument' used only because of Libya's inability to manage its national economy.

It was perhaps only a small example of the juxtaposition that existed by 1980 in Libya — on the one hand favouring a technocratic solution to increasingly complex economic problems that necessitated increasingly sophisticated policy instruments, while on the other hand refusing to cultivate a bureaucracy or local technocracy to guide the effort. If the disparity proved too difficult to bridge, the government often tried to 'outspend' it. In reality, Libyan administrative institutions were unable (or were not permitted) to cope with the demands put upon them by a rapidly expanding economy. Libya's need for top-level managers increased rapidly from 35 per cent of total need in 1974 to 68 per cent in 1978. Worse, however, was that as a result of frequent political disruption and interference, a survival ethic appeared among many of Libya's remaining bureaucrats, 'an ethic that dictated external compliance matched by a covert desire to maximise personal advantage at the expense of the system' (Palmer and el-Fathaly, 1982).

All of the above suggested that the attempts made by Qadhafi to incorporate Libyans into an effective bureaucratic, administrative and political structure, had substantially backfired. Evidence seems to suggest that he had exacerbated Libya's traditional problem with central authority. The Libyan state apparatus, destroyed during the Italian occupation and held in abeyance during the monarchy, had been declared useless by the creation of People's Power as embodied in the creation of the *jamahiriya*. The undercutting of an apparatus meant to provide continuous and consistent administration — something Algeria had been relatively successful in erecting — was legitimated in the Green Book. In this respect events since 1975 can to a large extent explain the Libyan leader's wish to do away with institutions that would — if indeed they could be called bureaucratic

or administrative — operate independently from direct supervision. Their replacement by People's Power can be considered Qadhafi's own survival ethic, the use of the national myth for survival.

The continuous uprooting of the domestic bureaucratic organisation in many ways reflects the distrust felt by Qadhafi for a modern state with its specific political, economic and social organisation. The nature of the Libyan rentier state, with its concentration of political power and control over the economic rent, allowed him the luxury of acting upon this distrust. Libya resembled in many ways what Marius Deeb has called a 'pre-capitalist socialist society' in which the hierarchical bureaucracy of the modern state is held in abeyance and allegiance is bought by means of the rapid inflow of revenues. Paradoxically, it was the impact of capitalism which allowed Qadhafi and other rulers of rentier states to adhere to precapitalist development. As a consequence of economic policies related to the state's rentier nature and its populist strategy, by 1980 Libyan society had become largely irrelevant to the state itself.

Not surprisingly, Libya did not feel the pressure in favour of economic liberalisation in the 1980s. Despite the general uncertainty of the economic situation — or perhaps because of it — spending continued at a fast pace while oil revenues plummeted. The efforts at eradicating private interests from the Libyan economy continued. While development and regular administrative budgets were almost halved between 1980 and 1985, defence and military spending climbed from 700 million dollars to almost 1.2 billion dollars during the same period. The Great Manmade River Project relied overwhelmingly on foreign expertise and, for the first time, Libya imposed a system of indirect taxation to help pay for a development scheme. The share of total revenue accruing from oil and oil-related activities has remained essentially unchanged since the 1969 *coup*, at a level that is one of the highest in the region — in excess of 95 per cent, while IMF statistics show a slight increase in government revenue as a percentage of GDP (this is in clear contrast to Algeria where oil and gas revenues as part of total revenues have dropped from approximately 70 per cent in 1979 to slightly over 50 per cent in 1985).

CONCLUSION

In evaluating the chances of rentier states to develop a diversified economy, John Ruggie's remark about general development in the periphery is applicable: the much-touted international division of labour is 'not really as elastic as its advocates assume, but not quite as rigid as its detractors insist' (Ruggie, 1983: 482). Rentier economies, however, face a host of specific constraints that restrict and channel economic development. These constraints are of an economic as well as a political nature.

Both Algeria and Libya undoubtedly show some of the political characteristics of allocation states. Representation in Algeria, despite the communal and regional elections and the existence of a National Assembly, remains at best a carefully controlled process. Its value remains as a vehicle to deflect serious criticism or opposition. In Libya, the Peoples' Committees have become thoroughly infiltrated by Qadhafi loyalists who ensure that decisions remain in line with those of the Libyan leader. Luciani has correctly singled out the ease with which the nature of their economy allows rentier states to forego worker participation and unionisation; both the Libyan and Algerian case confirm this. But to argue that overall unequal distribution of benefits is 'not relevant for political life, because it is not a sufficient incentive to coalesce and attempt to change the political institutions' (Luciani, this volume: 74), ignores some of the political characteristics that define rentier states. While this phenomenon may be true at the individual level, as Luciani rightly argues, the dynamics change radically once these individuals group themselves, i.e. assume some type of corporate identity. In Algeria, the careful circumscription of formal representation did not prevent the creation of a powerful technocratic corps that strongly defended its corporate interests and in part helped to argue for *infatih*.

The 1969 military *coup* in Libya was the creation of a bourgeois class at the expense of the lower-middle and lower classes. By 1985, an estimated 100,000 Libyans, including an alarming number of those educated in the West, had left the country. The creation of a society geared toward consumption rather than productive participation (admitted by Col. Jallud in several statements) was in several ways directly related to the effects of the regime's political ideology. In rapid succession the local

capitalist class, originally co-opted to play a part in the productive process, and all local entrepreneurship and private rent were abolished. The temptation to look for easy pay-offs, primarily by military spending and by 'buying support', proved hard to resist. In Libya, economic organisation, political participation and bureaucratic efficiency were held in abeyance, resulting in both change and structural economic stagnation.

In Algeria, the government grudgingly and selectively tied its economic fortune to continued economic relations with the industrial world in the hope of selective dissociation in the long run. Libya, on the other hand, continued to reject, almost instinctively, the pressures brought to bear upon it by continued reliance on those countries that provided its revenues. The luxury of isolation from domestic pressure groups, so prevalent in all rentier economies, was fostered by the Libyan leader who, from his assumption of power, demonstrated an aversion to the constraints implied by the concept of a modern state. By 1985, Libya was by all political and economic indicators as much a rentier state as when the Idrisi government was removed in 1969. In all of this, Qadhafi's use of the national myth has been extraordinary. Libya's anti-Western stand and Qadhafi's announcement of his Third Theory as an alternative to capitalism and communism have masked the continued and deepening dependence of the country upon the West. The rent generated by Libya's oil voided the need to extract resources or involvement from its society and indirectly contributed to its ability to forego a governmental bureaucracy and administration.

By 1978, Algeria had systematically extended government control, both economically and politically. And although under *infatih* the role of the state has been somewhat curtailed, its control functions have been largely retained.

The reliance on state capitalism and state entrepreneurship has rapidly increased and complicated the tasks that needed to be performed by the Algerian state. Ironically, Algerian leadership made the same mistake as earlier development theorists of assuming that the government could act as the only hand on the tiller. In the end, it lacked the degree of autonomy to accomplish the goals of state capitalism. Non-technocratic leadership rapidly lost control in favour of a technocratic/bureaucratic elite that by 1978 was politically influential, firmly entrenched within the economy, and crucial to the leadership's survival and to the pursuit of its industrialisation policies.

In contrast to Algeria, Libya never really attempted policies that systematically militated against the centrifugal tendencies of the international and domestic market. The dilemma of the rentier state, with its ability to provide for substantial growth, while missing real development, remained essentially unaddressed. Although power had become highly concentrated, economic and political directives were completely juxtaposed. The Qadhafi government favoured, on the one hand, a technocratic solution to complex economic problems while continuously uprooting groups possessing the necessary skills. The demonetisation issue of 1980, the low savings rates despite skyrocketing revenues, and occasional liquidity crises, manifested the government's inability to control the economy. Most of this could be attributed to lack of policy instruments, neglect for efficiency, and a political system that repeatedly attempted to bypass economic and technical problems by 'outspending' them. In this equation, Qadhafi's statecraft contrasted sharply with that of the Algerian leadership. Acrimony towards the United States, for example, led to a severe loss of control over the quality of technology acquisitions as Libya was forced to diversify its purchases.

The peripheral nature of the Libyan economy can thus, to a substantial degree, be traced to its leadership's political experimentation. The nature of the development strategy envisioned in the early 1970s, with its need for a strong centrally-guided economic system, was compromised by a government that systematically debureaucratized the policy and society. In contrast to Algeria's managerial style of economic policy, Libya has experienced a revolutionary style in which bureaucratic structures were continuously uprooted. In Algeria, the state was instrumental in determining the direction and shape of the development strategy, even though it lost its initiative in the end to a technocratic/bureaucratic elite. In Libya, the state never achieved the ability coherently to implement those policies that would have maximised its chances for greater autonomy in the international economy.

NOTE

1. In this regard the research undertaken on development and political strategies to deal with economic dependence within the small

European industrialised countries seems particularly relevant. To a large degree sensitive to changes within the international economy, countries like Belgium, Holland and the Scandinavian countries, have systematically made political 'pay-offs' to societal groups (by means of social pacts, etc.) in order to maximise their economic potential and to further their development. Despite the relative absence of capital scarcity in these small countries and the new rentier states of the Middle East, different state/society relations prevail in each group. These determine, to a large extent, the degree to which compromises can be made, and the outcome of state/society relations. For more information on the small European countries, see Katzenstein (1983).