Universiteit Leiden

The Reformed Rentier State:

The social contract in modern-day Saudi Arabia

ABSTRACT

Rentier state theory has long been able to explain the relationship between state and society in the oil-rich countries of the Gulf. However, Saudi Arabia has seen a multitude of socioeconomic developments that, as I argue in this thesis, have caused as shift in the role of the state. I argue that the traditional model of the social contract has changed by examining the effect of contextual domestic issues. To support this argument, I investigate the extent to which oil price fluctuations and democratic pressures have had an influence on the nature of the social contract. The analysis concludes that the nature of the social contract has changed, and that rentier state theory should be refined and updated to improve our understanding of the social contract in modern-day Saudi Arabia.

C.L.M. Wilmink

S2233169

Thesis

MSc Political Science: International Politics

University of Leiden

Dr. Nicolas Blarel

Second reader: Dr. Oda van Cranenburgh

January 10, 2019

Wordcount: 9247

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Introduction

Since the emergence of the rentier state theory (RST) in the 1970s, the oil- and gas-producing states in the Arab world have often been referred to as 'rentier states' (e.g. Mahdavy, 1970; Beblawi, 1990; Schwarz, 2008; Sandbakken, 2006). The theory offered an explanation for the lack of democratization and economic development in states that have access to unearned, externally-accrued income or 'rents'. These rents functioned as a means for the incumbent regimes to hold on to their power by co-opting opposition and dissident voices. Since the rents can cover the costs of the state's repressive capacity, the theory postulates that the state gains complete autonomy from its population through the accruement of rents. It furthermore holds that the complete reliance on oil revenue for state expenditures relieves the state of pressures to develop, reform and diversify the economy (Luciani, 1990). The theoretical argument that explains the relationship between state and society in rentier states is thus twofold; rentier states rely on oil-revenue for all state expenditures and, through this strategy, gain complete autonomy from the population by 'buying off' legitimacy through the provision of welfare benefits. This specific social contract between the state and society, sometimes coined as an 'allocation-acquiescence bargain' (Mitchell, 2013), takes a central role in classical RST's explanatory power.

The rentier state theory served as an explanation of the behaviour and policies of rentier states in the era post oil discovery and improved our understanding of the political dynamics of the oil-rich Gulf region. However, recent ongoing development such as economic and political reform, and relative liberalization in the Arab states of the Gulf, specifically in the case of Saudi Arabia, might suggest that the RST argument concerning the relationship between state and society (as purported by Mahdavy (1970), Luciani (1990), Beblawi (1990) amongst others) might be too simplistic and at this time potentially obsolete. It may be suggested that the deterministic nature of classical RST can no longer explain the evolving state of the social contract in rentier states in the Gulf region, especially in modern-day Saudi Arabia.

In response to two reports published by the International Monetary Fund (IMF) in November 2015 and in October 2016, Saudi Arabia's Minister of Finance, Ibrahim Al-Assaf, announced that the Kingdom would start implementing a low rate, broad-based VAT system from January 2018 onwards (Dutt D'Cunha, 2018). This entailed that the government would be introducing a 5 per cent value-added tax (VAT) on most goods and services (General Authority of Zakat & Tax, 2018). Some forms of taxation, such as income tax for non-nationals, have always been notoriously low and other forms of taxation, most notably income tax for nationals as well as VAT, have even been non-existent (IMF, 2015). The introduction of taxation, alongside other socioeconomic reform plans, is an important development for the region but also seems to indicate that a more refined version of rentier state theory has become necessary to explain how and why such developments influence the social contract in modern-day rentier states in the Gulf.

This paper seeks to contribute to rentier state theory by suggesting a new approach to the social contract and political legitimacy within rentier states. States respond to the changing global and regional environment, and new socioeconomic policies are designed and implemented. To be able to understand what the relationship between state and society in modern-day rentier societies, such developments have to be taken into account. Classical RST should therefore be developed in a way it can capture the shifting dynamics of the relationship between state and society in Saudi Arabia.

Building on the core tenets of rentier state theory, the explanatory power of fluctuating oil prices and demographic pressures will be investigated to answer the following research question: *To what extent have fluctuating oil prices and demographic pressures caused a change in the nature of the social contract in modern-day Saudi Arabia?*

I argue in this thesis that the finite nature of oil in combination with oil price fluctuations and demographic pressures limited the possibility of full reliance on oil and complete autonomy from societal demand (or rather, the model for the social contract that classical RST assumes). I expect that these contextual domestic factors have thus changed the nature of the social contract.

I do not intend to completely refute all the assumptions of the classical rentier state model, as authoritarian resilience and lack of democratization in resource-rich rentier states seem to still largely be explained by RST (i.a. Gray, 2011; Schwarz, 2008). However, socioeconomic developments have led to the emergence of a seemingly different, less deterministic, rentier social contract in Saudi Arabia. A more refined theory of rentier states should not only improve our understanding of the dynamic relationship between state and society, it should also improve our understanding of the social contract's contingency upon prospects and possibilities of development and reform for Saudi Arabia. Although this thesis focusses on Saudi Arabia in particular, it may also provide a more suitable theoretical framework to understand the relationship between state and society in other resource-dependent Arab states, specifically those in the Gulf area.

The following section will provide an overview of the existing literature on classical rentier state theory, and makes the case for a refinement of the theory concerning the social contract. The theoretical section will consequently introduce alternate explanatory variables that have arguably changed the dynamics between state and society in the 'reformed rentier state' stage in Saudi Arabia, and will state according causal hypotheses to be tested. In the operationalization section, strategies to demonstrate the relevance of these hypotheses will be provided. In the following chapter, the found data and evidence will be presented and analysed. Lastly, I will provide some concluding remarks.

Literature Review

In this section, I review the literature on rentier state theory and provide an overview of its core concepts and premises. I present the theoretical argument RST makes concerning the social contract in rentier states. I furthermore present suggested revisions to the core theory. This section ends by emphasizing the theory's limitations and highlighting the need for a more refined theoretical explanation of the social contract in contemporary Saudi Arabia.

Rentier State Theory

When Mahdavy (1970) initially wrote about the problems of Iran's economic development as a consequence of the resource curse, he coined the concept of the (economic) rentier state. He argued that oil nationalization and revenue accruing through external rent caused (rentier) economies to experience slow growth, thereby impeding the development of sustainable economies. In those states where oil revenues constituted the largest part of the state income, governments assumed key roles in their economies. They experienced an increase in spending capabilities without having to resort to other forms of accruing revenue, such as taxation. Mahdavy further explained that the large rents that followed from oil extraction caused a reliance on oil-income for the financing of large projects and programmes, yet hindered stimulation of the productive sectors of the economy. The development and growth of the domestic economy, other than the oil sector, stagnated as a result. Mahdavy however also recognized the fact that this pattern of rentierism not only affected the economies of oil-producing states, but that it also affected the relationship between the government and its citizens, as the absence of taxation resulted in a very particular social contract between the rulers and the ruled.

Beblawi (1990) and Luciani (1990) were some of the early rentier state scholars that built on Mahdavy's work. They further developed the concept of the social contract in the rentier state by introducing the idea of the 'rentier bargain' (Beblawi, 1990; Luciani, 1990). They essentially held that the rentier state becomes autonomous from society as a result of the allocative power of the government. The population's right to hold a government accountable or to show dissent is 'sold' in return for the allocation of (part of) the rental wealth. The rentier bargain thus entails the exchange of allocation of wealth by the state for the acquiescence of society. Furthermore, the state is not reliant upon other sources of legitimacy as its revenue can directly be derived from ownership of rental wealth, rather than state revenue being dependent on wealth produced within the domestic economy. Along with Luciani (1990), Crystal (1995) and Ross (2001) therefore argued that the absence of democracy was an important outcome of rentierism.

Luciani further refined the concept of the rentier state by looking at the economic and development policies of resource-rich states. An oft-cited claim that Luciani made was that "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" (Luciani, 1990: 76). According to the theory, oil as the single source of income makes any diversification away from the oil sector an 'illusion' since the economy continues to be a welfare economy due to the extensive import of service and goods (Ménoret, 2005). This argument was confirmed by the (previous) lack of interest of the rentier states in investing in economic diversification and their limited role in sustaining and developing non-oil sectors of their economies.

Later works on RST have produced similar findings. In his book, Ross (2001) outlined three effects that are a result of rents: the 'rentier effect' (the elimination of the fiscal relation between a state and its population), the 'repression effect' (large flows of oil-rents encourage leaders to spend on regime security and the repressive state apparatus) and the 'modernization effect' (rents cause a stagnation of political and economic development). These three effects put forward by Ross aligned with the principles of classical RST.

The social contract in a rentier society

Most literature regarding the social contract in the Arab rentier states is guided extensively by rentier theory. The ‘rentier bargain’, as previously described, essentially captures the relationship between state and society in the rentier state. In economic terms, the social contract in the rentier state determines how hydrocarbon wealth is distributed domestically. However, the social contract in the rentier state has bearing on more than just the expenditure behaviour of the state. Unlike in industrialized democracies, the social contract in rentier societies is “conceptualized not solely as an institutionalized bargain among collective actors, it encompasses norms and shared expectations for the overall organization of a polity” (Yousef, 2004). The state does not only have a fiscal relationship with society through the distribution of the rental wealth, it also provides a vast array of social services varying from subsidized energy pricing and distribution to free healthcare and education to the extensive provision of employment in the public sector. The state’s commitments under the contract however come in return for the unfettered control of power and the submission of political liberties. Another substantial outcome of the social contract in the Arab rentier states is the preference for state-led national economies over market-led national economies. The latter results in a weak, uncompetitive domestic economy, as well as in a mentality of complacence; i.e. economic rewards are the result of citizenship rather than productive work or financial risk (Beblawi, 1990, p. 88). In sum, this boils down to a social contract that is informed by the distributionist rentier bargain.

Revisions to classical Rentier State Theory

Though the theory did provide clear arguments for the rentier state behaviour and rentier state legitimacy in the early stages of oil extraction and rentierism, it is not as comprehensive in light of the latest developments that Arab states of the Gulf have witnessed (Gray, 2011; Ehteshami & Wright, 2007). It has failed to explain the socio-political variations within the region, or the occurrence of economic policies aimed at the development of the non-oil sector, such as the 'Dubai Model' (Hvidt, 2009), or the consequences of oil price fluctuation. Among those criticizing the too simplistic and descriptive nature of classical RST are Luciani and Ross, who revised their earlier arguments (Luciani, 2005; Ross, 2009). The theory initially gained currency because of a seemingly simple causal link between the availability of rents and economic underdevelopment and authoritarianism, yet unique social, political and historical developments consequently remained understated. A few of these are for example the antagonistic position of the (growing) private sector, ever-changing regional conflict or changing levels of military expenditure. The excessive reliance on the economic relationship between the state and society of the explanatory claims within classical RST brings about the disavowal of any other factors that could influence or have influenced the social contract between state and society, according to Moore (2004). Similarly, Rosser (2006: 7) held that classical RST often "explained development performance solely in terms of the size and nature of countries' natural resource endowments", thus crowding out any influences that could have altered the existing causal link. By relying on the central assumption that the social contract in rentier states is exclusively based on the assumption of full autonomy from societal demand and reliance on oil revenue, classical RST fails to explain the political consequences of changing socioeconomic dynamics.

Building on these criticisms of classical RST, I argue that, contrary to RST expectations, Saudi Arabia's social contract is not solely based on the redistribution of oil and autonomy from societal demand. To be able to understand these shifting dynamics in Saudi Arabia, it is important to improve our understanding of why and to what extent the social contract has deviated from the classical allocation-acquiescence relationship between state and society. In order to re-assess our understanding of the social contract in a 'reformed' rentier state, and to contribute to the debate on the application of RST to contemporary Saudi Arabia, I argue that the causal link between domestic contextual issues (fluctuating oil prices and demographic pressures) and the changing nature of the social contract must be further investigated.

Theoretical Section

This thesis will focus on two factors that I argue have had a substantial influence on the traditional social contract in Saudi Arabia. The Kingdom has seen other domestic, social developments and societal pressures that may have had influence on the relationship between state and society such as for example the rise of Islamic feminism (Moghissi, 2011) and the increasing access to the Internet (Kalathil & Boas, 2010). However, I choose to use a socioeconomic approach to the case of the social contract in Saudi Arabia, and will thus not look at the influence of such non-socioeconomic factors.

There is a third major factor that plays a role in Saudi Arabia's political and economic development, which is the non-renewable nature of oil as a resource. I consider this to be a structural and underlying condition that captures a long-term dynamic, as I make the assumption that the Saudi Arabian leadership is aware of the fact that oil is a finite resource. It may be argued that the urgency to change certain policies will increase over time, as scarcity increases, yet I argue that the structural condition of oil-scarcity alone is not a sufficient condition to explain the observed change in state-society relations. The following baseline hypothesis follows from this assumption:

H_b: The non-renewable nature of the source of rents has led to a change in the nature of the social contract between the leadership and the society of Saudi Arabia.

A critical influence on rentier state-society relations that is not captured by the classical RST is the fluctuation of oil prices. Saudi Arabia has witnessed two significant periods of unstable oil prices, first from the 1980s up until the 2000s, and more recently after the economic crash of 2008, followed by another bust in 2014 (Macrotrends, 2018). In concurrence with Gray (2011), I argue that the government of Saudi Arabia has learned from these periods of relatively lower revenue, as it endangered its ability to hold up its part of the rentier bargain (Beblawi, 1990; Luciani, 1990). Such periods have demonstrated that its economy needed greater fiscal stability to be able to endure periods of economic downturn and to be able to ensure the long-term survival of the state and the regime itself. I therefore argue that oil price fluctuations have incentivized reform with the aim of revenue- and economic diversification, which in turn had its bearing on the nature of the social contract. I therefore come to the following hypothesis: *H_1: Oil price fluctuations have led to a change in the nature of the social contract between the leadership and the society of Saudi Arabia.*

Another variable that potentially influences the ability of the state to rely on oil to 'buy off' societal demand is demographic pressures. In the period ranging roughly from 1980 to 2010, the population of Saudi Arabia has increased by 4 percent per year (Malik & Niblock, 2005). The larger the population is, the smaller the oil rent per capita becomes. If this trend continues, the oil rent per capita will decrease more and more over the long term. Another effect of a growing population is an increasing unemployment rate which can fuel rising discontent amongst the population (Bosbait & Wilson, 2005). I suspect that this issue can function as an incentive for Saudi Arabian government to create more jobs in response to the political pressures resulting from the demand for jobs (Gray, 2011). This, in turn, requires the investment in and development of a wider variety of sectors than just the oil sector and a move away from full reliance on oil revenue. Another demographic pressure that needs to be considered is the increasing youth population, a phenomenon often referred to as a 'youth bulge' (Fuller, 2004). The increasingly high percentage of youth population places strenuous demands upon the Saudi economy for the (future) provision of employment. As the government of Saudi Arabia functions as the largest employer of Saudi nationals, it now faces the daunting task of creating jobs in an already saturated public sector (Krane, 2014; Forstenlechner & Rutledge, 2010). The provision of jobs by the state is according to Forstenlechner and Rutledge (2010) "the primary transmission mechanism of the social contract." It is likely that perceptions of employment entitlement have been reconsidered, and with that, the social contract. I argue that the government of Saudi Arabia has thus been incentivized to initiate reform, such as in the educational and the private sector. Educational reform does not only provide more skilled labourers that could enter the private sector, it also has the potential to promote economic diversification through the promotion of employment in the private sector. Reform of the private sector can make employment in this sector more attractive to young nationals, which will eventually lead to a more productive and less oil-reliant economy. In sum, reform requires a different distribution of the rental wealth and a shift away from the state as the primary employer.

Therefore, I argue that the growing population, the youth bulge and consequently the urgency of the government to react to the growing unemployment rate have had a significant influence on the mechanism of the social contract. I therefore come to formulating the following hypothesis:

H_2: Demographic pressures have led to a change in the nature of the social contract between the leadership and the society of Saudi Arabia.

I argue that the existing understanding of state-society relations in rentier states, as postulated by classical RST, should be improved by looking at the influence that these given domestic contextual issues have on Saudi Arabia's ability to rely on oil revenue and their ability to gain complete autonomy from societal demand. Or rather, how these issues seem to affect the nature of the social contract in Saudi Arabia. The following section will discuss the operationalization of the research method used in this thesis.

Research Design

In this section I will present and justify the research method I intend to use to evaluate the suggested causal link between the independent variables (oil price fluctuations and demographic pressures) and the variance in the outcome of interest or the dependent variable (the changing social contract in the rentier state). Before I present the general research methodology used in this thesis, I will justify the use of a single case study. I will explain why Saudi Arabia serves as an ideal case to illustrate the mechanisms of the social contract in modern-day rentier states. I will then continue to outline more specifically how I intend to measure variance in the given variables.

Case selection

As the previous sections have introduced the existing debate on the social contract in the modern-day rentier state, I will now turn to the justification of using a single case study in this thesis. Although a single case study may not always generate generalizable answers about the social and political world (Lim, 2006, p. 51), I argue that Saudi Arabia as a single case study can help us reach the objective of this study, namely finding evidence for why there is a need to refine classical RST, in order to explain the modern-day social contract in rentier states. The choice of a single case study allows me to make use of congruence analysis and to focus on the relationship between the contextual concepts (the independent variables) and concrete observations. This will allow me to produce an in-depth understanding of the case of Saudi Arabia. A single case study is therefore ideal to study the relationship between state and society. Moreover, the scholarship on rentierism and social contracts in resource-rich countries can benefit from more single-case studies to improve our understanding of the nuances and dynamics of rentierism in the Arab resource-rich countries. As George and Bennett (2005, p. 80) have argued: “single case studies take place within the context of ongoing research programs, so that studies of single cases may draw comparisons to existing studies; thus, 'the community of scientists,' rather than the 'individual researcher' is the relevant context in which to judge case selection." Studying a single case derived from a selection of clearly defined cases of modern rentierism in the Arab resource-rich countries thus adds to a broader ongoing research project into modern rentier state theory, and allows me to identify my theoretical contribution.

In trying to find inconsistencies between the expectations of the social contract that flow from classical RST and the empirical findings, I argue that Saudi Arabia functions as a crucial case study. If these inconsistencies are found in studying state-society relations in modern-day Saudi Arabia, I have proven the need to refine rentier state theory. I argue that Saudi Arabia is a crucial case study because the basic premises of classical RST still hold true in Saudi Arabia (oil-wealth allocation remains a central feature of the social contract) (Gray, 2011). Yet, it is through the wealth accumulated in the hydrocarbon sector that the country has the possibility to create a basis for a more diverse economy (Ménoret, 2005). Ménoret (2005, p. 151) further held that "Saudi Arabia is the Gulf country most suitable for economic diversification: one third of the population is unemployed, the educational system is undergoing reform, and the infrastructure is of high quality." In accordance with Blatter and Blume (2008, p. 344-348), an investigation into the (changing) nature of the social contract in Saudi Arabia could provide evidence undermining the explanatory power of RST, or at least indicate the need to modify or expand the theory. Given these facts, Saudi Arabia proves to be a crucial case for observing how mechanisms beyond wealth distribution may have created a new rentier bargain between state and society.

It must be noted however, that Saudi Arabia is significantly more populated than the other Gulf states. This has to be taken into account when looking at whether the causal patterns, if identified and confirmed, could be tested in other countries in the Gulf area and used as explanations of their respective developments.

General research method

The objective of this thesis is to identify the causal influence of the independent variables on the dependent variable, namely the nature of the social contract in modern-day Saudi Arabia. To be able to draw a conclusion regarding the relative causal effects of the independent variables to explain the changing nature of the social contract, I intend to prove congruence among the values of the independent- and dependent variables. To be able to do so, I will use a congruence analysis (Annamalai, 2010; Sinkler, 2011; Blatter & Blume, 2008). Sinkler (2011, p. 17) argued that congruence analysis is suited to show how different variables that are considered theoretically relevant, combined can produce an explanation of an individual outcome. It allows for empirical congruence with multiple explaining factors. Thus, by using this method, I can assess the theorized explanatory power of the independent variables (oil price fluctuations and demographic pressures) on the change in the nature of the social contract. I furthermore expect interaction of the proposed independent variables. This would entail that the observed change in the nature of the social contract in Saudi Arabia (dependent variable) can be explained by the combined influence of the independent variables. It is likely that the independent variables interact with each other, and reinforce their respective causal influences on the social contract. This does not however mean that the variables should not be investigated on their own merit. Though they are linked to each other, each could have their own valuable hypothesized influence.

On top of that, as previously stated in my discussion of the baseline hypothesis, I argue that the non-renewable nature of oil functions as a structural condition. I expect the different independent variables to interact with this underlying and structural condition.

Specification of indicators for the variables

As the purpose of this thesis is to explain why the nature of the social contract deviated from the classical RST allocation-acquiescence relationship between state and society, I seek to prove the theorized influence of the independent variables on the outcome of the dependent variable through congruence. To do so, I will have to first prove variance in the dependent variable. Classical RST purports that the rentier social contract does not incentivize (socio)economic reform (see Luciani, 1990, p.76; Ross, 2001) and is in its essence based on the invariable redistribution of rental wealth by the government. In the case that the government of Saudi Arabia has not been able to sustain this social contract, initiatives of socioeconomic reform should indicate that the nature of the social contract has changed. Since I approach this possible variance as a dichotomous concept, I seek to find evidence of the presence or absence of change. I will therefore look for evidence of socioeconomic reform aimed at revenue- and economic diversification. I will then measure whether the independent variables can explain the (expected) variance in the dependent variable, as predicted in the theoretical section.

For the first hypothesis, I seek to prove that the fluctuation of oil prices has incentivized the Saudi Arabian government to initiate economic reform with the aim to diversify its revenue and economy. To be able to give an overview of the fluctuation of oil prices, I will measure the fluctuation of prices per crude oil barrel. I will use the pricing as indicated by the OPEC (Organization of the Petroleum Exporting Countries) Basket Price, which is a weighted average of the price of different grades of oil that OPEC members produce (Organization of the Petroleum Exporting Countries, 2018a). To analyse the hypothesized effect unstable oil prices have on Saudi Arabia’s economy, I will look at its economic growth as measure by the GDP per capita, for which I use data provided by OPEC (2018b). To further analyse the implications of fluctuating oil prices I will look at annual statistics provided by the Saudi Arabian Monetary Agency (SAMA) (Saudi Arabian Monetary Agency, 2017). I will use their data to calculate the oil revenue as a percentage of the total fiscal revenue, which indicates how large the economy’s reliance on oil is. To be able to assess whether the volatility of oil prices in combination with such reliance on oil have pressing effects on the spending capability of the government, Therefore, I will also look at the government’s annual fiscal deficits and surpluses. I will retrieve this data from the same dataset, provided by SAMA (2017). Moreover, I intend to include evidence from an extensive report published by the World Bank (2015a) regarding the causes and consequences of declining oil prices.

For the second hypothesis, I seek to prove that demographic pressures have incentivized the Saudi government to initiate socioeconomic reform. I will primarily use data from the World Bank databank on population growth (The World Bank 2018a). I use data from the General Authority for Statistics (2016) for data on the youth population. I will also look at data provided by the CIA World Factbook (2018). I will then assess the hypothesized influence of these demographic pressures by looking at GDP per capita and (youth) unemployment rates, provided by the World Bank databank (The World Bank 2018b, 2018c). I will furthermore use reports published by the World Bank regarding (economic) development such as the MENA Economic Monitor (The World Bank, 2015b) as well as the MENA Development Report (The World Bank, 2004). I will also include scholarly work concerning regional and domestic policy (i.a. Yousef, 2004; Forstenlechner & Rutledge, 2010).

For all variables, I will primarily use data that covers the time period of 1980 to 2017. 1980 was the year that the gradual nationalisation of Saudi Aramco, Saudi Arabia's largest petroleum company, was completed. This meant that from 1980 onwards, the rental wealth accrued from oil extraction was fully state-owned (Hertog, 2008). Choosing 1980 as a starting point thus coincides with the first year that all the rental wealth to be accrued was directly state revenue. If the available data does not date back to 1980 or it seems relevant to refer to data prior to 1980, it will be indicated.

Empirical Findings

In the following section, I will provide the empirical findings on the causal expectations stated in the hypotheses above. I first line out the indicators of the variance in the dependent variable. To assess the possible explanatory power of the independent variables (oil price fluctuations and demographic pressures), it is important to first clarify whether there has been variance in the dependent variable (the nature of the social contract). If my expectations do not match the observations, I will not be able to prove the hypotheses of having any significant influence. I then follow with the empirical findings of the independent variables, starting with the structural, underlying condition (the non-renewable nature of the source of rents). I continue by discussing the volatility of the oil market and the consequences of the fluctuating oil prices for the relationship between state and society. I then discuss the shifting demographic pressures on the Saudi Kingdom and how this has put demands on the government that could have a bearing on the nature of the social contract.

The nature of the social contract

Classical RST assumed that the state had autonomy to the extent that it would not need to engage in economic development strategies, other than those aimed at the development of the oil-sector and the allocation of welfare benefits (see Luciani, 1990, p. 76). This however, seems to have been a misguided claim. Saudi Arabia does have economic policy that is aimed at revenue- and economic diversification. In 1970, Saudi Arabia introduced five-year development plans that have increasingly put an emphasis on the need to diversify the economy. These plans indicate the intention of the government to attract foreign direct investment, to invest in the educational sector to create more skilled labourers, to develop the private sector, et cetera (Ministry of Economy and Planning, 2014). More recently, crown prince Mohammed bin Salman published *Saudi Vision 2030*, an extensive development plan with the main objectives of private sector growth, job creation to combat unemployment and economic diversification (The Kingdom of Saudi Arabia, 2016). Following advice from the IMF, the government has furthermore introduced taxation (VAT) and domestic subsidy cuts (IMF, 2015, 2016; Wald, 2018). The latter two initiatives may have a positive effect on the economy, yet they also reflect a decrease in the share of rental wealth for the citizens of Saudi Arabia. I argue that above-mentioned plans and initiatives indicate a shift of the role of the state and a change in what they are able to provide to Saudi society. With future imperatives (maintenance of political order and power) in mind, Saudi Arabia seems to be cognizant of the unsustainability of the social contract as postulated by RST and have therefore responded with the necessary reform.

In view of the fact that there is evidence of (socio)economic reform and of the unstable redistribution of rental wealth, I argue that there has been variation in the dependent variable.

Non-renewable nature of the source of rents

Considering the fact that the nature of the source of rents is non-renewable, sustainability of a social contract that is centred around this source of income should logically decrease over time. However, I argue that this variable functions as an underlying, structural variable. It does not produce an immediate effect on the outcome of the dependent variable. OPEC (2018b) reported that Saudi Arabia's oil reserves constitute 21,9% of the total OPEC share of world crude oil reserves (266,26 billion barrels). With improved oil extraction technology and good governance policies concerning oil, this number could even increase, according to OPEC (2018b). Though oil scarcity is inevitable, it will only in the far future become a pressing issue. I thus argue it has not been a sufficient condition to induce variation in the nature of the social contract on its own. I argue that it has caused incentives to initiate reform, in combination with the factors listed below.

Fluctuation of oil prices

To understand what the consequences of fluctuating oil prices have been for the domestic economy of Saudi Arabia, it is important to understand how the volatility of the oil market affects Saudi Arabia's welfare system. As the domestic economy is centred around revenue through oil extraction, price fluctuations can directly destabilize the state revenue, and thus the state's spending capabilities. I start with an overview of the economic consequences of oil price fluctuations for the Saudi Arabian economy. I then discuss the effects that such economic consequences have had on the social contract.

The pricing of oil is dependent on a vast array of factors, varying from supply and demand mechanisms to political developments. Figure 1 shows how prices have fluctuated from 1982 until 2017. The indicated prices are based on the OPEC Reference Basket (Organization of the Petroleum Exporting Countries, 2018a). The 2008-, as well as the 2014/2015 oil crisis shows a sharp decline in oil price. Due to an economy that is so heavily reliant upon the export revenues of the hydrocarbon sector, dropping prices have had major consequences for the stability of Saudi Arabia's economy. Brown and Yucel (2000) demonstrated that for every one-US dollar price drop of oil, the Saudi economy loses 2.5 billion US dollars of revenue per annum. The oil prices thus determined both economic growth and economic downturn in Saudi Arabia (Aldukheil, 2013; Albassam, 2011). Figure 2 clarifies the strong relationship between economic growth as measured by GDP per capita, and the price of oil; the latter closely follows the trend of the oil price.

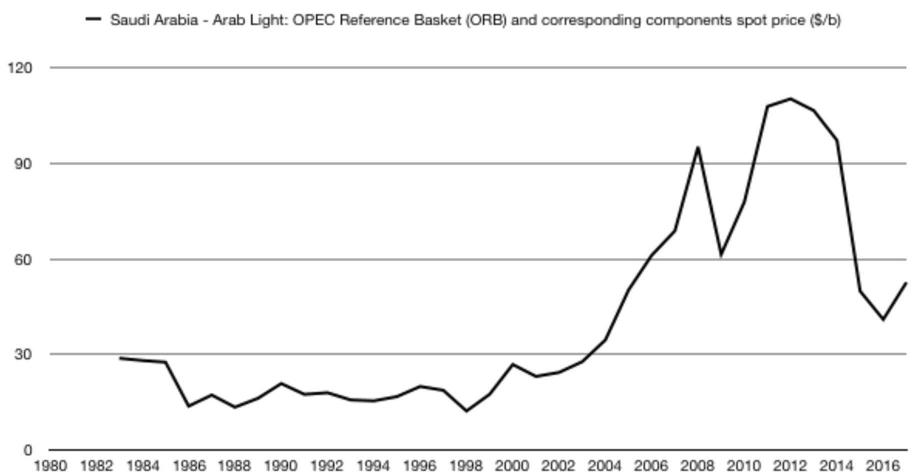

Figure 1*: Oil price based on OPEC Reference Basket from 1982 to 2017.*

Data: OPEC Annual Statistical Bulletin 2018.

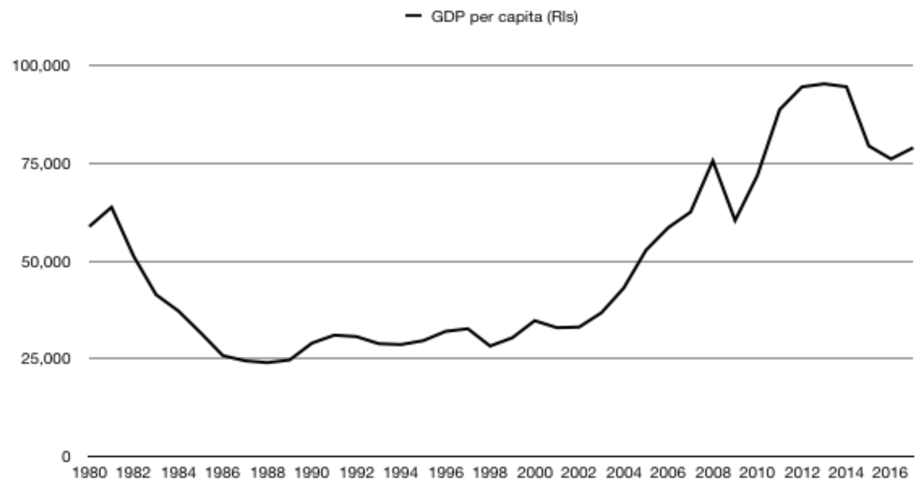

***Figure 2**: GDP per capita from 1980 to 2017.*

Data: OPEC Annual Statistical Bulletin 2018.

Though times of higher oil prices have their positive effects (fewer fiscal deficits, possibility of creating buffers, etc.), it is mostly the uncertainty of the stability of the prices that has noticeable effects. Table 1 shows, with intervals of five years, that oil revenues have always constituted a large percentage of the total fiscal revenue of Saudi Arabia. As Albassam (2015) argued: "Profoundly relying on one source of income means the economy is held hostage to the fluctuations of that commodity's price in the global market."

	Oil revenues as a percentage of total fiscal revenues
1980	91.73
1985	66.20
1989*	66.23
1995	72.17
2000	83.09
2005	89.40
2010	90.50
2015	72.86

***Table 1**: Oil revenue as a percentage of total fiscal revenues*
** Data was not available for the year 1990*
Data: Saudi Arabian Monetary Agency, Annual Statistics 2017

Since oil revenues function as the main ‘engine’ of the total fiscal revenue, falling oil prices can cause considerable financial strain. The World Bank (2015a) reported that declining prices can cause a significant loss in revenue resulting in fiscal consolidation, which would likely entail considerable cuts in expenditure. It furthermore held that “a decline in oil prices generally deteriorates their [a government’s] current account and precipitates currency depreciations.” The economic growth, affected by the fluctuating oil prices, could not maintain Saudi Arabia’s expenditure levels. Declining oil prices resulted in annual budget deficits (Saudi Arabian Monetary Agency, 2017).

The focus of Saudi Arabia’s economy on the production and export of a single resource that is not able to provide a stable revenue thus caused the inability to maintain levels of economic growth, necessary to cover the costs of the high subsidies and welfare benefits central to the rentier social contract (Auty, 1993; Mobarak & Karshenasan, 2012). The instability of the economy and state revenue, resulting from fluctuating oil prices, therefore served as an indicator that reform was necessary to stabilize the economy. The urgency of revenue- and economic diversification indicates the failure of the government to solely rely upon oil for the maintenance of the social contract, as is theorized in classical RST.

Demographic pressures in Saudi Arabia

There are chiefly two important demographic developments in Saudi Arabia that are of interest to this thesis: population growth and an increasingly young population. I argue that both developments have considerable consequences for the allocative capacity of the government of Saudi Arabia. In the following section, I offer an explanation of how these demographic pressures may have influenced the state’s ability to meet its end of the social contract.

The population of Saudi Arabia rapidly increased in the period after World War II, in line with the regional trend (between 1950 and 1990, the population of the Middle East and Northern Africa grew with an average of 2.8 percent per year). Although the average growth rate has slightly dropped in the current decade, the Kingdom's population is still increasing (Yousef, 2004).

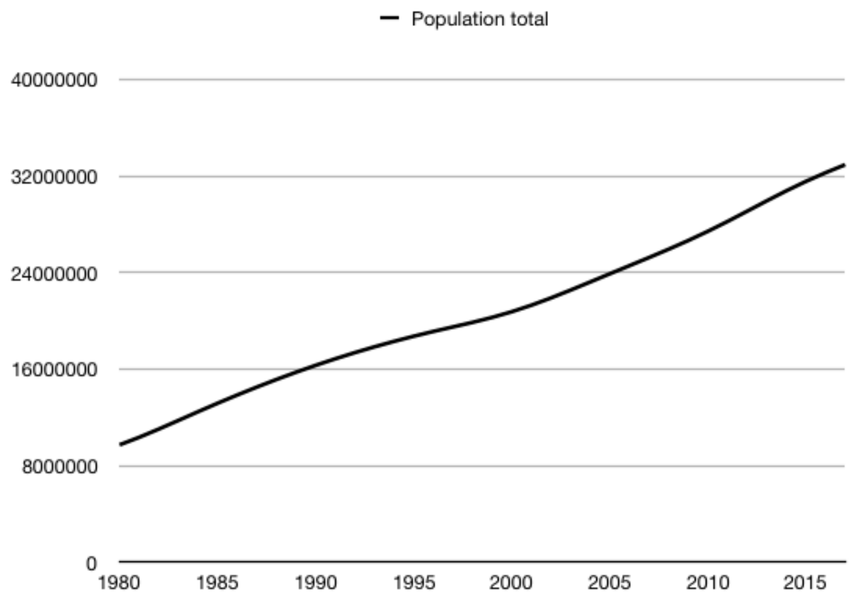

Figure x: *Population total of the Kingdom of Saudi Arabia from 1980 to 2017.*

Data: The World Bank, retrieved from https://data.worldbank.org/indicator/SP.POP.TOTL?locations=SA&type=points

Though the GDP per capita is more directly contingent upon the price of oil (amongst other economic determinants), Gray (2011) argues that the level of GDP per capita has not matched that of the period before the rapid population increase. The Kingdom experienced the highest peak in 1970 with an annual growth rate of GDP per capita of 52.21%, and an actual GDP per capita of almost 40,000 US dollars[1]. In 2017, the annual growth rate of GDP per capita was a negative rate of 2.73%. Over the past decade however (2010-2017)[2], it averaged at 1.26%. The GDP per capita has averaged at 20,845 US dollars over the past decade (The World Bank, 2018b). According to Gray (2011), this has put the 'traditional rentier bargain' under strain, as it challenges the co-optive means of the state, i.e. the constant distribution of welfare as classical RST theorizes regarding the social contract. Ehteshami and Wright (2007)

[1] Constant 2010 US $
[2] The World Bank currently provides no data past 2017.

furthermore argued that the population growth also strains the provision of public services such as educational facilities.

Simultaneously, as the population increased, the age structure of the population also rapidly changed. As a result of declining mortality rates and increasing fertility rates (Yousef, 2004), a large and growing population of youth (0-24) emerged. According to data published in 2016 by the General Authority for Statistics (2016), the population aged 0-24 made up 39.5% of the total population. Some however, estimate the number to be higher, at around 45% (i.a. CIA World Factbook, 2018). A large youth population is not necessarily a negative demographic for any society, as it has the potential to increase economic productivity (Fuller, 2004). Yousef (2004) even called it a ‘demographic gift’, as the economically active population (ages 15-64) would in time exceed the economically dependent population (ages 0-14 and age 65 and up), which in turn provides the opportunity to accelerate economic growth (Bloom and Williamson, 1998). This is, however, dependent upon the capacity of the state and the economy to meet the labour needs of society. In Saudi Arabia, it has placed strenuous demands upon the government as well as the economy for the provision of employment. As a means of redistribution of the rental wealth, the leadership provides its citizens with employment guarantees, social security programs, nonwage benefits (allowances) and high public sector wages (Yousef, 2004). As encoded in the Saudi constitution (Basic Law, 1992), Article 28 holds: “The state provides job opportunities for who-ever is capable of working; it enacts laws that protect the employee and employer.” As an increasing segment of the population is entering the labour market, with the expectance of receiving a well-remunerated public sector job, the public sector is becoming overemployed. The default provision of employment furthermore rendered the sector increasingly unproductive (Forstenlechner & Rutledge, 2010). In combination with the prohibitively high public sector wage bills and the realisation that the sector is reaching saturation, the government budget of Saudi Arabia could not bear the full costs anymore. The rental wealth was not always large enough to cover for growing fiscal deficits. As a result, Saudi Arabia’s government slowed down employment in the public sector. Yet, at the same time they failed to invest enough in the development of the private sector and unemployment rates rose, reaching high levels especially for the age group of 15-24 (The World Bank, 2015b). In 2017, 25.0% of the youth population in Saudi Arabia was unemployed. By comparison, the world average youth unemployment rate is 13.4% (The World Bank, 2018c). But it is only part of a larger trend; annual numbers show that overall unemployment rates are still rising (The World Bank, 2015b). This issue, to a large extent caused by both the population growth and the ‘youth bulge’, is one of the biggest challenges the government of Saudi Arabia is currently facing (Fuller, 2004). As Forstenlechner and Rutledge (2010) concluded “[…] increasing numbers of unemployed nationals […] will become even more likely to voice their discontent and ask what is in the “ruling bargain” for them.” Similarily, Krane (2014) argued that the distribution of the rental wealth, in the form of job provision (amongst other welfare benefits) is a vital component of citizenship which, ‘collectively, comprise the citizen’s most important inducement for acquiescence to his government’s rule.’ Such welfare benefits thus cannot be retracted without offsetting a loss of a degree of acquiescence of the citizenry. Failure of the government to meet their end of the social contract could thus jeopardize political stability and consequently the leadership’s hold on power (Gause, 1994, p. 147; Gurr, 1970, p. 338-40).

The rapid labour force growth and growing labour demand thus caused significant pressures for economic reform, particularly reform of the labour markets. Yet, as Heydemann (2004) argued, such necessary reforms are not possible without considerable political reform that can give the Saudi government the institutional capacity and legitimacy to create an ‘updated’ social contract. To be able to respond to the growing needs of the citizens of Saudi Arabia, the government needed to establish a social contract that generates growth through economic diversification and that is capable of creating jobs (Heydemann, 2004). I argue that these demographic pressures and their consequences served as indications that the social contract as purported by classical RST was not sustainable, and thus incentivized (economic and political) reform. They therefore functioned as inducements to revise or ‘update’ the social contract.

Conclusion

In light of ongoing socioeconomic developments in Saudi Arabia, it seems that there is more to the social contract between state and society than the distribution of rental wealth. The 'allocation-acquiescence bargain' (Mitchell, 2013) is central to the understanding of the nature of Saudi Arabia's relationship with society, yet the impacts of domestic contextual factors on this relationship are understudied. I argue it is important to analyse the influence of such factors, as it can be a preliminary step towards an improved and refined understanding of the social contract in Saudi Arabia in a modern-day context.

To provide an answer to the research question, I assess the influence of oil price fluctuations and demographic pressures on the nature of the social contract. I provide evidence that both independent variables have incentivized socioeconomic reform. As these incentives were the result of the unsustainability of the traditional, rentier social contract, I argue that a different version of the social contract has emerged – one that should be understood in the context of a 'reformed rentier state'. I thus conclude that oil price fluctuations and demographic pressures have caused a change in the nature of the social contract.

I furthermore conclude that classical RST proves to be inadequate to the task of explaining state-society relations in modern-day Saudi Arabia. The manner in which the theory captures the relationship between state and society has failed to take into account that domestic contextual issues can make the rentier social contract untenable. The gathered empirical evidence shows that these issues have decreased the government's ability to invariably provide welfare benefits to its citizens, which has offset a loss in the degree of acquiescence. Though I argue that a change in the nature of the social contract has occurred, I emphasize it is only partial. Using a dichotomous conceptualization of change, I can confirm change has occurred, yet I do not intend to make claims about the degree of change. Future research could help to determine what this degree of change is and what the 'reformed' social contract embodies in various cases. It would be valuable to investigate whether the causal links between the independent variables in this thesis and the dependent variable exist in a similar fashion in the other resource-rich Arab states of the Gulf. More in-depth case studies could help refine the theoretical framework with which rentier states in current times should be approached.

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