The Causes of the Rentier State: A Comparative Study of Bolivia and Venezuela

Masters' Dissertation – July 24th 2017

MSc in International Public Management and Policy - Erasmus University, Rotterdam

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Word Count: 23,280

Abstract

The rentier state is a state deriving most of its income from the sale of natural resources. Rentier states commonly exhibit dysfunctional social, political and economic systems. The symptoms of a rentier state have been extensively studied in the literature. However, there are not many studies on the causes of the condition. Interestingly, not all states with these negative features become rentier states. So, what are the factors explaining the different outcome? This study attempts to answer the question, by identifying causing factors and testing them in two case studies with a most-similar n design, Bolivia and Venezuela. The results showed a covariation between all the identified factors and higher degrees of rentierism. The suggestion is to repeat the study with a larger population of states, to confirm the validity of the findings.

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Chapter One – Introduction

Background

One of the objectives of development studies is to identify the factors that enable said development (Currie-Alder, Kanbur, Malone & Medhora, 2014). Development can be studied from several dimensions, one of which is at country-level. Another conceptual distinction is between endogenous and exogenous factors.

One type of endogenous factor is hydrocarbon mineral resources, such as oil and natural gas. Hydrocarbons played a crucial role during the Second Industrial Revolution, as driving engines of the economy, fuelling industrialization and consumption processes. In considering the role of hydrocarbons as an engine of the industrial revolution, one may assume that a nation possessing significant reserves of hydrocarbons would possess a significant developmental advantage compared to nations lacking such reserves. Indeed, even in the last half-century, there have been relevant cases of successful economic, political and social development of a nation, driven by the revenue of hydrocarbon sales on the international market.

However, this positive assumption has been challenged by a development theory called rentier state theory [RST]. RST posits that developing states possessing significant reserve of hydrocarbons - especially oil - are actually at a disadvantage, compared to states that do not possess such reserves (Luciani, 1990). The reason for this disadvantage is that widespread availability of hydrocarbons corrupts the normal processes of development of a country's economy, society and political system. For example, the revenue from the sale of these hydrocarbons is appropriated by government elites, allowing the ruling class to insulate itself from its people and neglect improving its condition.

Rentierism is another word for the wide range of negative effects on a country's economic, social and political systems, brought by the hydrocarbons economic sector (Wantchekon, 2002). The theory was originally developed to explain the development trajectories of Arab oil-exporting countries in the Gulf. Despite its geographical peculiarity, however, this theory has been expanded and adapted to other development contexts, such as Latin America. The region possesses abundant minerals and hydrocarbons. In the past, these resources helped fuel the economies of European colonial powers and, successively, independent countries in the region (Sinnott, Nash & De La Torre, 2010). It is natural, therefore, that political commentators have frequently quoted developing countries in Latin America as examples where natural resources played a key role in development. Across the continent, in the past two decades, the debate on how to use natural resources to drive growth and improvement of a country's condition has been revived.

From the beginning of the 21st century, new political leaders have emerged in this region. Many of these have presented comprehensive political projects marking a radical change from the past. To a certain extent, they have rejected traditional development paradigms. A particular thread of new Latin American politics has been called '21st century-socialism' (Eaton, 2014, p.1133). Two countries, Bolivia and Venezuela, have seen the election of political leaders who appear to follow 21st century-socialism. Evo Morales was elected President of Bolivia in 2005. Hugo Chavez was elected earlier, in 2001, in Venezuela.

The new development discourse in the two countries radically broke with the paradigm of neoliberalism and private market forces, which had dominated Latin America since the late 1970s (Green, 2003). One aspect of this new discourse formulated that natural resources should be used to foster economic growth and improve the welfare of the population. Bolivia and Venezuela are endowed with vast quantities of hydrocarbons. According to recent estimates, Bolivia possesses approximately 18.1 trillion cubic feet of natural gas reserves (Yacimientos Petroliferos Fiscales, 2013). Venezuela possesses more than 300 million barrels of crude oil in reserves (Organization of Petroleum-Exporting Countries, 2014). 21st century socialism advocated the end of a neoliberal-type management of natural resources - where control and profits go mainly to private multi-national corporations – and aimed to reassert state control over them. Morales described the day when the gas fields returned to his government as a "historic day for Bolivia" (Campbell, 2006). With the increased profits, the Bolivian and Venezuelan governments were then able to finance welfare projects in the two countries.

The development contexts of the two countries present both similarities and differences.

Both countries are endowed with vast natural resources, although these resources have historically played a greater role in Venezuela's development, rather than Bolivia's. Venezuela's discovery of its oil dates back to the 1930s, whilst Bolivia's discovered the first gas reserves in the late 1990s. The two countries have experienced similar shifts of development paradigms: a move from statist-led industrialization in the 1960s, to neoliberalism until the late 1990s, and a new leftist turn in the early 2000s. Levels of poverty have been different in the two countries, with Venezuela belonging closer to the middle-income category of countries according to per capita income, compared to Bolivia.

A key similarity in the projects of Morales in Bolivia and Chavez in Venezuela has been to sign law decrees increasing the level of state control over the hydrocarbons sectors. This act is one of other similar features, such as government projects to tie revenue from the hydrocarbons sectors to the financing of new welfare projects, promoting anti-imperialist and pro-indigenous language and symbols, and bringing to life new forms of political participation.

By surveying recent political commentaries on the achievements of the two governments, there appears to be a tendency to criticize Venezuela as a new rentier state (Weyland, 2009). Lander (2016, p.3) summarises the situation: "[…] the Bolivarian government took forward a series of nationalizations which expanded the scope of the state far beyond its capacity to manage everything. As a result, the state today is bigger but also weaker and more inefficient, less transparent and more corrupt." The same, however, cannot be said for Bolivia. In fact, there appears to be a much smaller body of literature on the state of development in this country. Moreover, none of the commentaries seems to suggest that Bolivia has become a rentier state. If we consider that Morales and Chavez reformed their countries in similar ways, it is remarkable to notice such a different outcome.

Objective

The degree of difference in criticism between Bolivia and Venezuela raises the question of whether such a difference in development outcome exists, and why. Therefore, the essential objective of this research is to research into the development trajectories embarked by Bolivia and Venezuela's leftist governments from 2005 to 2013. The period roughly reflects the simultaneous terms in office of Morales and Chavez. The main objective is to understand the differences between the outcomes of Venezuelan and Bolivian development projects, investigating which factors caused this difference. In this way, the research is filling the gap in recent commentaries, which regard Venezuela as a rentier state, but not Bolivia. Also, there are three sub-objectives.

The first one is to understand the recent trajectories of Bolivian and Venezuelan development more clearly, by specifically focusing on the trends in the two countries.

The second one is to link these trajectories with development literature. Without a link to the literature, it is hard to make sense of information about development. Literature allows researchers to choose which information is relevant, how to look for this information, and how to make it relevant.

The third one is to investigate the evolution of rentier state theory and assess to which extent Bolivia and Venezuela have become rentier states. The main theory for this paper is rentier state theory. To understand the relevance of RST, it is necessary to look at the contributions of authors over time. The theory can then be applied to case studies.

Research question(s)

From the objectives, the main research question is obtained. There are also three sub-questions. As said, the main objective is to understand the reasons for the different development outcomes in two similar case studies. Therefore, the main research question is: *Which factors cause the different extent to which Bolivia and Venezuela have become rentier states?*

The first sub-question relates to the theory, and is the foundation for our understanding of the entire research process. The answers derive from the literature on these concepts. The first part of the answer defines a rentier state. The second part of the answer identifies the factors that cause a rentier state to occur. A literature review and a theoretical framework are written for both parts. The first sub-question is: *What is a rentier state, and which factors explain the different extent to which countries exhibit features of a rentier state?*

Once the features and causing factors of a rentier state are defined, it is possible to apply the findings to the cases of Bolivian and Venezuelan development. The second sub-question determines to what extent Bolivia and Venezuela are rentier states. This entails a descriptive case study of both countries and a comparison between the two cases. From the literature framework, a series of hypotheses are derived, to test whether the two countries are rentier states. The sub-question is: *To what extent have Venezuela and Bolivia become rentier states?*

After determining the extent to which Venezuela and Bolivia have become rentier states, eventual differences can be identified and the focus of the study shifts to explaining these differences. This is the main research question. The literature framework provides a series of hypotheses to test which factors cause different development outcomes. These hypotheses are applied to the two case studies to determine whether the factors hold. To recap, the third and final question is: *To what extent do the factors identified explain the differences between Venezuela and Bolivia in becoming rentier states?*

Introduction to methodology

The answer to the first question – over what constitutes a rentier state and which factors cause one to occur - lies in the literature. A literature review is conducted. Specifically, for the first aspect, the review examines how rentier state theory was originally formulated, and how it evolved over time, through a series of contributing authors and applied case studies. For the second aspect, the review focuses on the contributions of authors, to identify those factors that cause the symptoms of a rentier state. After the literature review, a theoretical framework is formulated for the features of a rentier state and the underlying causing factors. This constitutes the answer to the question.

To answer the second question, a comparative descriptive case study is conducted, to capture the processes of Bolivian and Venezuelan development over the period of Morales' and Chavez's governments from 2005 to 2013. In this case study, the hypotheses of the features of a rentier state identified in the literature review, are be tested for both countries. The results provide an indication of the extent to which Bolivia and Venezuela have been rentier states over the period 2005-2013.

The answer to the third question is an investigation of causality. Furthermore, it is a comparative investigation between two countries. A comparative case study analysis is conducted for the two case studies, over the same period as the previous question. This analysis tests whether the hypotheses derived from the literature framework on explaining different degrees of rentier state features hold for Bolivia and Venezuela. In other words, the analysis tests whether the factors identified from the literature framework hold for the two cases. More details on methodology are provided further on in this paper.

Finally, this study relies on a combination of sources. Academic articles and working papers from think tanks and universities provide the bulk of the information regarding rentier state theory and the state of development in Bolivia and Venezuela. More specific information on the statistics of the hydrocarbons sector in the two countries - and macroeconomic indicators in general - are retrieved from databases for official government statistics and the World Bank.

Relevance

Relevance of research constitutes the primary motivation for a researcher, and involves associating research to the needs of various stakeholders. Three types of relevance are identified for this paper: academia, policymakers, and society.

The academic utility of this research lies in the fact that it tests theory and contributes to the literature on various aspect of the subject. Firstly, it is a new contribution to rentier state theory, in the sense that it both provides an application to the Venezuelan and Bolivian cases, and provides a way to conceptualize the tenets of the theory comprehensively. This conceptualization is potentially useful to future studies. Also, since the paper is focused on Latin American development, it maps out development outcomes of two important countries such as Venezuela and Bolivia. Much was written at the onset of Morales's and Chavez's projects – in 1999 and 2005, respectively – predicting their contribution to the rise of a new continental-wide political paradigm, together with leaders from Peru, Brazil, Ecuador, Argentina and Chile (Yates & Bakker, 2014). However, in recent years, these high hopes have been dampened by recent criticisms of governments, especially in Venezuela (Maya, 2014). In this sense, this paper contributes to a hindsight evaluation of the political projects of Morales and Chavez.

The policy relevance of this paper lies in its national-level analysis of government choices in the field of development. There are two types of policy-level contributions. Firstly, once the causing factors of rentierism are identified, it is suggested to policy makers which mistakes should be avoided at a national level, regarding the decisions over governance and management of natural resources. Implicitly to this point, there is the benefit of highlighting those positive aspects of governance that prevented those same mistakes from occurring. The hope is that the results of research may constitute a lesson for national policy makers and a contribution to good governance internationally.

Lastly, there is a societal relevance. The term implies a contribution of research to a society's set of norms and values (Bornmann, 2013). There are two main types of contributions of this paper, related to aspects of ethics and democracy. For the first point, the relevance stems from potentially highlighting pathways for development in areas with widespread poverty. Bolivia was long considered one of the poorest countries of the world (Collier, 2008). Whilst featuring lower average poverty levels, Venezuela has struggled with pockets of poverty in rural areas and urban slums (Weisbrot, Sandoval & Rosnick, 2006). The degree of severity in poverty was itself a driving factor behind Morales' and Chavez's decision to increase state control over the hydrocarbons sector. However, it is important to highlight that negative development trajectories have a significant negative impact on a country's poor population. Thus, by potentially suggesting ways to improve natural resource management, this paper can provide an ethical contribution to the issue of poverty reduction.

Overview of the thesis structure

This final section is an overview of the structure of this study. The structure is laid out essentially to answer the questions in order, in a gradual way.

Chapter 2 is a literature review of the concepts of a rentier state and of the factors that cause a rentier state to happen. Chapter 3 formulates theoretical frameworks to define a rentier state and identify its causing factors. It is also an answer to sub-question number one. Chapter 4 is about methodology, where more information is provided on the type of method chosen, how to operationalise the variables, and how to collect data on answering sub-questions two and three. Chapter 5 is a descriptive case analysis assessing the degree to which both Bolivia and Venezuela have become rentier states. This is the answer to sub-question two. Chapter 6 is a comparative case study analysis where answers are provided to sub-question three, regarding the identification of factors that cause different degrees of rentierism in Bolivian and Venezuelan development. Chapter 7 provides a conclusion to the study.

Chapter Two – Literature Review

The term "rentier state" and rentier state theory [RST] have been critical concepts of the literature in various fields of the social sciences, ranging from political economy to development and international public management studies. With a vast body of literature and many contributing authors, it is sometimes difficult to separate the concept in its various connotations: its core definition, its features, its effects.

This review attempts to provide a comprehensive understanding of the literature surrounding the concept. It is structured in the following way. Firstly, it provides an overview of the definition of a rentier state and its associated key concepts. Secondly, it discusses authors focusing on the economic dimension of the rentier state. These contributions can be further broken down into those about economic performance and growth, and rent distribution. Thirdly, it discusses authors writing about the political and social dimension. Specifically, it touches on the relationship between rentierism and democracy or authoritarianism, the quality of governance and institutions, societal interest groups, political opposition, and conflict. The fourth part focuses on country-specific case studies. The fifth and final part details remarks on the findings.

1. The definitions

Rentier state theory is associated with two other concepts: natural resource rent and the resource curse.

1.1 Natural resource rent

In economics, a natural resource rent is defined as the revenue from the export of natural resource, the 'gift of nature' (Beblawi & Luciani, 1990, p. 85). A rent is understood to be external to the normal structure of an economy. It does not derive from the productive sectors of a domestic economy, but instead relies on the fluctuating prices of the international market for whatever product is the subject of rent.

By definition, natural rents are different from other types of income, such as tax revenues or profits from industrial or agricultural production. This is down to two reasons. Firstly, there is no element of sacrifice and effort in generating rent, such as there is for labour, capital or profit. The rentier, on the other hand, does not carry these endeavours. The purest rentier is, essentially, a parasite feeding on the productive activities of others (Waldner & Smith, 2013). Secondly, the generation of rent involves the population to a minimal extent. Natural rent is associated mainly with mineral resources, whose extractive-type economy is very poorly labour-intensive. From this, it can be said that the majority of a people living in a country only see the benefits of rent if its profits are distributed to them through welfare.

1.2 Rentier state theory

The concept of a "rentier state" was first formulated by Hossein Mahdavy, in his analysis of the political economy of pre-revolutionary, Pahlavi Iran, in 1970. He explained (Mahdavi, 1970) that, in a rentier state, the government received substantial rents from foreign individuals, concerns or governments.

In 1987, Hazem Beblawi, in his analysis of the economies of Middle-Eastern Arab states, then further built on Mahdavi's idea. He described a rentier state as possessing three fundamental conditions. Firstly, the economy is dominated by rents, the rents are paid from international companies abroad, and the government is the principal recipient of these rents. Secondly, only a small number of individuals are active in generating this rent, while the majority is involved in the distribution or utilization of it. He further clarified the phenomenon of rent-seeking, as 'the search for financial gain or profit from non-productive economic activities that are especially prevalent among those who depend on state privilege for access to credit, grants, licenses, contracts, and, often, monopoly markets' (Sandbakken, 2006, p.136). Thirdly, this phenomenon of rent-seeking, albeit frequently found in rentier states, is not strictly encompassed in the definition of a rentier state.

As we can see, the notion of a rentier state was first extrapolated from an analysis of resource-rich countries in the Middle East.

A classification can be made between rentier states according to the different types of rent income they receive. 'First grade' or pure rentier states, which obtain rent income mainly from natural resources, such as oil or gas. 'Second grade' or semi-rentier states, do not possess these natural resources (Beblawi & Luciani, 1987, pp. 49–61). Government revenue is obtained through other rent-type economic activities, such as leasing military bases on their territory to other countries.

1.3 The resource curse

A concept connected to the rentier state is the "resource curse" (Basedau & Lay, 2009, p.757), It refers, as does the rentier state, to the negative implications of an economy that is largely natural resource-dependent, particularly on hydrocarbons. Whilst rentier state theory mainly addresses the societal and political implications, the resource curse theory is more concerned with the economic implications.

Terry Lynn Karl best defines the term, the "resource" or "oil curse". It is "the inverse relationship between high natural resources [oil] dependence and economic growth rates." (Schubert, 2006, p.65). Over the years, more and more scholars have applied this term to a series of case studies in resource-rich countries, particularly in Africa, the Middle East, Latin America, and the former Soviet Union.

2. The economic dimension

Over the years, authors have analysed the relationship between a rentier state and economic performance, particularly regarding economic growth. Most of the debates have focused on establishing whether there are causal links between a rentier state and negative economic performance. Moreover, a second branch of literature has focused on analysing the nature of state-owned enterprises in rentier countries, whilst a third one has analysed the mechanisms of rent distribution in rentier societies.

2.1 Economic performance and growth

Sachs and Warner theorized (Sachs & Warner, 1995) that abundance of natural resources in an economy is connected to economic growth. In a quantitative study of national economies over the period 1971 to 1989, they saw that those economies with a higher ratio of natural resource exports featured lower levels of growth. This also held for other variables.

Auty (2001) presented a stylized facts-model of competitive industrialization, comparing development trajectories of resource-poor countries with resource-abundant ones. He found that the former had outperformed the latter.

Stevens (2003) identified five causative effects of rentierism: a long-term decline in terms of trade; volatility of revenues; Dutch disease; an increasing role for the state; and social, cultural and political implications. He stated that the nature of results did not allow generalizations to be made over whether mineral resource abundance provided a blessing or a curse to the economy in question. He argued that, instead, evaluations and conclusions should be made on case-by-case basis.

Rosser (2006) advocated caution when analysing the findings of the resource curse. He clarified that findings highlighting correlation between abundance of natural resources and bad development outcomes did not prove that the former caused the latter. Correlation does not equal causation. He even mentioned that, in some cases, evidence went against the normal assumption of the resource curse, in the sense that some countries with high resource abundance had had a better history of development performance than countries with low resource abundance.

Di John, who has written many pieces on the resource curse theory and rentierism, in 2010 (Di John, 2010) wrote a critical survey of the resource curse. He analysed whether mineral and fuel abundance generated growth-restricting forms of state intervention and large levels of rent-seeking and corruption. He found that the literature on the rentier state and its associated corollaries presented significant shortcomings in theory and evidence. This literature could be summarised in three points. Firstly, higher rents correspond to higher rent-seeking and corruption, in resource-rich countries. Secondly, increases in rent-seeking and corruption produce lower growth rates. Thirdly, rents generate sufficient income for the state to reduce its need to tax the population. Consequently, political bargaining between state and interest groups causes governance to be more arbitrary, paternalistic and even predatory. Lastly, the lack of incentives to tax a population weakens the administrative capacity of a state. Di John's response to these arguments was the following. First of all, rentier state theory cannot explain the variation and change in growth patterns in resource-rich countries such Venezuela, Nigeria or Malaysia. Furthermore, it cannot account for the development trajectories of countries lacking natural resources, such as India or China. To produce growth, the type of policy pursued is more important than whether an economy is resource-rich or not. Furthermore, the causal relationship between corruption and growth is incorrect, since he found that there was no evidence to suggest oil abundance caused corruption and rent-seeking.

In 2011, the same author (Di John, 2011) built on the argument, by adding that, just as there had been centralized and corrupt resource-rich states that had experienced economic stagnation, so there had been some that had experienced growth.

Alkhater (2012) analysed the rentier predatory state hypothesis, a sub-theory of rentierism investigating the net economic effects of politically repressive rentier states. This theory states, incidentally, that in an autocratic regime, the combination of political power and resource abundance leads to economic mismanagement and political repression. If the levels of repression are very high, the state becomes a predatory state. His findings were that a resource-rich state with a high-enough level of political repression would experience negative economic growth, whilst a state with low and average levels of repression would experience positive economic growth.

Regarding the management of state-owned enterprises (SOEs), Ross (1999) reviewed the propositions of the resource curse and contributed two explanations as to why resource-exporting governments seemed to fail economically. The first explanation was that the resource curse was specifically attributable to the inefficiencies and unproductivity of SOEs in charge of running the natural resource sector, in rentier states. The second one was that governments were unable to enforce property rights in these countries, thus discouraging foreign direct investment and a business environment conducive to growth.

In 2010, Hertog (2010a) contributed an innovative study about SOEs. He focused his attention on a group of SOEs in the rentier economies of Middle Eastern Arab States, in the Gulf. He found that many of the governments in these countries - hereditary monarchies, for the most part - had attempted successfully to create well-managed and highly-profitable SOEs, thus defying both the general idea that SOEs are inefficient, and that SOEs in rentier economies are necessarily a development hindrance. He ascribed this surprising outcome to two factors. The first was that there had been no history of populist mobilization in these countries. Populist mobilization, he explained, was an attempt by rentier governments to use SOEs to rectify perceived social injustices through mechanisms such as price controls, employing labour based on political loyalty, and providing welfare. However, these mechanisms led to severe macroeconomic inefficiencies and compromised the management of SOEs. The second was that there had been significant autonomy for the managers of these SOEs from their governments. Managers were free to focus the running of SOEs on making profits and being economically viable, as opposed to having to subordinate corporate interests to those of the government.

In a study, Waldner and Smith (2013) denied the existence of a causal relationship between the abundance of natural resources and negative economic performance.

2.2 Rent distribution

In 2002, Lam and Wantchekon (2002) found that resource abundance increased income inequality between the ruling elites and the population.

Dunning wrote about rent distribution in rentier states (Dunning, 2010). He stated that occasionally, a surge in international commodity prices provided a “manna from heaven” (Dunning, 2010, p.379) for rentier states, in the form of higher fiscal revenues. Normal assumption would be that rentier elites would try to capture as much of these revenues as possible. His study found out that, despite this assumption being reality in most cases, in others the elites behaved counter-intuitively, by not seeking to maximize the capture of revenues.

Gillies (2010) examined the possibility that governments in resource-rich countries could redistribute the revenues of these resources by handing out the profits directly to citizens, through cash transfers. The goal was to shed light on new ways to counter the corrosive effect of rentierism on governance. The effects of rentierism were here defined as weak institutions and high corruption. Through this paper, he assessed the political feasibility of such an option. He found that, in rentier states, such cash transfers could be harmful to the economy, as they would reproduce rather than alleviate rentierism. In rentier states, he argued, there is a principal-agent problem, wherein state administrators are allowed to engage in fraud and misappropriation of state revenue.

Moss (2010) deepened the enquiry on the feasibility of cash transfers. His findings contradicted Gillies’, since he found that cash transfers might dampen the negative effect of natural resource revenues on governance. By arranging mechanisms to transfer direct payments from state coffers to citizens, the first benefit is to bypass corrupt officials, the second is to create a demand for accountability and transparency.

3. The political dimension

Simultaneously to the enquiry on the links between rentier states and the economy, there has been another major branch of research focusing its efforts on the political dimension of the rentier state.

A key postulate of the definition of rentierism, developed after Beblawi, was that, when governments gain most of their revenues from external sources, such as resource rents, they no longer need to levy taxes from their population. Consequently, governments, according to theories of state formation (Waldner & Smith, 2013), become less accountable to the societies they govern. As a result, ruling elites are more likely to get away with siphoning off government money to fund their own expenses and privileges, increase their power as rulers and their access to rents, and to invest in short-sighted public expenditure projects.

3.1 Democracy and authoritarianism

Ross (2001) wrote about the links between a rentier state and democracy. The study featured four findings. The first was that oil indeed hindered democracy. Specifically, it hindered democracy more in poor states than in rich ones. The second was that the tenets of rentierism could be extrapolated from the Middle East and applied to the context to other resource-exporting countries: Indonesia, Malaysia, and Nigeria, for example. Oil had its effects in these countries, too. The third specifically related to democracy: many resource-rich states, scattered across global regions, have seen their progress towards democracy hampered. The fourth finding provided plausible claims for a causal link between a rentier state and three outcomes regarding democracy: a rentier outcome, by which governments use low tax rates and high spending to block pressure for democracy; a repression outcome, by which governments foster their internal security forces to repress democratic pressures; and a modernization outcome, in which the failure of the population to move into industrial and service sector jobs makes them likely to push for democracy. Concerning the link between rentierism and authoritarianism, however, causation was hard to prove, due to there not being a correlation between wealth abundance and a repression effect in a series of regression analyses.

Herb (2005) reviewed these findings and came to a more moderate conclusion. There was, for him, no consistency in the claims that rentierism hurt democracy, with democracy being measured with democracy scores. By definition, rentierism included some of the world's poorest states. It was this poverty, not the presence of abundant minerals, that made these states authoritarian. Political outcomes would not have been positive in these poor countries, regardless of resource abundance. Rent wealth was in most cases neither a blessing, nor a curse.

Sandbakken (2006) analysed more in depth the notion that oil rentier states possess specific characteristics making them unlikely to support democratization. In his study of three African countries, his conclusion was threefold. Firstly, rentier states do not rely on taxation for income and thus are released from democratic obligations to their taxpayers. Secondly, the state spends oil revenue to repress and stabilize its population. Thirdly, the social configuration of rentier states largely precludes the emergence of democratic opposition. This is because rentierism causes an independent middle class to disappear, to be replaced by a politically-subservient rentier class. Furthermore, labour unions are unable to develop and constitute a democratic opposition to the regime.

The following year, Smith (2007) argued that oil wealth generated two alternative political trajectories. He analysed the political economies of Iran and Indonesia in the 1960s and 1970s. The nature of these trajectories was contingent to timing. The main trajectory amongst oil-rich states was durable authoritarianism, which prevented the fall of several authoritarian regimes in the area. Political change occurred, he found, when the alternate trajectory occurred, vulnerable authoritarianism. This vulnerability ensured an authoritarian breakdown. However, this breakdown tended to produce new authoritarian regimes. This was the base of the argument of oil-based authoritarian persistence,

Schubert (2006) introduced his study by claiming that common assumption would have it that natural resource-rich nations, particularly oil-exporting ones, would enjoy a clear development advantage and therefore shine brightly as examples of democracy and freedom. His study was an additional confirmation that this assumption does not hold true. He found that among the world's top-ten oil exporting countries, only Norway and Mexico could be realistically defined as democracies. Other three, Nigeria, Russia, and Venezuela, were democracies only in name. Oil dependence encouraged bad government and a massive imbalance of power. He found that oil could fundamentally alter the structure of an economy and political system in a country. Oil rents were easy to capture for rentier elites. In the less extreme examples of rentier economies, such as Venezuela or Russia, these features were reproduced, albeit on a minor scale. Chavez and Putin, however, have been accused of appropriating oil revenue to pursue their own political goals, which suits the rentier theorem. Schubert repeats the argument that political leaders in rent countries do not have the same imperative to tax the population. Therefore, he repeated, leaders have little incentive to provide for a population's property, political, or civil rights. One additional, massive feature of the rentier state is the lack of accountability. This results from and generates, simultaneously, massive corruption. Ruling elites stayed in power for decades, sometimes becoming presidents for life. Corruption took the form of kickbacks, bribery and patronage. As a result, institutions became weak and governance poor. The rapid surge in wealth was distributed unevenly among the elites.

Ulfelder (2007) followed on Schubert's study, asking himself the same question of whether natural resource wealth impeded the transition to democracy. He revisited the question with an event history design. This design differed from other approaches used so far in statistical case studies of rentier state theory and democracy. With the new design, Ulfelder found similar results to other authors, that autocracy was more lasting in countries with abundant natural resources.

Dunning, (2008) however, went against these established findings. He suggested that natural resource wealth did not necessarily promote autocracy. Mineral resources - such as oil and natural gas - could promote either processes of democracy or authoritarianism. These processes occurred under different circumstances.

In 2010, Tsui (2010) suggested that, despite many published studies, there were still significant disagreements on whether a causal relationship between rentierism and democratic outcomes existed. He re-examined the oil impedes-democracy hypothesis with a singular and innovative industrial dataset detailing global oil discoveries, exploration, extraction and endowment. His findings were that larger oil discoveries correlated to slower transitions to democracy. Precisely, for every 100 billion barrels of oil discovered, the democracy score would decrease by 10 points, after an average of thirty years since the oil discovery. Despite suggesting statistical significance, this connection appears to be less relevant than the previous thread of research going back to Ross's article in 2001.

Oskarsson and Ottosen, (2010) provided an additional re-examination of the resource curse thesis on democracy. Their quantitative study was conducted along two routes: one conceptual and one temporal/contextual. The type of study was a time-series analysis, using cross-section data from 132 countries, over the period 1977 to 2006. The results, interestingly, were mixed, since the level of correlation between mineral wealth and democracy varied, based on the definition of democracy. According to the authors, this left the theory in a more inconclusive state than before. Their remarks specifically addressed three points. Firstly, in previous studies, the concept of democracy had been conceptualized in an overly-simplistic manner, as only the set of political rights. Therefore, the authors argued, it was necessary to broaden the conceptual definition of democracy, to include civil rights. Secondly, all previous studies had relied on the same dataset used by Ross originally, in 2001. The critical shortcoming of this widely-used dataset was that it left out the last decade, potentially distorting results.

Liou and Musgrave (2014) used a quasi-experimental research design to better identify causative links between rentierism and democracy transition periods. Again, in this study, findings failed to provide conclusive evidence over the existence of causation between indicators. However, they remarked, in some cases it was true that natural resources had contributed to institutional change in countries. In some states, there had even been a move towards democratization.

In a 2015 study, (Wright, Frantz & Geddes, 2015) a new causal link was identified between rentier states and autocracy. The study tested whether increases in oil revenue in rentier states improved the chances for survival of autocracies, by decreasing the chances for democratization, reducing the risk of transition to subsequent dictatorship, or both. The authors used a new indicator for autocratic durability. The results were that oil revenues increased the chances of regime survival, by lowering the risk that rival groups might take over power. As a side corollary, the research showed that more oil revenues were linked to higher levels of military spending in autocracies, suggesting that increases in oil wealth could deter a regime takeover by a rival group.

Omgba (2015) summarised this inconsistency of findings. He attempted to explain why this was the case, through a regression analysis. By measuring the number of years between the start of oil exports and the attainment of political independence in oil-exporting countries, the result was that the larger the number of years passed, the higher the level of democracy. This study controlled for all other intervening variables.

3.2 Quality of governance and institutions

In 2002, Isham, Woolcock, Pritchett and Busby (2005) tested both the assumption that countries with higher natural resource abundance had weaker institutions, and its opposite statement, that countries with lower resource abundance had stronger institutions. This assumption had emerged from previous studies in the late 1990s (Karl, 1997). Their study confirmed the validity of the assumption. Findings specifically contained three main points. Firstly, if the country featured an economic system heavily dependent on mineral exports, the same country was more likely to have worse institutions. Secondly, a lower level of institutional quality was associated with lower levels of GDP per capita. Specifically, on average, after 25 years since the discovery of significant mineral deposits, the per capita GDP levels of countries with poor institutions were 33 percent lower than those of countries with good institutions.

Moore (2004) approached the relation between rentierism and governance from the field of fiscal sociology. The study investigated the extent to which a higher reliance on tax revenue as opposed to rent, in developing countries, is associated with higher quality of governance. Due to extreme variety of results between countries, the results were inconclusive.

Tompson (2005) attempted to explain why resource-based economies were more likely than others to suffer from bad policies. His a theory-testing case study analysis, using an approach from political economy rather than fiscal sociology. The result was that natural resource abundance seemed to generate institutional and policy failures across countries. He cautioned, however, against inferring causation too prematurely, like in previous studies. He identified the problem of previous studies: too many large-scale quantitative cross-national studies had been conducted. This type of study, he claimed, is unable to effectively capture the nature of political mechanisms in these countries and test the true validity of hypotheses on the rentier state.

Karl (2007) attempted to improve Moore's study. He formulated a better design for a fiscal contract that would improve governance in rentier states. The problem could be overcome by establishing a new fiscal and social contract between the population, the resource sector and the government. This contract would involve transparency and monitoring of oil revenues, both domestically and internationally.

Schwarz analysed rentier states by comparing the evolution of state institutions in Middle Eastern rentier economies with those of other areas (Schwarz, 2008). He found that the formation path of Middle Eastern states was unusual. Crucially, Schwarz identified the difference between Middle Eastern rentier states and other states. This difference was that, in Middle Eastern states, there lacked political accountability between a country's population and its rulers.

Kolstad (2009) assessed the impact of public and private institutions, in an attempt to determine which of the two types had a greater impact in increasing quality of governance in rentier developing countries. He used cross-country data available from Sachs and Warner (1995). The result was that only improved private sector institutions improved the situation of the resource curse.

In a sample of 65 developing countries, Yang (2010) found yet another result. In developing countries affected by the resource curse, the quality of institutions did not seem to yield significant effect on a country's economic and political situation. Rather than institutions, Yang identified policies as the key driver to ameliorate the negative conditions brought by the resource curse.

Deacon and Rode (2015) continued investigating the link between the resource curse and political institutions. Their contributions highlighted that the predictions of the political theories of the resource curse did not fit well with the evidence. Additionally, the negative effects of the resource curse could be overcome, depending on the quality of the political institutions in the country before the discovery of mineral windfalls. Finally, these windfalls were capable of negatively altering the structure of political institutions.

Anthonsen, Löfgren, Nilsson and Westerlund (2012) considered another aspect. In a sample of 139 states over the years 1984 to 2006, they formulated that quality of government, rather than regime type - alias, democracy or authoritarian regime - should be considered as the independent variable, with an effect on the political context of resource-rich country. Their study had two findings. Firstly, oil and gas rents encouraged fiscal dependency on rent revenue. Secondly, these hydrocarbons had negative effects on three governance indicators: corruption, bureaucratic quality and legal impartiality. The study controlled for intervening variables.

In 2013, Torres and two other scholars (Torres, Afonso & Soares, 2013) performed an additional survey of the literature on the resource curse, and restated that the quality of institutions and policies - especially fiscal policy - was the best suggestion to explain the resource curse. In particular, the authors advised that the traditional indicators for measuring institutions should be complemented with those measuring the quality of policies, as both are crucial to explain the resource curse. In particular, budgetary policy measures should be considered more, since it had now been proven that better institutional quality in managing resource revenues was key to avoid the resource curse.

3.3 Interest groups

In 1994, Shambayati (1994) wrote that rentierism increased the autonomy of governments, in the sense that it pushed out economic pressure groups from power aggregations and made a section of the middle class dependent on the state. Simultaneously, rentierism encouraged the rise of opposition parties, along cultural and ideological lines. His case study focused on analysing the rise of Islamist movements in Turkey and Iran.

In 2006, Omeje published a case study of interest groups in the rentier context of the oil-rich Niger Delta (Omeje, 2006). He identified two key societal groups in the area: state elites and compradors. The former were representatives of the ruling class, the latter were agents of foreign hydrocarbon companies operating in the Niger Delta. Omeje theorized that, together, these two groups enforced societal dominance on local communities. In the process, they obstructed development, by looting state revenue and engaging in other unproductive activities. Thus, he summarised, small sections of Nigerian society pursued their narrow interests, to the detriment of the general interests of society in the Niger Delta and Nigeria as a whole.

Hertog (2010b) analysed the histories of "resource brokerage" (Hertog 2010b, p.282) in a number of Gulf monarchies, to expand on the causative postulations of the rentier state. Following with the hypothesis that there is an imbalance in resource distribution between the state and society in rentier states, he formulated that, due to the inaccessibility of local bureaucracies through normal access channels, societal actors sought alternative ways to access state resources. These alternative ways involved using brokers, or intermediaries with a privileged societal position, whose job was to make state resources available to actors lacking connections. Hertog concluded that the presence of intermediaries was an important feature of state-society relations in rentier states.

3.4 Political opposition

Karl (1997) suggested that one of the effects of the rentier state is to bring stabilization in its society, by repressing or buying off political opposition, particularly through wide-scale distribution of rent in society. This is the notion of rentier peace.

In 1999, Okruhlik (1999) confuted this assumption, by saying that there had been no established connection between state wealth accumulation and a particular social outcome. In reality, rentier states often had problems with political opposition, due to perceived injustices regarding the way revenues were distributed.

Basedau and Lacher (2006) remarked that the theories of rentier peace and resource curse predict different outcomes in societies: the former expects peace and stability, the latter anticipates conflict. Since these findings were contradictory, the authors focused on harmonizing the results. They combined the two theories. The results were that, depending on the circumstance, governments in resource-rich countries could achieve either internal stability or conflict. The key factor was availability of wealth: only the wealthiest governments were able to foster enough resources to buy off political opposition.

In 2012, (Levins, 2012) Levins concentrated on explaining how the repressive rentier governments in Arab Gulf states had helped neutralize the challenge of the civil opposition during the Arab Spring.

3.5 Conflict

Di John wrote on the relationship between the rentier state and conflict and violence. In 2002, he (Di John, 2002) proposed a corollary of the rentier state, concerning its effect on violence. Late-developing countries with plentiful mineral resources were more likely to experience internal violence.

Basedau and Lacher (2006) reviewed the claim that resource abundance encouraged conflict, with a study on 37 oil-producing countries. They found that oil-dependent states were actually very stable internally. The authors theorized a type of rentier state, with governments involved in large-scale distribution and patronage. These mechanisms, they argued, brought internal stability.

Omeje (2008) attempted to map out the geography of rentier conflict. He theorized the notion of a “rentier space” (Omeje, 2008, p.9). This is an intersecting dimension in rentier societies, wherein the interests of the rentier elites - often allied with foreign oil companies - clash with those of the poor populace. The latter is demanding a higher share of mineral revenues for itself. The rentier space, according to Omeje, was significantly associated with social conflict.

Three years later, Bjorvatn and Naghavi (2011) acknowledged that the literature on the relation between a rentier state and conflict was contradictory. On one hand, empirical studies had shown that rents from natural resources were a significant determinant of civil war in developing countries. This was due to the destabilizing effect of rent-seekers putting a strain on traditional society relations. On the other hand, however, other studies had supported the notion that rentier states pacified the state by incorporating civil opposition into the system of rent distribution, placating its demands. The authors attempted to solve this contradiction. The findings were that, in countries with higher rents, the larger number of interest groups in society and thus the larger power struggle to control these rents, is associated with an increased cost of conflict. These increased costs promote regime stability. Peace, in particular, was guaranteed through patronage employment.

Ross (2013) summarised the most recent findings on the impact of mineral abundance impacted on democracy, governance, and conflict. He found that, at least, one type of mineral resource - oil - had three negative effects: it prolonged the duration of autocratic regimes, it increased certain types of corruption, and it promoted conflict in poorer countries. In 2015 (Ross, 2015), the same author confirmed his findings in another literature review. He added that, although sometimes it was difficult to verify the validity of causal claims based on observational data - such as that used by the author himself - the theory of a correlation between more oil and less democracy, more corruption and conflict were quite correct compared to alternative explanations.

4. Empirical studies

A branch of literature has focused on determining to what extent national economies and societies fit the model of the rentier state.

In 2002, Kuru (2002) published a case study of Turkmenistan. The results were that Turkmen rentierism showed two facets: domestically, its political regime was authoritarian; internationally, rentierism shaped Turkmen foreign policy in three ways. These were: Central Asian integration, neutrality, and pipeline projects. Interestingly, Kuru remarked that the Turkmen rentier state was different from that of Beblawi and Luciani (1987) in two ways: it featured a strong personality cult in favour of its leader, and the system entailed that elites were loyal not to the rentier system, but to the political leader.

In 2005, Estrada and De La Camara Arilla (2005) investigated the Russian economy. The results were mixed. Although the results confirmed that Russia's economy had descended into a rentier condition, there was uncertainty regarding the future path of the Russian economy.

Weyland (2009) focused, innovatively, on Latin America. He sought an answer to why two types of leftist governments had emerged in the region over the last decade. Weyland distinguished between radical, "right" left, and moderate, "wrong" left (Weyland, 2009, p.145). The distinction was based mostly on the criterion of financial responsibility: the moderate, "right" left was financially responsible, the radical, "wrong" one was not. Despite other scholars claiming that this radicalism derived from the rejection, in the region, of neoliberal politics, Weyland argued that this radicalism originated from the presence of abundant natural resources in these countries. According to him, this theory explained the presence of radical leftist governments in Bolivia, Venezuela and Ecuador. These countries were dubbed new examples of rentierism.

Franke, Gawrich and Alakbarov (2009) analysed two former Soviet countries, Kazakhstan and Azerbaijan. They identified them as "post-Soviet rentier states" (Franke, Gawrich & Alakbarov, 2009, p.109). Their findings highlighted that the two countries had huge reserves of gas and oil, low economic diversification, and strong autocratic regimes, with patronage structures. Two more features were noted. Firstly, there were low numbers of political interest groups in these societies. Secondly, the population was oriented hierarchically. Combined together, these characteristics made the two countries specific post-Soviet examples of rentierism.

A study in 2011 (El-Katiri, Fattouh & Segal, 2011) analysed Kuwait. The country was described as a prime example of rentierism, due to mechanisms such as the government subsidizing utilities and providing public employment.

Gray (2011) provided an innovative study on the rentier state. He upgraded RST, by considering the latest economic, technological, social and political transformations in the Gulf rentier states over the last two decades. These countries, as we have seen, were the original case studies that gave birth to RST. Gray studied the examples of Qatar and Abu Dhabi. His findings were summarised in what he called "new rentierism" (Gray, 2011, p.2). A new rentier state possesses seven features, some of which derived from the traditional rentier literature, some of which were innovative. These features were: a responsive and authoritarian state, an economic openness to globalization with pockets of protectionism, an active development policy, an energy-focused economy, a state structure along the entrepreneurial state capitalist model, a long-term planning government, and an innovative foreign policy.

Mazzuca (2013), like Weyland, examined Latin America, specifically Argentina, Venezuela, Bolivia and Ecuador. He investigated the origins of alleged electoral authoritarianism in these countries. He ascribed this process to a rise in commodity prices in the early 2000s, especially concerning hydrocarbons. This surge in prices incentivized local governments to expropriate revenue from the windfall of natural resources. In turn, this temptation spawned authoritarian and populist dynamics.

Neves (2014) found that the political economy of Timor Leste also corresponded to that of a rentier state. In particular, he noted the high degree of independence of the rentier economic sector from the rest of the economy, since the domestic economy contributes only 10% to the country's GDP. The rest derives from the hydrocarbons sector.

Rutledge (2014) analysed both the rentier state and the resource curse theories. He considered them to be two facets of the same paradigm, because "because only states with abundant mineral resources have the capacity to be cursed by such endowments and, only states with such endowments are capable of deploying and thus exhibiting rentier characteristics" (Rutledge, 2014, p.2). He also pointed out that rentier Arabic countries in the Gulf had, contrary to expectations, performed economically quite well compared to their non-rentier neighbours.

Barma (2014) published a comparative case study involving Timor Leste, Laos, Papua New Guinea and Mongolia. In this study, it was highlighted that countries experienced the resource curse in different ways. Also, natural resources did not inevitably lock countries into a negative economic spiral. To avoid this spiral, the solution for governments was to make the best institutional and policy choices to manage the natural resources sector.

5. Remarks

In summary, the literature on the rentier state approaches the subject from several perspectives. Concerning the economic dimension, the debates have focused mainly on determining whether the rentier state is associated with negative economic performance. To be more precise, the indicators for negative economic performance have been identified as sluggish growth rates and economic mismanagement of SOEs. The findings tend to point towards there being at least a significant correlation between natural resource dependence and negative economic performance. However, in recent years, authors like Di John have pointed out that, despite this assumption retaining a general validity, there are significant shortcomings in the theory. It seems more and more that the role of institutions is highlighted, as the determinant of whether a state descends into rentierism and whether it is able to drag itself out of this condition. Additionally, the literature on state-owned enterprises points out that, despite previous studies stating that rentierism implies featuring inefficient SOEs, the cases of modern development in the Arabian Gulf suggest that SOEs can also be successful in rentier economies. Here, Hertog's contribution is important, as he summarises that SOEs in rentier states can be either good or bad. However, whether they become successful depends on policy, specifically by making them autonomous of populist demands by national governments, and by seeing them focus on profits.

In the political dimension, many relationships were explored between the notion of a rentier state and associated effects. All in all, the trend is that rentierism encourages the rise of new social groups, such as compradors or brokers, that mediate between the state and society. Regarding political opposition, it seems that most studies highlight that rentierism causes political repression. There are also some studies that contradict this, and it is difficult to remark how these different conclusions can be harmonized. The degree of divergent outcomes seems to depend, as some authors suggest, on how concepts such as political opposition, conflict or democracy are operationalised. The same story goes for the enquiry on the relationship between rentierism and authoritarianism and conflict. Most studies here suggest that rentierism does indeed, as a corollary of more political repression, consolidate autocratic regimes, as the context of regimes in certain world regions shows. For conflict, the results are extremely contradictory, and ultimately inconclusive. Concerning democracy, it is clear that rentierism suppresses or significantly hampers democratization processes in non-democratic developing nations, and the mechanisms for this are laid out in detail.

Chapter Three – Theory

1. Features of a rentier state

In the literature review, it can be noted that several authors conduct studies on the social, political and economic effects of a rentier state. Those who aim to identify the defining features of a rentier state, however, are relatively few. This section discusses these features.

Aartun referred to Gary Sick's seven "structural distortions" (Aartun, 2002, p.5), in his analysis of the political economy of the United Arab Emirates. Firstly, rentier states feature budgetary uncertainties. Since rentier governments rely so much on revenue from exported commodities, and since these commodities are subject to the fluctuations of prices on the international market, the stability of government budgets is compromised. Secondly, the public sector is dominant over the private sector. The state owns most means of production, since the most important economic sector is natural resource-related, and this sector is in the hands of ruling elites. Thirdly, foreign labour is massively imported into rentier economies. Fourthly, there is widespread unemployment in rentier societies. Since the hydrocarbons sector does not employ large sections of the population, and since the development of hydrocarbons comes at the expense of other economic sectors, those citizens unemployed by this industry are met with poor alternative job prospects domestically. Fifthly, rentier governments provide incredibly generous welfare programmes to the domestic poor. These programmes are a huge strain on the state budget, raising uncertainties over long-term financial sustainability. Sixthly, popular participation in domestic politics is absent, since the state "buys off" (Aartun, 2002, p.5) any opposition from internal parties or movements. Lastly, the fact that ruling elites have total control over state finances, implies there is a serious lack of accountability in budgeting.

Moore (2004) identified six features, partly overlapping with Aartun . First of all, the state is autonomous from its citizens, since it buys off political opposition and builds up its army and secret services, in a costly bid to insulate itself from the challenge of political opposition and rival power coups. This strategy is dictated by the fact that the ruling regime is extremely vulnerable to power takeovers if it does not invest in guaranteeing its security. Moreover, there is no incentive for normal citizens in rentier societies to engage in civic politics. Also, public expenditure is non-transparent. Lastly, rentier states possess ineffective public bureaucracies, since public-sector jobs are distributed according to criteria of political loyalty and patronage rather than merit.

Estrada and De La Camara Arilla (2005) distinguished between economic and political tenets of a rentier state. Concerning the economy, a rentier state features hydrocarbons as the main productive component of a state's GDP. Hydrocarbons are the dominant sector, and there is little to no economic diversification. An implication of this condition was that the state relies heavily on hydrocarbons sales to make up its fiscal revenue, rather than taxation. In the political realm, the authors mentioned that natural resource-exporting countries congregated in international institutions, like OPEC (Organization of Petroleum-Exporting Countries), and that within these institutions, the governments of these countries agreed on setting the international price for their exported communities. The price-setting mechanisms aim to ensure exporters gain the most profit from selling commodities on the international market. Also, the management of hydrocarbon companies, regardless of whether these companies are privately or publicly owned, follows criteria of political redistribution rather than private profit. Government and the ruling elites maximize their revenues from these companies through property income or direct taxation. Finally, rentier governments design public expenditure policies in such a way that, through these same mechanisms, they can allocate resources for the welfare of the population. This welfare satisfies the needs and demands of this population, especially those of its poorest constituents, and thus contributes to keeping social unrest and popular dissatisfaction with the ruling regime down. In conclusion, Estrada's points can be summarised as follows: firstly, the economy is mainly constituted by unrefined natural resource exports; secondly, the income from these exports is used by the political establishment as the main driver of state intervention, in the form of public expenditure policies aimed to legitimize and consolidate the ruling elite; thirdly, as a consequence of the first two points, a non-productive economy is created in rentier states, with the hydrocarbon sector as pivot; fourthly, as a consequence from all these points, the trend in macroeconomic indicators in a rentier state largely follow the trends of international hydrocarbon market prices.

Hertog (2010a) defined a rentier state through four macro-aspects. Firstly, a rentier economy has high rates of rent dependence. The national economy is highly dependent on revenues from hydrocarbon sales. Secondly, rentier states possess inefficient and bloated public sectors and bureaucracies. Thirdly, since the public sector is inefficient, it derives that SOEs in rentier economies are also inefficient. SOEs are not managed according to criteria of private corporate profit, but according to their ability to transfer these same profits to the state treasury, prioritizing political over corporate interests. Fourthly, rentier states experience a condition called "economic populism" (Hertog, 2010a, p.278). Economic populism is measured by indicators, such as: the fact that consumer prices are controlled and kept artificially-low, the state intervenes in the economy directly to create employment, social services are distributed generously and often unsustainably to the population, the low classes of the population organize themselves to provide political support and mobilization for the ruling elite, political leaders use symbols of egalitarian rhetoric in their public discourse, and the ruling elite impose political redistribution goals on the profits of SOEs.

2. Factors causing a rentier state

Similarly to the scarcity of literature on the features of a rentier state, only a few authors analyse the causing factors of a rentier state.

Moore (2004) argued that the key to understand why rentier states spring into existence is the North-South global divide. Defining a rentier state as one wherein government lives off unearned income and the state structure is little supported by political effort towards the domestic population, he ascribed its formation across the South of the world to mechanisms left over by the North colonizing the South of the world. Through these mechanisms - namely the bureaucratic legacy of direct colonial rule, economic dependence, military alliances and interventions, and foreign aid - Southern states would emerge, many of which would go on to become rentier states. Moore also identified the evolution of military technology as a factor shaping the rentier state. As it became more capital intensive, more destructive, and quickly projectable over long distances, this technology created a great imbalance of power between ordinary citizens and the ruling elites, since elites became more capable of repressing civil dissent using military force.

Estrada and De La Camara Arilla (2005) distinguished between non-rentier and rentier petroleum-exporting countries, with a rentier country possessing a heavily resource-dependent economy and a government that steps in to increase its control over resource export revenue. For the two authors, oil companies in non-rentier states are able to maintain relative autonomy from state demands and rent capture. Whilst companies in rentier states are not.

Robinson, Torvik and Verdier (2006) identified institutions as key to determine whether a resource-rich economy descends into rentierism or not. They pointed out that countries with strong institutions can prevent this descent by promoting accountability and state competence in the economic sectors. Without these strong institutions, it is easier for economies to acquire rentier features.

Following on this study highlighting the role of institutions, Mehlum, Moene and Torvik (2006) concluded that better institutional quality in the form of stronger rule of law determined how the institutional system of a state reacted to the discovery of significant reserves of natural resources. Higher levels of institutional quality were associated with better reactions to the discovery of natural reserves. In other words, countries with high-quality institutions were able to preserve the quality of their institutions and democracy and resist the descent into negative institutional conditions such as authoritarianism, corruption and lack of accountability and transparency. Examples of such countries were Botswana and Norway (Mehlum et al., 2006). On the other hand, lower levels of institutional quality implied that states were more likely to suffer the traditional negative effects of a resource boom, and descend into a rentier condition. Examples here were Nigeria and Mexico.

The same year, Robinson, Torvik and Verdier (2006) also suggested that institutional quality was the key factor for states to override the resource curse. However, compared to Mehlum's study, institutional quality concerned mainly public institutions, since it was measured through levels of public accountability (Robinson et al, 2006). States with better public institutional quality tended to preserve the quality of their governance even after resource booms, whilst those with lower quality of public institutions tended to descend into rentierism.

Dunning (2008) explained that the variation in the extent to which resource-abundant countries have become rentier states is due to two factors: the rates of resource dependence, and levels of private inequality. The assumption was that a rentier state had an authoritarian government. Countries with an economy more dependent on hydrocarbon revenues - as measured by the percentage of hydrocarbon revenue in total GDP - tended to experience rentierism more thoroughly. Also, countries with higher levels of income inequality in society were associated with higher pressure to establish rentier-style revenue redistribution mechanisms. This was because citizens who perceived themselves to be much worse-off economically than their peers, were more motivated to legitimize politicians or rulers whose goals were to bring hydrocarbon profits under state control.

Torvik (2009) had a more moderate conclusion to his research. Amongst the first wave of industrializing countries in the 19th century, he found there was a combination of plentiful natural resources and effective institutions. In the most recent wave of industrialization, however, developing countries with plentiful natural resources happened to be plagued by poor institutions. This shortcoming, seemingly, did not prevent them from industrializing successfully. Torvik therefore concluded that countries with either strong or weak institutions are capable of developing successfully.

Hertog (2010a), whose definition of a rentier state has been discussed in the previous section, used the examples of Algeria, Iran, Nigeria and Kuwait to explain how a rentier state arises due to different factors. In the cases of Algeria and Iran, rentierism spewed out of a populist state-building initiative. In Nigeria, it emerged out of a coalition between political groups. In Kuwait, it came out of a legacy of pork-barrel politics and middle-class mobilization.

In another study, he (Hertog, 2010b) added that, although resource-abundant states with considerable hydrocarbon reserves were prime targets to become rentier states, they could avoid this condition - with all its negative implications - if the management of SOEs in these states fulfilled two conditions: that it followed criteria of profit-making rather than political redistribution, and that it be kept autonomous from the ruling political establishment. In other words, political autonomy in SOEs was an additional causing factor of a rentier state. It refers to the ability of state managers to direct SOEs towards corporate gains in the shape of profits, rather than subordinating them to the redistribution patterns of its government.

3. Remarks

Concerning the factors causing a rentier state, it should be said that literature is scarce. Most of the authors on the rentier state seem to have focused, as we have seen, on defining the rentier state and applying the definition to case studies, as well as determining causal relationships between rentier states and other outcomes. The significant feature here is that rentierism is mostly being considered as the independent variable, rather than the dependent one. Nevertheless, there are have been some contributions discussing rentierism as an outcome. The results seem still scarce. They highlight that rentier states are either born out of the colonial legacy of Western countries, or the absence in general of strong institutions. The theme of institutions seems to run deep when discussing the rentier state, both the factors that define it and those that make it.

4. Propositions

This section now conceptualizes the rentier state into propositions testable for this study. A theoretical framework for the features and causing factors of a rentier state is provided, thus providing an answer to sub-question one of this study.

The design of the framework considered two necessities: to produce propositions that could be reasonably tested within the logistical and time constraints of this study, and to underline the negative connotation of a rentier state.

The final results are twofold. A rentier state is defined essentially by three conditions. Firstly, it possesses an authoritarian, anti-democratic government. This condition holds for both cases of political regimes that are formal democracies - like Russia or Venezuela - or those where formal power is highly concentrated in one individual, as in the Gulf monarchies. Secondly, it is plagued by serious corruption. The third condition follows three assumptions: that rentier states enjoy windfall revenues from the export of natural resources, that rentier governments need to legitimize and consolidate their position at the top of the rentier distribution system in the eyes of their domestic populations, and that several rentier governments offer generous welfare programmes to the population to gain their support. The third condition therefore is that governments use resource revenues to fund patronage networks in the provision of welfare, since it consolidates the government's position as the head of the rentier distribution system.

Moreover, four causing factors of a rentier state are identified. Firstly, a political system with a stronger rule of law is more effective in preventing its degeneration into rentierism. Secondly, a political system with stronger accountability mechanisms is better able to resist rentierism. Thirdly, within a country's economy, its rate of dependency on the revenue from the sale of natural resources as opposed to other fiscal sources, determines how likely it is that such a country will experience rentierism. A lower degree of dependency, or - in other words - a higher rate of economic diversification - reduces the chances of becoming a rentier state. Finally, if SOEs are able to resist redistributive demands from government officials and continue operating for profit, then chances of rentierism diminish. Therefore, the political autonomy of SOEs is the crucial factor.

To summarise and to provide an answer to sub-question one, a rentier state is defined by authoritarianism, corruption, and patronage in welfare provision. It is caused by weak rule of law, low accountability, high resource dependence and the subservience of SOEs to the whims of the ruling elite.

Each of the conditions and factors are now translated into a corresponding proposition. These propositions are tested in the study. A difference can be traced between propositions 1-3, and 4-7. The first three describe the rentier state, whilst the last four are explanatory. These two groups of propositions are summarised in tables 1 and 2.

Given the discrepancy between evidence of rentierism in Venezuela and Bolivia in the literature, it is expected that the findings will be different for the two cases. Specifically, Venezuela is hypothesised to possess higher degrees of rentier features than Bolivia: higher levels of authoritarianism, corruption and patronage in welfare provision. Also, it is expected that Venezuela correlates with weaker rule of law, lower accountability and political autonomy, and higher resource dependence.

Table 1 – Summary of rentier state propositions

Proposition	Statement
1 (descriptive)	Country is a rentier state if there high levels of authoritarianism.
2 (descriptive)	Country is a rentier state if there are high levels of corruption.
3 (descriptive)	Country is a rentier state if there is evidence of patronage in the provision of welfare.
4 (explanatory)	Strong/weak rule of law is associated with lower/higher levels of rentierism.
5 (explanatory)	Higher/lower levels of accountability are associated with lower/higher levels of rentierism.
6 (explanatory)	Higher/lower rates of natural resource dependence are associated with higher/lower levels of rentierism.
7 (explanatory)	Higher/lower levels of political autonomy in SOEs are associated with lower/higher levels of rentierism.

Chapter Four - Methodology

1. Research method

As stated, the main research question is: “Which factors cause the different extent to which Bolivia and Venezuela have become rentier states?” This research question has three sub-questions. The first one aimed to establish a theoretical understanding of the features and causing factors of a rentier state. This framework was derived from the literature, and was answered in the previous chapter. Answers to sub-questions 2 and 3 require different methodological approaches. Both research sub-questions adhere to the realm of comparative case studies.

Sub-question 2 is: “To what extent have Venezuela and Bolivia become rentier states?” Inherent in this question is the quest to verify the validity of a theory - the rentier state theory - by applying it to two cases. This is done through an empirical sub-design. Observations are derived from empirical data on the features of a rentier state in Venezuela and Bolivia. The type of answer is descriptive rather than explanatory.

Sub-question 3 is: “To what extent do the factors identified explain the differences between Venezuela and Bolivia in becoming rentier states?” This question requires a different methodological approach than sub-question 2. The answer requires testing claims of causality between independent and dependent research variables. Theory is still important to the research question, since it is only through the use of theory that research propositions can be formulated and tested.

A final point to be made - regarding the choice of methodology - is to reference the literature on the type of research methods suitable for this study. A few studies (Blatter & Blume, 2008; Blatter & Haverland, 2014; Gerring, 2006; Haverland & Blatter, 2012) offer the best guide to choose the research method for social science case studies. Essentially the authors single out three research methods: co-variational analysis (COV), causal process-tracing (CPT), and congruence analysis (CON).

COV is used to test the validity of a proposition, that a factor X causes factor Y. According to Blatter and Blume (2008), it dominates the other two research methods - CPT and CON - as a choice for causality-inferring case studies. Causal inference is derived from observing the covariation between an independent variable and a dependent variable (Blatter

& Haverland, 2014), or a causing factor and effect. COV is well-suited to investigate sub-question 3, since the answer to the question requires investigating whether a variation of the identified causing factors of a rentier state cause a variation of the outcome of rentierism, in the two case studies. Similarly to CON, COV draws on theory to formulate and test causal links. However, it is more important for COV to assess the validity of specific X-factor-to-Y-effect causal links, than to test the validity of a theory as a whole. In other words, the causal links between factors and rentierism are extrapolated from theory, but establishing the degree of their validity is different than establishing the validity of RST. COV is a "X-centred research" (Haverland & Blatter, 2012, p.9). Therefore, answering sub-question 3 implies conducting COV by testing covariation between the different extents of rentierism in Venezuela and Bolivia, and the different extent to which the causing factors are present in the two countries.

2. Case description

It is established that a co-variational analysis will answer sub-question 3. On the lines of Gerring's statement (2006, p.82) that "all populations must not only be specified, but also justified", case selection now discusses these two aspects.

It is implicit in the main research question that this study is a small-N comparative case study analysis. Furthermore, the sample population - as previously mentioned - is limited to two countries, Venezuela and Bolivia. More specifically, it compares the terms in office of Hugo Chavez and Evo Morales, respectively. The choice derives from the fact that scholars have in recent years enumerated several similarities between the two leaders (De La Torre, 2013; Eaton, 2013 and 2014; Riggirozzi, 2010), regarding their political programme. These similarities would lead one to assume that the management of the hydrocarbons sector in the two countries has been similar. This assumption, however, contrasts with the literature on the state of the hydrocarbons sector and the general state of these countries' economies, political system and society. Therefore, investigating the nature of rentierism in the two countries will allow to answer the question as to why this contrast in the literature exists.

The time periods of Chavez' and Morales' presidencies do not completely coincide, since the former was elected as president of Venezuela a few years earlier than the latter in Bolivia. Also, Chavez's death in 2013 meant he was succeeded in the presidency, whilst Morales maintains office to this day. The period for this study has thus been set between 2005 and 2013, between the year of Morales' political ascendancy to Chavez's death. The interval allows an effective comparison between the social, political and economic conditions of the two countries.

The type of comparative case study design follows a "most-similar-case" logic (Przeworski & Teune, 1971; Lijphart, 1975). It is assumed that the social, political and economic conditions of Venezuela and Bolivia, throughout the period of investigation 2005-2013 are similar. This condition of similarity is the way for COV-type studies to control for intervening variables, since other methods of doing so are not available. To be specific, it is impossible to control for variables using statistics, such as what is done in quantitative, large-N studies (Blatter & Haverland, 2014).

3. Operationalisation

It is now necessary to operationalise the research variables for the two research sub-questions. The case studies have already been identified as Chavez's Venezuela from 2005 to 2013, and Morales' Bolivia across the same period.

Operationalisation of the variables derives from the theoretical framework of the rentier state laid out in the previous chapter. Specifically, it refers to the set of propositions regarding both the features and causing factors of the rentier state. "Variable-scoring observations" imply that data is translated (Haverland & Blatter, 2012, p.12) into a set of scores for each of the variables X and Y. Each of the scores constitutes the average of the various scores within the period 2005-2013.

3.1 Operationalising the rentier state

A rentier state possesses three features. For each of them, indicators are defined. Wherever necessary, it is discussed whether the indicator is derived from the literature. The process is repeated for the causing factors of a rentier state.

The first proposition states that a country is a rentier state if there are high levels of authoritarianism. To establish the levels of authoritarianism, it seems the literature agrees on using either the classifications according to Freedom House or Polity IV (Bellin, 2004; Haber & Menaldo, 2011). Freedom House classifies countries according to the state of their civil liberties and political rights (Freedom House, 2017) into Free, Partly Free, and Not Free. Polity

IV assigns countries a score on a spectrum, based on how democratic its political system is (Polity IV, 2017). The spectrum ranges from Full Democracy to Autocracy. The measurement of the Freedom House index is based on Bellin's method (2004), to use the composite score of civil liberties and political rights, ranging from 1 to 7. A score between 1 and 2.5 classifies a country as Free, one between 3 and 5.5 classifies a country as Partly Free, whilst one between 5.5 and 7 classifies a country as Not Free. To measure Polity IV's index of democracy, this paper follows Haber and Menaldo's method of measuring the combined Polity score. The combined score considers the separate scales of democracy and autocracy scores of a country, and then adds them for an aggregate. Each country is assigned a score from -10 to +10, with -10 classifying a country as most authoritarian and +10 classifying a country as most democratic. Democracy is measured through four added indicators: competitiveness in political participation, openness of political recruitment, degree of competitiveness of executive recruitment and limitations on the executive. Autocracy is measured by these four, plus a fifth indicator: the regulation of political participation. Unlike the case of Haber and Menaldo's article, it is not necessary to standardize the scores from 0 to 100, since no regression analysis is conducted.

The third and final measurement of democracy comes from the Economist Democracy Index, compiled by the magazine's Intelligence Unit. Available since 2006, it provides annual data on the levels of democracy in countries around the world, on a scale of 0-10. Higher scores equate with higher levels of democracy. Democracy is defined over five categories: civil liberties, political culture, political participation, functioning of government, and the electoral process and pluralism (Economist Intelligence Unit, 2007). The final score is an aggregate of these five conditions. Countries are classified - in ascending order of democracy scores - as 'authoritarian regimes', 'hybrid regimes', 'flawed democracies', and 'full democracies'.

Since the literature mentions the shortages of measuring regime type by using only one method rather than a combined approach (Ross, 2001), the measurement for democracy for this study combines all three. The scores from Freedom House, Polity IV and the Democracy Index are first averaged out over the period of study, 2005-2013. They are then brought to the same scale, of 0 to 10, with lower scores indicating lower levels of democracy and higher levels of authoritarianism. The three scores are then averaged out, giving the final democracy score for Bolivia and Venezuela.

The second proposition states that a rentier state features high corruption. To measure this condition, two sources are used. Di John (2011) used the scores of the Control of Corruption index, from the World Bank Worldwide Governance Indicators (World Bank, 2017). The Control of Corruption index assigns countries a score from -2.5 to +2.5, with lower scores indicating higher levels of perceived corruption, and higher scores indicating lower levels of perceived corruption. Transparency International's Corruption Perception Index is an annual score for each country. It has modified its scale from 0-10 to 0-100. It aggregates the scores from more than ten different sources providing perceptions of business people and country experts of public sector corruption (Transparency International, 2016). The corruption scores from the World Bank and Transparency International are first averaged out over the period of the study, 2005-2013. They are then converted to the scale of 0-10. The values are then averaged out, providing the final score for corruption in Bolivia and Venezuela.

The third proposition states that welfare provision in a rentier state is subject to patronage by the government. To measure patronage, academic articles on welfare provision, corruption, and other governance problems in Bolivia and Venezuela are used. Specifically, the research looks for evidence that certain societal groups received higher levels of resources by the government through welfare distribution channels, and whether this preference was due to these groups voting for and being politically loyal to the government. This unit of measurement controls for an obvious candidate justifying different resource allocation levels: different levels of poverty.

3.2 Operationalising the causes of the rentier state

The first proposition for the causing factors of a rentier state formulates that, in a political system, a stronger rule of law is associated with lower levels of rentierism. To measure this, the Rule of Law score of the World Bank Worldwide Governance Indicators is used (World Bank, 2017). A country's rule of law score is ranked from -2.5 (weak) to +2.5 (strong). The annual values are averaged out over the period of study, 2005-2013. They are then converted to a scale of 0-10, with lower scores indicating lower levels of rule of law.

The second proposition states that low accountability is a factor for a rentier state. Measurement for accountability, again, derives from the World Bank Worldwide Governance Indicators (WGI). Specifically, Basedau and Lacher (2006) use the Voice and Accountability indicator, which rates countries on a spectrum with values between -2.5 (weak accountability) and +2.5 (strong accountability). The annual values are averaged out over the period of study, 2005-2013. They are then converted to a scale of 0-10, with lower scores indicating lower levels of accountability.

The third proposition states that increasing levels of natural resource dependence are associated with higher levels of rentierism. The indicator for resource dependence is the percentage of hydrocarbon revenue over total government revenue for any given year. This choice follows recommendation by several authors (Beblawi & Luciani, 2015; Bond & Malik, 2009; Chibi, Chekouri & Benbouziane, 2015; Estrada & De La Camara Arilla, 2005). Since the period is 2005-2013, the indicator is the average of the figures for each year between this period. Data was retrieved by government publications online. In the case of Bolivia, it came from a 2014 brochure from the Ministry for the Economy and Public Finance. In the case of Venezuela, it derived from annual financial reports from the country's Central Bank.

The final proposition states that lower political autonomy in SOEs is associated with higher rentierism. Measurement for this concept relies on academic articles on governance and SOEs in Venezuela and Bolivia. Based on Hertog's conceptualization, political autonomy in SOEs is defined by two features: firstly, levels of government control over various aspects of SOE management, including appointing management boards and staff; secondly, SOE freedom from resource mismanagement. Cases of mismanagement include government directives to invest in dubious, politically motivated ventures such as unsustainable welfare projects, or having company resources pilfered by corrupt public officials and their cronies. Low political autonomy implies that SOEs are either tightly controlled by the government, and/or said control results in resource mismanagement.

4. Data collection

To answer sub-question 1, the scores on levels of democracy in the two countries are retrieved from three online sources: the country-specific section on Freedomhouse.org, the Polity IV website, and the Economist Intelligence Unit Democracy index. Corruption scores derive from the country-specific online publication of the WGI, and the Transparency International annual sections of its online corruption index. To assess whether there is patronage in welfare spending, academic articles are used.

To answer sub-question 2, data on Venezuelan and Bolivian state and hydrocarbon sector revenues for the period 2005-2013 are collected from the World Bank dataset, from the relevant online sections of the Venezuelan and Bolivian government website, or from a relevant online publication of government statistics for the two countries. No translation into English is required. Accountability and rule of law scores, like those for corruption, are provided in the country-specific online publication of the World Bank Worldwide Governance Indicators. Assessing the measure of political autonomy in SOEs relies on academic papers on welfare and governance in the two countries.

The indicators, operationalisation and data collection details for this study are summarised in the following table.

Table 2 – Summary of research methodology for the 7 propositions

Proposition	Indicator(s)	Operationalisation	Data Collection
1	Democracy	Freedom House, Polity IV, Democracy Index scores	Freedom House, Polity IV, Economist Democracy Index websites
2	Corruption	Control of Corruption, Corruption Perception indexes	WGI and Transparency International datasets
3	Patronage in welfare distribution	Evidence of politically-motivated unequal resource distribution	Academic articles, working papers and reports
4	Rule of law	Rule of Law index	WGI dataset
5	Accountability	Accountability index	WGI dataset
6	Resource dependence	Percentage of government hydrocarbons revenue	Statistics on government websites
7	Political autonomy of SOEs	Government control of SOEs and managerial competence	Academic articles, working papers and reports

5. Reliability and validity

This section considers the reliability and validity of the research design.

In qualitative case study research, reliability is defined by Drost (2011, p.106) as 'the extent to which measurements are repeatable when different persons perform the measurements, on different occasions, under different conditions, with supposedly alternative instruments which measure the same thing.' As Bollen (1989) and Nunnally (1982) put it, reliability is the consistency and stability of measurement, over a set of conditions wherein it is expected to obtain the same results. Assessing the reliability of the COV study for Venezuela and Bolivia entails the following question: are the results repeatable in a future study? The answer is, they are, albeit a condition needs to be met to guarantee so. The research indicators are based on RST and are measurable objectively. Due to this property, it is guaranteed that the same results can be obtained again. However, it is also true that the current indicators have been identified and selected as relevant by the author. This is a subjective process. The reliability of research might be compromised if a future study implied a different author choosing another set of indicators.

Validity measures the meaningfulness of research (Drost, 2011), or the accuracy of measurement. There are two types of validity: internal and external.

Internal validity implies verifying that conceptual validity and the accurateness of the research results are not tainted by internal threats. The framework to understand the rentier state rests on authoritative literature contributions and should thus be considered valid. However, there remains the risk that future studies might upset this validity due to, again, changing the theoretical framework.

Measuring the external validity of a study involves generalizing the results to other persons, settings, and times (Drost, 2011), or - in Gerring's words (2006, p.187) - 'inferring a larger whole from a smaller part'. This concept of transferring the significance of a study from a local population to a general one, is the heart of statistical generalization. By measuring variables through indicators, COV resembles a quantitative study. The difference is that COV is conducted over a small rather than large population. Notwithstanding the conclusion of this study, it remains to be seen whether its results can be generalized. The relevant question here is to which population should this generalisation be targeted, since the population of countries possessing a degree of rentier-type features - the ideal target - is vast and diverse. Were the propositions of this study be proven correct, a follow-up study is necessary. This further assessment would test the validity of the propositions for Bolivia and Venezuela, in other rentier national contexts. Therefore, the external validity of this study lies in its preliminary value, as a pioneer of research.

Chapter Five - Rentier Features in Bolivia and Venezuela

This chapter analyses the degrees to which Bolivia and Venezuela are rentier states. The time framework is 2005-2013. The analysis involves assessing the levels of the three indicators of rentierism in the four countries: authoritarianism, corruption, and welfare patronage. The results answer sub-question 2 of this study.

1. Authoritarianism

The first indicator considered is authoritarianism. As said, scores for the two countries were obtained from the Freedom House website, the Polity IV database and the Economist Democracy Index website. For the Economist index, results were only available from 2006 onwards. The Freedom House and Polity scores are converted from their original value to an equivalent one on a scale of 0 to 10. A lower score indicates higher authoritarianism and a high score indicates lower authoritarianism. The scores from Freedom House, Polity IV and the Democracy index are then averaged out. The final score represents the levels of authoritarianism in the two countries.

The results are shown in table 3. Overall, levels of democracy decreased from 2005 to 2013, in the two countries. However, this decline occurred at different rates, being faster in Venezuela and slower in Bolivia. Also, Bolivia's starting democracy levels were higher than Venezuela's. Bolivia's Freedom House scores registered the least change, being constant at 3, whilst the sharpest change occurred in Venezuela's Polity IV scores, declining from 6 to -3. The average level of democracy in Venezuela was lower than that in Bolivia, from 2005 to 2013.

Table 3 – Democracy scores in Bolivia and Venezuela

Indicator	2005	2006	2007	2008	2009	2010	2011	2012	2013	Converted 2005-2013 average	Combined average
Bolivia											
Freedom House	3	3	3	3	3	3	3	3	3	7.1	**7.24**
Polity IV	8	8	8	8	7	7	7	7	7	8.7	
Democracy Index	n.d.	5.98	n.d.	6.15	n.d.	5.92	5.84	5.84	5.79	5.92	
Venezuela											
Freedom House	3.5	4	4	4	4	4	5	5	5	5.3	**5.4**
Polity IV	6	5	5	5	-3	-3	-3	-3	4	5.7	
Democracy Index	n.d.	5.42	n.d.	5.34	n.d.	5.18	5.08	5.15	5.07	5.2	

Source: Freedom House (2017), Polity IV dataset, Economist Intelligence Unit (2017)

2. Corruption

The second indicator considered is corruption. The Control of Corruption index is converted to an equivalent value on a scale of 10, with a lower score indicating higher corruption and a high score indicating lower corruption. The two indexes are then averaged out. The final result - on a scale of 0 to 10 - indicates the levels of corruption in the two countries.

Table 4 is a summary of the results. Corruption slightly decreased in Bolivia but slightly increased in Venezuela. Both indicators report similar results. Bolivia's starting corruption levels were lower than Venezuela's. Across the period, Venezuela's corruption levels were higher than Bolivia's.

Table 4 – Corruption scores in Bolivia and Venezuela

Indicator	2005	2006	2007	2008	2009	2010	2011	2012	2013	Converted 2005-2013 average	Combined average
Bolivia											
Control of Corruption	-0.8	-0.4	-0.5	-0.5	-0.6	-0.4	-0.5	-0.7	-0.6	4	**3.45**
Corruption Perception	2.5	2.7	2.9	3	2.7	2.8	2.8	3.4	3.4	2.9	
Venezuela											
Control of Corruption	-1	-1	-1	-1.1	-1.2	-1.2	-1.2	-1.3	-1.3	2.8	**2.4**
Corruption Perception	2.3	2.3	2	1.9	1.9	2	1.9	1.9	2	2	

Source: World Bank dataset (2017), Transparency International (2017)

3. Patronage in welfare provision

3.1 Bolivia

The Bolivian welfare system is composed of two main schemes and other initiatives.

Renta Dignidad is a universal old-age pension scheme, covering everyone above 60 years of age. Morales inaugurated it in 2008. It replaced the previous Bonosol arrangement, created during the Sanchez de Lozada presidency. Renta Dignidad provides an annual benefit of USD 340 for those without a pension, and 75% of that sum to those who already have one.

Bono Juancito Pinto is a conditional cash transfer for schoolchildren, created by Morales. It is the first of the kind in the country. Students receive an annual grant of 200 bolivianos (USD 25), on the condition that they attend school. The aim of the programme was to combat the relatively high school dropout rates.

Other initiatives of Morales' term include providing maternal cash allowances to poor Bolivian mothers, vocational training and community development projects. The overall aim of welfare is three-pronged: alleviate poverty and its effects, generate income, and foster integral community development (Molero Simarro & Paz Antolin, 2012).

Welfare is funded primarily by revenues from hydrocarbons. The sector is key to the Bolivian economy: natural gas contributed to 35% of the GDP in 2016 (International Labour Organisation, 2016).

Morales greatly increased government revenue from hydrocarbons by nationalizing the gas fields. Because of this, income from the sector increased from 1.55 billion USD to 6 billion USD in 2013 (Aresti, 2016). He also set up a dual system of government revenue: one is through a direct tax on hydrocarbons (the *impuesta directa de hidrocarburos*, or IDH), the other is through royalty payments from hydrocarbon companies to the Bolivian government.

The system to allocate resources for welfare is complex. There are three aspects to consider: the sources for these resources, the channels through which said resources are distributed, and tracking mechanisms to ensure money is not lost along the way.

As mentioned, the main funding source is hydrocarbon revenue, in the form of the IDH and royalties.

Financial resources are largely passed on from the Ministry of Hydrocarbons and Energy to two levels of sub-national government: departments and municipalities. Fiscal decentralization was established by Morales, in the 2009 Constitution (Aresti, 2016). A complex system regulates exactly how much of the IDH revenue and royalties is allocated to the central government, the country's nine departments, and municipalities. Departments receive approximately 60% of the total sum (Hicks, Maldonado, Piper & Rios, 2016). There are two criteria to allocate resources to sub-national entities: location of gas and oil extractive facilities, and population size.

Larger jurisdictions, and those possessing most of the country's hydrocarbon extractive infrastructure, tend to receive more resources from the government. This generates imbalances in revenue sharing, as some departments can receive funding up to 15 more than others (Farthing, 2017). Those departments receiving most of the funding share a common tendency: they are the country's richest as measured by per capita income, they overwhelmingly vote for Morales' opposition parties, and the ethnic composition is mostly white or mestizo, with very few indigenous people.

These features constitute a political anomaly, since it could be expected that, in a country with rentier characteristics, welfare resource distribution would favour those politically loyal, rather than those opposed, to the government. Instead, it seems the opposite occurs.

The system is explained by looking at Bolivia's recent political history. Morales' 2005 electoral victory was largely due to the votes of the country's indigenous people, who constitute the majority of the poor and tend to live in the Western highlands. The mainly white and mestizo population in the Eastern lowlands - where most of the gas reserves are found - was opposed to him. This East-West political rivalry generated an intense conflict over how the new gas money should be allocated. The political opposition in the Eastern departments succeeded in obtaining more fiscal autonomy for these provinces: they now keep a larger share of fiscal income, which they then spend on local welfare.

Despite disparities in resource allocation favouring the country's wealthiest regions - the well-thought design of the new welfare programmes has ensured a certain level of progressive redistribution. In 2006, the poorest 30% of the population received 45% of Bono Juancito Pinto's cash transfers, whilst the richest households received only 11% of the sum (Arauco, Molina, Pozo & Aguilar 2013).

There are tracking mechanisms available, which make it easier to follow the flow of money from the government to regional jurisdictions. Transparency regulations require local and national governments to make available all information on revenues and transfers, and civil society organizations take part in the monitoring process. The ministry for the economy annually publishes a Report on the Bolivian Economy, with details on welfare-related operations. Most data is available online.

This brings to the question of whether there is patronage in welfare provision. The answer is quite certainly no. The system is far from perfect, as there is an obvious imbalance in revenue sharing. The money should be channelled to departments with more poor people rather than to those with a larger population and more natural gas infrastructure present. Indeed, the current system seems to favour Morales' opposition rather than his supporters. Despite this imbalance, the institution of Bono Juancito Pinto has achieved a certain level of redistribution in favour of the poor, and the level of tracking transparency reinforces the impression that the country's welfare system is sincerely devoted to tackle social problems rather than to generate clientelistic networks.

3.2 Venezuela

The Venezuelan welfare system is composed of social missions, or *misiones* (Penfold-Becerra, 2006). These are government-sponsored programmes aiming to tackle a number of social problems, mostly in the country's most disadvantaged regions and urban areas.

Mision Barrio Adentro (Inside the Slum) provides virtually-free health care in a number of set-up government clinics in shantytowns, in the main Venezuelan cities. The clinics are staffed mostly by Cuban, rather than local doctors. The number of Cuban personnel has been estimated approximately at 13 000 (Webber, 2010). This is a result of a bilateral deal between the Cuban and Venezuelan governments, agreeing to exchange Venezuelan oil for Cuban participation in Venezuelan health care missions.

Mision Robinson is a government alphabetization campaign, similar to past initiatives of the Cuban government. It targets marginalized people in shantytowns and rural areas. It was widely popular with the country's poor, and the government promoted its success with the slogan: "Ahora Venezuela es de todos" (Now Venezuela belongs to everyone) (Buxton, 2014).

Mision Ribas provides the chance for adults to complete their education, if they had previously dropped out of school. Mision Mercal involves distributing subsidized food to the poor, through government-approved but privately-owned food stores. Mision Identitad assisted the poor in enrolling for and receiving national ID cards.

Chavez has raised the social missions to flagships of the Bolivarian Revolution, a source of national pride. However, political opposition has constantly claimed that these initiatives are a way for Chavez to build political support among the poor and very poor, specifically by targeting resources to the poor and by ensuring those who received the resources could vote for him (Corrales & Penfold-Becerra 2011). Certain facts seem to corroborate the hypothesis.

The 2004 referendum would decide whether to recall Hugo Chavez as President of Venezuela and hold new elections. It represented a major event in Venezuelan politics, and a crucial test for the Chavez presidency. In the run-up to the referendum, the government increased the size and funding for social programmes (Maya, 2014).

A feature of Mision Ribas was to provide cash transfers to the target population, as an incentive to enrol in school. A prerequisite for cash transfers was that the beneficiary had to possess an ID card. Most beneficiaries lacked one. Mision Identitad was set up to rectify this.

Those who received cash transfers and other benefits by the governments were given an ID card and asked to go vote in the impending referendum (Myers 2014). One wonders why the government felt it necessary to ask recipients for political loyalty right before the referendum.

The general strike of 2002-2003 was called by the Venezuelan opposition to challenge the legitimacy of Chavez's rise to the presidential office. The strike virtually brought the entire national oil industry to a halt, and rampant inflation eroded consumer buying power. As a result, many private food stores became increasingly dependent on government procurement to survive (Lander, 2016). Government support to private food enterprises was channelled through Mision Mercal. Were the government to pull out of the mission, private firms would receive a substantial revenue blow. It is natural to wonder whether Mision Mercal is a tool of the government to guarantee political support from private shop owners.

Suspicions that the Chavez government used welfare provision to increase its electoral base are further confirmed by the fact that somehow the government received the full list of signatures for the referendum sponsored by the opposition. The names of those opposing the government were made available, and public officials in the list were essentially threatened to withdraw their signature, or they would be sacked.

Moreover, a regression analysis by Penfold-Becerra (2006) confirmed that the allocation of resources for the missions was influenced by the level of political support received by Chavez, at both state and municipal level. These results came by studying missions Barrio Adentro, Ribas and Mercal. The more votes received by the government in a state or municipality, the more resources were allocated for missions in these jurisdictions.

The mission wherein these perverse conditions were easier to observe was Mision Ribas, since it involved cash handouts. The nature of the transfer made it susceptible to clientelism, specifically to vote buying. Results at state and municipal level show that resource allocation was linked to the number of voters supporting Chavez.

Mision Mercal also showed signs of clientelism: states with a larger number of government loyalists had access to a greater number of food stores. The activities of Mision Barrio Adentro were concentrated in the areas where most support for Chavez was registered, rather than in those where poverty or urban degradation levels were higher. The only mission where resource allocation seemed to follow actual need was Mision Robinson. Greater resources were distributed to states with a higher count of poor households. The headcount of poor households is an effective proxy for illiteracy, which is the problem tackled by the initiative.

Curiously, the regression showed that, despite a preferential treatment for areas with the highest number of political supporters, overall Chavez's government did not punish or benefit states or municipalities controlled by the opposition. Chavez attempted to target the population directly, regardless of the political affiliation of the governor or mayor controlling the jurisdiction (Penfold-Becerra, 2006).

To sum up, it is clear that the Venezuelan government distributed resources for welfare according to levels of political support. The areas with the highest levels of political support were to be found among the country's slums and other disadvantaged areas. This loyalty to the Bolivarian project by low-income voters can be partly explained by the government's concerted effort to improve the welfare in these areas, through a variety of social initiatives. However, such efforts have also been mired by suspicions regarding the timing of certain resource handouts to the population, and Chavez's legacy of putting pressure on political opponents. It is quite reasonable to conclude Venezuela's system for welfare allocation is steeped in patronage.

4. Discussion of results

In conclusion, the research results are discussed to answer sub-question 2 of the study. The predicted propositions were that a rentier state possesses high levels of authoritarianism and corruption, as well as evidence of patronage in welfare provisions. Two countries were analysed for evidence regarding these three indicators: Bolivia and Venezuela. Both countries presented evidence of being rentier states, with differences between the cases.

Neither country showed to be a fully functioning, healthy democracy. Levels of authoritarianism are significant for both countries. Bolivia's score is 7.24, Venezuela's is 5.4. Venezuela's political system is more authoritarian than Bolivia's.

Also, both countries featured significant levels of corruption. The score for Bolivia was 3.45, Venezuela's was 2.4. Venezuela is more corrupt than Bolivia.

In addition, qualitative research into patronage networks in welfare provision in both countries has shown differing results. Bolivia's system suffers from imbalances in revenue sharing, ascribable to the fact the country's richest and most gas-rich regions are allocated more resources for welfare. However, the country's social programmes are well-designed and have brought some degree of positive redistribution in favour of the poor. If anyone were to be said to benefit from the current system, it is Morales' opposition rather than the government. There appears to be no political patronage in Bolivian welfare. In Venezuela, however, the situation is quite different. Government social programmes have targeted the country's poorest. However, these same areas have also been the most politically loyal to Chavez, The size of resource transfers is correlated to political support to the government: the higher the support, the more money received. Venezuela's picture - in contrast to Bolivia - paints a picture of patronage and clientelism in welfare allocation.

Bolivia and Venezuela both struggle with authoritarianism and corruption. Venezuela's problems in these two aspects are more intense than Bolivia's. What sets apart the two cases, however, are the levels of welfare patronage. Venezuela is plagued by patronage, whilst Bolivia is not. It is especially this fact that makes Venezuela more of a rentier state, than Bolivia. The next two figures summarises the levels of rentierism in the two countries.

Graph 1 – Comparing rentier features in Bolivia and Venezuela: democracy and corruption levels

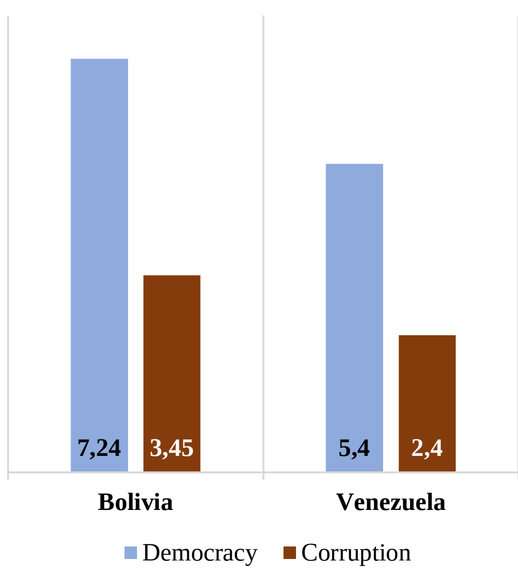


Table 5 – Comparing rentier features in Bolivia and Venezuela: welfare patronage levels

Country	Level of Patronage in Welfare Allocation
Bolivia	Low
Venezuela	High

Chapter Six - Analysing Factor Covariation in Rentierism

Introduction

This chapter examines the degree of covariation between features of rentierism and its causing factors. It does so by conducting a co-variational analysis between the features of rentierism in Venezuela and Bolivia, and the four identified causing factors: rule of law, accountability, rates of natural resource dependence, and degrees of political autonomy in SOEs.

The propositions derived from the theoretical framework state that the country with a higher degree of rentier features simultaneously exhibits the following symptoms: lower rule of law, lower accountability, higher rates of resource dependence and lower political autonomy of the SOEs from the government.

Drawing from the results in the previous chapter, the expectation of this study is that Venezuela - the country with the highest degree of rentierism - also possesses lower rule of law, and the other three associated conditions.

Were the expectation to be proven correct, it would provide a significant boost to the claim that rentierism is a phenomenon ascribable to a limited set of institutional and economic factors.

The chapter is structured in the following way. The first four parts measure the degrees to which Venezuela and Bolivia exhibit the four - supposedly causing - conditions of rentierism in their national institutions and economic systems. The fifth and final part examines the results in light of their ability to prove covariation between causes and features of rentierism.

1. Rule of law

The scores for the two countries are obtained from the World Bank Worldwide Governance Indicator database, and range from -2.5 to +2.5. A higher score indicates a higher rule of law. The results are first averaged over the period of study, then converted to a scale from 0 to 10. A higher score indicates a higher rule of law.

Table 6 shows the results. Rule of law scores decreased in both countries from 2005 to 2013. The decline was sharper in Venezuela than in Bolivia. Venezuela's starting score was slightly lower than Bolivia's. Bolivia's average rule of law score was higher than Venezuela's from 2005 to 2013.

Table 6 – Rule of law scores in Bolivia and Venezuela

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	Converted 2005-2013 average
Bolivia	-0.8	-0.9	-0.8	-1	-1.1	-1.1	-1	-1	-1.1	**3**
Venezuela	-1.2	-1.4	-1.5	-1.6	-1.6	-1.6	-1.7	-1.7	-1.8	**1.8**

Source: World Bank dataset (2017)

2. Accountability

The scores are obtained, again, from the World Bank Governance Indicator dataset online. The range of results is once again between -2.5 and +2.5. A higher score reflects higher accountability. The results are first averaged over the period of study, then converted to a scale from 0 to 10. A higher score indicates higher accountability.

The results are shown in table 7. Accountability levels barely changed in Bolivia, whilst they slightly decreased in Venezuela. Venezuela's starting score was lower than Bolivia's. On average, Bolivia's accountability levels were higher than Venezuela's from 2005 to 2013.

Table 7 – Accountability scores in Bolivia and Venezuela

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	Converted 2005-2013 average
Bolivia	-0.2	0	0	0	0	-0.1	-0.1	-0.1	-0.1	**4.8**
Venezuela	-0.7	-0.6	-0.8	-0.8	-0.9	-0.9	-1	-0.9	-1	**3.4**

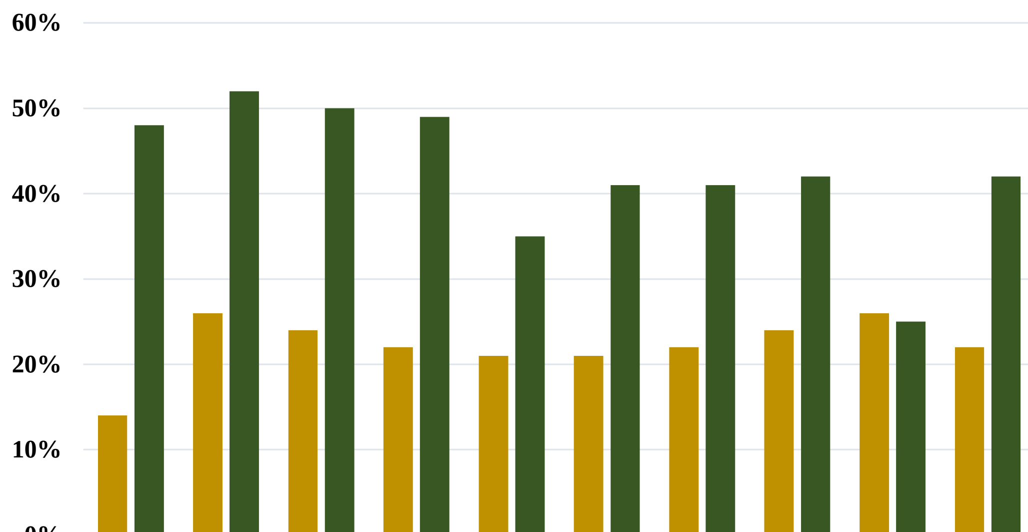
Source: World Bank dataset (2017)

3. Rates of natural resource dependence

The rate of natural resource dependence, as mentioned previously, reflects the percentage of government income deriving from natural resource revenue. Natural resources mean hydrocarbons. The higher the percentage of hydrocarbon revenue, the more the state is considered hydrocarbon-dependent. Total revenue for the governments of Bolivia and Venezuela is averaged out over the period 2005-2013. Unfortunately, it was not possible to convert monetary values from local currency into US dollars for both countries. Figures are expressed in percentage.

The following graph shows the rates of resource dependence over the period 2005-2013. Bolivia's rates increased in the first year, and then remained stable at slightly more than 20%. Venezuela's rates experienced an early peak in the early years, but then decreased to less than the starting value. The average values were 22% for Bolivia, and 42% for Venezuela.

Graph 2 – The evolution of resource dependence rates. Percentage of government hydrocarbon revenue over total revenue



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2005-2013 average
Bolivia	14%	26%	24%	22%	21%	21%	22%	24%	26%	22%
Venezuela	48%	52%	50%	49%	35%	41%	41%	42%	25%	42%

■ Bolivia ■ Venezuela

Source: Personal elaborations of data (2014) from the Ministerio de Economia y Finanzas Publicas de Bolivia – Unidad de Analisis y Estudios Fiscales and from financial statements (Informes Economicos) from the Banco Central de Venezuela, various years

4. Political autonomy of SOEs

This section analyses Bolivian and Venezuelan SOEs, aiming to assess the degree of political autonomy of these enterprises vis-a-vis the government.

As mentioned previously, the concept of political autonomy derives from Hertog's article on SOEs in rentier states. SOEs possess lower political autonomy if two conditions are met. The first is that government exerts high levels of control over the management of SOEs. The second is that government control of management results in economic mismanagement of the company, where corporate profits and resources are channelled away by either being pilfered by government officials or by being used to fund expensive government projects.

4.1 Bolivia

Evo Morales' presidency has seen a rising role for the state in the economy, as well as a rise in number and activities of Bolivian SOEs.

Prior to his term in office, the 1990s saw presidents enact neoliberal reforms, that privatized and capitalized various government-owned companies. In 2006, Morales helped promulgate the New Investment Laws. Within the context of re-framing the economic environment and state-investor relations, the laws brought a significant share of the Bolivian economy under state control. New SOEs were created, and private-owned companies operating in various strategic economic sectors were nationalized or expropriated. These included the natural gas, oil, mining, telecommunications, transportation, construction and electricity sectors.

The most striking example was the nationalization of the country's hydrocarbons company, the YPFB (Yacimientos Petroliferos Fiscales Bolivianos). The process notoriously featured detachments of the Bolivian army marching in the company's gas fields, to claim symbolic ownership of the company. Other cases of nationalization include the country's largest tin mine and telecommunications company, a smelting plant, hydroelectric and thermo-electric plants, and a cement company.

The state thus increased its number of owned companies to 47. To sum up the rising importance of the government in the economy, the contribution of the public sector to national GDP rose from a fraction of a percentage point in 2007, to 40% in 2013 (US Bureau of

Economic and Business Affairs, 2012). State companies either are sole controllers over strategic economic sectors, or compete in other sectors with private firms. Examples of the latter include the national airline company (BOA) and enterprises producing carton (Cartonbol), paper (Papelbol), dairy products (Lacteosbol).

The key to understand the role of SOEs in Bolivia's economy and their degree of autonomy vis-a-vis the executive, is to frame them within the broader ideological change brought to Bolivian society by Morales's presidency. Coming from an era of social and political unrest, widespread privatizations and rising poverty in the 1980s and 1990s, Bolivians elected its new president largely on the promise to bring back the state in the economy and society, and to make the government assist in the country's recovery (Weyland, 2009).

So far, it seems, Morales has kept his promise. Bolivian SOEs are subordinated to the interests of the state, or - according to government rhetoric - the Bolivian people. This involves preferring to operate for the collective good of Bolivian society, rather than for corporate profits. There are various legal references to this subordination in the country's new constitution, promulgated in 2009. Article 47 states that economic activity cannot damage the collective good. Article 125 refers that ownership of the country's natural resources - especially its natural gas reserves - is a prerogative of the government, and that any transfer of them to individuals, companies and other states can be considered an act of treason against the Bolivian people. According to Article 320, the state maintains decision-making autonomy concerning matters of national economic interest, independently from foreign financial institutions and companies.

Profits from Bolivian SOEs are collected by the government and used - directly or indirectly - to fund public welfare programmes and public investment in infrastructure (Kaup, 2012).

The constitution assigned to SOEs the role of managing the property rights, production and industrialization in several economic sectors, both strategic and consumer-related. Three ministries are responsible for managing the 47 SOEs: the Ministry of the Presidency, the Ministry of Development Planning, and the Ministry of Finance. Each SOE is run by a government-appointed executive board of directors. Each director represents a ministry. On certain matters, the SOEs' executive boards are obliged to consult with the government prior to decision-making. The general manager of SOEs is appointed by legal act, a Supreme Resolution of the government.

In addition to being bound by government and constitutional duties, Bolivian SOEs are required every year to present an annual testimony to civil society and social movements. In this report, the contributions of SOEs to the collective good of Bolivian society are underlined. This form of social control is motivated by Evo Morales' past as a social movement leader, who won his electoral campaign largely through his grassroots base. For these movements, it is critical that Bolivia's economic activities safeguard the well-being of its people, in accordance to the ideology of *buen vivir* (Pellegrini, 2016). An analysis of the president's discourse reveals ongoing attachment to his legacy as a social activist.

The role of the country's main SOE - the hydrocarbon company YPFB - conforms to the government's views on overall economic policy. Its activities - as a hydrocarbons extractor, refiner, producer and exporter - are to ensure fore-mostly that domestic demand is met, before making any ventures on foreign markets. YPFB sells natural gas and oil to Bolivians at discounted rates. These rates are set by the government, through the Hydrocarbons Regulator. Only after guaranteeing that all Bolivians enjoy access to its products, YPFB can sell its products on the international market.

Additionally, Article 226 of the Bolivian Criminal Code formulates that it is a crime for a company in Bolivia to increase or lower prices of its products if the act was motivated by the interest of the company alone. Similarly, it is illegal for a firm to withhold and hoard products, and to sell them later at a higher price.

Many of the cited points indicate that Bolivian SOEs enjoy little to no political autonomy from the government. The managers are appointed by national ministries, the firms are constitutionally bound to serve the interests of the people. Their profits either are used to subsidize products for the domestic market, or are redirected by the government to social programmes and public investment, in accordance to Morales' people-first policies. However, two points paint a slightly more blended picture.

Firstly, the legal framework set up by the nationalization laws in 2006 has provided somewhat vague answers to company lawyers and state officials seeking how to manage SOEs. There are very few specific laws that guide aspects such as staff hiring and procurement processes in the hydrocarbons sector, for example. Various aspects of SOE management under Morales' presidency have remained - in practice - those inherited by the previous, neoliberal administration. Despite government rhetoric to end neoliberal exploitation of Bolivia's natural resources and a pledge to use these resources for the collective good, in reality nationalized companies in key sectors - hydrocarbons, electricity, communications - continue to operate as private companies. This entails they hire foreign staff with higher-than-local salaries, and largely avoid bureaucratic procurement. Therefore, even though the facade shows that government control over business has increased in Bolivia, the criteria for management of SOEs have not changed.

Secondly, Morales himself has signalled a wish to reverse some of his more socialist-leaning economic policies. Regarding YPFB, he intends to divert more of its profits away from expanding social programmes and towards the exploration of new gas reserves. Morales has used the hydrocarbons sector as the main driver of socioeconomic change during his stay in power. As Kaup explains, this choice might be dictated by the president's awareness that current levels of Bolivian welfare are dependent largely on natural resource revenues and that maintaining these revenues requires more investment in the national hydrocarbons company. YPFB has seen under-investment since the 1990s (Kaup, 2010). Due largely to the president's own legislation that decentralized government and SOE funding to Bolivia's regions, it is unclear whether he will succeed in diverting significant financial resources away from the state and towards YPFB.

In sum, many aspects of SOE management under Morales indicate that they are run for the interest of the state and the Bolivian people. However, subordination to state interests has not compromised the efficiency of these SOEs entirely. In fact, future developments might point to a more-corporate style of management in Bolivian SOEs.

4.2 Venezuela

Hugo Chavez's presidency, similarly to that of Morales in Bolivia, has featured a rising role for the state and SOEs in the national economy. The number of SOEs has proliferated, although the main one remains the national oil company, Petroleos de Venezuela S.A. (PDVSA).

Prior to the president's inauguration in 1999, SOEs were firmly entrenched as economic actors in Venezuelan society. However, under Chavez, they have become dominant, largely replacing private and foreign companies (Weisbrot, Ray & Sandoval, 2009). SOEs are now the main actors in diverse sectors: from the agribusiness, to food, hydrocarbons, media, mining, telecommunications, and tourism. A source put the number of SOEs operating in the Venezuelan economy at more than 400 in 2007 (Manzano & Scrofina, 2013).

The main SOE - PDVSA - has the sole right to operate the country's extensive oil reserves, according to Article 302 of the Bolivarian Constitution. Venezuela possesses one of the world's largest reserves (OPEC, 2016).

PDVSA has traditionally been the major export earner for the Venezuelan government, prior to the Chavez years (Di John, 2009). Chavez increased government control over the company, in the early years if his presidency. After the attempted coup in 2002, Chavez came to realize that a significant share of PDVSA's employees were hostile to his political project, with thousands of workers having been on strike for two months. Most of the company staff was subsequently sacked and replaced with political supporters (Rodriguez, Morales & Monaldi Marturet, 2012). There have been several further shifts in staff. In fact, PDVSA's executive board was replaced 6 times in 7 years (Guerrero & Romero, 2016).

In 2006, the president nationalized all the country's oil fields. He also expanded the company's portfolio. From dealing with the various phases of oil production, it has increased its activities to shipbuilding, agriculture, services, construction and mining. It is now the country's main economic actor, and a crucial part of the Bolivarian Revolution. As a former company executive explained, Chavez intended to use PDVSA to transform the Venezuelan economy "from an oil sultanate to a productive society within a socialist framework" (Alvarez & Hanson, 2009). In essence, he aimed to diversify the Venezuelan economy and move it away from reliance on oil exports. Hydrocarbons constituted approximately 90% of export earnings for the Venezuelan government, in the early Chavez years (OPEC, 2006).

PDVSA has taken a key part in another Chavista initiative, the expansion of social welfare programmes for the Venezuelan poor, through the *misiones*, or social missions. Profits from the state company have provided the bulk of the funding for these projects. Legally, PDVSA is required to spend a minimum of 10% of its annual investment budget on social programmes (Coronel, 2006). Such initiatives include building health care clinics in the country's poor regions and city districts - where services are provided for free - building discounted food and household goods centres, and offering educational and employment programmes outside the hydrocarbons sector. A 2008 Internal Oil Daily article quoted PDVSA's expenditure on Venezuelan social programmes at 14.4 billion USD for 2007, compared to 6.9 billion USD for 2005 (Coronel, 2008).

The money is channelled from the company to the various missions through a peculiar system. Traditionally, it is the country’s democratic institutions - such as local governments and municipalities - that provided the bulk of local welfare services. Instead, Chavez has re-oriented the flow of oil revenue away from these institutions and towards new, aptly-created political and financial bodies. Examples of the latter include the Fonden - or National Development Fund - and the Bandes - another development body. These new institutions are not connected to the traditional ones. For instance, they are loyal to Chavez rather than to the state. Their budgets are separate from government budgets, and there are no clear mechanisms to ensure transparency and accountability. They are effectively under complete government control. It is estimated that these funds had accumulated more than 16 USD billion in oil revenue by 2006. Additionally, Chavez instituted a new Treasure Bank, parallel to the pre-existing Central Bank.

In essence, government control over SOEs in Venezuela has increased during the Chavez years. It has been maintained by sacking PDVSA workers and managers and replacing them with government supporters, by expanding PDVSA’s portfolio through nationalizations, welfare projects and investment in other economic sectors, and by creating new institutions that are loyal to Chavez rather than the state.

Increasing government control has been accompanied by growing problems in SOEs: lack of transparency and accountability to Venezuela’s traditional institutions, lower economic performance, mismanagement, and fund misappropriation.

Since 2003, PDVSA has stopped issuing annual financial statements, and since 2005, it no longer sends its reports to the US Securities and Exchange Commission (US Bureau of Economic and Business Affairs, 2012). It has been increasingly hard for members of Venezuela’s opposition and civil society to track the company’s operations. A 2007 article described PDVSA as a “state within a state” (Hults, 2007, p.12).

Firm performance was damaged by the numerous and consecutive staff layoffs. It became impossible for management to design an effective corporate plan and stick to it. Also, oil production went down from 5 million barrels a day in 2005, to 2.7 million barrels in 2008 (OPEC, 2016). Billions of US dollars in international credit were lost when the company reneged on repaying a 5 billion USD loan to Bank of Scotland, and the value of unsettled debt is estimated at 8 billion USD (Rabouin, Milhench & Strohecker, 2017). Despite a lack of clear information, it has been suspected that billions of US dollars in profit have been lost by PDVSA from roughly 2003 to 2010, due to decreases in oil production, suspected pilfering and unproductive activities (Corrales, 2015).

Another issue is mismanagement. Certain economic ventures by Venezuelan SOEs have been questionable. The oil windfall has been used in various foreign adventures. They range from providing oil at preferential prices to Caribbean countries - through the Petrocaribe initiative - to offering financial assistance to various Latin American governments, funding the Colombian rebel group FARC, contributing to Kirchner's electoral campaign in Argentina, and buying weapons from Russia and Belarus for the Venezuelan armed forces (Coronel, 2008). It is unclear to what extent these claims are true, and the government is firmly in denial. Oil is provided to Cuba, in exchange for Cuban participation in Venezuela's health care missions. This agreement alone is said to cost Venezuela's state coffers 2 billion USD a year (Coronel, 2008).

Fund misappropriation occurred in other institutions. Chavez dismantled the national Macro Stabilization Economic Fund, which served to cushion the stability of state finances during periods of low oil prices. All assets were withdrawn for ordinary spending. In 2008, the Central Bank reported that 22.5 billion USD had been withdrawn from the treasury, and 12 billion of that sum remained unaccounted for (Coronel, 2008). Reports were that part of the money was used by the government to buy the political loyalty of parties and groups in the regions, prior to new elections. A dissident group of military officials claimed that they had been ordered to withdraw gold reserves and transfer them to a remote pro-Chavez military camp.

In sum, it is clear that, in Venezuela, SOEs have not enjoyed political autonomy from the government, neither in the sense of being outside of government control nor in being run for corporate profits. In fact, it appears from numerous perspectives that Chavismo has gone a long way in fatally compromising the fabric of Venezuelan SOEs altogether.

5. Discussion of results

This section discusses the analysis results, as an answer to the final sub-question of this study. The predicted propositions were that the country with the highest level of rentier features - Venezuela in this case - would also possess lower levels of rule of law and accountability, higher levels of resource dependence, and lower political autonomy of SOEs. The propositions are confirmed as correct in all four cases.

Lower scores represent lower levels of rule of law and accountability. Bolivia's rule of law score is 3, Venezuela's is 1.8. Bolivia's accountability score is 4.8, Venezuela's is 3.4. Venezuela scores lower than Bolivia in both regards. Venezuela also has a higher level of resource dependence, compared to Bolivia. The value for the two countries, respectively, is 22% and 42%.

Finally, both countries feature SOEs that are managed more for the interests of the government than those of the companies themselves. There are differences in the management of SOEs in the countries, however. In Bolivia, subordinating SOEs to state and government interests has not compromised the efficiency of said SOEs entirely. Regarding YPFB - the biggest SOE in the country - the president has even suggested he wants to steer the company towards a more corporate and profit-oriented management style. In this regard, the degree of political autonomy of Bolivian SOEs is mixed, as high levels of government control are mitigated by an understanding among political elites that said control should not fundamentally compromise the companies' ability to survive on the market. In Venezuela, subordinating SOEs to government interests has brought disastrous results, much worse than Bolivia's. SOEs are mismanaged, their profits are siphoned off by political elites or invested in dubious operations domestically and abroad. In particular, the country's biggest SOE - the hydrocarbons company PDVSA - has reported substantial losses during the Chavez era. Moreover, this downward spiral is shrouded in increasing mystery, as companies stop publishing the state of their finances and operations. Government control over Venezuelan SOEs has crippled said SOEs' ability to function effectively.

To conclude, Venezuela is more of a rentier state than Bolivia, and exhibits higher levels of its identified causing factors; lower accountability, rule of law and political autonomy of SOEs, and higher resource dependence. There is a covariation between the features of rentierism identified in the previous chapter, and its causing factors. The final sub-question of this study has been answered. A visual summary of the results is provided below.

Graph 3 – Investigating covariation in Bolivian and Venezuelan rentier features – Rule of law and accountability scores, and resource dependence rates (hydrocarbons over total government revenue)

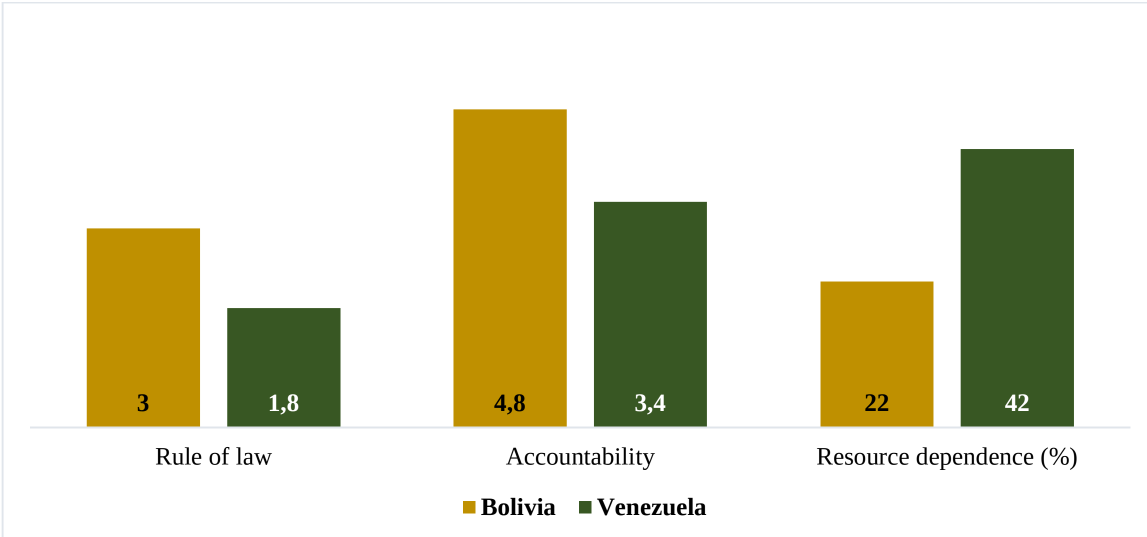


Table 8 – Investigating covariation in Bolivian and Venezuelan rentier features – Political autonomy in SOEs

Country	Level of Political Autonomy of SOEs
Bolivia	High government control of SOEs, Limited mismanagement
Venezuela	High government control of SOEs, High mismanagement

Table 9 – Conclusion: summarizing extent of factor covariation

Factor	Covariation
Rule of Law	Present
Accountability	Present
Resource Dependence	Present
Political Autonomy of SOEs	Present

Chapter Seven - Conclusion

This study has attempted to investigate causality in the social sciences by analyzing the causes of rentierism in two Latin American countries, during the tenure in government of two of the region's most iconic leaders, Evo Morales and Hugo Chavez. Three research questions were answered..

The first identified the features of rentierism, drawing from the extensive literature on the subject. There were three such findings: a rentier country is defined by high levels of corruption, weak levels of democracy (with corresponding high levels of authoritarianism), and patronage mechanisms in the distribution of welfare from the state to the population. In light of these tenets, it is easy to see that rentierism is an inherently negative condition, affecting a country's political, economic and social fabric. Rentierism is found all over the world, but many studies in the literature have focused on looking for its presence in one specific region: the Middle East, especially the Gulf region. In fact, it was two studies of the economic and political configurations of Iran and Kuwait, that created discussion on the subject and provided the foundations for rentier state theory, or RST. The theory has evolved over more than three decades, in its attempt to map the symptoms of rentierism across states and national economies worldwide, and provide policy recommendations to ameliorate the situation. This study recognizes the importance of RST, since it provides the foundation for the theoretical framework. As much as scholars have been extremely successful in identifying the symptoms of rentierism, the results are disappointing when it comes to understand why rentierism occurs in the first place. In spite of the hundreds of papers applying rentier theory to case studies around the world, analyzing its effects on countries' society, political and economic systems, there appear to be very few works studying the causing factors of the phenomenon.

Nevertheless, insights were made, and four causing factors were inferred from the literature. Firstly, it was found that countries with lower levels of rule of law, were more likely to be rentier states. The same was reported also for countries with low levels of accountability in institutions. Moreover, countries whose governments relied to a larger extent on the sale of natural resources for revenue, were more likely to be rentier states. This implied that economic diversification and moving away from an extractive-type economy are important antidotes to this condition. Finally, the way a country's SOEs were managed affected whether the same country became a rentier state or not. In cases where SOEs were kept autonomous from government control and run for profit, rentier conditions were more unlikely to occur.

The second research question tested the three conditions of rentierism in two countries in Latin America, Bolivia and Venezuela. The period for the study was 9 years, from 2005 to 2013. This interval was chosen since it allowed a parallel comparison between the Morales and Chavez government. Research results showed that the symptoms of rentierism were more acute in one country - Venezuela – than the other. Bolivia is less corrupt and more democratic than Venezuela, and it distributes its welfare more effectively to its population.

The third research question investigated degrees of covariation between the extent of rentierism in the two countries and the presence of causing factors. The aim was to establish whether increasing levels of a factor were associated with higher levels of rentierism. The covariation was confirmed by the results of the study. Venezuela, the country with greater symptoms of rentierism, had weaker structures to ensure rule of law and accountability, was more reliant on revenue from hydrocarbons, and featured higher levels of political control and mismanagement of SOEs by the government.

Further reflections on the study concern the strengths and weaknesses of the methodology and findings, suggestions for further research, and policy recommendations.

The study has four positive aspects. Firstly, it contributes to the literature gap on the rentier state and its associated concept, the resource curse. Secondly, due to the extensive literature review, the theoretical framework for the defining features and the causing factors of a rentier state possesses academic depth. Thirdly, the formulated indicators are reliable measurements for the concepts in the study, since they are both derived from the literature and are taken mostly from authoritative data sets. Moreover, most indicators are quantitative, meaning measurements are more straightforward and less controversial. Finally, the choices for the comparative case study are suitable for a most-similar n design, since Bolivia and Venezuela are two Latin American countries with similar recent political and economic trajectories.

There are, however, two downsides to this research. Firstly, although the choice to select a small population of countries was beneficial in reducing data-gathering periods, it also meant the findings would be less generalizable. In this sense, the results of the study need to be repeated with a larger population of countries, to become truly significant to the international community. Secondly, since there is little literature on patronage in welfare provision and political autonomy of SOEs, this study required a creative approach to define indicators for these concepts. This and the choice to use qualitative indicators might raise a few doubts on the validity of findings.

Suggestions for future research partly derive from the weaknesses mentioned above. As a first step, the literature on the rentier state would benefit if the study were repeated on a larger population of countries. An example of a suitable population would be that formulated in the regression analyses mentioned in the literature review. These studies investigate the effects of a rentier state on levels of conflict and democracy in these countries. Secondly, indicators for patronage in welfare provision and political autonomy of SOEs should be better formulated, hopefully involving quantitative data sets and measurement proxies. Finally, although the results identified four factors causing the rentier state, it is likely that future studies would find further associations. Therefore, it is suggested that scholars make use of either inductive or deductive research methods to formulate new causal links.

The findings highlight the need for policy reform in three areas: institutions, economic policies, and governance structures. These suggestions are mainly aimed at national government officials and lawmakers, but also at members of civil-society organizations and private firms. Institutions should be made more accountable. Law enforcing-mechanisms should be reinforced. Changes to the management style of SOEs should make firms more autonomous from government control and more able to reuse profits for the firm's own well-being, rather than being the target of pillaging or mismanagement from corrupt or incompetent political officials. Most importantly, the crucial weakness of a rentier state is its dependency on a single source of revenue to drive the economy. The most effective remedy to such a curse is for various stakeholders in the national economy - government ministries, private firms, SOEs, civil society organizations - to coordinate and implement an effective economic diversification plan, moving away from hydrocarbons and more towards a manufacture or service-based economy.

Rentier state theory provides a fascinating insight into the world's most diverse environments: from authoritarian monarchies in the desert of the Arabian Gulf, to populist democratic republics in the heart of Latin America. Drawing on a rich and consolidated history of research – sprawling across decades – it seems the future has nothing but bright opportunities to offer, for those willing to delve into it.

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