Authoritarianism and Democracy in Rentier States

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CHAPTER ONE

Introduction

Does natural resource wealth promote authoritarianism? At first glance, the causal connection between inanimate objects of value lying beneath the earth's surface -- such as hydrocarbon fossil fuels, kimberlite diamonds, or copper deposits -- and cross-national patterns of access to political power might seem obscure. Yet many political scientists increasingly believe that such resources prolong or even foster authoritarian forms of rule. The key to understanding this connection, they argue, is to analyze the political incentives produced by resource "rents" – that is, the extraordinary profits, often associated with the extraction of oil and other minerals, which flow directly into the fiscal coffers of the government but require neither an elaborate tax bureaucracy nor the projection of the state's power into the domestic affairs of its citizens. Empirical evidence from authoritarian regimes in many resource-rich countries suggests that by controlling the state, political elites can accumulate enormous personal wealth, plausibly increasing the benefits to elites of holding *political* power rather than investing in other forms of economic or social power. Moreover, rents appear to give authoritarian elites powerful technologies with which to ward off challenges to their rule: elites may use rents to strengthen the state's military-repressive apparatus or to coopt the political opposition with material inducements (Ross 2001). A growing body of cross-national evidence, from case studies of resource-rich regimes in Africa and the Middle East to cross-national regressions, seems to support an "emerging wisdom" among political economists that resource rents promote authoritarianism.[1]

This finding, however, is at odds with an important body of literature on oil and democracy in Venezuela. Scholars have emphasized different mechanisms through which oil shaped Venezuelan political development, yet the idea that oil rents promoted democratic stability has been an important part of the received wisdom about Venezuela – which, until fairly recently, was one of the most stable democracies in Latin America.

[1] The literature is reviewed further below, and in Chapters Two and Three.

As democratic regime after regime in post-war South America fell to authoritarian coups, oil-rich Venezuela seemed an important regional exception. By the mid-1980's, Venezuela had become an exemplar for democrats all over Latin America, and for many analysts, oil rents had played a crucial role in fostering the country's democratic stability.[2]

The apparent contradiction between the claims of a general literature and the arguments of experts on Venezuela might provoke our skepticism about either the country literature or the general literature. To those who have argued that oil promotes authoritarianism, Venezuela is just an exceptional case – an outlier, in statistical parlance. Some observers have even seen a growing centralization of power and an incipient authoritarianism amid the recent political turmoil in Venezuela, which they have taken as new evidence in favor of the authoritarian "resource curse." On the other hand, the arguments of a wide range of specialists in favor of the oil-democracy link in Venezuela, one of the oldest oil exporters in the world, might raise our concern that missing variables mediate the relationship between resource rents and the political regime type, and that these variables can help explain variation in observed outcomes across resource-rich countries.

A central theoretical contribution of this study is to reconcile these competing claims. I develop a formal model that elucidates a mechanism through which resource rents promote democracy. My analysis of this model does not contradict the claim that resource wealth promotes authoritarianism, because, as the model shows, there are also mechanisms through which resource wealth has an "authoritarian" effect: in particular, economic conflict over the *distribution* of rents increases the incentives of elites to block or reverse democratization and therefore provides a "direct" link between resource wealth and authoritarianism. Yet there is also an important "indirect" effect of resource wealth, working through the effect of resource rents on taxation. By reducing the extent to which democratic majorities want to *redistribute* other forms of income or wealth away from rich elites, resource rents reduce the economic cost of democracy for elites. The strength of the model is that it allows us to compare these "direct" and "indirect" effects and

[2] Among American political scientists, the leading statement is from Karl (1987; 1997). See also, among others, Bautista Urbaneja (1992), España (1989), Naím and Piñango (1984), and Rey (1989).

thereby generate hypotheses about when and where resource wealth is more likely to support authoritarianism or democracy.

The main empirical contribution is to test this theory through a variety of approaches. Using statistical analysis of time-series cross-section data, I show that the empirical link between oil and *democracy* is more substantial than political scientists have previously appreciated, in ways that are consistent with observable implications of the theory. I therefore argue that Venezuela does *not* simply constitute an exceptional or anomalous case. However, this empirical evidence could be consistent with other theories as well. Thus, I probe the validity of the democratic mechanism identified in the model through an extensive historical case study of Venezuela and briefer analyses of other cases. Since the existing literature on Venezuela helped to generate the apparent contradiction that motivates this study, the purpose of returning to the Venezuelan case is not to support the general validity of the claim that oil rents may promote democracy. Instead, I exploit new over-time variation in political outcomes in Venezuela, including several coup attempts over the last decade and a half and the near-collapse of the party system in the 1990's, not only to assess the validity of the received wisdom that oil rents supported Venezuelan democracy but also, especially, to adjudicate between rival mechanisms through which it might have done so. My more brief analyses of other cases provide additional support for the theoretical argument.

Resource rents, authoritarianism, and democracy

In the contemporary era, oil is the paradigmatic example of a natural resource that produces "rents," but other natural resources may do so as well – while some natural resources do not. This study is limited to the political effects of rent-producing natural resources, since, in the important literature in political science on the authoritarian effects of resource wealth, rents are ultimately the alleged source of authoritarian rule.

Rent itself is defined by a super-normal level of profit; that is, resource rent is the economic return to natural resource extraction that exceeds production and transport costs and some "normal" return to capital. Alternatively but similarly, rent is the excess over the return to capital, land, and labor when these factors of production are put to their next-best use.[3] In some of my empirical work in this study, I employ a dataset compiled by Clemens and Hamilton (1999 [2003]), who measure the rent produced by various natural resources by subtracting estimated production costs and a normal return to capital from the market value of resource production.[4] Yet, following the original definition in classical political economy, rent is also defined here as the payment to landlords in exchange for access to subsoil resources. Thus, resource rent is the portion of the super-normal level of profit associated with some kinds of natural resource extraction that accrues to landlords. In the vast majority of important national producers of oil and other minerals in the contemporary world, this "landlord" is the national state (Mommer 2002: 108-118).

The characteristics associated with resource rents go well beyond this initial definition, as many analysts of resource-rich countries have noted. First, in many countries of the world, sub-soil resources like oil and other minerals are taken to be a public utility in which the state reserves a sovereign interest based on the principle of eminent domain. This implies that a substantial portion of revenues from the sale of mineral resources (the particular portion has varied over time and space) pour directly into the fiscal coffers of the central government. Second, the extraction of these resources tends to be geographically concentrated and capital-intensive, and to take place within the context of an export-oriented industry without widespread "linkages" to other productive processes (Hirschman 1977). This tends to endow the resource industry with the character of an "enclave" divorced from the rest of the domestic economy. Third, there may be a separation of labor between a landlord state, which merely collects rents, and a private producer (Mommer 2002), which in many developing countries and in many historical periods has been a foreign or multinational resource company.

Finally, and partly as a consequence of these previous features, resource rent affects the rest of the political economy chiefly through its influence on patterns of public revenue-generation and spending. Unlike domestic taxation or other sources of revenue,

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[3] Chapter Two discusses the *sources* of resource rent: namely, why do some resources produce rent, while others do not?

[4] My use of this measure of the concept of rent is an improvement over previous studies, which have relied exclusively on the export value of oil or other minerals as a fraction of total exports or gross domestic product. Such measures have the disadvantage of potentially introducing endogeneity problems in regression models that predict the regime type, since measures of economic development may be related to regime type (Przeworski et al. 2000).

which may require the development of a capable state bureaucracy and costly collection efforts, resource rents provide the state with an alternative source of public revenue that is akin to an externally-generated "windfall" (Mahdavy 1970, Beblawi 1987). Empirically, in fact, resource rents tend to displace other, more-difficult-to-collect forms of revenue such as income taxation, as I discuss elsewhere in this study.

Like previous analysts, my argument therefore hinges, in part, on the relationship of resource rents to the fiscal basis of government. However, I depart from much of the existing literature in assessing the political and institutional consequences of this mode of state finance. Drawing on an extensive literature on European state formation and the origins of representative institutions, which has argued that rulers extended representation to citizens in exchange for taxes or other forms of public finance (e.g. Tilly 2004; see also Bates and Lien 1985 and North and Weingast 1989), previous analysts have viewed the negative relationship between resource wealth and taxation as a source of authoritarianism in resource-rich countries (Ross 2001: 332-3, 348-9). Resource rents, by providing rulers with a source of public finance independent of their subjects (or citizens), allegedly obviate the need for rulers to strike such a "representative bargain." Beblawi (1987: 53-54), for example, says: "With virtually no taxes, citizens are far less demanding in terms of political participation. The history of democracy owes its beginnings, it is well known, to some fiscal association (no taxation without representation)." Advocates of this perspective have apparently turned the slogan "no taxation without representation" on its head, however: while this phrase suggests that representation is a necessary condition for taxation, some analysts appear to suggest that taxation might be a necessary condition for the emergence of democratic rule.

In contrast, I argue that the tendency of resource rents to reduce the taxation of citizens is an important mechanism through which resource wealth can contribute to the stability of democracy. Why might this be so? At least since Tocqueville (1835: 49-55, 128-136), political analysts have noticed the importance of economic equality for explaining the introduction and persistence of democratic institutions. In unequal societies, on the other hand, the enfranchisement of a relatively poor majority may lead to the emergence of political cleavages based on divisions of wealth and income (or "class") and to important political pressures for economic redistribution from the rich to the poor.

The specter of redistribution through the ballot box, as the suffrage is expanded and disadvantaged groups are incorporated into the political arena, can make democracy more costly for elites and lead to attempts to block or reverse processes of democratization. Latin American cases provide some of the paradigmatic examples of coups launched by the right in order to block redistribution under democracy, as in Chile in 1973, Guatemala in 1954, or Argentina in 1976 (Stepan 1985; O'Donnell 1973). However, recent contributions in political economy have argued that the actual or anticipated redistributive consequences of democratization can more generally help to explain why democracy emerges and persists, or instead fails to do so, as well as the form democracy takes (Acemoglu and Robinson 2001, 2005; Boix 2003).

The tendency of resource rents to displace other forms of revenue-generation, including taxation, however, can make these redistributive pressures less important in resource-rich countries. By providing a source of public spending that displaces redistribution from the rich to the poor, resource rents can make democracy less costly for elites and thereby reduce their incentives to block or reverse processes of democratization. In a phrase, resource rents can underwrite democratic stability by reducing polarization over economic policy, particularly in more unequal societies.

To elaborate this argument requires an elucidation of my basic approach to the sources of democracy and authoritarianism, which motivates the formal analysis developed elsewhere in this study. Scholars of comparative politics have developed many different approaches to understanding processes of democratization as well as democratic breakdown, from the extensive literature on the role of intra-elite schisms in prompting transitions to democracy (O'Donnell and Schmitter 1986) to the literature emphasizing the international dimensions of democratization (Huntington 1991: 45-46). These traditions have generated many important insights, and I view the argument I develop here as largely complementary to, rather than competitive with, these approaches. I build, however, on recent research in political economy and political sociology that emphasizes the role of mass mobilization and the politics of redistribution in explaining the emergence and persistence of democratic and authoritarian regimes (Acemoglu and Robinson 2000, 2001, 2005; Collier 1999; Rueschemeyer, Stephens and Stephens 1992).

A range of evidence suggests that the mobilization of mass actors has played an important role in many historical and contemporary cases of democratization (Collier 1999; Rueschemeyer, Stephens and Stephens 1992; Collier and Collier 1991). Yet as economic divisions between masses and elites widen, elites may also have stronger incentives to resist the introduction of democracy or, once democracy is established, to stage coups against the democratic order or to undermine the effectiveness of a broad franchise through institutional design or other mechanisms (Collier 1999, Beard 1913). Thus, the nature of the economic relationship between elites and masses can influence the emergence of democracy as well as the occurrence of democratic breakdown. Recent formal literature in political economy has helped to clarify the way in which factors such as inequality or asset specificity may influence the degree of economic conflict between elites and masses and thereby shape the incidence of democracy and authoritarianism (Acemoglu and Robinson 2001, 2005; Boix 2003).

Building on this theoretical approach, a central contribution of the model I develop is to clarify how resource rents shape economic conflict and thereby influence the development of political institutions. There are two main effects. First, my argument distinguishes the *distribution* of resource rent from the *redistribution* of private wealth extracted through taxation. Previous analysts have argued that resource wealth provides incentives for the construction of "predatory" states (Robinson 1997).[5] African leaders from Gabon's Omar Bongo to the former Zaire's Mobutu Sese Seko amassed large personal fortunes through control of their countries' resource sectors. In the Gulf states, Herb (1999: 31) reports estimates of the ruling families' share of total government expenditure which reach as high as 32 percent in the case of Qatar.[6] As the model shows, the desire of elites to control the *distribution* of resource rents can increase their incentives to hold permanent control of the state, which is the most certain way to guarantee continued access to these rents. Elites may well be forced to transfer resource rents to coopt opposing groups who pose threats to their power; yet such threats may be temporary, and once strikes fail or popular mobilizations recede, elites can guarantee

[5] On the distinction between predatory and other state apparatuses, see Evans (1989).
[6] Herb (1999) cites Kuwari (1978) as the source; figures are for 1970. Other percentages in the Gulf states: Abu Dhabi (25.7%), Bahrain (29.3%, Qatar (32.8%), Kuwait (2.6%), and Saudi Arabia (12.0%). Kuwait's low percentage may be suggestive, in light of the country's parliamentary traditions, which are stronger than in the other Gulf states (Crystal 1990).

themselves a greater slice of the resource pie. In addition, elites in authoritarian regimes may also be willing to pay a higher cost to repress threats to their power and therefore retain future control of resource rents. This image of authoritarian politics is predatory, to be sure; yet, while there are authoritarian regimes that are not predatory, one is harder-pressed to supply examples in resource-rich authoritarian countries.[7]

However, resource wealth affects economic conflict over the *redistribution* of other forms of income or wealth in an opposite fashion. Because resource rents displace taxation and other forms of revenue generation, they also displace the political salience of redistribution in *democratic* rentier states. Absent resource rent, democratic majorities may want to redistribute income away from elites to pay for public spending; other things equal, such redistribution increases the cost of democracy to elites. Yet by displacing taxation as a source of revenue, resource wealth transforms the nature of this redistributive conflict. In my formal argument, I emphasize that resource rents limit the cost to democracy of elites not just because they reduce the extent to which democratic governments tax elites today, but also because they can reduce the extent of redistribution tomorrow as well. Suppose, for example, that elites are considering launching a coup d'état against an existing democratic regime. Even if redistributive policies are relatively moderate today, from the point of view of the elite, opportunities for coups may be fleeting; and tomorrow, when the coup threat has passed, democratic majorities may enact more radical policies. Yet because resource rents will tend to reduce future redistribution as well as current redistribution, they allow democracies to credibly commit to limiting redistribution. Resource wealth therefore makes democracy less costly in the future as well as the present.

A central contribution of elucidating these mechanisms within the same theoretical model is that it allows us to develop, and test, conjectures about when and where the authoritarian or, alternatively, democratic effects of resource wealth may be more important. For example, we might expect the authoritarian effect to be more important where the non-resource sectors of the economy are undeveloped, or where the state may so completely lack the power to penetrate and tax civil society that redistributive taxation is not a viable option. On the other hand, if redistributive conflict

[7] Suharto under Indonesia may provide one partial exception (Dunning 2005).

forms an important potential dimension of politics under democracy, perhaps because of a combination of inequality and a minimally capable state, we might expect the democratic effect of resource wealth to be more important.

The rest of this introductory chapter turns to the empirical contribution of this study. The previous cross-national evidence presented by political scientists has seemed to support the idea that resource wealth promotes authoritarianism. For example, Ross (2001) has presented statistical evidence on the authoritarian effects of resource rents (see also Barro 1999). Analyzing time-series cross-section data for a global sample of countries, this author finds a negative and significant relationship between resource rents and democracy. Moreover, he presents evidence on several mechanisms through which oil and other minerals may have promoted authoritarianism. Authoritarian elites use resource wealth to coopt (a "rentier" effect) or repress the political opposition, while a "lack of modernization" also allegedly hinders democracy in resource-rich countries. An important contribution of Ross's (2001) study is that it uses cross-regional evidence to find support for an argument initially developed by specialists on the Middle East, where, however, the political effects of oil wealth could not be statistically identified – since many other factors that might explain authoritarianism were common to the countries of that region.[8]

While the theoretical framework I develop in this study supports the idea that resource rents may increase the incentives of authoritarian elites to use repression or policy inducements to block democratization and thereby increase the incidence of authoritarianism,[9] it also suggests that resource wealth can increase the incidence of democracy through other mechanisms. The key to this is the effect of resource wealth on redistributive politics. My strategy for testing this democratic effect is therefore to stratify countries on the basis of observable factors that may influence the salience of redistributive politics: for instance, inequality, or a history of class-based political mobilization. According to scholars such as Acemoglu and Robinson (2005), O'Donnell (1973), Stepan (1985), and others, the politics of redistribution have been particularly

[8] Smith (2004) finds that oil wealth is associated with regime stability, without regard to whether the regime is democratic or authoritarian. This finding may be consistent with my argument, as I discuss elsewhere.

[9] My analysis also carries implications for Ross's finding that a "lack of modernization" inhibits democracy in resource-rich countries; I discuss these implications elsewhere.

important in shaping the emergence and persistence of democracy and authoritarianism in Latin America, which is the most unequal region of the world (IDB 1998). Thus, we might conjecture that isolating the relationship between resource wealth and the regime type in Latin America could allow us to partial out the democratic effects of resource wealth from its authoritarian effects, if only as an initial test.[10]

In a regression analysis of time-series cross-section data on 18 Latin American countries, oil wealth is *positively* and significantly linked to democracy.[11] Moreover, this result is robust to a variety of assumptions about the error processes of the statistical model, to the inclusion of country and time fixed effects, and to the exclusion of Venezuela from the estimation sample. The fact that the oil-democracy link persists with country dummies in the Latin American data is particularly notable, for in Ross's (2001) test on a global sample, it does not.[12] Thus, while a cross-sectional relationship largely drives the statistical finding in Ross (2001), within-country (over-time) variation does more of the work in producing the result in Latin America. This is a useful piece of evidence, for it suggests that within the same Latin American country – that is, within a country with a propensity for democracy that may be relatively fixed in the short run – oil rents are associated with democracy, not authoritarianism. In other words, we may have some additional confidence that omitted country-specific factors have not produced a spurious statistical association in the Latin American data.[13]

As discussed above, the theoretical model developed in this study also suggests that the indirect effects will matter where redistribution of income is more important, relative to the direct distribution of resource rents. This may also lead us to expect that the level of economic development -- in particular, the development of the non-resource

[10] More direct tests of this theory are complicated by the poor quality of data on the extent of inequality, particularly in the less-developed resource-rich countries of the Middle East; for example, the World Bank's WIDER data base of Gini coefficients and related measures contains almost no observations on the Middle East.
[11] The statistical model is similar to Ross (2001).
[12] See footnote 58 in Ross (2001: 341). I have replicated these results with data generously provided to me by Michael Ross.
[13] One omnipresent concern involved in the analysis of observational data is that there are omitted variables, in this case variables that are correlated with both oil wealth and democracy in Latin America. However, it is perhaps unusually difficult to propose what such variables might be in this case, especially given that within-country variation helps account for the statistical result in Latin American data. In any case, such omitted variables would tend to work against the conventional wisdom that oil produces authoritarianism, because such variables would have to correlated positively with both oil wealth and democracy (or negatively correlated with both) to produce the effect we observe in the data.

economy -- influences the political effects of resource wealth. I also present statistical evidence in this study that is consistent with the claim that the "authoritarian" effects of resource wealth are more important when the development of the non-resource sector is small, relative to the resource sector.

Thus, the statistical evidence I present in this study lends plausibility to the hypothesis that there is a more general democratic effect of resource wealth, and the observed variation in regime outcomes in resource-rich states is consistent with the theoretical model I develop. It also contradicts theories that link resource rents only to authoritarianism. If resource wealth promotes authoritarianism by increasing the incentives and ability of elites to repress or coopt their populaces, there is no *a priori* reason why the relationship between oil and political regime should be different in Latin America. In contrast, the theory I develop in this study suggests that the democratic effect may be particularly important where redistributive politics form an important obstacle to the emergence and persistence of democracy. The positive relationship between oil and democracy in Latin America is therefore consistent with the observable implications of the theory.

Yet this evidence could also conceivably be consistent with other theories. It is therefore crucial to focus sustained empirical attention on the mechanisms by which such a democratic effect could have been produced. For this, turning to extended case analysis may be highly useful. My case study of Venezuela suggests not only the validity of the hypothesis that oil rents promoted democracy in Venezuela but also, importantly, that the theoretical model of this study describes the mechanisms through which this occurred.

The studies by Karl (1987, 1997) are the best-known accounts of the link between oil rents and democratic stability in Venezuela (see also Rey 1989; España 1989). However, my case study suggests that while these earlier analysts were correct to emphasize the important role of oil rents in promoting democratic stability, the underlying mechanisms were not clearly or correctly specified. I am able to take advantage of longitudinal variation in political outcomes in Venezuela, including the recent *destabilization* of democracy, to show that the mechanisms I emphasize, and the observable implications of the theory I develop, are most consistent with Venezuelan political outcomes in both historical and contemporary perspective. Indeed, unlike other accounts, the theory I develop can account not just for the stabilization of Venezuelan democracy but also its destabilization. It correctly predicts the relationship between oil rents and social and class polarization, as well as the implications of class polarization for democratic stability. Indeed, it not only explains the emergence, stabilization, and destabilization of democracy in Venezuela, but it is also consistent with political outcomes in the most recent years of the Chávez regime. My theory therefore provides the best account of the mechanisms through which oil rents promoted democracy in Venezuela.

Finally, I turn to several additional case studies. The motivation for studying these cases is as follows. While the cross-national statistical evidence I present suggests that the democratic effects of resource wealth are more general than previous analysts have thought, and the case analysis suggests that the theoretical model usefully explains the temporal variation in political outcomes in Venezuela, we would also like to know whether this democratic mechanism also helps explain other cases in which resource rents plausibly promoted democracy. I therefore use the statistical analysis to select such cases – not to establish an empirical link between resource wealth and democracy, which the statistical analysis already helped to do, but rather to probe the mechanisms at work in those cases. I close with a discussion of the generality as well as the limitations of the model developed in this study and lay out directions for future research.

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