Part I

Introduction

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1 Oil shocks and the challenge to states

In the mid-1970s, after the first oil shock, Algeria had the highest growth rate (8.5 percent) of all oil-exporting late developing countries (LDC). It was touted as one of the most successful experiments in economic development and one of the most politically stable oil exporters. Algeria was hailed as a model revolutionary, post-colonial state: having brought to an end 130 years of French settler colonialism after a seven-year long war of national liberation, and faced with mass exodus of the European population with their expertise and capital, the leadership of the newly independent state embarked upon broad programs of reconstruction and development. In the first decades, and especially under President Houari Boumedienne, social and economic policies suggested a commitment to development with social justice. With burgeoning oil revenues, enormous efforts were made at rapid industrialization, building up infrastructure, and educating the population – roughly 80 percent of whom were illiterate at independence.

By 1982, however, world demand for oil was declining. Demand for OPEC oil was declining even more as increased output from Mexico and the North Sea cut into OPEC's share of a shrinking market. Oil prices fell from their peak of close to $40/barrel in 1980. Then in 1986, and largely in response to the increase in Saudi production to keep up with the market force of new producers, the price of oil collapsed – to less than $10/barrel. During this same period, the value of the dollar, the currency in which hydrocarbons are traded, declined as well.

The effect of the oil price shock on Algeria's external revenues was striking: they declined by 55 percent in value in a single year. Similarly, the role of hydrocarbon revenues in total government revenues fell from 44 percent to 24 percent. From 1986 until the mid-1990s, the Algerian economy's growth rate remained consistently negative (Aissaoui 2001: 10; Amuzegar 1999: 235).

In reaction to the severe socioeconomic dislocations precipitated by the price shock – among them, inflation, high unemployment, shortages of essential goods – and the failure of the regime to address them effectively, anti-government riots wracked the country for days in October 1988, bringing together those who felt socially and economically marginalized by the system. President Chadli Benjedid responded to the growing unrest with political liberalization. In 1989, after seventeen years of single-party rule, he initiated a transition to multi-party politics and called the first competitive elections for December 1991. At the same time, he installed a reformist government, led by Mouloud Hamrouche, to assist in the transition. In those heady days, political parties mushroomed across the country; over the next two years, they campaigned vigorously.

In the first round of multi-party legislative elections in December 1991, an Islamist party – the Front Islamique du Salut (FIS – Islamic Salvation Front) – won 47 percent of the popular vote. In response, the military, which had dominated the political arena behind the façade of the FLN (Front de Libération Nationale) single party, annulled the election results and called off the transition. It staged a symbolic coup d'état in January 1992, deposed Chadli Benjedid, outlawed the FIS, and declared a state of emergency.

The fallout from the coup was protracted political violence. From 1992 through 2002, the institutions of the state were pitted against an array of Islamist groups – that had emerged initially out of the banned FIS party and its supporters – in a bloody civil war. For several years, the regime's political authority was severely weakened as it battled growing numbers of insurgents, divided among several different groups and benefitting from logistical support from the population. The regime appeared at times to be on the verge of collapse: it could neither contain the insurgency, nor dominate the terrain, while the death toll rose rapidly and there was a heightened sense of insecurity throughout the country. Moreover, the leadership's choice of tactics in the early years of the violence undermined support for itself from both the domestic and international environments, and fed the ranks, and radicalization, of the insurgency (Lowi 2005).

From the mid-1990s, however, the military-backed regime was actively engaged in restoring its grip on power. Through a combination of strategies that included co-optation and manipulation, and assisted eventually by changes to international structural forces, it would take the regime several long years to bring the insurgency to heel. By the beginning of the new millennium, the violence had wound down considerably; the civil war took on the form of a low-intensity conflict. Insurgent forces were depleted, and the regime was back in control.

How can we explain Algeria's post-independence trajectory? Why did the domestic political economy unravel from the mid-1980s, and the regime become acutely unstable, despite impressive natural resource wealth and what appeared, from the outside, as auspicious beginnings? What, if anything, has oil got to do with it? Furthermore, how did the regime eventually manage to recapture power and neutralize its opposition? What factors were decisive in its ability to re-equilibrate: to reassert its power and hegemony "after a crisis that had seriously threatened the continuity and stability of … the basic political mechanisms" (Linz and Stepan 1978b)?[1] And what does the Algerian experience teach us, more generally, about the durability of patrimonial systems, the contingency of oil, and the determinants of political outcomes in oil-exporting states following economic shocks?[2] These are the main questions this book seeks to answer.

To be sure, Algeria was not alone among oil-exporting states to be deeply shaken by the shock of 1986. As the price of oil fell by 75 percent over a period of several months, government revenues plummeted (Table 1.1). From the highest per capita income oil exporter (United Arab Emirates) to the lowest (Nigeria), independent states had to drastically adjust their spending patterns and development programs overnight, find ways to ensure macroeconomic stability, and address the severe social effects created by fiscal crisis. Across the developing world and within the community of oil-exporting states, the capacity of states to manage the shock diverged considerably, as did political outcomes.[3]

[1] For their discussion of how democracies can "re-equilibrate" following regime breakdown, see Linz and Stepan (1978b: 88–91).

[2] Patrimonialism derives from Max Weber's concept of "patrimonial authority" as distinct from "rational-legal authority." It includes the following features: power is personalized – based on the personal preferences of the ruler, who dominates the state apparatus and stands above its laws. The ruler, considering the country his patrimony, appropriates public resources for his own private use. Whatever rights or privileges "subjects" enjoy are granted to them by the ruler who considers them, as well, a part of his estate. Moreover, functionaries of the state benefit from their proximity to power; their loyalty is acknowledged largely through material and professional rewards. In fact, it is via the distribution of favors and material rewards to loyal subjects ("clients") that political stability is maintained. For an excellent discussion of the characteristics of patrimonial systems see Bratton and van de Walle (1997: 61–96). Note that the term "neopatrimonial" has been used to refer to "those hybrid political systems in which the customs and patterns of patrimonialism co-exist with, and suffuse, rational-legal institutions" (62). (See, as well, Murphy 2001.) Since patrimonial features can be found in many regimes, while the singularly "modern" features of rule tend to be de-emphasized, the relative merits of the term "neopatrimonial" versus "modern authoritarian" may be subject to debate. For further elaboration see below, chapter 8, fn.8.

[3] Smith (2006: 58) writes that of twenty-one oil exporters, eleven experienced political crisis during the bust period of either 1977 or 1986 (or both), and four of the eleven regimes collapsed.

Table 1.1 *Sample of oil-exporting states: changes to per capita GDP following price shock*

GDP per capita (constant 2000 US$); [GDP per capita, purchasing power parity (constant 2000 international $)]; (percentage change from last date)

Country	1984		1986			1988		
Algeria	1956	[5894]	1918	[5751]	(−1.92)	1785	[5417]	(−6.95)
Congo Brazz.	1389	[1065]	1199	[852]	(−13.7)	1146	[960]	(−4.42)
Ecuador	1277	[3278]	1299	[3415]	(1.76)	1312	[3544]	(0.96)
Gabon	4791	[6937]	4353	[6367]	(−9.15)	3813	[5577]	(−12.41)
Indonesia	467	[1752]	494	[1839]	(5.73)	534	[1978]	(8.10)
Iran	1468	[5378]	1260	[4620]	(−14.21)	1133	[4157]	(−10.05)
Kuwait	13,901	[12,766]	13,355	[10,619]	(−3.92)	11,883	[10,060]	(−11.02)
Libya	2814		2183		(−22.44)			
Malaysia	2161	[4820]	2051	[4572]	(−5.07)	2257	[4973]	(10.05)
Mexico	5016	[7904]	4754	[7496]	(−5.24)	4712	[7288]	(−0.86)
Nigeria	298	[679]	317	[754]	(6.35)	327	[739]	(3.0)
Oman	6527	[10,071]	6958	[10,576]	(6.61)	6605	[10,330]	(−5.07)
Saudi Arabia	10,453	[13,616]	9403	[11,853]	(−10.04)	8817	[11,231]	(−6.23)
UAE	34,846	[33,352]	23,643	[22,540]	(−32.15)	21,923	[20,749]	(−7.28)

Source: World Development Indicators Online

When we narrow our focus to a subset of oil-exporting states that shares political cultural attributes – among them the Islamic religion and ("modern") authoritarianism[4] – and evaluate the states' performance following not just one but three discrete economic shocks, we find significant variation: some states failed and experienced regime change, others handled crisis fairly successfully and remained stable, still others – like Algeria – underwent tremendous upheaval, yet eventually managed to restabilize.

What accounts for political instability in high-growth, development-oriented oil-exporting countries? Is oil a causal variable? Does acute instability derive from the ways in which oil distorts economic activities and political relations, as rentier state theorists suggest (Mahdavy 1970; Luciani 1987)? Alternatively, are (exogenous) economic shocks necessary or sufficient causes?[5] If so, how could we

[4] On authoritarianism as a political cultural variable in the Middle East and North Africa (MENA), see Hammoudi (2001); Sharabi (1988). On patrimonialism as "culturally familiar" in the MENA, see Murphy (2001: 9).

[5] Exogenous shocks include such things as (externally generated) environmental catastrophe, fiscal crisis, or a sudden, drastic change in export prices. Note that crude oil prices

explain that several oil exporters in the Muslim world – among them, Libya, Malaysia, Saudi Arabia – did not become highly unstable, even though they too were subjected to price shocks with severe growth effects? What allows states to forestall their weakening and the onset of civil violence in the face of economic crisis? Do such things as regime type or political culture, for example, make a difference? In other words, if we consider a sample of oil-exporting states that share certain commonalities, how can we explain that in some, contentious politics on the heels of economic crisis provoked regime collapse, while in others it did not, and in still others, states on the brink of collapse managed to re-stabilize?

In addressing this puzzle, the book provides an in-depth study of Algeria's trajectory – the tragedy of unfulfilled expectations, the descent into violence, and the resurgence of the state. Then, to both enrich and contextualize the argument about the vagaries of regime stability in Algeria, I consider, toward the end of the book, a sample of four other oil-exporting states in the Muslim world. Like Algeria, the four states are/were "late developers" with authoritarian-modernizing regimes and patrimonial structures; together, they reflect the variation in political outcomes, noted above. I offer some preliminary comparisons among them and Algeria in order to shed light on the variation in stability following economic shocks.

Like Algeria, pre-Gulf War Iraq underwent regime crisis and considerable political upheaval after 1986, yet it managed in the 1990s to avert breakdown.[6] In contrast, Iran in 1979 and Indonesia in 1998, on the heels of economic shock, experienced political instability, regime breakdown (and system change) – although Indonesia had weathered the oil price downturn of 1986 remarkably well. Moreover, Saudi Arabia, despite the devastating effects to gross domestic product (GDP) from the 1986 shock, has enjoyed regime continuity without a major crisis. In terms of outcomes, therefore, pre-revolutionary Iran and Indonesia can be thought of as "positive" cases – of instability and breakdown – while Saudi Arabia is a "negative" case, and Algeria and pre-Gulf War Iraq are "in between" cases – of acute instability

increased more than fifteen times between 1973 and 1980, and fell by close to 80 percent between 1981 and 1986. Prices increased more than 400 percent between 1987 and 1990, and fell around 50 percent between 1991 and 1994 (Amuzegar 1999).

[6] Indeed, it would take foreign intervention in 2003 – a quintessential exogenous shock – for the Iraqi regime to implode.

followed by re-equilibration.[7] (Interestingly, Indonesia until the early 1990s would have been considered a "negative" case, like Saudi Arabia.)

Addressing this variation – occurrence, non-occurrence, and something in between – is noteworthy given that authoritarian regimes with patrimonial structures, which tend to thrive on the distribution of favors, are especially challenged at moments of economic crisis. The combination of "shrinking economic opportunities and exclusionary rewards" encourages social protest (Bratton and van de Walle 1997: 83; Chehabi and Linz 1998).[8] How, then, can we explain the variation in the ability of such regimes to manage shocks and retain power?

Explaining instability

Political instability, in the form of the weakening of the state – its diminishing capacity to exercise a monopoly of power and control within and across the country – and the onset of civil violence, must be understood within the framework of the creation of the modern state in post-colonial environments. For the most part, newly independent states inherited from their European colonizers modern administrations, but not modern states built on social inclusion, the rule of law, values of responsibility and progress through work and merit, and the exclusion of violence as a mechanism of social regulation.

[7] Instability in the form of either a temporary or a persistent "breakdown of order," in which the state no longer exercises sole, or decisive, control over the political landscape, may assume different forms: protracted or even random acts of violence (Iraq), revolutionary mobilization (Iran), civil war (Algeria), secessionist struggle (Indonesia). As with recent work in the field of "contentious politics," I believe that the different forms share similar components and causal mechanisms. For this reason, weakened, failed, and failing states – those that collapse and those that re-equilibrate – constitute coherent objects of study (Aminzade *et al.* 2001; Goldstone 1998: 125–45; McAdam *et al.* 2001; Tarrow 1998; Tilly 2008). They differ in how the components assemble and how they function in the context of different regimes, historical legacies, and the mobilizational capacities of social forces. See, as well, Esty, *et al.* (1998); Rotberg (2004).

[8] Geddes (1999) notes that of the three different types of authoritarian regime: (1) personalistic (patrimonial, neo-patrimonial, clientelistic, sultanistic), (2) single-party, (3) military – the first (personalistic) is most likely to end in popular uprising, invasion, revolution, or assassination. Given that all five cases in my study fall within the first type – even though the Algerian and Indonesian regimes were intertwined with the military, as were, to a lesser degree, the Iraqi and Iranian regimes – all five, according to Geddes, would be prone to unstable, or destabilizing, outcomes. With regard to the categorization of regimes, however, it is important to heed Larry Diamond's reminder that "most regimes are 'mixed' to one degree or another" (2002: 33).

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The modern nation-state was to be built from scratch, and for many hybrid post-colonial states today, that challenge remains (Young 1988).[9]

As for newly independent states endowed with oil, the availability of substantial rents early on in the state-building process and their concentration in the hands of political leaders at the center presented the latter with the means to perhaps create institutions and consolidate the nation/state differently from their capital-constrained counterparts.[10] Hence, to make sense of political instability in post-colonial, oil-exporting states, it is necessary to explore not only the sectoral particularities of oil-based development and their effects, but also the relationship among oil-based development, the choice of political institutions, and the distribution of resources.[11]

I concur with Rodrik (1999) that in environments where societal cleavages remain deep, while institutions are brittle, narrow, and poorly equipped to manage the social conflicts that derive from the deep divisions, states – whether oil- or non-oil-exporting – are prone to become unstable in the aftermath of a shock that triggers a "crisis of distribution." During such crises, social conflicts come to the fore, yet institutional mechanisms for addressing them and the capacity of leadership to reform may be lacking. Social forces re-align to destabilize, capture, or transform the state.

Furthermore, the presence of substantial oil rents in LDCs with authoritarian regimes and patrimonial structures encourages a perception of well-being, which, in turn, discourages political reform. Hence, in most settings, the availability of rents tends to consolidate what is already in place: typically, weak institutions remain weak, and smug elites, "attuned above all to rent-seeking," eschew reform (Luciani 1995).[12]

9 More often than not, the strategy for nation-building has focussed, almost exclusively, on economic development and has ignored – except in a few cases, most notably, China under Mao and India under Gandhi – political and cultural matters. With respect to the imperative domestication of violence in the creation of the modern (nation-)state, see Bates (2001).

10 See, in this regard, Moore (2004: 297–319) for a lucid discussion of differences in the context of state formation in LDCs compared with that in countries of Western Europe, with a focus on the source of state revenues.

11 Regimes assume control over a variety of resources that they both retain for themselves and selectively distribute: among them are economic goods and services, status, authority, information, and coercion (Ilchman and Uphoff 1969: 32–3).

12 An exception to this can be found among the Arab Gulf states, including Saudi Arabia. There, as we will see below (chapter 7), political elites have initiated piecemeal reform to appease social forces; at the same time, they continue to strengthen their instruments

Deep social cleavages, combined with relatively narrow state institutions, are common features of post-colonial states, and especially those with authoritarian regimes and patrimonial leadership structures. They are characteristic of Algeria and the four comparators as well. I suggest that two conditions related to the above features, plus a third, favor political instability in oil-exporting countries following an economic shock.

The first condition concerns the inception of oil-based development: when the state, through an explicit program of policies and investments, promotes economic, social, and infrastructural development, and deploys important revenues from the sale of oil to that end.[13] Instability is more likely to ensue when oil-based development is initiated in a context in which the state is weakly institutionalized.[14] This is because predictable patterns of (accountable) behavior were not in place at the time of the first massive inflow of oil wealth, nor were they established over time. Politically motivated distribution has been the norm, while rent-seeking behavior has been encouraged. Moreover, the norm tends to become exaggerated at times of economic

of rule. The Kuwaiti regime, for one, has maintained a semblance of democracy (Henry and Springborg 2001: 169–71; Tétreault 2000; Dazi-Héni 2002: 215–38). On the whole, however, political behavior in the Gulf statelets and Saudi Arabia is somewhat distinct from that in other oil-exporting states of the region. This distinctiveness is due not to regime type alone, as some would suggest (*inter alia* Herb 1999), but rather, I would argue, to the combination of relatively small population size, peculiar leadership structures (in the form of "family rule"), the virtual absence of indigenous nationalist movements, and the endogeneity of oil to – and the implication of the British in – state formation. See, as well, the provocative comment by Sluglett (2002: 150), "On voit bien que les systèmes politiques installés dans le Golfe n'ont rien à voir avec des lignées descendant des 'coutumes tribales traditionelles,' comme on l'affirme parfois, mais qu'ils sont une réinvention moderne issue de la reconnaissance par les Britanniques d'une famille particulière de 'souverains.'" ["We see that the political systems found in the Gulf do not have anything to do with dominant lineages issuing from traditional tribal roots with customary legitimacy, as is sometimes stated; rather, they are a modern reinvention stemming from the recognition by the British of the overriding leadership of one particular family." *Translation my own.*] In other words, the British conferred power on families of their choosing. For further elaboration, see below, chapter 7. On the significance of small size and the peculiarities of "family rule" see Salamé (1994: 84–111).

13 That is to say, where revenues from the sale of oil constitute at least one-half of total trade revenues.

14 The term "institutionalized state" should be understood in the Weberian sense: as distinct from a patrimonial state. An institutionalized state is one that is rule-governed and predictable, and in which office is both meritocratic and service-oriented. There is, as well, a clear delineation between the public and private spheres. In contrast, a patrimonial state is one in which nepotism and cronyism are avenues to power and promotion. There is little sense in which the powerful are rule-bound or accountable, and there is little, if any, distinction between the public and private spheres. Hence, corruption tends to be widespread and arbitrariness, common. Furthermore, sectarianism is prevalent: competing cleavage structures in society are manipulated and exploited by the state, largely for political purposes (Bellin 2005: 28–9).

constraint; the weakly institutionalized state becomes even more concerned with its political survival, and an environment of "catch as catch can" takes hold.

The second condition has to do with social cleavages at the inception of oil-based development. If, at that time, there are major societal groups which are weakly incorporated into the state – insofar as they are excluded by the regime from political and/or economic spoils – then political instability is more likely to ensue when there is an economic shock. This is because those groups which have suffered historically from marginalization are likely to be the hardest hit by an economic downturn. Disaffected, they may seize the opportunity presented by a weakened state and try to mobilize against it.

The third condition has to do with the way leaders respond to the challenges they face. If, in the face of an economic downturn, for example, the leadership fails to implement reforms and distribute resources in ways that appease social forces and incorporate those who have been marginalized, political instability will ensue. At issue is leadership choice at a "critical juncture:" a foundational moment in the political–economic development of the state, when choices of great consequence are presented to the leadership, and decisions have powerful effects on political institutions and outcomes (Collier and Collier 1991; Mahoney and Rueschemeyer 2003).[15] In contrast, those states that remain stable in the face of an economic downturn, or manage to re-equilibrate after a period of instability, do so largely because of astute leadership choices regarding the neutralization of domestic challengers.[16]

[15] The first two conditions, above, echo classic arguments about instability in resource-rich states with patrimonial systems. See, in this regard, van de Walle (1994: 129–57). As for the first condition, it brings to mind Ben Smith's (2007) central argument: that the timing of late development relative to access to oil wealth has an important bearing on the durability of regimes. When a regime's access precedes the initiation of late development, Smith insists, the regime is less likely to invest in strong institutions – preferring to distribute patronage. Thus, it has a lesser chance of survival than a regime which, without access, was forced, at the outset, to forge bargains and make concessions. My argument, as we will see below, is distinct from Smith's in that it zeroes in on agency, while still acknowledging the relevance of structure. It is not the timing of oil's insertion into the domestic political economy that matters most, in my view, but rather the capacity of leaders to make effective choices regarding the distribution of resources at moments of leadership challenge. In effect, my work gently confronts Smith's historical–structural argument by placing agency up front.

[16] Rodrik (1999a) argues that the variation in economic performance in the aftermath of an external shock derives from the ways in which societies react to the shock, and specifically to the social conflicts that emerge. On one level, the comparative dimension of my book can be read as an application of Rodrik's thesis to political outcomes.