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Does Oil Promote Democracy?

The concept of a "crude democracy"—that is, a democracy fostered, supported, or sustained by oil wealth—is counterintuitive. Political scientists, policymakers, and pundits often assert that where oil or certain other natural resources are bountiful, democracy is not. Rulers of many resource-rich countries, from the Arabian Peninsula to the former Zaire, appear to have had great success in consolidating stable authoritarian polities; elsewhere, conflict over the distribution of resource revenues has seemed to promote political instability or even civil war but certainly not democratic regimes. In the aftermath of the U.S.-led invasion of Iraq in March 2003, for example, though some observers hoped Iraq's petroleum could be harnessed to pay for reconstruction and then to finance a stable democracy, other analysts worried that conflict over the division of oil revenues would inflame sectarian and regional tensions and ultimately undermine the prospects for democracy. The experience of many other resource-rich countries contributes to a pessimistic evaluation of democracy's chances in countries rich in natural resources. Commenting on the apparently robust association between oil wealth and autocracy, *New York Times* columnist Thomas Friedman pronounced a "First Law of Petropolitics" in the pages of the journal *Foreign Policy*: "The price of oil and the pace of freedom always move in opposite directions in oil-rich petrolist states" (Friedman 2006).

Behind this claim stands a large and growing, if more nuanced, academic literature in political science and related disciplines. According to many social scientists, the key to understanding the link between natural resources like oil and authoritarianism is to analyze the political incentives and capabilities associated with natural resource "rents"—that is, the extraordinary profits often associated with natural resource extraction, which frequently flow directly into the fiscal coffers of the state but require neither an elaborate tax bureaucracy nor the projection of the state's power into the domestic affairs of its citizens. By controlling the reins of government, elites in resource-rich countries may accumulate enormous personal wealth and may benefit more from taking costly actions to seize or maintain political control, rather than investing in other forms of economic or social power. Rulers who can rely on resource rents may have less need to share political power more broadly with citizens in exchange for tax revenues or other forms of support. Resource rents also appear to give authoritarian elites powerful technologies with which to ward off challenges to their rule: for instance, elites may use resource rents to strengthen the repressive apparatus of the state or to coopt the political opposition with material inducements. Although petroleum provides the paradigmatic font of resource rents, motivating the title and a major focus of this book, some other natural resources can also produce rents and thus are alleged to foster similar political effects. A growing body of empirical research, from case studies of resource-rich regimes in Africa and the Middle East to cross-national quantitative analyses, seems to support what has nearly become a conventional wisdom among many political scientists, policymakers, and pundits alike: resource rents promote authoritarian rule.[1]

As the literature on resource politics has itself noted, however, there are important anomalies to this claim. Norway's discovery of massive amounts of petroleum in the North Sea in the late 1960s and 1970s has not apparently destabilized Norwegian democracy, while diamond-rich Botswana is often described as a democratic success story and a political and economic oasis among the countries of post-colonial, sub-Saharan Africa. Aside from these often-remarked cases—which are sometimes "explained" with reference to the "pre-existing strength" of democracy or institutions of governance in such countries—there are many other examples that seem to defy the widespread notion that natural resource wealth fosters authoritarianism. In the first place, there are many democracies that are resource-*rich* without being highly resource-*dependent*, a subtle but important conceptual distinction that is sometimes elided in the literature on the effects of resource wealth: Australia, Canada, South Africa (today), the United Kingdom, and the United States are just a few obvious but important examples.

[1] Ross (2001), Barro (1999), Jensen and Wantchekon (2004), and many other analysts have argued that natural resources promote authoritarianism; see the further discussion in this chapter and in Chapter Two.

Beyond these apparent exceptions, however, lies a more radical possibility: rather than hinder democracy, natural resource wealth might instead *promote* it. A well-known literature on the historical evolution of democracy in Venezuela, one of the world's oldest oil exporters, makes precisely this claim. The idea that oil rents promoted democratic stability has been an important part of the received wisdom about Venezuela—a country that was, until fairly recently, among the most stable democracies in Latin America. As democracy after democracy in South America fell to authoritarian coups in the 1960s and 1970s, oil-rich Venezuela seemed an important exception; by the early 1980s, Venezuela had become a model for democrats throughout the region. In contrast, when the Venezuelan government's revenues from oil plummeted in the 1980s, a process that deepened in the 1990s for reasons discussed in this book, Venezuela's democracy was increasingly destabilized. Contra Friedman, oil rents and democratic stability have tended to move in the same, not opposite, directions in twentieth-century Venezuela.[2]

The apparent contradiction between the claim that oil promotes authoritarianism and the assertion that it has promoted democracy in Venezuela might provoke our skepticism about either the country literature or the recent, more general cross-national literature. To those who have argued that oil promotes authoritarianism, Venezuela is just another exceptional case—an outlier, in statistical parlance. Indeed, many observers have seen a growing centralization of power and an incipient authoritarianism in contemporary Venezuela, which they have taken as additional evidence in favor of the causal link between resource rents and authoritarianism. On the other hand, the fact that a wide range of country specialists have argued that petroleum promoted democracy in Venezuela 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 contribution of this book is to help reconcile these competing claims. The analysis does not contradict the assertion that resource wealth promotes authoritarianism because, as I argue, there are indeed mechanisms through which resource wealth can promote the emergence or persistence of authoritarian regimes. However, there are also mechanisms through which resource wealth can promote *democracy*. As I show

[2] The most well-known statement that oil promoted Venezuelan democracy is Karl's (1987, 1997). See also España (1989), Naím and Piñango (1984), Rey (1989), and Urbaneja (1992).

in this book, the claims that resources promote authoritarianism and that they promote democracy are not mutually inconsistent. Resource rents can promote authoritarianism or democracy, but they do so through different mechanisms. An understanding of these different mechanisms can give us the analytic leverage needed to develop and assess a conditional theory about when the authoritarian or, alternately, democratic effects of resource wealth will be relatively important.

This study therefore aims not only to elucidate a democratic effect of resource wealth but also to propose and test a theory about the structural *conditions* under which the effect of resource rents will tend to be authoritarian or, instead, democratic. The argument can, in turn, help us explain variation in regime outcomes across resource-rich countries. There is substantial empirical and theoretical value to doing so: as I show in this book, the empirical relationship between resource rents and democracy is substantially stronger than many previous scholars have suggested. In Latin America, for instance, oil and other resources are *positively*, not negatively, related to democracy in time-series cross-section data. In addition, the in-depth case studies of Bolivia, Chile, Ecuador, and Venezuela developed in this book not only provide evidence on the mechanisms through which rents may promote democracy; they also show a positive intertemporal relationship *within* countries between the extent of resource rents and the stability of democracy. On its own, and along with other evidence I present in this book, these observations might pose some challenge to the idea that resource rents always promote authoritarianism because the relevant literature does not propose a theoretical reason to expect the effect of rents in Latin America to be different from the effect in any other part of the world.[3]

I argue here, however, that such cases are not democracies despite oil but instead are democratic in part *because* of oil or other natural resources. I suggest that a set of structural characteristics common to Latin American resource-rich countries amplify the democratic effects of resource wealth.

[3] However, Latin American and Caribbean cases figure prominently in previous analyses of anomalous cases. Smith and Kraus (2005) study five countries that are or have been "democracies despite oil": Congo, Ecuador, Nigeria, Trinidad, and Venezuela. Herb (2005) argues informally that there may be countervailing effects of rents on the regime, working, however, through different mechanisms than those emphasized in this study; among Herb's examples, Latin American and Caribbean cases also figure prominently (see his Table 1). Haber and Menaldo (2007) find a largely positive relationship between fiscal reliance on oil and the level of democracy in Latin America but argue that the net effect of oil reliance is, on average, close to zero. These and other valuable contributions are discussed further in Chapters Two and Four.

Other resource-rich countries outside the region that share these structural characteristics, such as Botswana (a case also studied in this book), also tend to be more democratic than other resource-rich peers. Far from anomalies, I argue that these cases represent a set of countries in which we should expect resource rents to have a relatively democratic, not authoritarian, effect. The empirical evidence presented in this book will help to buttress a key theoretical contention: the effect of resource rents is a *conditional* one, and variation in political outcomes across resource-rich countries is both coherent and at least in part predictable on the basis of the theory developed in this study.

What is the source of the contrasting political effects of resource rents? In the rest of this introductory chapter, I provide an initial elaboration of the theory developed in this book. The discussion is stylized, yet it conveys the key intuitions that undergird the authoritarian and democratic effects of resource wealth for which I argue. It also introduces my approach to the game-theoretic modeling of politics in resource-rich countries, an approach developed at length in the third chapter. I also use this discussion of the competing effects of resource rents to present a theory to help explain variation in regime outcomes across resource-rich countries. Finally, I close the chapter by discussing the method and plan of the book.

1.1 The Authoritarian and Democratic Effects of Natural Resources

As scholars of comparative politics have emphasized, there appear to be many ways that countries arrive at democracy. In general, there may be many different mechanisms through which democracy can be created, sustained, eroded, or destroyed (Shapiro 2003: 80–2; Tilly 1995). Important contingencies and indeterminacies are obviously involved (A. Przeworski 1988), a fact that does not in itself obviate the usefulness of seeking to understand structural and contextual constraints. Along with other factors (see O'Donnell and Schmitter 1986), the influence of economic development, economic inequality, and economic *interests* on the political regime has spawned a vast literature in comparative politics (B. Moore 1966; O'Donnell 1973; Rueschemeyer, Stephens, and Stephens 1992; Tocqueville 1835). The analysis in this book privileges the economic sources of political regimes, not because these are always the most important, but rather because the political effects of natural resource wealth must almost certainly depend on such economic factors.[4]

[4] See, however, Coronil (1997), who ties the impact of petroleum on politics in Venezuela in part to oil's semiotic and imaginative dimensions.

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How does resource wealth influence the economic foundations of political regimes? One key characteristic of the natural resources on which I focus in this study is that they produce *rents*: super-normal (oligopoly or monopoly) profits, or the excess over the return to capital, land, and labor when these factors of production are put to their next-best use (Monaldi 2002a). Another characteristic, as Hirschman (1977) noted, is that the extraction of such resources tends to be capital-intensive and often takes place within the context of a geographically concentrated industry without widespread "linkages" to other productive processes. In much of the developing world and at various historical moments, mineral resources like oil have been directly owned and extracted by the state. However, even when they are not state-owned, and even in developed economies with strong liberal traditions of private sub-soil ownership, such natural resource sectors are often ready sources of revenue for the state. Asset immobility, geographic concentration, and the heavy sunk costs involved in the extraction of many natural resources create a tax base that is relatively inelastic and that can provide the state with multiple opportunities for appropriating rent (Mommer 2002: 108–18; Moran 1974; Wells 1971). In the contemporary era, crude oil is the quintessential example of a natural resource that produces "rents" for states, motivating the title and a major focus of this study. Yet, copper deposits, kimberlite diamonds, and other natural resources may produce rents and readily provide state revenues as well—while some natural resources do not.[5]

Together, these features of such natural resource sectors—that they produce rents, that they are often economic "enclaves," and that the rents they produce tend to be appropriated by the state—imply that their main political-economic influence often stems from their effect on patterns of public spending and revenue-generation (Beblawi 1987; Mahdavy 1970). The influence on public spending is obvious: because rents tend to be appropriated to an important extent by the state, they tend to be allocated or

[5] As discussed in the following chapter, kimberlite diamonds, which are geographically concentrated in underground pipes and generally involve substantial capital intensities in production, provide high barriers to entry for private actors but ready revenue sources for states; see Le Billon (2001), Snyder (2001), Snyder and Bhavnani (2005), and Isham et al. (2003). By contrast, alluvial diamonds, which are scattered via above-ground or subterranean waterways and tend to be relatively easily mined by individual citizens or other private actors, tend not to produce "rents" for the state. In Chapter Two, I provide a fuller conceptual discussion of "rents" and discuss reasons why some natural resources but not others may provide a source of rents for the state.

distributed by political authorities (Luciani 1987). The impact on revenue generation is slightly more subtle but no less important. For reasons I discuss at greater length later, resource rents can at least partially obviate the extent to which the state engages in more costly revenue-generating activities, including—particularly crucially for this study—the extent of taxation of citizens. Resource rents tend to pour directly into the fiscal coffers of the state, providing the Fisc with something akin to an externally generated "windfall" and also displacing taxation as an important font of public revenue (Beblawi 1987; Mahdavy 1970).

This analysis of the way in which rents may shape the fiscal basis of the state accords with the previous literature on resource-rich rentier states. I differ from much of this literature, however, in assessing the political consequences of this mode of state finance. I now turn from the influence of natural resources on the economic foundations of regimes to a theory of the influence of these foundations on regime outcomes.

By way of introduction, it may be useful to consider the following scenario. Suppose that under an existing democracy, rich elites have an opportunity to stage or support a coup against a democratic regime. Elites may weigh the expected costs associated with the coup itself (which may include, for instance, the likelihood of success or the probability of exile or imprisonment following an unsuccessful coup) against the anticipated costs and benefits of continuing to live under a democratic regime. Many factors are likely to influence these latter costs and benefits, but elites' economic interests may often play a role.

How might resource rents shape the economic costs and benefits of democracy to these hypothetical coup plotters? To pose a candidate answer to this question, consider Figure 1.1. The figure, which relates to a more elaborate model developed in the third chapter, depicts a stylized game between a relatively poor democratic majority and a rich elite. In the first move of this game, a relatively poor democratic majority sets economic policy. In the second move of the game, a set of relatively rich elites decides whether to stage a coup. I assume that there is some exogenous cost (ϕ^H) to staging a coup that is independent of economic interests (such as the risk that a coup fails, as mentioned above). In deciding whether to stage a coup, elites weigh the payoff to authoritarianism and the utility (or disutility) of democracy against this coup cost.

In this stylized world, there will be some critical value of the exogenous cost at which elites will be indifferent between staging and not staging a coup, given other costs and benefits associated with authoritarianism and

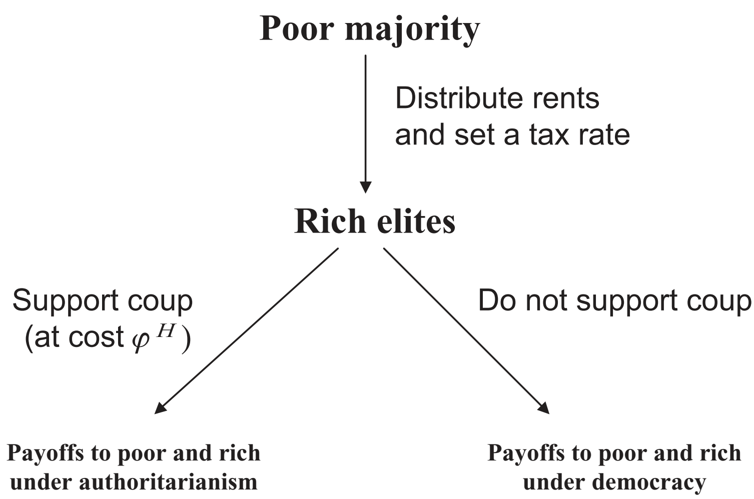

Figure 1.1 Coups against democracy.

democracy; for values of the cost that fall below this critical threshold, elites would prefer to support a coup than to live under a democratic regime. Factors that tend to increase the payoff to staging a coup and installing an authoritarian regime (left branch of Figure 1.1) will increase the incidence of coups, whereas factors that tend to increase the payoff (or decrease the disutility) to living under democracy (right branch of Figure 1.1) will decrease the incidence of coups.

Notice that economic policy in this simple game has two components: the distribution of the rents and the setting of a tax rate. First, because the resource sector supplies rents directly to the state, rents are distributed at the beginning of the game by the actors that control political power, here the democratic majority. If elites stage a coup, they are assumed to come to power and (at least until another change in political regime) to control the distribution of the rent. If elites do not stage a coup, the political regime remains democratic, and the democratic majority retains its ability to influence the setting of policy.

Second, the democratic majority also sets a tax rate on wealth or income. Suppose that rich elites and the poor masses receive profits or wages from economic production in manufacturing, agriculture, services, and other non-resource sectors of the economy. As a simplification—and to emphasize the distinction between these economic sectors and resource wealth—I refer to these non-resource sectors collectively as the private sector, to profits and wages from these sectors as private income, and to assets owned in the non-resource sectors as private wealth. As with the distribution of resource rents, the ultimate tax policy depends on the actions of elites. If elites stage a coup, they come to power and can reset the tax rate. If they do not stage a coup, the tax rate set by the democratic majority is implemented.[6]

Both of these components of policy may play an important role in shaping the attractiveness of coups to elites. Crucially, they may shape not just the current economic incentives of elites but also the anticipated future costs and benefits of democracy. Opportunities for a coup may be fleeting because the collective action capacity necessary to mount a coup may be only temporarily achieved; while democratic decision makers and the democratic polity may make concessions to elites in the face of a coup threat today, the ability of elites to influence policy might be weaker tomorrow, when their ability to threaten a coup is weaker.[7] In considering whether to support a coup, elites may thus consider the costs and benefits of living under democracy not just in the present but also in the future, when conditions may be such that a coup is not a viable option.

How do these policy components shape the coup incentives of elites? On the one hand, the ability to influence the distribution of resource rents may *increase* the incentives of elites to stage coups. Because the group that controls political power controls the distribution of the rent, there is a heightened opportunity cost to foregoing a coup. This may be particularly so because of the inherently dynamic elements of politics. Though the rich pose a credible threat of a coup today, possibly allowing them to extract current concessions from the democratic majority regarding the distribution of the rent, tomorrow that capacity may evaporate. It may therefore be difficult for the democratic majority to commit not to use its political power to deprive elites of future rents, should democracy endure.[8] The ability to control the distribution of the rents is thus a key benefit that comes with control of the state. I argue that the desire to control the distribution of

[6] As I emphasize in Chapter Three, the tax rate on private wealth or income might be thought of more generally as *any* potentially redistributive fiscal policy, whether it involves an actual "tax" or not. For example, land reforms or even monetary policies may fall under the rubric of a redistributive "tax" on private incomes of some citizens.

[7] For discussion of this point with historical examples, see Acemoglu and Robinson (2006a: 133–42); also Chapter Three, where dynamic models allow fuller analysis of the issue of credible commitment.

[8] In Chapter Three, I develop a dynamic model in which this is indeed a key consideration of the elite.

rents will elevate the coup incentives of elites; in terms of Figure 1.1, resource rents may raise the payoffs to elites at the left terminal node of the game. Conflict over the *distribution* of rents may thus provide a "direct" authoritarian effect of rents, a claim consistent with much of the recent literature on natural resource wealth and authoritarianism.

On the other hand, the ability to set tax policy also matters to elites. Following much of the recent political economy literature on democratization, anticipated taxation and particularly *redistributive* taxation may play an important role in shaping the coup incentives of elites. For instance, following Rueschemeyer et al. (1992: 5), democracy may represent "first and foremost an increase in political equality" relative to authoritarianism, but democratization may not imply a commensurate increase in economic equality. A relatively poor group of citizens can thus, at least in principle, use its numerical advantage at the ballot box to redistribute more private income away from a rich minority than this minority would like, as indeed is implied by the historical attempts of elites to create democratic institutions that try to limit this potential (Beard 1913). Much of the recent political economy literature therefore emphasizes that the actual or anticipated extent of economic redistribution can shape the incentives of elites to support or oppose democracy (Acemoglu and Robinson 2001, 2006a; Boix 2003).

Absent resource wealth, the ability to set tax policy may then provide an important incentive for elites to stage coups. Yet resource booms make this consideration less important. By reducing the extent to which democratic majorities redistribute private income or wealth away from rich elites through taxation, land reform, or other measures, resource rents can reduce the economic cost of democracy to elites. Thus, although resource rents may raise the payoff to elites from staging a coup (left terminal branch of Figure 1.1), they may also raise the payoff to (or reduce the *disincentive* associated with) continuing to live under democracy (right terminal branch of Figure 1.1). This occurs both because resource rents may reduce the current redistributive costs of democracy and because resources may endogenously lower the extent to which future democratic regimes may redistribute private income away from elites when there is *not* a coup threat; resource rents thus shape elite expectations about redistribution under future democratic regimes. Given that coups are not free (they come with the risk of imprisonment or exile, for instance), the mitigation of redistribution that is associated with resource wealth may diminish the relative attractiveness of coups, because resource wealth reduces the redistributive