Does Oil Promote Authoritarianism?

• The prevailing consensus: yes

  • Seminal work by Ross (2001), followed much research on the authoritarian “resource curse”

  • Thomas Friedman’s “First Law of Petropolitics”

    “The price of oil and the pace of freedom always move in opposite directions in oil-rich petrolium states” (2006, Foreign Policy)

• Even if this is true on average (and some important recent papers have dissented from this view)…

• … it does not hold in Latin America and the Caribbean
This is true in the cross-section…

Average Polity Scores in Latin America: Oil vs. Non-Oil Producers

Year

Polity scores


Oil
Non_Oil
...and in within-country time series (e.g. for the top four oil and gas producers in LAC)

Oil and Democracy in Trinidad & Tobago (1960-2001):
Scatterplot and Linear Fit

- Polity score
- Oil rents per capita (one-year lag, year 2000 US$)

- polity2
- Fitted values
Oil and Democracy in Venezuela (1960-2001)

Scatterplot and Linear Fit

Polity score

Oil rents per capita (one-year lag, year 2000 US$)

polity2  Fitted values
Venezuela: Central government revenues from oil per capita (1984 US$)

First democracy, 1945-1948

2nd democratic transition, 1958

Stabilization of democracy

Destabilization of democracy

Source: Author’s calculations based on Ministry of Energy and Mines, Petróleo y otros datos estadísticos, various years, and Baptista (2005)
Latin American Exceptionalism?

- Oil and other mineral resources are associated with democracy in Latin America, both in the cross-section and within countries (over time)
  - Dunning (2008) presents fuller econometric specifications

- The relationship between oil and democracy is less positive (more negative) in other world regions

- This appears to be true, even if we accept that oil does not (on average) cause authoritarianism

- What explains the Latin American exception?
The approach, and the central question

- Resource rents and the fiscal basis of the state

- How do resource rents shape economic conflict and thereby the emergence and persistence of authoritarian and democratic regimes?
Coups against democracy

Democratic majority

Distribute rents and set a tax rate

Rich elites

Coup (at cost $\phi^H$)

Payoffs to rich and poor under authoritarianism

No Coup

Payoffs to rich and poor under democracy

Resource rents increase the payoff to rich elites at these two nodes
Central claims of Crude Democracy:

1) Resource “rents” can promote both authoritarianism and democracy, through different mechanisms:
   -- Conflict over the distribution of resource rents may promote authoritarianism
   -- Yet resource rents can mitigate redistributive conflict and thereby promote democracy

2) Greater “redistributive pressure” in non-resource sectors makes the latter effect more important

3) In practice, two variables may help explain variation:
   • Private inequality
   • Resource dependence (vs. resource abundance)
The Impact of Resource Rents on the Incidence of Coups
(Resource rents = 25% of GDP)

Inequality = the income share of the richest 10 percent

Simulation done in Mathematica with $V(x) = x^{\frac{1}{2}}$, $H(x) = x^{\frac{1}{3}}$, $\bar{y} = 3.75$, and $R = 1.25$
The Impact of Resource Rents on the Incidence of Coups
(Resource rents = 75% of GDP)

Inequality = the income share of the richest 10 percent

Inequality = the income share of the richest 10 percent

Simulation done in Mathematica with $V(x) = x^{\frac{1}{3}}$, $H(x) = x^{\frac{1}{3}}$, $\bar{y} = 1.25$, and $R = 3.75$
A different view of the same result...

Critical coup cost ($\varphi^{H^*}$)

High inequality

Low inequality

Resources
Explaining variation: a conceptual overview

Resource-abundance

Rentier state
(high resource-to-revenue ratio)

Not rentier state
(low resource-to-revenue ratio)

Resource-dependent
(high resource-to-GDP ratio)

Not resource-dependent
(low resource-to-GDP ratio)

Equal private sector

Unequal private sector

Intermediate cases

Equal private sector

Unequal private sector

Net “authoritarian” effect of resources (Gulf states, Equatorial Guinea)

Net “democratic” effect of resources (Latin American cases, Botswana)
Empirical evidence

• Statistical analysis
  • See also Haber and Menaldo 2009, Ross 2009…

• Dunning (2008) presents evidence that controlling for dependence, oil abundance is positively related to democracy

• How to test the comparative static result on inequality?
  • A “direct” test using an interaction model
    • Measurement issues: Gini coefficient isn’t a good measure
    • I instead use capital’s share of value-added in industrial sectors as a measure of inequality in the non-resource sectors of the economy (and use UNIDO data to strip out the resource sectors)
Marginal Effect of Oil Rents Per Capita as Inequality Varies (based on interaction model)
Empirical evidence

• Statistical analysis
  • See also Haber and Menaldo 2009, Ross 2009…

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• However, I don’t think we want to hang our hat on this evidence, due to measurement and specification issues
Resources and Democracy in Latin America

• Latin America may provide an “indirect” test
  • Latin America has the highest capital share (e.g. measured inequality) in the world
  • The resource abundant countries are not resource dependent
  • Redistributive pressure has inhibited the emergence and persistence of democracy in the region
  • Resources and democracy are positively related in Latin America

• Of course, this does not prove that inequality is doing the work

• Case studies are useful for showing the role of redistributive pressure—and how resource wealth can mitigate it
  • Venezuela, Bolivia, Botswana, Chile, and Ecuador
The Venezuelan case: probing the mechanisms

• Existing studies emphasize that oil promoted democratic stability in Venezuela (e.g., Karl 1987)

• We can exploit within-case (over-time) variation in political outcomes, not available to previous analysts

• The framework can help account for both the stabilization and the destabilization of Venezuelan democracy
Democracy and redistributive conflict

• 1945-1948 -- First democracy: redistributive conflict

• 1958-mid-1980’s -- Democratic transition and the rise of “consensus,” “class compromise,” and “harmony”

• From the mid-1980’s on, a marked rise in redistributive conflict -- and the destabilization of democracy

• What happened?
The stabilization of Venezuelan democracy

- After 1958 and especially in the 1970’s, high levels and tremendous growth of public spending
- Extremely low levels of redistributive conflict in a highly unequal society
  - Elites’ resistance to new taxes
  - A preference on the part of the labor-based party Acción Democrática for capturing more rent from the oil companies, in place of taxation
The destabilization of Venezuelan democracy

- The rise of social and class polarization
- Voting behavior and class
- The specter of redistribution
- The decline of oil rents and the coup attempt of 2002
### Venezuelan political economy since the boom

- A three-fold increase in revenues from oil from 2002-2007

- Venezuela was again a rentier state, in full boom

- The rise of the *Misiones* social programs since 2003
  - Directly oil-financed; around 3.5 percent of GDP; an annual increase in public spending of 7 percent since 1998
  - Chavez’s recovered popularity among the poor

- Electoral competition and the recall referendum of 2004

- The key question is not about the state of democracy

- The key question is a counterfactual: how would the political regime have evolved in the absence of oil?
The political effects of the oil boom

• Economic and political polarization from 2004-2006:
  • Relatively little direct redistributive cost to elites, which is striking in light of discourse about the “squalid oligarchy”
    • E.g., compare the land reforms of 1945-1948, after 1958, and today
  • Among upper income groups, Chávez’s job approval rating rose from 20 percent in March 2004 to 48 percent in May 2006; the percentage approving of Chávez’s handling of the economy rose from 16 to 45 percent (source: GQR)
  • The importance of the presidential elections of 2006--and the failed (first) constitutional reform
  • What effects of oil? A sharp incumbent advantage plausibly due to oil rents; but also a plausible moderation of redistributive conflict and perhaps even political polarization
  • “Socialism in a petro-state can temporarily dispense with fire and blood.” -- Aníbal Romero, May 18, 2005

• Evaluating the counterfactual
  • A prediction: contra Friedman, low oil prices in Venezuela pose a greater threat to democracy than high oil prices
Other Cases

• Ecuador: An oil boom and democratization
• Copper rents and class conflict in Chile
• Bolivia: Private vs. state ownership
• Botswana: Inequality and social spending
Policy implications

• Resources do not appear to have undermined, and have probably helped, democracy in Latin America

• However, this doesn’t mean that rents always help (note the role of La Rosca in Bolivia)

• “Privatization” can hurt: E.g., policy at PDVSA was arguably responsible for the decline in rents in Venezuela beginning in the 1990s (Dunning forthcoming)

• “Rents” get a bad name—but they are crucial for the democratic effects of natural resource wealth
  • The state’s capture of rents, and the use of rents for social spending, can play a major role in sustaining democracy