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Rentier States and State Transformations

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[–] Abstract and Keywords

This chapter reviews the large and influential literature investigating the causal relationship between resource abundance and predatory state institutions, autocratic politics, and civil war. It emphasizes the diversity of findings and identifies an orthodox position positing an unmediated effect of resource abundance; a heterodox position contending that the relationship is mediated by important variables; and a heretical position that denies any systematic relationship between resource abundance and political-economic outcomes. The chapter then considers three key challenges to the main claim positing a relationship: problems of measurement, problems of properly specifying the relevant counterfactual, and problems of identifying causal mechanisms. It concludes that state institutions are largely exogenous to resource abundance and that theories of resource abundance should be incorporated into broader and more encompassing theories of state formation and its consequences.

Keywords: resource abundance, state institutions, autocratic politics, civil war, state formation

1. Introduction

A growing literature posits a causal relationship between resource abundance and important political-economic outcomes. Rentier state theory claims that resource abundance causes weak and predatory state institutions. The resource curse thesis claims that oil rents generate economic stagnation, authoritarianism, and heightened vulnerability to civil war. The two theories are intimately related; most theories of the resource curse make these outcomes conditional on weak state institutions.

These issues are central to the Global South in a way that is rare among OECD nations: resource revenues generally make up a substantially larger share of GDP among the former than in the latter, rendering them more vulnerable to price fluctuations and to subsequent domestic effects of commodity export dependence. Since so many scholars view resource wealth as a net negative, it is incumbent on them to explore closely any systematic “resource curse.”

In this chapter we review the evidence for the resource curse and find reason to be skeptical. In Section 2 we underscore the diversity of empirical findings, organizing them into three types. An orthodox position argues for an unmediated effect of resource abundance. A heterodox position argues for a mediated relationship between resource abundance and heterogeneous outcomes; under certain circumstances, its effects may be positive or negative. Finally, a dissenting or heretical position denies any systematic relationship between resource abundance and political-economic outcomes.

In Section 3 we raise questions about the studies that have been used to advance causal accounts of the relationship between resource abundance, state institutions, and political-economic outcomes. We begin this inquiry by looking at measures of resource abundance, echoing concerns that common measures either conflate

resource abundance and resource dependence or inadequately address omitted variable or endogeneity bias. We continue by considering counterfactual implications, suggesting that it is unlikely that weak states in resource-abundant economies would be strong and competent states without oil; indeed, we think the evidence often suggests the opposite. We conclude with a survey of the causal mechanisms theorized to link resource abundance and political-economic outcomes, finding little evidence for them.

We incline toward studies that either deny any systematic relationship between resource abundance and dysfunctional political economies or that find conditional relationships. We reach this position in large part because of our prior theoretical beliefs that state institutions are exogenous to natural resource rents. In Section 4 of the chapter, we draw on our own prior work to consider broader theoretical frameworks of state formation and transformation under which studies of the rentier state and resource curse might be fruitfully subsumed. We suggest that normalizing the politics of resource wealth and integrating it into broader comparative inquiry is much more promising than continued theoretical isolation.

2. Findings and Disputes

This section surveys the vast literature that explores whether resource abundance affects three political-economic outcomes: slow growth, authoritarianism, and civil conflict. Within each section, we begin with studies positing a direct relationship and then consider studies finding a conditional relationship or no systematic relationship. We identify these works as orthodox, heterodox, and dissenting, respectively.

Does Resource Abundance Depress Economic Growth?

One might expect that resource-abundant economies would outperform their resource-poor counterparts, but much research suggests that oil-rich economies in Latin America, Africa, and the Middle East have grown more slowly. Allan Gelb (1988) initiated research into the negative growth effects of resource abundance and a wave of subsequent studies confirmed this dispiriting finding. Jeffrey Sachs and Andrew Warner (1995, 1999, 2001) found that resource-based exports depressed economic growth between 1970 and 1989. Carlos Leite and Jens Weidmann (2002) replicated these findings, while Richard Auty (2001b) also confirmed them.

Many remained skeptical, however; many of today's advanced economies were resource-abundant in the late nineteenth century. Subsequently, a parallel wave of studies deviated from the orthodox claim by positing that conditioning variables could alter the effect of resource abundance on growth, potentially changing its influence from negative to positive (Dunning 2008a). One excellent recent book noted that the entire corpus of resource curse scholarship hinges on the question of who owns the oil sector and under what rules (Jones Luong and Weinthal 2010), nearly always assumed but rarely questioned. Absent direct state ownership, they argue and later conclude, "oil is not a curse." Similarly, reviewing a decade of such studies, Jeffrey Frankel (2010: 4) concluded that

oil wealth [does not] necessarily lead to inferior economic or political development, through any of these channels. Rather, it is best to view oil abundance as a double-edged sword, with both benefits and dangers. The outcome can be ill as easily as good.

Among the heterodox, Claudio Bravo-Ortega and José de Gregorio (2007) find that the impact of resource abundance on growth is conditional on the level of human capital; once a relatively low threshold has been crossed, natural resources promote economic growth. Jørgen Andersen and Silje Aslaksen (2008) restrict their analysis to democratic regimes, finding no evidence of a resource curse in parliamentary democracies but one in presidential systems.

The most important conditioning variable, however, is institutional *quality*. For such studies, it is the state and not resource abundance itself that turns a potential blessing into a curse. James Robinson, Ragnar Torvik, and Thierry Verdier (2006: 447) argue that:

Countries with institutions that promote accountability and state competence will tend to benefit from resource booms since these institutions ameliorate the perverse political incentives that such booms create. Countries without such institutions however may suffer from a resource curse.

Halvior Mehlum, Karl Moene, and Ragnar Torvik (2006) argue that natural resources promote development when institutions are “producer-friendly,” but depress it when weak rule of law, dysfunctional bureaucracy, and corruption create “grabber-friendly” institutions. Torvik (2009) finds that countries with abundant resources and hospitable institutions constituted the first wave of industrializers but also that, over time, resource-abundant countries have been concentrated among late developers with poor institutions. Hence, over the past 40 years there has been a robust negative correlation between resource wealth and economic growth. Finally, Daren Acemoglu, Simon Johnson, and James Robinson (2003) find that, unlike most of sub-Saharan Africa, Botswana enjoys state institutions that promote good policy, protect private property, and create an environment for secure investment.

There is also a sizable body of dissenting studies that find no evidence for any such relationship. Graham Davis (1995) was an early dissenter, finding that the resource curse was more of an exception than the rule. More recent work supports that finding. Christa Brunschweiler (2007) makes a distinction between resource abundance and resource dependence. Using a new measure to reflect this, she finds a positive effect on growth. In the most comprehensive dissenting study, Daniel Lederman and William Maloney (2007) explored the robustness of the core relationship by using different estimation techniques and including different conditioning variables. They further criticize the reliance of previous studies on cross-sectional analysis and estimate models using panel data, lagged values of endogenous variables as instruments, and fixed effects to control for country-specific heterogeneity. Their findings starkly challenge the mainstream view: there is no evidence of a resource curse, especially in models with fixed effects. Lederman and Maloney (2007: 32) conclude:

We should abandon the stylized fact that natural resource abundance is somehow bad for growth and even perhaps consider a research agenda on the channels through which it may have a positive effect, possibly through inducing higher productivity growth.

Michael Ross (2012: Ch. 6) recently came to an analogous conclusion, finding that growth rates in oil-rich countries have differed little from their oil-poor counterparts. The question for Ross is why oil-rich countries have had “normal” growth rates.

Authoritarianism

Drawing on much prior case study research, Ross (2001) provides the seminal argument that oil wealth hinders democracy. He finds a powerful relationship: oil wealth tends to make political regimes less democratic. Specifically, he finds that (342):

The antidemocratic properties of oil and mineral wealth are substantial: a single standard deviation rise in the Oil variable produces a .49 drop in the 0-10 democracy index over the five-year period ... A state that is highly reliant on oil exports—at the 1995 level of Angola, Nigeria, or Kuwait—would lose 1.5 points on the democracy scale due to its oil wealth alone.

Below, we discuss the mechanisms Ross suggests explain this relationship. We note, however, some ambiguity in the model’s interpretation. It is not clear whether oil causes a democracy to become a dictatorship—implied by the substantive discussion of the model, where oil produces a drop in the democracy index—or whether oil makes it easier for a prior dictatorship to resist pressures to democratize. The former interpretation makes authoritarianism endogenous to oil wealth; the latter interpretation makes authoritarian origins exogenous but survival endogenous to oil wealth.

In more recent work, Ross (2012: Ch. 3) argues that the main effect of oil is to secure autocratic incumbents in power and suggests, with limited empirical support, that oil may erode democracies as well, by making elected incumbents less accountable and perhaps more willing to stay in power by undermining democratic institutions. Furthermore, Ross argues that these anti-democratic effects are evident from only the late 1970s to the late 1990s; prior to the 1970s, “oil producers were just as democratic—or undemocratic—as other countries” (Ross 2012: 63).

Some subsequent research strongly supports the hypothesis that oil is associated with authoritarianism. Nathan Jensen and Leonard Wantchekon (2004) note that recent successful democratic transitions in Africa have occurred only in resource-poor countries. They find that moving from the lowest level to the highest level of natural resource dependence depresses a country’s democracy score by 1.59 points on a 20-point democracy scale.

This effect is substantively modest, but given that the average democracy score in Africa during this period was only 5.63—that is to say, on average, African countries were non-democratic—the finding becomes somewhat more substantively important.

Both of the works cited take as their dependent variable a measure of a country's political regime and estimate that score using time-series, cross-sectional data. This research design has trouble distinguishing between oil as a cause of the *origins* of authoritarian regimes and oil as a cause of the *resilience* of authoritarian regimes. Jay Ulfelder (2007) explores this riddle using an event-history model that estimates the risk of a dictatorship undergoing a democratic transition in any given year. His results strongly support the orthodox position on rentier states: as resource revenues constitute a larger share of national income, the probability of a transition to democracy in a given year declines. Even the median country, deriving under two percent of national income from mineral resources, is very unlikely to experience a transition to democracy in a given year. As resource dependence increases, the already small probability of a democratic transition becomes miniscule.

Kevin Tsui (2011) uses oil discoveries as an instrument for oil wealth to estimate the effects of oil on the survival of non-democracies. For non-democratic countries, the discovery of a huge oil field of 100 billion barrels—roughly the entire oil endowment of Iraq—has a relatively small dampening effect on democracy scores three decades after the discovery. A similar discovery has no effect on democracies: in other words, oil does not cause dictatorship but rather prolongs pre-existing dictatorships. The effect is strengthened when additional instruments are employed: the number of exploratory wells being drilled, the higher the quality of the oil, and the size of extraction and exploration costs. The implicit model is that dictators forecast future oil wealth and augment their efforts to secure their tenure in office.

Despite evidence for an anti-democratic resource effect, Thad Dunning (2008b) argues persuasively for a more nuanced approach. Conditional on private inequality, resource wealth can promote autocracy or democracy. Given high inequality, the demand for redistribution is high; resource rents have a democratizing effect because they mitigate a significant threat to elites. Conversely, given low inequality, the demand for redistribution is lower, and elites emphasize the opportunity costs of democracy, restoring the anti-democratic effect of oil rents. Dunning tests this argument both quantitatively and qualitatively, conducting the latter test in an intensive case study of Venezuela. In the quantitative analysis, the unmediated effect of oil rents is consistent with the orthodox view: the sign on the coefficient is negative and statistically significant. But the inclusion of an interaction term produces results supporting his conditional theory. When private inequality is below its mean level, resource rents are positively related to authoritarianism. When private inequality is above its mean, on the other hand, resource rents are positively related to democracy.

Dissenters have been equally active. Michael Herb (2005) poses a compelling challenge to rentier state theory. Most models thus use national income as a control variable, positing that resource rents will have an anti-democratic effect larger than their pro-democratic wealth effect. The thorny measurement problem is that the measure of national income includes resource wealth, thereby making the effect of wealth partially endogenous to resource rents. If we were to intervene to set resource rents to zero, we could not hold income constant, but rather we would have to subtract the value of resource rents from national income. To imagine Kuwait without oil, in other words, is not to imagine a wealthy non-oil producer, but rather a poor non-oil producer. We would thus expect Kuwait to be non-democratic. Herb thus derives a counterfactual GDP figure for resource-abundant countries by substituting the GDP of resource-poor neighbors. With this counterfactual GDP as a control variable, the coefficients on alternative measures of resource dependence are small and statistically insignificant. Thus, Kuwait without oil would likely be a poor dictatorship, not a wealthy democracy.

Stephen Haber and Victor Menaldo (2011) re-examine the resource curse using a data set covering 168 countries stretching back to 1800, ensuring that their analysis covers the period preceding the onset of natural-resource dependence. In other words, rather than looking for a country similar to Venezuela but without oil, the new dataset looks directly at Venezuela before the discovery of oil. In addition, they combine a country-by-country time-series approach with a dynamic panel framework with country fixed effects to control for unobserved country heterogeneity. Further, to maximize leverage over counterfactual outcomes, they develop a difference-in-difference estimator that estimates the effect of a continuous variable. As they note (2011: 3):

No matter how we look at the long-run data—we cannot find a resource curse. In fact, to the degree that

we detect any statistically significant relationships, they point to a resource blessing: increases in natural resource income are associated with increases in democracy.

David Waldner (2013) complements this finding, theorizing that rural incorporation provides both democratic and authoritarian regimes with the support needed to survive destabilizing crises. Waldner hypothesizes that these coalitions between urban elites and middle-class farmers sharply reduce the likelihood of a regime failure by a factor of approximately five. Oil resources, on the other hand, do not have a substantively and statistically significant effect in any of the models.

Civil Wars

James Fearon and David Laitin (2003) and Paul Collier and Anke Hoeffler (2004) are orthodox statements of the relationship between resource abundance and internal conflict. Much of the subsequent literature has gradually refined these early studies. For Collier and Hoeffler, the motivation was to distinguish between greed- and grievance-based theories of civil conflict. Greed-based theories treat civil war as opportunistic; people rebel under propitious circumstances. Theories of grievance take ideology and inequity more seriously; people rebel to redress exclusion or oppression. Opportunities for rebellion are enhanced by external funding from diaspora communities, foreign powers, or the exploitation of natural resources. They find that primary commodity exports substantially increase the risk of conflict, a finding they interpret as increasing the opportunities to finance rebellions.

Fearon and Laitin provide an alternative perspective. Oil exporters suffer from political Dutch disease. Weak states pursue inept policing and counter-insurgency strategies, favoring insurgents. Their analysis shows that states deriving at least one third of export revenues from fossil fuels face double the odds of an insurgency. Oil revenues are causally significant not because they can finance insurgency, but because they weaken state institutions.

Collier and Hoeffler's main findings have come under criticism from multiple quarters. One critique has been measurement choice—their use of primary commodity exports as a share of GDP. Fearon (2005) shows that results using this measure fail robustness tests. Ross (2004b) argued that the measure is endogenous to conflict itself. Given that a country year is coded as experiencing a civil war only after a relatively high casualty threshold has been crossed, Ross notes that a country could undergo low-intensity conflict for years prior to crossing this threshold. During this initial period, actors anticipating conflict move assets abroad. As GDP shrinks, the ratio of primary commodity exports rises by default. Weak states might also poorly protect property rights and stifle economic growth while simultaneously creating opportunity for insurgency. Ross's (2004a) case study evidence leads him to reject the claim that looting links oil to civil war. Finally, Ross (2006) advances a new measure of resource wealth that is arguably exogenous to anticipated civil war.¹ A country is resource-rich if it produces more than \$100 per capita in fuel rents. Ross finds a robust correlation between this measure and the onset of conflict. Substantively, this is a high threshold to cross before resource rents significantly increase the likelihood of violence. All else equal, a country with zero fuel rents has a risk of conflict of 0.92 percent; a country with fuel rents of \$100 has a risk of conflict of only 0.99 percent. Thus, while statistically significant, resources have a modest substantive effect on violence. To pose a substantial increase in the risk of conflict, a country must have more than \$1,000 in fuel rents—such as Venezuela, Iraq, or Gabon—to reach a risk of conflict of 1.8 percent. Even here, the risk rises only from one to almost two percent. However, Matthias Basedau and Thomas Richter (2010) find that at higher levels of resource abundance violent civil conflict is nonexistent.

3. Causal Models

Suppose that resource abundance has no effect on growth and that resource endowments are distributed randomly with respect to the true but unobserved sources of growth. Over time, fast-growing economies drop out of the sample. Natural resources as a share of exports decline, and these countries become non-rentier states. In slow-growth countries, on the other hand, natural resources retain their large share of national income, so we observe a group of resource-dependent, slow-growth economies. Similar stories could be told about the linkage between resources, authoritarianism, and civil conflict. After all, as Gavin Wright and Jesse Czelusta (2004, 2007) argue, resource abundance is not exogenous. Dependence on natural resource rents may depend on contingent investments in infrastructure, geological knowledge, and technologies for extraction, refinement, and utilization. Furthermore, the pace of exploitation may similarly depend on contingent factors, such as how much leaders

discount the future. Finally, Collier (2010) has found that resource exploration is substantially more likely in wealthier, more stable countries, so that poorer, less stable states may be less likely to enjoy the full potential of their resource bases.

This section considers three challenges to the claim that natural resources cause slower economic growth, authoritarianism, or civil war. The first subsection looks at measures of resource dependence. The second subsection considers counterfactual analysis of the causal claim. The third subsection looks at the causal mechanisms that have been proposed as linkages between resource endowments and political-economic outcomes.

Measures

Seminal early work by Collier and Hoeffler (2004) and Ross (2001) used resource export revenues as a share of GDP to capture resource wealth. For all of the reasons mentioned earlier, scholars increasingly employ a better measure: fuel rents per capita (Ross 2006). This measure captures fuel consumed domestically and accounts for effective rents per citizen, and it is less tied to overall national income. However, it is not a perfect instrument; less exploration in poorer, less stable countries means fewer rents per head but still does not account for the relative importance of rents in any average citizen's income. Employing fuel rents as a share of each citizen's average income might better capture the political utility of resource wealth in different country settings, getting us closer to measuring how politically influential a state's rents are. Benjamin Smith (2013) develops such a measure, termed "rent leverage," and shows that its yearly measure does not significantly influence civil war onset but that annual changes do: year-on-year increases make civil war less likely.

Efforts to develop exogenous instruments have been admirable but not entirely successful. One measure—a country's proven reserves (Humphreys 2005)—is highly politicized. OPEC quotas depend on proven reserves, providing strong incentives for members to inflate those figures. In contrast, Kristopher Ramsay (2011) uses natural disasters in producing countries. However, as Haber and Menaldo (2011) note, Saudi capacity to increase production to make up for drops elsewhere calls the utility of this measure into question. In short, even these measures are endogenous to politics.

Counterfactuals

Consider resource wealth the treatment in a randomized experiment. We assume that each country has a potential outcome under treatment and a potential outcome under control, and that the observed outcome is simply their difference. Because we cannot observe individual units in both states, one takes the expected value of this difference to obtain the average causal effect. To claim that "[c]ountries often end up poor precisely because they are oil rich" (Birdsall and Subramanian 2004: 77) is to claim that in the absence of these oil riches, on average, the resource-deprived country would have been wealthy. There are two ways to justify this counterfactual. The first is to draw a contrast to the implicit "control" group, the East Asian tigers. The second is to make a theoretical argument relating state revenue sources to state institutions and behavior. As Robert Bates (2001: 107) defines this position:

States in resource-rich economies tend to secure revenues by extracting them; those in resource poor nations, by promoting the creation of wealth. Differences in natural endowments thus appear to shape the behavior of governments.

Auty (2000: 351) and Terry Lynn Karl (1997: 128–139) explicitly argue that resource rents induce predatory states, while resource scarcity induces the type of state-society relations characteristic of developmental states.

The contrast with the East Asian economies is not persuasive; there is a vast gap between claiming that East Asian economies developed because they lacked resources and claiming that the absence of natural resources "has not proven to be a fatal barrier to economic success" (Humphreys et al. 2007: 1). This is the gap between rapid growth because of resource scarcity and rapid growth despite it. The former claim verges on suggesting that we would expect Nigeria without oil to be an African counterpart to Korea. The latter claim sees resource scarcity as a counteracting cause that can be overcome and thus implies omitted variables that account for East Asian success. This version of the argument would not support the counterfactual that, without abundant resources, rentier states

would become economic success stories: Nigeria without oil would be Ghana. The balance of evidence supports the latter claim; the East Asian cases succeeded despite their lack of resources.

Indeed, when one turns to the voluminous literature on the origins of East Asia's success, one finds abundant evidence that relatively idiosyncratic factors account for the region's economic success. To take a few examples, Atul Kohli (2004) attributes East Asian economic success to Japanese colonialism. In contrast to British rule in Nigeria, the Japanese in Korea transformed a corrupt agrarian bureaucracy into a highly penetrating political organization, established close ties to dominant classes while keeping them subordinate, and controlled lower classes while creating a disciplined labor force. Waldner (1999) examines the coalitions that made East Asian development possible, while Richard Doner, Bryan Ritchie, and Dan Slater (2005) argue that resource scarcity and intense security threats distinguish the East Asian states from their Southeast Asian cousins. Conversely, Jeffrey Herbst (2000) argues that a low land-to-labor ratio and a permissive international environment condemned Africa to weak patrimonial states that hindered economic growth. Finally, Acemoglu, Johnson, and Robinson (2003) argue that British colonialism in Botswana created the framework for successful development despite its resource abundance. Given these arguments, we find it difficult to accept the counterfactual that, absent oil, Nigeria would resemble Korea, not Ghana.

We have similar concerns about the counterfactual that, absent oil, many resource-abundant regimes would be more democratic. As we saw earlier, Jensen and Wantchekon (2004: 833) find that substantial natural resource dependence depresses the average African country's democracy score by 1.59 points on a 20-point scale. But during the time period studied, *most* African countries were non-democratic. Thus, Nigeria without oil is most likely another non-democracy. Douglas Yates (1996) notes that while Angola, Cameroon, Congo, and Nigeria "conform" to rentier theory, one cannot attribute their regimes to oil because their non-rentier neighbors were equally likely to be non-democratic.

One might object that the most relevant comparator for a counterfactual thought experiment is not a contemporary neighbor but the resource-abundant country just before the discovery and exploitation of its resources. Resource curse arguments fare equally poorly here. Consider oil's state-weakening effects, as discussed in the case of Venezuela (Karl 1997). If resource abundance creates weak states, must we believe that resource scarcity creates strong states? Venezuelan history would suggest otherwise, for in the century before the discovery of oil, the Venezuelan state remained weak. During the nineteenth and early twentieth centuries, Venezuela could not develop a strong state because of factional conflict and caudillo politics (Di John 2011: 174). The Venezuelan state was thus weak both prior to, and subsequent to, the exploitation of oil. As Karl (1997) notes, when institutions are strong prior to the discovery and exploitation of resources, as in Norway, the effects of oil exploitation can be quite beneficial. It appears that state strength is exogenous to natural resource rents, a point we develop further below.

The basic point can be seen more clearly in the case of Ecuador. Oil was produced in small quantities as early as 1911, but major oil fields were discovered only in the late 1960s, and large-scale production began only in the early 1970s. Yet, prior to 1972, Ecuador was at the bottom of the American income hierarchy, marked by enormous disparity between elite and mass, as the former controlled the export economic sector while the latter remained stuck in the poverty engendered by subsistence agriculture. Politics in Ecuador were highly unstable before and after the discovery of oil, alternating military intervention and caudillo politics. These economic and political patterns continued into the oil era. Most notably, political instability "shortened the horizons of policymakers and so affected the way Ecuador used its oil windfalls" (Marshall-Silva 1988: 174). A statistical model like Sachs and Warner's that began in the 1970s would attribute Ecuador's problems to oil. However, as can be clearly seen from a case study, the discovery of oil did not fundamentally disrupt pre-oil patterns.

From a counterfactual perspective, there is a seemingly simple implication of the thesis: if resource abundance is a curse, why not refrain from exploiting these resources? Frankel (2010: 13) explicitly poses the challenge:

It is not that countries with oil wealth will necessarily achieve worse performance than those without. Few would think that a country with oil or other natural resources would be better off destroying them or refraining from developing them.

Likewise, Paul Stevens (2003: 18) considers "leaving [the oil] in the ground," but quickly concludes that "this cannot be considered a serious option." But if defenders of the thesis disagree that making Nigeria resource poor would have made it wealthier, how confident can we be about their claims regarding the effects of resource

abundance on wealth?

Mechanisms

We have outlined reasons to be skeptical of the claim that, on average, resource-abundant countries deprived of natural resource wealth would become high-performance economies or democracies. An alternative is to identify, through theory and evidence, the mechanisms that link resource abundance to outcomes. Evidence of these mechanisms would bolster the causal inferences of the resource curse; the absence of such mechanisms, on the other hand, would discredit them. We review these efforts and find that, on balance, there is not yet strong support for mechanisms validating the resource curse hypothesis.

Two families of theories explain why resources curse economic growth, one focusing on macro-economic and the other on political-economic factors. The economic theory centers on “Dutch disease,” in which resource export windfalls produce currency appreciation, greater demand for manufactured imports, and reallocation of capital and labor from the traded manufacturing sector to the non-traded sector (Neary and Van Wijnbergen 1986).

There are, however, two major problems with linking slow growth to Dutch disease. First, as Mohsen Fardmanesh (1991) explains, oil price hikes raise global prices for manufactured goods, providing new market opportunities for domestic manufacturers to sell locally. Fardmanesh argues that this “global effect” explains the expansion of manufacturing sectors in many oil-rich developing countries in the 1970s. Second, even if Dutch disease hurt the domestic manufacturing sector, it is not clear why the rise of the non-traded sector would result in lower rates of growth. Crowding out of investment and labor from the manufacturing sector accounts for the coexistence of booming and lagging sectors; it does not account for slower rates of growth, unless one appends an argument about higher rates of productivity growth in manufacturing, an argument most economists are loathe to advance.

The second set of mechanisms linking resource abundance and slow growth center on institutions and rent-seeking. Auty (2001a), Jonathan Isham et al. (2005) and Karl (1997) argue that resource dependence weakens institutions, producing predatory states and depressing economic performance. Isham et al. (2005: 143) consider three pathways by which resource endowments weaken institutions: rentier effects, delayed modernization, and entrenched inequality. Xavier Sala-i Martin and Arvind Subramanian (2003) find no direct effect of resources on growth, but they find an indirect effect through which they weaken institutions, hence depressing growth. However, it is equally possible that the prior existence of weak institutions influences the political effects of oil rents. For example, Aaron Tornell and Philip Lane (1999) argue that the “voracity effect” by which resource windfalls promote patronage, hindering growth, occurs in economies plagued by weak political institutions. Scholars who note the superior performance of resource-abundant economies in the nineteenth century echo this claim. Wright and Czelusta (2007: 208) argue that the oil boom of the 1970s coincided with the end of decolonization, when new states were formed with weak state institutions; weak states preceded oil exploitation in many such cases. Similarly, Ragnar Torvik (2009: 250) argues that countries with stronger institutions exploited natural resources for development; later developers with weaker institutions could not replicate this experience. These findings suggest that state institutions are largely exogenous to resource endowments, or we would not observe such variance between generations of resource-abundant economies.

Turn next to the mechanisms linking oil wealth to authoritarianism. Ross (2001) uses lagged values of several intervening variables to make a case for three mechanisms: a “rentier effect,” by which states fund themselves by means other than direct taxes; a “repression effect,” by which oil revenues fund coercive apparatuses; and a “modernization effect,” by which oil-based growth hinders economic diversification. The models provide “at least tentative support for [the] three causal mechanisms” (Ross 2001: 356). Note that all three hinder democracy by making regimes less vulnerable to pressures for democracy. In other words, oil extends the lifespan of exogenously authoritarian regimes rather than catalyzing new ones.

In his more recent work, Ross (2012) offers a new causal model that emphasizes the rentier effect. Oil-rich dictatorships can increase the gap between the benefits they provide and the taxes they collect. By thus maintaining support and avoiding pro-democratic rebellions, dictators prolong their rule. Moreover, oil-rich dictators can exploit information asymmetries, hide oil revenues, and thus increase their *perceived* spending-to-revenue ratio; now citizens feel even more strongly that their governments are “delivering the goods,” and so are less likely to rebel.

Finally, we turn to the mechanisms linking resource abundance to the onset of civil wars. Two mechanisms are of particular relevance: that natural resource abundance makes looting more feasible and hence provides incentives for opportunistic insurgents (Collier and Hoeffler 2004), and that oil producers suffer from weaker state structures (Fearon and Laitin 2003). Ross (2004a) compiles evidence from 13 case studies to test these hypotheses. Ross finds no evidence to support the looting hypothesis; in none of the cases did rebel groups either loot natural resources or extort funds from those engaged in resource exploitation. Moreover, Ross was unable to investigate the hypothesis that natural resources make civil wars more likely by sapping state capacity.

It is difficult to know what the observable implications of this hypothesis are at the case study level. The mechanisms that may link oil to bureaucratic weakness—and more problematically, bureaucratic weakness to subsequent conflict—could be diffuse and subtle. Advocates of this mechanism must further specify its logic before it can be tested with case studies (Ross 2004a: 42).

Natural resources may affect the onset of civil war by other mechanisms, such as triggering secessionist demands, and they may affect other dimensions of conflict, such as duration, geographic distribution, and intensity. But for the most part, while the literature suggests “an embarrassment of mechanisms,” and while there has been some significant effort to unpack and test these mechanisms (Humphreys 2005: 510), there is as little evidence of mechanisms linking natural resource endowments to the onset of civil wars as there is linking them to economic backwardness or transitions to authoritarianism. Accordingly, Anca Cotet and Kevin Tsui (2013) find that, after accounting for country fixed effects, oil wealth has no influence on the likelihood of civil war onset.

4. Conclusion: State Formation and Resource Endowments

How persuasive is the argument that resource endowments shape state institutions? Karl (1997) provides what many consider the gold standard of arguments in attributing institutions to resource endowments. Dependence on commodity exports constrains the revenue basis of the state, relieving rulers of the burden of taxing citizens and local economic actors. This reliance on “external” sources of tax revenue in turn shapes incentives over policies and institutions. State revenues and the mode of revenue collection define the nature of the state. The result is a state that relentlessly expands its jurisdiction at the same time that its authority is eroding. Faced with powerful interest groups, and enjoying the luxury of using fiscal and welfare policies, public spending displaces statecraft, and state capacity suffers.

Yet much of the developing world similarly depends on external sources of revenue. In that sense, Venezuela does not differ from the rest of Latin America, where executives centralize power and expand the state’s jurisdictional boundaries yet cannot overcome weak administrative structures. “Venezuela is unique, however,” Karl (1997: 89) protests, “in the extent to which these features typify state development and the roots to which they were acquired.” However, her book does not systematically compare petro-states to non-petro states, which weakens its claim that petro states are systematically different from non-petro states. In addition, we have already seen how weak the Venezuelan state was prior to the discovery of oil. Moreover, there is substantial variation among petro-states. Indonesia and Norway are but two of the major exceptions that Karl and others cannot explain through the rentier-state framework.

We are thus struck by the large discrepancy between the fundamentals of rentier state theory and the weak empirical and theoretical support for it. To reiterate, without a theory of the rentier state, many claims about the resource curse lack theoretical foundations, for they require that state institutions be endogenous to resource endowments. But theory and evidence appear more to support an exogenous theory of state formation and transformation.

We conclude, therefore, by underscoring the need to embed resource-rich states in broader approaches to state building. The causes of weak state institutions in the developing world are, unfortunately, over determined. Joel Migdal (1988) attributes weak states to strong societal groups and institutions. Miguel Centeno (2002) and Herbst (2000) attribute weak states in Latin America and Africa, respectively, to the absence of warfare and reliance on external funding. Kohli (2004) attributes weak states to colonial legacies.

These and other approaches provide strong theoretical priors of weak states that are exogenous to resource endowments. They also suggest that we will make more progress on questions of economic growth, democracy

and authoritarianism, and civil conflict not by focusing on the subset of resource-abundant countries, but by developing broader and more encompassing theories of state formation.

We offer some perspective from our prior work on state building. Waldner (1999) offers an account of the contrast between developmental states in East Asia and patently non-developmental states in the Middle East. He argues that high levels of elite conflict induce political leaders to build large, cross-class coalitions based on high levels of side payments. This coalitional structure generates precocious Keynesian states. The introduction of oil rents is a permissive condition that potentially extends the life of these weak state institutions but is not a contributing cause of their origins. Smith (2007) makes a related argument about coalitions and state institutions. Challenging the classic view that oil rents have uniform effects on institutions, Smith argues that when powerful opposition movements exist prior to the introduction of substantial oil revenues, rulers must build robust coalitions and state institutions that can effectively gather revenues and exert social control. We believe that subsuming the theory of the rentier state into some version of a coalition-centric theory of state formation promises more progress than continuing to rely on largely unjustified claims that state institutions are endogenous to resource endowments.

Coalitional arguments are, of course, but one of a range of potential starting points from which to theorize state formation. Our point here is less to say that our coalition-centric explanations are the only way than to say that we want to argue strongly for incorporating oil exporting states into mainstream analyses of postcolonial state formation. By normalizing politics in oil-rich countries, we stand to uncover their dynamics much more extensively than by continuing to keep them in theoretical isolation and incorporating oil into coalition-centered theories is but one way to start. There is much intellectual room with this and other approaches for common exploration of the ways in which commodity export revenues have become central parts of both state and regime projects in the postcolonial world.

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Notes:

(¹) Note, however, that in the late 1970s Iran and other oil exporters' oil industry strikes drove down production (and fuel income) well before the onset of civil war.

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