

Paper Synopsis: A New Look at the Political Resource Curse

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The paper I am preparing for the Task Force builds on my research focusing on the role of *non-tax revenue* in political regime change and stability. This revenue makes up about a quarter of all government revenue around the world, and in some countries (aid- and oil-dependent ones, for example) makes up the large majority of government revenue.¹ Prior literature has focused on these revenues separately, analyzing the effects of foreign aid, income from state-owned enterprises, or even borrowing, to name a few of the major sources of non-tax revenue. The contention of my project is that these revenues can act in similar ways with regard to certain phenomena, particularly changes to and from democratic regimes.

No work that I know of has focused specifically on non-tax revenue, as such, and its relation to regime stability. However, there is a large literature on regime dynamics and a certain *kind* of non-tax revenue—oil revenue (Beblawi and Luciani, 1987b; Chaudhry, 1997; Karl, 1997).² The principal argument of this largely case-study literature is the political version of the “resource curse”: oil impedes democratization. The causal mechanisms between oil and a lack of democratic transition vary in the literature. Some scholars (e.g. Luciani, 1987) argue that oil revenues protect the state from having to engage in a taxation-representation bargain that some scholars have argued led to democracy in now industrialized countries (Bates and Lien, 1985; Levi, 1988; North and Weingast, 1989; Tilly, 1990). For other scholars, the key issue is that oil revenues allow governments to buy consensus from their citizens (e.g. Acemoglu, et al., 2004; Anderson, 1995; Beblawi and Luciani, 1987a; Karl, 1997; Vandewalle, 1998). By this argument, the soft budget constraints that oil revenues provide enable governments to reduce the pressures for regime change. A third group of scholars (e.g. Bellin, 1994; Clark, 1997; Moore, 1976; Ross, 2001; e.g. Shambayati, 1994) have pointed to the association of oil revenues with repression of various social groups and citizens.

It is important to note that all of these causal mechanisms have at their core the issue of revenue. As Benjamin Smith has noted, “While scholars approach the political economy of oil from diverse methodological origins, the theoretical arguments about the structures and nature of the rentier state flow from *the state’s access to externally obtained revenues* from the sale of oil” (2004, 233, emphasis added). Similarly, Nathan Jensen and Leonard Wantchekon have concluded, “The key mechanism linking

¹ Countries vary tremendously in their tax/non-tax revenue mix. Analysis of 136 countries over the years 1973-99, based on data from the International Monetary Fund (International Monetary Fund (IMF), various years), indicates that on average non-tax revenues made up 27 percent of government revenues. The range, however, was from zero to 99 percent.

² While few political scientists have focused on this fact, the vast majority of oil revenue comes not through taxes but through state-owned companies. Seventy-five percent of the world’s oil production, and 90 percent of its reserves are in the hands of such state-owned oil companies (Ivanhoe, 2000). Ross (1999) suggests that this state ownership of oil companies may be an underlying factor in the association of oil wealth with poor economic performance.

authoritarian rule and resource dependence, both in democratic transition and democratic consolidation, is the incumbent's discretion over the distribution of natural resources" (2004, 821).

There are two points to be made with regard to this literature. First, if the key mechanism at work here is the state's access to externally obtained resources, we should not expect oil revenues to be particularly unique (though they might make up a large share of such resources). In fact, there may be a variety of such resources, whose key characteristic is that they are not derived from taxation, but rather available mainly as "windfalls" to the government. In this light, it is not surprising that some scholars have begun to think that the literature on oil revenues has relevance for another external resource: foreign aid (Bräutigam, 2000; Moore, 1998; Therkildsen, 2002). Research has indicated that foreign aid is also a highly fungible resource (Feyzioglu, et al., 1998) and acts similarly to natural resources in the sense that it provides extra resources the government can use to distribute to its key constituencies without taxation (see e.g. Bratton and van de Walle, 1997). Nicolas van de Walle has explicitly argued that democratization in Africa was encouraged by a fiscal crisis resulting from, among other things, an increased willingness on the part of donors to restrict aid to countries that did not respect human rights: "With fewer resources at their disposal and an increasingly decrepit state apparatus, leaders found it harder to sustain critical clientelist networks, with the result that the old political aristocracy was more likely to fractionalize" (2001, 240).

Second, the fact that quite different causal mechanisms—such as cooptation and repression—have been offered to explain oil's relationship with authoritarianism indicates that there is likely nothing inherent in these resources that makes regimes act in certain ways (there is no explanation in the literature for why some regimes buy off and some repress). And if this is the case, then it may make far more sense to think of these types of resources as simply revenue entering a particular political economy, rather than as resources with "antidemocratic properties" (Ross, 2001, 325).³ That they are used in authoritarian regimes for repression may be nothing more than a reflection of those regimes' preferences over the use of state finances. Presumably democratic regimes would use windfall resources in a different way, but we have no theories to account for how, nor do we have theories about how such resources may affect democratic stability.

In beginning to construct such a theory, my strategy has been to try to incorporate these revenues into already existing theories of political regime change, to move away from the exceptionalism that has plagued much of the work on oil and politics.⁴ A useful framework in this regard has been that of Daron Acemoglu and James Robinson (2001; 2006). Building on the social choice literature on redistribution (particularly Meltzer and

³ It is helpful in this context to point out that we do not often hear of a "foreign aid curse".

⁴ Cross-national statistical work on democratization has tended to ignore the oil-producing countries altogether (O'Donnell, et al., 1986; Przeworski, et al., 2000) or consider them as outliers to be treated with dummy variables (Barro, 1999). For their part, scholars of the effect of oil have been fully willing to accept this exceptionalism and have generated their own theories to explain resistance to democracy, largely focusing on the concept of the "rentier state" (Beblawi and Luciani, 1987b; Mahdavy, 1970).

Richard, 1981) and important work on democratization that has focused on the distributional conflicts between socioeconomic classes (Bouguignon and Verdier, 2000; Moore, 1966; Rueschemeyer, et al., 1992; Therborn, 1977), these authors develop a theory of political regime change centered on conflicts in society over redistribution (also see Boix, 2003). However, while an important step forward in terms of developing a formal framework for analyzing regime change, the work of Acemoglu and Robinson—like most work on regime change outside of the oil-producing countries—does not address the possible impact of non-tax resources.

To address this gap, my recent work has focused on incorporating non-tax resources into the framework that Acemoglu and Robinson develop. One of the core findings is that these revenues indeed do not have “anti-democratic” properties, or even “pro-democratic” properties. In fact, the work reveals that thinking in such terms is misguided. What these resources have are *stabilizing* properties. That is, they stabilize whatever regime is in place, whether it be authoritarian or democratic. I have built this argument using formal modeling (Morrison, 2007a) as well as cross-national time-series statistical analysis (Morrison, 2007b). The current paper will expand on my argument in the context of the existing literature and then focus more on certain cases, demonstrating how these revenues can help to stabilize both authoritarian and democratic governments. Building on the case studies in my dissertation—of Kenya, Bolivia, and Mexico—the paper will also include discussions of Botswana, Ethiopia, Indonesia, Malaysia, Mozambique, and Uganda.

In its conclusion, the paper will discuss the policy consequences of the different theoretical approach. Whereas the “resource curse” literature has tended to imply quite negative political effects of natural resources for developing countries, my non-tax revenue argument is more conditional. It concurs that authoritarian regimes with these resources are likely to remain authoritarian, but it argues that democratic regimes may not have to fear these resources as much as once thought, at least with regard to democratic stability. As a non-tax revenue approach would imply, these policy conclusions will also have relevance for foreign aid and even foreign borrowing.

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