ONE

The Modern Myth of King Midas

Structure, Choice, and the Development Trajectory of States

1973. In the Middle East, it was the era of the "Great Civilization"; in Latin America, the epoch of "La Gran Venezuela." That year the members of the Organization of Petroleum Exporting Countries (OPEC) succeeded in bringing about the most radical transfer of wealth ever to occur without war. By seizing the institutional capacity to set prices for oil and by nationalizing their domestic production, these countries, which had been virtual case studies of foreign domination in the past, finally appeared to gain control over their primary natural resource. Petroleum prices soared overnight—from $3 to $10 per barrel, eventually reaching a whopping $40 per barrel in the spot market after the second oil boom of 1980. In the brief period from 1970 to 1974 alone, government revenues of OPEC nations leapt *elevenfold.* Money poured into their national treasuries at an unprecedented rate. "More money," one finance minister reminisced, "than we ever in our wildest dreams thought possible." [1]

The petrodollar deluge gave rise to new aspirations—for prosperity, national greatness, equity, and autonomy—in short, for a future that looked markedly different from the oil dependence of the past. Leaders of oil countries believed that they would finally be able to "sow the petroleum"—that is, redirect the capital accumulation from oil into other productive activities. New revenues from petroleum would provide the resources necessary to "catch up" to the developed world while simultaneously bringing political stability and a better life for their people. As Venezuelan President Carlos Andrés Pérez explained (interview,

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Caracas, March 1979): "One day you Americans will be driving cars with bumpers made from our bauxite, our aluminum, and our labor. And we will be a developed country like you."

But less than a decade later, even before oil prices began their dramatic plunge in 1983, these dreams lay shattered. The exporting countries were plagued by bottlenecks and breakdowns in production, capital flight, drastic declines in the efficiency of their public enterprises, double-digit inflation, and overvalued currencies. Even the doubling of oil prices once again in 1980 failed to pull them out of their developmental doldrums. Their problems were subsequently exacerbated by a sharp decline of petroleum prices throughout the 1980s, which rapidly transformed their expectations of unparalleled prosperity into little more than a painful memory. Led by governments that seemed incapable of sound economic management or planning, most of the oil-exporting nations found their economic performance and their oil and debt dependence worse than in the pre-bonanza years. By the 1990s, they even faced the denationalization of their oil industries as they actively sought new forms of participation from the foreign oil companies they had once rejected.

Political turmoil accompanied this poor economic record. In the earliest and most dramatic case, the Shah of Iran was overthrown in 1979 in an Islamic revolution that bitterly criticized the rapid industrialization and Westernization characteristic of his "Great Civilization." Nigeria oscillated between military and civilian rule without being able to consolidate either. One-party domination was shaken in Mexico. By the 1990s, once stable Algeria teetered on the brink of civil war, while Venezuela, Latin America's second oldest democracy, struggled desperately to preserve its competitive party system. Indeed, less than two decades after the oil price increase, all major oil-producing developing countries except Indonesia and the scarcely populated Arab nations experienced serious disorganization in their state bureaucracies and severe disruption in their political regimes. Just as gold had once tainted King Midas's life, oil seemed to "petrolize" the economy and polity of these countries. "It is the devil's excrement," OPEC's founder, Juan Pablo Pérez Alfonzo, observed. "We are drowning in the devil's excrement."[2]

What happened? Is black gold an unmitigated development "good," as has been commonly believed, or is it the "devil's excrement"? Why have oil exporters apparently been unable to translate their fabulous windfalls into self-sustaining, equitable and stable development paths? Are their disappointing outcomes the result of coincidental but similar

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decision errors in each country, or can they be attributed to an overriding structural determinism linked to petroleum that inevitably produces economic deterioration and political decay? In sum, what is the impact of oil booms on oil-exporting countries?

THE DUTCH DISEASE: THE INADEQUACY OF ECONOMIC EXPLANATIONS

Economists have come closest to finding answers to these questions. Not dazzled by the occasionally laudatory studies of "bonanza development,"[3] they argue that the so-called Dutch Disease, a process whereby new discoveries or favorable price changes in one sector of the economy—for example, petroleum—cause distress in other sectors—for example, agriculture or manufacturing—provides a powerful explanation for the poor performance of oil exporters.[4] Persistent Dutch Disease provokes a rapid, even distorted, growth of services, transportation, and other nontradeables while simultaneously discouraging industrialization and agriculture—a dynamic that policymakers seem incapable of counteracting (Corden 1982, Timmer 1982, Roemer 1983, Neary and van Wijnbergen 1986).

The Dutch Disease is especially negative when combined with other barriers to long-term productive activity characterized by the exploitation of exhaustible resources (Hotelling 1931, Robinson 1989). Beginning with Adam Smith ([1776] 1937, 399), economists have warned of the perils of mineral rents ("the income of men who love to reap where they never sowed"). These rents, they argue, too often foster persistent rent-seeking behavior and a bias toward unproductive activities, leading to poor development outcomes. Thus, when contrasting the Spanish obsession with gold and silver to the belief system of the Tartars, who, ignorant of the use of money, viewed cattle as the measure of value, Smith was not alone in concluding, "Of the two, the Tartar notion was perhaps the nearest to the truth."[5]

But such explanations, powerful though they are, cannot in themselves decipher the incongruity of poor development outcomes in rich oil states. They fail to capture the underlying political and institutional processes that set off economic laws and market forces in the first place and that subsequently form strong barriers to necessary readjustments. The Dutch Disease is not automatic. The extent to which it takes effect is the result largely of decision-making in the public realm. As Neary and van Wijnbergen (1986, 11) emphasize in their major study of this phenomenon, "In so far as one general conclusion can be drawn, it

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is that a country's economic performance following a resource boom depends to a considerable extent on the policies followed by its government." Yet, while noting that governments rarely exercise their influence wisely, they do not explain why.

The surprisingly unsuccessful outcomes of oil-exporting states cannot be fully understood separate from their institutional development. What are often seen by economists as strictly economic phenomena—the share of mineral rent, the type of links formed with other economic activities, the presence of boom-bust cycles, or even the Dutch Disease—have deep social and political roots. Commodities in themselves are not creative or destructive forces, and major explanatory power cannot be attributed to their peculiar character alone or even to the economic dynamics they encourage (McNally 1981). Petroleum, after all, is nothing but a black viscous material. Even rent, which is treated as a purely economic category in discussions of exhaustible resources, actually rewards the control of production, not the activity of the owner; in reality, it is income received through the exploitation of social, political, and legal privilege. Just as all narrowly economic activity is embedded in a web of social institutions, customs, beliefs, and attitudes, minerals too derive their economic significance from the social and political relations arising from their utilization.

Thus the fate of oil-exporting countries must be understood in a context in which economies shape institutions and, in turn, are shaped by them. Specific modes of economic development, adapted in a concrete institutional setting, gradually transform political and social institutions in a manner that subsequently encourages or discourages productive outcomes. Because the causal arrow between economic development and institutional change constantly runs in both directions, the accumulated outcomes give form to divergent long-run national trajectories. Viewed in this vein, economic effects like the Dutch Disease become *outcomes* of particular institutional arrangements and not simply causes of economic decline. This deeper explanation is revealed in the relentless interaction between a mode of economic development and the political and social institutions it fosters.

BEYOND STRUCTURE VERSUS AGENCY: EXAMINING THE STRUCTURATION OF CHOICE

By emphasizing the relationship between economic development and institutional change, rather than economic theories of raw materials

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alone, this book is rooted in the political-economy approaches of Karl Marx, Adam Smith, and the new institutional economists.[6] In its accent on the importance of the international oil industry as the catalyst for change, it draws inspiration from the Latin American dependency tradition[7] as well as the rapidly growing literature on sectoral approaches to development.[8] My study is different from these prior efforts, however, in its specific attention to the manner in which policy choices are structured. My claim is that dependence on a particular export commodity shapes not only social classes and regime types, as others have demonstrated so well, but also the very institutions of the state, the framework for decision-making, and the decision calculus of policymakers.

Briefly stated, my general argument is as follows. Commodity-led growth induces changes in prevailing notions of property rights, the relative power of interest groups and organizations, and the role and character of the state vis-à-vis the market. These institutional changes subsequently define the revenue basis of the state, especially its tax structure. How these states collect and distribute taxes, in turn, creates incentives that pervasively influence the organization of political and economic life and shapes government preferences with respect to public policies. In this manner, long-term efficiency in the allocation of resources is either helped or hindered, and the diverse development trajectories of nations are initiated, modified, or sustained.

Understanding this interaction between economic development and institutional change in oil-exporting countries is imperative for both theoretical and policy reasons. Oil price fluctuations in the international market since the 1970s are eloquent testimony to the significance of these countries. Oil prices rose sharply three times in the 1970s; two of these (the 1971 Libya jump and the 1979 Iran boom) were closely associated with a political crisis inside a major oil-exporting state. The market was disrupted and prices rose sharply again in 1990 as a result of Iraq's attempt to overcome its domestic crisis by invading neighboring Kuwait. Because the price of international oil is linked to the stability of oil-exporting countries, their internal dynamics have global implications—as the Gulf War illustrated so poignantly. Change inside a major exporter not only shapes and possibly immiserates the lives of its own people but can also reverberate powerfully throughout world markets and even threaten global peace. Yet, surprisingly, the impact of oil booms on the producer nations themselves and the implications for their future have been largely overlooked.[9]

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The theoretical challenge posed by the performance of oil-exporting countries is equally compelling. How can a repeated pattern be explained when it occurs across countries as dissimilar in regime type, social structure, geostrategic location, culture, and size as Iran, Nigeria, Mexico, Algeria, and Venezuela? Why, in the midst of two booms, did different governments operating in distinctive contexts make choices that seem to have produced similar results? Behind this puzzle lies a central issue of political analysis: what influences the choices of public authorities and consequently the overall effectiveness of state policies? More specifically, to what extent are public policies, such as those adopted in the wake of a boom, the product of the unconstrained choices of decision-makers? To what extent can they be explained by structurally determined factors such as the organization of international markets, the peculiarities of class structures, or the existence of particular types of state institutions?

Framed in this way, an analysis of the experience of oil-exporting countries contributes to the critical debate over the relative merits of structural versus actor-centered approaches to political change. This debate revolves around different conceptions of explanation in the social sciences: at one extreme, Marxist structuralism or Parsonian functionalism presumes that decisions are determined largely independently of the choices of actors; at the other, many rational-choice theorists view decisions as relatively unconditioned by economic or social structures or other supra-individual entities. Structuralists insist on the importance of historically created constraints in determining the choices of actors, while rational-choice theorists believe that decisions are underdetermined. They emphasize the notion of contingency, meaning that outcomes depend less on objective conditions than on the subjective rules surrounding strategic choice or the qualities of specific leaders.

The extent to which voluntaristic choice is attributed to decision-makers separates these two approaches. Especially in the current intellectual climate, which is marked by the demise of socialist development models, the discrediting of Marxism, and attacks against the validity of dependency theories, structural approaches have been sharply and often correctly criticized for their systematic underestimation of human agency. Concomitantly, choice-based theorizing, which rests on notions of methodological individualism and rational self-interest, has come to dominate some political analysis, especially with regard to the United States. Central in this approach are not the constraints posed by inter-

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national markets, the historic development of social classes, or particular patterns of state formation—which are viewed as mere parameters—but rather the specification of the preferences of individual policymakers.[10]

Such purely agency-based interpretations have gained credence in part because their emphasis on individual rationality resonates with the liberal tradition as well as with the less-constrained historical development trajectory of the United States. But scholars of developing countries have resisted these interpretations—and for good reason.[11] The central problem of development studies is explaining the emergence and persistence of radically different patterns of development and divergent levels of state performance. Observers seek to understand the relationship between economic growth and institutional change—that is, why industrialization is associated with strikingly disparate types of states and political regimes in different periods and regions. The most sophisticated theorists, especially North (1990), have helped to clarify why some countries seem to get on long-term productive development tracks while others, like Spain in the sixteenth century, fail to do so, and they amply demonstrate how, given suitable property rights, market forces can generate incentives for private decision-makers to promote the productive allocation of resources. But most rational-choice theorists have paid too little attention to the historical origins of institutions—that is, how institutions are actually created in a manner that subsequently reduces the range of decision-making, rewards some forms of behavior more than others, and shapes the preferences of policymakers in the future.

Furthermore, approaches that emphasize human choice to the detriment of structural factors cannot account for significant differences in the propensity of countries to adapt to changing circumstances. Too many theorists who emphasize choice have too often been blinded by an insistence on the supposed efficiency and rationality of institutions, especially private-property relations, to explain why detrimental development trajectories persist even in the face of international competitive pressures that ought to lead to their alteration. Even after recognizing that institutions making inefficient allocations may impose costs on the rest of society, they do not ask why rational political leaders might persistently engage in such behavior nor, more significantly, how they can get away with it—often for generations. But these questions cannot be ignored. They are the basis for understanding the relationship between

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economic development and "efficient" institutional change, the ability of governments to promote timely structural adjustments, the appropriate balance between public and private boundaries, and, ultimately, the rise and decline of nations.

This book addresses the debate over structure versus agency by emphasizing how choices are structured over time. In this sense, it unites structural and choice-based approaches by claiming that prior interactions of structure and agency create the institutional legacy that constrains choice down the road. It seeks to explain how these historical interactions construct the *range of choice* facing policymakers at a given moment, how this structuration is reproduced or modified, and why a particular range may be wide in some circumstances and quite narrow in others. Thus it problematizes the nature of choice, the identities of actors making such choices, and the way their preferences are formed within specific structures of incentives. Elsewhere I have called this approach "structured contingency" (Karl 1990).

Within this framework, decisions of policymakers are viewed as embedded in (and therefore shaped by) institutions that have been formed through constant interaction with organized groups, and domestic and international markets, and that are characterized by interlocking histories and shared meanings. As organizational theorists have demonstrated, policymakers are socialized and their preferences, values, and behaviors are shaped through their participation in these modern institutions (March and Olson 1984). Unlike microeconomic approaches, which understand bureaucratic (re)organization as the reflection of the preferences of competing politicians whose primary goals are getting and retaining office, the framework adopted here assumes a more interactive effect: while the preferences of policymakers may determine some of the parameters of institutions when they are being established, these same institutions, evolving over time, subsequently define the preferences of political actors rather than serving as mere constraints. Consequently, as we shall see, the preferences of policymakers may be strikingly similar in institutional contexts that seem different but actually resemble each other through a common structure of incentives.

Structured contingency does not argue that individual decisions made at particular points in time, or all observable political or economic phenomena, can be specifically and unambiguously linked to the presence of preexisting institutions. Instead it claims that historically created structures, while not determining which one of a limited set of alternatives decision-makers may choose, do in fact demarcate the types

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of problems that arise and do define alternative solutions, thereby restricting or enhancing the choices available. Furthermore, institutional structures may combine to produce a situation in which one path of action becomes far more attractive or far less costly than another, and thus they can define preferences by creating overwhelming incentives for decision-makers to choose (or to avoid) a specific set of policies.

Nor should structured contingency be equated with inevitability—a charge that is often leveled against structural approaches: decisions can be made and alternatives can be chosen at every turn. Instead, the conception offered here is one of path dependence or, in David's words (1989, 6), how "one damn thing follows another." David (1989, 1) has noted that "systems possessing this property cannot shake off the effects of past events, and do not have a limiting, invariant probability distribution that is continuous over the entire space." In more common parlance, the impact of decisions made in the past persists into the present and defines the alternatives for the future. These decisions become embodied in socioeconomic structures, political institutions, and rules that subsequently mold the preferences and behaviors of individuals, thereby enhancing (or reducing) the probability of certain outcomes. Because these structures and institutions normally are altered incrementally and at a slow pace, the notion of path dependence carries an implicit assumption of gradual change interrupted by sharp discontinuities (Krasner 1988).[12] This is a key point. Trajectories can change, but these changes are most frequently marked by "critical junctures"—the advent of foreign domination, political regime change, war, an international crisis, and so forth (Collier and Collier 1991). Otherwise, major changes in direction do not arise easily.

Specifically, if the range of options available to decision-makers at a given point in time is a function of institutions put in place in an earlier period, then a type of "lock-in" can occur once a country sets down a particular development path (David 1989): the framework for decision-making is gradually restructured to reflect and even reinforce the initial choice (North 1990). If the initial choice is effective and if the restructuring that occurs during critical junctures produces a framework that is adaptable, with low barriers to change, then institutional development subsequently can permit maximum space for human agency and the pursuit of alternative courses of action. This is the result in "lucky" countries—ones that can more easily than others adjust to changing circumstances.

But there is another less historically fortunate result of restructuring

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the framework for decision-making. If it produces a rigidity in institutions, which are then characterized by high barriers to change and are led by organizations and interests with a powerful stake in the existing constraints, restructuring can reinforce the initial choice of a perverse development path by providing powerful incentives for its continued maintenance as well as real disincentives for change. Under these conditions, the probability is high that policymakers will be unwilling or unable to go "against the structural grain" (Fagen 1978) or may even be blind to the possibility of doing so. Inefficient institutions may simply never be questioned, or sufficient motivation may not exist to change them—even in the context of major disruptions. Countries in this mode cannot easily adjust to new circumstances or alter their development trajectories. Such is the case for oil-exporting countries.

An approach of this sort has important implications for the study of development. Because the structure of choice is seen not as merely parametric but rather as the heart of both stasis and change, identifying the "genesis, reproduction and consequences of various choice structures"[13] is essential for explaining different development trajectories. These structures of choice are not the same. The range of alternatives available to decision-makers is qualitatively different under varying circumstances—it may be quite wide in some cases and narrower in others. Examining policy choices without prior specification of this range runs the risk of producing epiphenomenal interpretations, while discovering how and why nations differ in their range of choice promises to reveal the roots of persistently divergent development paths.

COMMODITIES AND STATES: A SECTORAL APPROACH TO EXPLAINING DEVELOPMENT TRAJECTORIES

How are frameworks for decision-making created and reproduced in late-developing countries? I argue that determining the "structuring principle"[14] for these countries—that is, the appropriate starting point for identifying how ranges of choice are constructed—should begin with their leading sector. This means examining the export dependence that molds their economies, societies, and state institutional capacities, and that, in turn, is either reinforced or transformed by them. My effort to understand this set of interactions begins with differentiating the asset specificity, tax structure, and other features inherent in the exploitation of one particular commodity, petroleum.[15] It terminates by examining the state, where the impact of particular economic models and

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the organized interests they encourage occurs most fundamentally and is felt most persistently.

A central corollary of this argument is that countries dependent on the same export activity are likely to display significant similarities in the capacity of their states to guide development. In other words, countries dependent on mining should share certain properties of "stateness," especially their framework for decision-making and range of choice, even though their actual institutions are quite different in virtually all other respects. This should be true unless significant state building has occurred *prior* to the introduction of the export activity.

The specific mechanism for the creation of this institutional sameness lies in the origin of state revenues. It matters whether a state relies on taxes from extractive activities, agricultural production, foreign aid, remittances, or international borrowing because these different sources of revenues, whatever their relative economic merits or social import, have a powerful (and quite different) impact on the state's institutional development and its abilities to employ personnel, subsidize social and economic programs, create new organizations, and direct the activities of private interests. Simply stated, the revenues a state collects, how it collects them, and the uses to which it puts them define its nature. Thus it should not be surprising that states dependent on the same revenue source resemble each other in specific ways (and consequently so do the decisions made by their leaders).

What is surprising, however, given the significance of its fiscal base, is the dearth of systematic explorations of the relationship between the extractive capacities of the state and its own institutional formation. With the exception of Shafer's (1994) excellent study, the few that exist focus almost exclusively on Western Europe (North 1981, Webber and Wildavsky 1986). But most states in the periphery are distinguished from their European counterparts in one fundamental respect: as a result of their late insertion into the international economy, they generally rely on external rather than internal sources of revenue. Indeed, their tax base is quite distinctive in this respect. In contrast to the European experience of state building, they have grown dependent on revenues from the sale of their primary export commodities and, to a lesser extent, on external indebtedness, taxes on imported goods, or foreign aid. The consequence, to anticipate the argument of Chapter 3, is the absence of the coherent and highly institutionalized central bureaucracies that Eurocentric perspectives almost inevitably assume as points of

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departure. Therefore, constructs appropriate for understanding state formation and institutional capacity in the advanced industrialized world are less likely to apply to developing countries, and the absence of studies relating sources of revenue to stateness is felt more acutely.

This book attempts to redress this gap by demonstrating how the origin of a state's revenues influences the full range of its political institutions—the state, the regime, and the government. The analytical distinction between these three levels is important and should be specified at the outset. The *state* is defined, following Weber, as the permanent organizational structure within which binding collective choices are taken and implemented over a given territory. Consisting of bureaucracies, an institutionalized legal order, and formal and informal norms, it is ultimately the sole social institution that can make decisions effective by exercising legitimate force. The *regime* is the ensemble of patterns within the state determining forms and strategies of access to the process of decision-making, the actors who are admitted (or excluded) from such access, and the rules that determine how decisions may legitimately be made. It includes the method of selection of the government, forms of representation, and patterns of repression. The *government* consists of the actors (party politicians, civilian administrators, military administrators) who occupy dominant positions within the regime at any given moment in time.[16]

Dependence on a particular revenue base shapes all three levels of political domination in a distinctive manner and, in turn, is shaped by them. But it affects each level of political domination differently, sometimes bringing about alterations in state institutions without substantially changing regime arrangements and more often bringing about regime change without altering the nature of the state. Most enduringly, as we shall see in Chapter 3, such dependence molds the state, especially its *jurisdiction*, meaning its scope or degree of intervention in the economy, and its *authority*, meaning its ability to penetrate society and channel effectively the direction of change. Different sources of revenues from commodities have distinctive impacts on the scale of the state, its degree of centralization and decentralization, the coherence of public bureaucracies, the types of organizations adopted, the patterns of policymaking, and even its symbolic images. This "commodity state" underlies different regimes and governments, and, as we shall see, it can homogenize much of their behavior.

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THE CASE OF OIL-EXPORTING COUNTRIES

Dependence on mineral rents produces a specific variant of the peripheral state, *mining states,* which have special difficulties in restructuring their development trajectories. These states, as Shafer (1994) eloquently points out, face great obstacles in attempting to exit from old patterns and have low capacities to promote new ones. The high barriers to change arising from their leading sector produce inertia: both organized interests and state bureaucrats tend to fight to maintain the status quo and to prevent modifications that might eclipse their standard operating procedures. Although this essential conservatism characterizes institutions generally, mining states are an extreme case. In effect, they embody a rigid framework of decision-making that, if not countermanded, contains strong incentives for maintaining the existing mineral-based development model as well as disincentives for changing it.

This framework is reinforced by the inextricable link between power and plenty in mining states. Because these states, not the private sector, own the center of accumulation, extract or receive windfall revenues from the international arena, benefit from rents, and provide the means through which these rents enter the economy, they become the primary object of rent-seeking behavior—even from inside their own institutions. Thus, economic rationality cannot be separated easily from political rationality, and the logic of rent seeking, the opposite of flexible adjustment, may easily dominate both arenas. In addition, the fate of their polities—be they authoritarian or democratic—is almost as closely bound to economic performance as is the fate of polities in socialist countries.

These obstacles to altering development trajectories are even more pronounced in states dependent on petroleum than in other mining states. Because rents are extraordinary in oil states, government officials have additional capacity to extract unusually high income from their resource without added investment. These rents, whatever their advantages, ultimately increase the difficulties of adjustment: they expand the state's jurisdiction while simultaneously weakening its authority by multiplying the opportunities for both public authorities and private interests to engage in rent seeking. In this way, they have a direct impact on the decisional framework of oil states. Even critical junctures that may be sufficient to alter development trajectories in other contexts do not have the same restructuring effect in these countries. Instead,

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especially in periods of extraordinary windfall, the features characteristic of all mining states simply become exaggerated. Indeed, the institutional molding brought about by dependence on petrodollars is so overwhelming in oil-exporting countries that their states can appropriately be labeled *petro-states.*

To sum up the discussion thus far, similar disappointing macroeconomic and political outcomes in nations as widely disparate as Iran and Venezuela can be best explained as the result of a common condition created by the interaction of commodities, booms, and states. Oil booms seem to promise the opportunity for real choice and for the alteration of a development trajectory. But when they occur in countries with a legacy of oil-led development, especially a decision-making apparatus dependent on petrodollars, choice is in fact quite narrow. Regardless of the other alternatives available, booms generate powerful and even overwhelming incentives to sustain existing trajectories but on a grander, more accelerated, and ultimately unmanageable scale. Thus they are the catalyst for future trouble.

Specifically, the chapters ahead demonstrate the following claims:

1. *The "Petrolization" of the Policy Environment.* The production of oil for export produces a common set of policy problems for decision-makers in oil countries as well as a similar, though contradictory, environment for resolving them. This environment is characterized by unusually great opportunities for gain (and loss) on the international level and unusually strong impediments to development on the domestic level.

2. *Private Vested Interests as Barriers to Change.* Countries that export petroleum as their main economic activity generate specific types of social classes, organized interests, and patterns of collective action, both domestic and foreign, that are linked directly to the state and that benefit from oil rents. These classes and interests have strong reasons to reinforce petrolization as a means for realizing their demands.

3. *The Rentier State as a Barrier to Change.* Dependence on petroleum revenues produces a distinctive type of institutional setting, the petro-state, which encourages the political distribution of rents. Such a state is characterized by fiscal reliance on petrodollars, which expands state jurisdiction and weakens authority as other extractive capabilities whither. As a result, when faced with competing pressures, state officials become habituated to relying on the progressive substitution of public spending for statecraft, thereby further weakening state capacity.

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4. *The Boom Effect.* Oil booms are likely to have pernicious effects in this context by dramatically exacerbating petrolization, reinforcing public and private oil-based interests, and further weakening state capacity. Thus they lead to economic decline and regime destabilization while creating the illusion that they are doing exactly the opposite.

PETRO-STATES AS UNITS OF ANALYSIS

Petroleum provides a particularly auspicious window for peering into the relationship between leading sectors and states. The exogenous shocks of 1973–1974 and 1979–1980 offer a critical juncture that facilitates the examination of constraints on choice because the effects of exploiting petroleum were especially dramatic and therefore easier to delineate than at other times. But the argument of this study is not intended to apply to all oil-producing countries. Here, *oil exporter* refers solely to those countries in which the high share of oil production in gross domestic product (GDP) and of oil exports in total exports places the petroleum sector at the center of economic accumulation. For classifying mineral economies of this sort, the World Bank uses guiding thresholds of approximately 10 percent of GDP and 40 percent of total merchandise exports (Nankani 1979, i). This definition effectively disqualifies developed countries like England, except for very brief moments in their history.

Furthermore, the empirical observations in this book, though relevant to all oil-exporting developing countries, are confined to one subset of these: the so-called *capital-deficient oil exporters.* This subset includes Mexico, Algeria, Indonesia, Nigeria, Venezuela, Iran, Trinidad-Tobago, Ecuador, Gabon, Oman, Egypt, Syria, and Cameroon. It excludes the capital-surplus countries of Saudi Arabia, Kuwait, Libya, Qatar, and the United Arab Emirates (UAE).[17] As Table 1 illustrates, these categories are generated by examining the relationship between the populations of these countries and their projected oil reserves prior to the 1973 boom.[18] Thus, the capital-deficient countries have relatively larger populations (column B) and smaller per capita reserves (column C) than do the capital-surplus countries. Table 1 also captures the strikingly lower GDP per capita (column D) of capital-deficient countries when compared with capital-surplus ones.

This distinction between types of oil exporters is critical to the analysis that follows in several ways. Capital-deficient oil exporters have a

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TABLE 1
CAPITAL-DEFICIENT AND CAPITAL-SURPLUS OIL-EXPORTING COUNTRIES, 1973

	A Reserves (billion barrels)	B Population (millions)	C Reserves per Capita (billion barrels per million persons)	D GDP per Capita (U.S. dollars)	E Depletion Horizon (years)
Capital-Surplus Countries					
Kuwait	64.0	0.89	71.91	6,086	60.7
Libya	25.5	2.24	11.38	3,346	33.0
Saudi Arabia	132.0	6.76	19.53	1,618	48.8
Qatar	6.5	0.15	43.33	4,366	32.1
UAE	25.5	0.42	60.71	6,792	46.3
Iraq	31.5	10.41	3.03	517	45.7
Capital-Deficient Countries					
Algeria	7.6	15.77	0.48	514	20.2
Indonesia	10.5	123.80	0.08	126	22.1
Iran	60.0	31.23	1.92	820	27.4
Nigeria	20.0	61.71	0.32	271	27.4
Venezuela	14.0	11.28	1.24	1,509	11.4

SOURCES:
A: "Worldwide Report," *Oil and Gas Journal,* December 31, 1973, pp. 86–87.
B: International Monetary Fund (1988b, country tables). Figures are for 1973.
C: Calculated from A and B.
D: Calculated GDP, average exchange rate, and population figures in source for B. Figures do not reflect depreciation or purchasing-power parity.
E: Calculated from reserve and production figures in source for A.

larger skilled labor force and a more diversified economy than do their capital-surplus counterparts. They appear to be able to absorb all the oil revenues from their booms and in fact have generally been net importers of capital, except during the brief period from 1974 to 1976 (United Nations Commission on Trade and Development 1982, 48–54). Their less-populated counterparts, to the contrary, could not possibly absorb all their revenues and thus ran balance-of-payments surpluses until 1983, when oil prices fell sharply.

Moreover, although all oil-exporting developing countries are highly dependent on petroleum,[19] this dependence is felt more acutely in capital-deficient countries because their opportunities are so clearly bounded. Their ratio of population to proven reserves is relatively unfavorable, and estimates at the time of the 1973 boom showed (incorrectly) that their projected incomes could not carry the burden of development for more than several decades. As column E in Table 1

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demonstrates, in 1973 most policymakers in capital-deficient countries believed that they had only one or two decades of oil exploitation left![20] This fear overrode any thoughts that the oil market itself might crash, even for those few officials who were aware of the volatility of the market and the risks they might face in the future.

The threat of future limitations had several implications for behavior in the 1973 boom. First, government preferences to diversify away from petroleum were far greater in capital-deficient countries. Though these countries were statistically less dependent on petroleum than the capital-surplus countries, where oil revenues made up almost half of earned income, their governments viewed the petrodollars that constituted at least a quarter of their income as the linchpin to successful diversification. They believed that their time horizon was far shorter than that of other oil countries; they had to "sow the petroleum" before their reserves were depleted. Second, their "shortage" of petroleum meant that they made decisions in the short term that had great significance for their future development. In their view, there simply were no extra opportunities to squander. For these reasons, capital-deficient exporters should be considered a group apart, and henceforth the terms *exporter* and *producer* will refer only to them unless otherwise stated.

Finally, this study encompasses a subset of these capital-deficient oil exporters chosen because of their larger share of world production: Algeria, Indonesia, Iran, Nigeria, and Venezuela. Norway is also included for purposes of comparison with a developed country. Cameroon, Gabon, Ecuador, Syria, Oman, Egypt, and Trinidad-Tobago are excluded because their share of world production is insignificant (less than 0.5 percent), and their inclusion would make this study unwieldy. Because Mexico's boom occurred later than that of the OPEC countries and was the result of discoveries rather than a price hike, its boom-bust cycle is timed differently from that of the other capital-deficient oil exporters, and it is not part of the same comparison set. Nonetheless, my argument helps to explain Mexico's contemporary political and economic crisis, and data on Mexico are included in the Statistical Appendix to illustrate how similar its experience has been.

A RESEARCH DESIGN FOR CROSS-REGIONAL COMPARISONS

This study employs several different variants of the comparative method. Part I, "Commodities, Booms, and States," sets out the book's

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general argument by asking John Stuart Mill's ([1843] 1967) classic question: how can the repeated occurrence of similar patterns across different countries be explained? Chapter 2 demonstrates that the outcomes in capital-deficient oil exporters are indeed surprisingly similar; it then compares their experience with that of Spain during the gold and silver boom of the sixteenth century as a heuristic device to facilitate finding answers to Mill's question. Instead of the more generally utilized "most-similar-systems" research design, I apply the method of agreement to highly contrasting cases. This method has the advantage of avoiding the overdetermination inherent in a most-similar-systems approach, which ultimately can inhibit the researcher from sorting out causal factors (Przeworski and Teune 1970). Chapter 3, the central theoretical chapter of the book, employs Mill's method of agreement by contending that the clue to the similarity in outcomes in oil-exporting countries must be the manner in which petroleum, their only fundamental commonality, transforms their institutional environment.[21]

Part II, "Democracy over a Barrel in Venezuela," relies on a detailed case study to illustrate the specific cause-and-effect links of the general argument regarding petro-states. Because my argument was induced largely from my understanding of the Venezuelan case, it should not be viewed as a "test." Though the conceptual framework of this part is designed for comparison with other cases in Chapter 9, the focus on one case is intended to provide the complexity and historical specificity regarding the institutional structuring of choice that are not possible in the rest of the book.

Venezuela is presented as a "crucial case" in several respects (Eckstein 1975). Prior to the sudden destabilization of its democracy in 1992, it seemed to possess many of the prerequisites for handling the challenge of an oil boom and therefore the greatest potential for effectively challenging the thesis developed here. As the oldest major oil exporter in the developing world (prior to Mexico's reentry into the international market), its state had been able to accumulate valuable experience in petroleum matters, unlike Nigeria or other relative newcomers. The founder of OPEC, it successfully wrested increasing shares of its global product from the international system, which permitted generally high growth rates. Industrialization produced a sizeable educated middle class, and its citizens enjoyed a competitive party system. Set apart thusly from its Middle Eastern and African oil-exporting counterparts, Venezuela seemed the most likely candidate to make productive use of its oil windfall.

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In the Latin American context, Venezuela is a crucial case for another reason: it tests the contention that the export of petroleum contributes to a pattern of development that differs substantially from other development trajectories. In regional comparisons, Venezuela was a noted "outlier" prior to the 1990s; its generally strong growth and more than thirty-five-year-old democracy were the most striking signs of a path distinct from the uneven performances and bureaucratic authoritarian cycles of its Southern Cone neighbors. Most North American scholars have attributed this "exceptionalism" to strictly political factors: regular elections, viable political parties, and an unusual degree of statecraft characterized by pact making (Alexander 1964, Martz 1966, Martz and Myers 1977, Levine 1978, McCoy 1987). My argument rejects this explanation as incomplete, contending instead that the access to oil rents dispensed through the petro-state provides a more accurate explanation of Venezuela's unusual regime stability as well as its institutional fragility since 1989.

Chapter 4 explores the interaction between oil-led development and institutional change in Venezuela by analyzing the historical forging of its petro-state during the critical juncture provided by the entrance of foreign oil companies. Chapter 5 discusses the ramifications of the merging of this state with a "pacted democracy" during a second critical juncture of regime transition. Chapters 6 and 7 shift the level of analysis from the broader parameters of states, regimes, and economic models to government decision-making after the 1973 oil boom, emphasizing the manner in which the responses of the first Carlos Andrés Pérez administration were defined by the oil-forged institutions of the past. Chapter 8 returns to the structural level by examining the painful political and economic adjustments involved in the transition from a rentier to a post-rentier development model.

Part III, "The Impact of Oil Booms on Oil-Exporting Countries," examines the effect of booms in comparative perspective. Chapter 9 uses a combination of statistical data and structured-focused comparisons to explore similarities and variations in the economic and political outcomes of capital-deficient oil exporters. This chapter pays special attention to Indonesia, which performed significantly better on numerous indicators than its counterparts, and introduces the experience of one developed country, Norway, to illustrate the similarities and differences in the behavior of its policymakers. Chapter 10 concludes the book by reexamining the cases of both Spain and Venezuela, analyzing the significance of regime differences, and looking at the long-term

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effects of petroleum dependence on both economic outcomes and the structuration of choice.

One important advantage of this combined research design should be mentioned at the outset. In most existing studies, states in the developing world have been grouped for comparison by their geographical and cultural location or according to the level of development of their economies. Thus, customarily African or Latin American countries and, more recently, newly industrializing countries (NICs) are identified as relevant subsets for comparative analysis. An approach that examines similarities in highly contrasting cases necessarily moves scholarship beyond an area-studies focus. It has the advantage of encouraging new classificatory schemes for cross-regional comparison that may serve as a promising "theoretical map" for deriving distinctive new categories of states in the developing world. But even if these theoretical ambitions are not realized, cross-regional comparison is the most effective method for demonstrating why most oil exporters, though blessed when compared with "have-not" countries like El Salvador, may prove to be the modern counterparts of Midas.

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